

Panoramic Resources Ltd. (PAN.ASX)

December quarterly – Lanfranchi production down a little

Monday 1 February 2010

Event. PAN released its December 2009 quarterly (2QFY10) report. Production at Savannah was 1,917 tonnes of nickel in concentrate, 3% lower than 1QFY10. Production at Lanfranchi was 2,161 tonnes of nickel in ore, 15% lower than 1QFY10. Despite the unexpected lower production at Lanfranchi, due to a combination of lower grades and similar ore production levels to 1QFY10, PAN re-iterated it **remains on track for FY10 group production of 18-19kt contained Ni plus copper and cobalt credits.**

Savannah operations experienced increased costs by ~10% to A\$4.80/lb of payable nickel, despite relatively consistent ore production and metal grades. Operating cost increases were partially offset by higher by-product credits, largely due to higher copper prices and a higher copper grade mined, resulting in higher copper contained in the nickel concentrate. **PAN anticipates reporting a Reserve Statement for the Savannah Lower Zone below the 500 fault next month.**

Lanfranchi ore mined in 2QFY10 was 88,951 tonnes compared to 88,905 tonnes in the 1QFY10. The nickel grade of 2.43% in 2QFY10 vs. 2.87% in 1QFY10 resulted in lower nickel production. While PAN had forecast higher ore production for 1QFY10, mechanical issues impacting on underground truck availability restricted production. However **PAN reported production rates have increased significantly since the end of the quarter and ore production in January is on track to reach 40kt.**

Cash at 31 December was \$113m vs. \$82m as at 30 September 2009, reflecting higher US\$ commodity prices partially offset by a stronger Australian dollar. At 31 December Group debt was \$2.8m and the hedge book was \$17.4m in the money.

Valuation. Our DCF based valuation for PAN is \$2.63/share and we note the cash backing and hedge book account for \$0.63/share. Our one-year forward valuation for PAN is \$2.69/share.

Recommendation. Given PAN's share price pullback, despite continued strong results and buoyant nickel prices, we have upgraded our recommendation from **HOLD to BUY** and marginally increased our price target to \$2.70/share (previously \$2.60/share), reflecting our one-year forward valuation.

Year to June (\$m)	2009a	2010e	2011e	2012e	2013e
Revenue	228.7	273.6	251.5	253.8	222.3
% change	-4%	20%	-8%	1%	-12%
EBITDA	81.2	113.8	91.8	94.1	72.5
EBITDA margin	35%	42%	36%	37%	33%
NPAT rep	5.6	50.3	35.3	42.4	31.0
NPAT adj	24.0	50.3	35.3	42.4	31.0
EPS adj (c)	2.8	24.1	16.9	20.3	14.8
% change	-90%	760%	-30%	20%	-27%
Dividend (c)	3.0	9.9	6.9	9.9	6.1
PER (x)	14.0	7.2	10.3	8.6	11.8
EV/EBITDA (x)	3.4	2.0	1.9	1.1	0.6
Yield (%)	0.0	5.5	3.4	3.7	4.0

Figures adjusted for NRIs and amortisation of intangibles

Source: Company, Foster Stockbroking

Resources

Rating: **BUY**
(previous): **HOLD**

Michael Evans
Michael.Evans@fostock.com.au
+612 9993 8163

Share price: **1.79**
Price target: \$2.70
(Previous) \$2.60
NPV per share: \$2.63
Risk: Medium

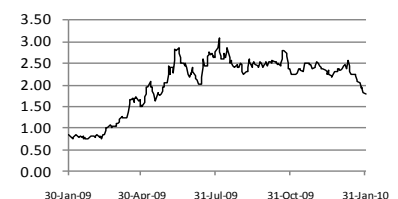
Shares on issue post deal(m): 204.0
Shares on issue (diluted) (m): 208.7
Free float: 100%
Average daily volume (m): 1.0

Market cap (\$m): 364.2
FY10e Enterprise value (\$m): 222.3
FY10e Net debt (\$m): -141.9
FY10e Gearing (ND/ND+E): nm
FY10e S'holders equity (\$m): 316.4
FY10e NTA per share (\$): 1.55

Forecast: **2010e**
Free cash flow (\$m): 94.9
Return on average equity: 15.9%
Net interest cover: nm

Forecast: **2011e**
Free cash flow (\$m): 73.5
Return on average equity: 10.5%
Net interest cover: nm

Share price (\$):



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SAVANNAH

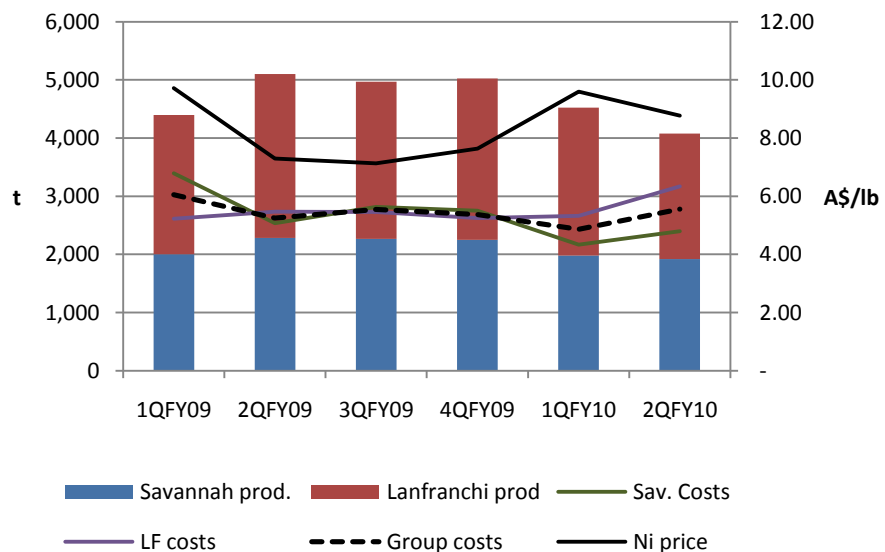
Savannah operations experienced increased costs by ~10% to A\$4.80/lb of payable nickel, despite relatively consistent ore production and metal grades. Operating cost increases were partially offset by higher by-product credits, largely due to higher copper prices and a higher copper grade mined, resulting in higher copper contained in the nickel concentrate. **PAN anticipates reporting a Reserve Statement for the Savannah Lower Zone below the 500 fault next month.**

On the exploration front, PAN has been drilling some VTEM targets in close proximity to the Savannah mill. The best result of **3m @ 0.92% Ni, 0.60% Cu and 0.06% Co is encouraging** enough to follow up, which the company plans to do with down hole EM and additional drilling.

LANFRANCHI

Lanfranchi ore mined in 2QFY10 was 88,951 tonnes compared to 88,905 tonnes in the 1QFY10. The nickel grade of 2.43% in 2QFY10 vs 2.87% in 1QFY10 resulted in lower nickel production. While PAN had forecast higher ore production for 1QFY10, mechanical issues impacting on underground truck availability restricted production. However, **PAN reported production rates have increased significantly since the end of the quarter and ore production in January is on track to reach 40kt.**

PAN – Quarterly production and cash costs in A\$/lb of payable nickel



Source: Company, FSB research

VALUATION AND RECOMMENDATION

Our DCF based valuation for PAN is \$2.63/share and we note the cash backing and hedge book account for \$0.63/share. PAN is also trading at very close to net asset backing of \$1.55/share despite significant impairment write-downs in FY09 and higher nickel prices in FY10 to date. **Our one-year forward valuation for PAN is \$2.69/share.**

PAN – Valuation breakdown

	Now		One year forward	
	A\$m	\$/share	A\$m	\$/share
Savannah	204.1	1.00	187.9	0.92
Lanfranchi	212.9	1.04	195.6	0.96
Corporate	-38.8	-0.19	-31.8	-0.16
Exploration	30.0	0.15	30.0	0.15
Net cash / (debt)	110.1	0.54	168.2	0.82
Hedge book	17.4	0.09	-1.1	-0.01
Total	535.7	2.63	548.9	2.69

Source: FSB research

Given PAN's share price pullback, despite continued strong results and buoyant nickel prices, we have upgraded our recommendation from HOLD to BUY and marginally increased our price target to \$2.70/share (previously \$2.60/share), reflecting our one-year forward valuation.

Panoramic Resources Ltd (PAN)

Full Year Ended 30 Jun

Profit and Loss (\$m)	2009a	2010e	2011e	2012e
Sales revenue	228.7	239.0	254.0	253.8
Other revenue	1.2	34.6	-2.4	0.0
Total revenue	229.9	273.6	251.5	253.8
EBITDA	81.2	113.8	91.8	94.1
EBITDA margin (%)	35.5	47.6	36.1	37.1
D & A tangibles	49.5	46.1	47.7	47.6
EBIT	31.7	67.7	44.1	46.4
EBIT margin (%)	13.9	28.3	17.4	18.3
Net interest exp. / (inc.)	0.0	-4.1	-6.3	-14.1
Profit before tax	31.7	71.8	50.5	60.5
Tax exp / (benefit)	7.7	21.5	15.1	18.2
NPAT pre minorities	24.0	50.3	35.3	42.4
Minority Interests	0.0	0.0	0.0	0.0
NPAT pre sig items	24.0	50.3	35.3	42.4
Significant items	-18.4	0.0	0.0	0.0
NPAT reported	5.6	50.3	35.3	42.4
NPAT adjusted*	24.0	50.3	35.3	42.4
EPS adj c	2.8	24.1	16.9	20.3

*NPAT adjusted for significant items and amortisation of intangibles

Cash Flow (\$m)	2009a	2010e	2011e	2012e
EBITDA	81.2	113.8	91.8	94.1
Net Interest	2.9	4.1	6.3	14.1
Tax	-24.9	-10.7	-18.4	-7.6
Δ Working Capital	-19.4	11.0	3.0	-9.8
Other	-6.3	11.2	0.0	0.0
Operating Cashflow	33.5	129.5	82.8	90.7
Capex	-57.5	-34.6	-9.3	-8.4
Net Acquisitions	-0.5	0.0	0.0	0.0
Exploration and Evaluation	-3.1	0.0	0.0	0.0
Other	-17.3	0.0	0.0	0.0
Investing Cashflow	-78.4	-34.6	-9.3	-8.4
Equity proceeds	0.2	0.0	0.0	0.0
Debt proceeds	0.0	0.0	0.0	0.0
Debt repayment	-4.7	-3.8	0.0	0.0
Dividends paid	-11.5	-13.7	-17.2	-7.1
Other	0.0	0.0	0.0	0.0
Financing Cashflow	-16.1	-17.5	-17.2	-7.1
Net Cashflow	-60.9	77.4	56.3	75.2
Effect of exchange rate Δ				

Ratios	2009a	2010e	2011e	2012e
EPS rep c	3.0	24.6	17.3	20.8
EPS adj c	12.8	24.6	17.3	20.8
EPS adj growth (%)	-55.0	92.8	-29.7	19.9
PER x	14.0	7.2	10.3	8.6
EV/EBITDA x	3.4	2.0	1.9	1.1
EV/EBIT x	2.6	1.7	2.1	2.0
Payout ratio	0.2	0.4	0.4	0.5
DPS Total c	3.0	9.9	6.9	9.9
Yield (%)	0.0	5.5	3.9	5.5
Average RoE (%)	0.0	15.9	10.5	11.7
Average RoA (%)	0.0	12.0	8.1	9.0
Gearing (ND/ND+E) (%)	nm	nm	nm	nm
Net interest cover x	nm	nm	nm	nm
ND/EBITDA x	nm	nm	nm	nm
NTA (\$ per share)	1.52	1.55	1.65	1.78
WA # shares on issue	187.8	204.0	204.0	204.0

Source: Company, FSB research

Half Year Ended 31 Dec

Profit and Loss (\$m)	1H10e	2H10e	1H11e	2H11e
Sales revenue	109.2	129.8	127.0	127.0
Other revenue	20.8	13.8	-1.2	-1.3
Total revenue	129.9	143.6	125.8	125.7
EBITDA	55.5	58.3	45.9	45.8
EBITDA margin (%)	50.8	44.9	36.2	36.1
D & A tangibles	21.7	24.4	23.8	23.8
EBIT	33.8	33.9	22.1	22.0
EBIT margin (%)	31.0	26.1	17.4	17.3
Net interest exp. / (inc.)	-1.7	-2.4	-2.9	-3.5
Profit before tax	35.5	36.3	25.0	25.5
Tax exp / (benefit)	10.7	10.9	7.5	7.6
NPAT pre minorities	24.9	25.4	17.5	17.8
Minority Interests	0.0	0.0	0.0	0.0
NPAT pre sig items	24.9	25.4	17.5	17.8
Significant items	0.0	0.0	0.0	0.0
NPAT reported	24.9	25.4	17.5	17.8
NPAT adjusted*	24.9	25.4	17.5	17.8
EPS adj c	11.9	12.2	8.4	8.5

*NPAT adjusted for significant items and amortisation of intangibles

Balance Sheet (\$m)	2009a	2010e	2011e	2012e
Cash	67.3	144.6	201.0	276.2
Receivables	30.4	13.0	13.0	13.0
Inventories	14.8	14.8	14.8	14.8
PPE	199.7	188.2	149.8	110.6
Exploration	18.7	18.7	18.7	18.7
Investments	0.0	0.0	0.0	0.0
Other	49.4	38.2	38.2	38.2
Total Assets	380.3	417.5	435.5	471.4
Accounts payable	30.8	30.8	30.8	30.8
Provisions	10.0	10.0	10.0	10.0
Tax liabilities	45.2	56.1	52.8	63.4
Debt	6.6	2.8	2.8	2.8
Other	1.4	1.4	1.4	1.4
Total Liabilities	94.0	101.1	97.9	108.4
Reserves and capital	172.9	172.9	172.9	172.9
Retained earnings	113.4	143.5	164.7	190.1
Minorities	0.0	0.0	0.0	0.0
Total Equity	286.3	316.4	337.6	363.0

Price and production	2010	2011	2012	LT
Nickel (US\$/lb)	7.99	8.00	8.00	7.00
Copper (US\$/lb)	2.92	3.00	3.00	2.50
Cobalt (US\$/lb)	15.25	15.25	15.25	15.25
AUD/USD	0.86	0.85	0.85	0.85
Production (Ni in con./ore)	2010	2011	2012	2013
Savannah	7,878	7,957	7,948	7,948
Lanfranchi	10,182	10,477	10,477	10,477
Total (tonnes)	18,060	18,434	18,425	18,425
Valuation	now	one year		
	\$m	\$ ps	\$m	\$ ps
Savannah	204.1	1.00	187.9	0.92
Lanfranchi	212.9	1.04	195.6	0.96
Corp/Exploration	-8.8	-0.04	-1.8	-0.01
Net cash / (debt)	110.1	0.54	168.2	0.82
Hedge book	17.4	0.09	-1.1	-0.01
NPV	535.7	2.63	548.9	2.69

FOSTER STOCKBROKING CONTACTS

DEALERS		
Stuart Foster	+61 (0)2 9993 8131	stuart.foster@fostock.com.au
Kevin Massey	+61 (0)2 9993 8130	kevin.massey@fostock.com.au
Trenton Brown	+61 (0)2 9993 8161	trenton.brown@fostock.com.au
Tolga Dokumcu	+61 (0)2 9993 8144	tolga.dokumcu@fostock.com.au
ANALYSTS		
Dominic Rose	+61 (0)2 9993 8150	dominic.rose@fostock.com.au
Michael Evans	+61 (0)2 9993 8163	michael.evans@fostock.com.au

FOSTER STOCKBROKING Pty Limited A.B.N 15 088 747 148 FSR Licence No. 223687
 Level 21, 25 Bligh Street, SYDNEY, NSW 2000 Australia
 Tel: +612 9221 8711 Dealing: +612 9221 8700 Fax: +612 9221 1031
 Email: contact@fostock.com.au
 PARTICIPANT OF ASX GROUP

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