

UBS Investment Research

Panoramic Resources Limited

Half year profit guidance

■ Event: Provision of half year profit guidance

Panoramic today provided profit guidance of ~\$20m for H1 FY10 versus the UBS estimate of \$32m. While the guidance looks well short of our forecast, we are not overly concerned by the miss. With cost data provided by the company for each quarter, the only variables are the D&A charge, corporate costs and potential below the line items. We assume the key difference will be in the D&A charge due to the UBS model assuming a 10-year life at both mines as opposed to the current reserve inferred lives of 4-years for Savannah and ~6-years at Lanfranchi.

■ Impact: Earnings trimmed, little impact on valuation

Adjusting our D&A for both mines and allowing for some minor exploration write downs has lowered our FY10e by 19%. The H1 result, anticipated to be released on 25 February, is now estimated at \$20.9m. However, as the main adjustment to the earnings estimate has been to the D&A, cashflow variations are insignificant.

■ Action: Buy maintained – mine life extensions expected

We maintain our Buy rating on Panoramic due to a view that reserves at the Savannah and Lanfranchi mines will ultimately be upgraded leading to 10-year lives at both. In our view, this should lead to consensus valuation upgrades and potential corporate interest. Additionally, with an FY10e P/E multiple of 6.6x and an EV/EBITDA multiple of 4.9x, we believe PAN remains one of the best value stocks in our coverage universe.

■ Valuation: \$3.40/share (DCF, 10% discount rate)

Both our valuation and target price have been reduced 3% to \$3.40/share.

| Highlights (A\$m) | 06/08 | 06/09 | 06/10E | 06/11E | 06/12E |
|--------------------|-------|-------|--------|--------|--------|
| Revenues | 232 | 225 | 254 | 269 | 266 |
| EBIT (UBS) | 67 | 3 | 78 | 63 | 68 |
| Net Income (UBS) | 53 | 6 | 58 | 51 | 58 |
| EPS (UBS, A\$) | 0.27 | 0.03 | 0.27 | 0.24 | 0.27 |
| Net DPS (UBS, A\$) | 0.12 | 0.03 | 0.07 | 0.10 | 0.11 |

| Profitability & Valuation | 5-yr hist av. | 06/09 | 06/10E | 06/11E | 06/12E |
|---------------------------|---------------|-------|--------|--------|--------|
| EBIT margin % | - | 1.1 | 30.8 | 23.6 | 25.5 |
| ROIC (EBIT) % | - | 1.4 | 35.2 | 34.6 | 43.9 |
| EV/EBITDA (core) x | - | 6.5 | 4.0 | 5.3 | 5.6 |
| PE (UBS) x | - | 55.7 | 6.9 | 7.7 | 6.9 |
| Net dividend yield % | - | 1.9 | 3.8 | 5.4 | 6.0 |

Source: Company accounts, Thomson Reuters, UBS estimates. (UBS) valuations are stated before goodwill, exceptional and other special items. Valuations: based on an average share price that year, (E): based on a share price of A\$1.88 on 02 Feb 2010 23:40 EST

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Global Equity Research

Australia

Mining

12-month rating **Buy**
Unchanged

12m price target **A\$3.40/US\$2.99**
Prior: A\$3.50/US\$3.08

Price **A\$1.88/US\$1.65**

RIC: PAN.AX BBG: PAN AU

3 February 2010

Trading data (local/US\$)

| | |
|--------------------------|----------------------------|
| 52-wk range | A\$3.09-0.75/US\$2.60-0.48 |
| Market cap. | A\$0.38bn/US\$0.34bn |
| Shares o/s | 204m (ORD) |
| Free float | 78% |
| Avg. daily volume ('000) | 847 |
| Avg. daily value (A\$m) | 1.9 |

Balance sheet data 06/10E

| | |
|----------------------|-----------|
| Shareholders' equity | A\$0.33bn |
| P/BV (UBS) | 1.2x |
| Net Cash (debt) | A\$0.13bn |

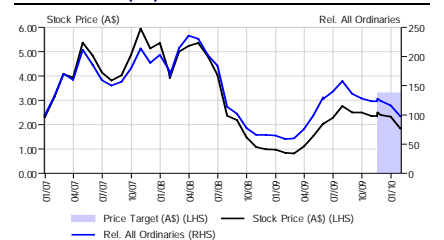
Forecast returns

| | |
|-----------------------------|--------|
| Forecast price appreciation | +80.9% |
| Forecast dividend yield | 4.8% |
| Forecast stock return | +85.7% |
| Market return assumption | 9.0% |
| Forecast excess return | +76.7% |

EPS (UBS, A\$)

| | 06/10E | | Cons. | 06/09 Actual |
|--------|--------|------|-------|--------------|
| | From | To | | |
| H1E | 0.15 | 0.10 | - | (0.04) |
| H2E | 0.18 | 0.17 | - | 0.07 |
| 06/10E | 0.34 | 0.27 | 0.30 | |
| 06/11E | 0.26 | 0.24 | 0.23 | |

Performance (A\$)



Source: UBS

www.ubs.com/investmentresearch

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Panoramic Resources (PAN.AX)

MARKET INFORMATION

| | |
|----------------------------------|-----------------------------------|
| Rating: | Buy |
| Price (as of 02-Feb-10): | 1.88 |
| Price Target (12 months): | 3.40 |
| Issued Capital: | 204.0 |
| Market Capitalisation: | 383.5 |
| Avg. daily turnover (US\$m) | 1.8 |
| Year end: | Jun 2010 |
| Website: | http://www.panoramicresources.com |
| Major Shareholders: | M&G 16% |

COMPANY DESCRIPTION

Panoramic Resources Ltd is an established nickel sulphide producer operating two underground mines in Western Australia: the Savannah Project in the Kimberley and the Lanfranchi Project south of Kambalda. The two operations are forecast to produce a combined 16kt of nickel in concentrate per annum at cash costs of around US\$4.30/lb. Exploration upside exists at both sites underpinning our expectation of nine to 10-year mine lives. The company has stated an intention to become a diversified mining house through the acquisitions of other assets and maintain a steady dividend stream.

INVESTMENT SUMMARY

| (A\$m) | 2009 | 2010E | 2011E | 2012E |
|--------------------------------------|-------------|------------|------------|------------|
| Net profit [reported] (\$m) | 5.6 | 57.7 | 51.3 | 57.6 |
| Net profit [adjusted] (\$m) | 5.6 | 57.7 | 51.3 | 57.6 |
| EPS [reported] (\$) | 0.0 | 0.3 | 0.3 | 0.3 |
| EPS [adjusted, diluted] (\$) | 0.0 | 0.3 | 0.2 | 0.3 |
| EPS Growth (%) | (90.0) | 898.8 | (11.0) | 12.3 |
| PER [adjusted] (x) | 66.3 | 6.6 | 7.5 | 6.7 |
| Dividend (\$) | 0.0 | 0.1 | 0.1 | 0.1 |
| Payout ratio (%) | 100.5 | 25.0 | 40.0 | 40.0 |
| Dividend Yield (%) | 1.5 | 3.8 | 5.4 | 6.0 |
| FCF Yield (%) | 4.6 | 25.1 | 22.0 | 19.7 |
| Franking (%) | 0.0 | 0.0 | 0.0 | 0.0 |
| Shares [period-average, diluted] (m) | 205.4 | 211.5 | 211.5 | 211.5 |

VALUATION

| | |
|--------------------------------------|------|
| Valuation per share [NAV @ 10%] (\$) | 3.39 |
| Share Price Target [12 months] (\$) | 3.40 |
| Price/NAV [10% disc rate] (x) | 0.55 |

Operating Assets [DH09]

| | A\$m | € |
|------------|------|-----|
| Savannah | 292 | 143 |
| Lanfranchi | 302 | 148 |

Gross Assets

| | 594 | 291 |
|-----------------|------|------|
| Exploration | 50 | 25 |
| Hedging | 14 | 7 |
| Net Cash | 83 | 41 |
| Corporate costs | (50) | (24) |

Net Asset Value @ 10% discount rate

| | 692 | 339 |
|--|-----|-----|
|--|-----|-----|

ENTERPRISE VALUE

| (A\$m) | 2009 | 2010E | 2011E | 2012E |
|---------------------------------|------------|------------|------------|------------|
| Enterprise Value | 335 | 641 | 707 | 763 |
| EV/EBITDA (x) | 6.5 | 4.9 | 6.5 | 6.7 |
| EV/Operating Free Cash Flow (x) | 6.5 | 6.6 | 8.8 | 11.2 |

EPS SENSITIVITIES

| Commodity | Base Change | 2010E | 2011E | 2012E |
|-----------|-------------|------------|--------|--------|
| | | EPS Change | | |
| Nickel | 10.0% | 100.0% | 31.0% | 30.0% |
| Copper | 10.0% | 2.0% | 3.0% | 3.0% |
| Currency | 5¢ | -7.0% | -23.0% | -21.0% |

CASH FLOW

| (A\$m) | 2009 | 2010E | 2011E | 2012E |
|--------------------------------|-----------|------------|------------|------------|
| Operating income [EBIT, UBS] | 3 | 78 | 63 | 68 |
| Depreciation & Amortisation | 49 | 51 | 46 | 45 |
| Net change in working capital | 16 | 0 | 0 | 0 |
| Other (operating) | (12) | 0 | 0 | 0 |
| Pre-tax op cash flow | 55 | 130 | 110 | 113 |
| Interest (paid) / received | 3 | 4 | 10 | 14 |
| Tax paid | (25) | (25) | (22) | (25) |
| Other | 0 | 0 | 0 | 0 |
| Operating cash flow | 34 | 109 | 98 | 103 |
| Capital expenditure | (16) | (10) | (10) | (25) |
| Free cash flow | 18 | 100 | 87 | 78 |
| Net (acquisitions) / disposals | 0 | 0 | 0 | 0 |
| Dividends paid (Common) | (12) | (14) | (21) | (23) |
| Shares issued/(repurchased) | 0 | 0 | 0 | 0 |

OPERATIONAL ASSUMPTIONS

| | 1H10E | 2H10E | 2009 | 2010E | 2011E | 2012E |
|------------------------------------|-------|-------|-------|-------|-------|-------|
| Commodity prices | | | | | | |
| Ni price (US\$/lb) | 7.97 | 9.20 | 6.10 | 8.59 | 9.35 | 9.45 |
| Cu price (US\$/lb) | 2.83 | 3.85 | 2.24 | 3.34 | 3.78 | 3.83 |
| Co price (US\$/lb) | 19.30 | 19.70 | 22.44 | 19.50 | 17.85 | 16.00 |
| A\$:US\$ | 0.87 | 0.92 | 0.73 | 0.90 | 0.92 | 0.92 |
| Production - payable nickle | | | | | | |
| Savannah (Mlbs) | 3.9 | 3.9 | 8.1 | 7.9 | 7.9 | 7.7 |
| Lanfranchi (Mlbs) | 4.1 | 4.0 | 9.3 | 8.0 | 7.9 | 7.9 |
| Cash costs | | | | | | |
| Savannah (US\$/lb) | | | 3.77 | 4.07 | 4.26 | 4.04 |
| Lanfranchi (US\$/lb) | | | 3.92 | 5.03 | 4.88 | 4.97 |

DIVISIONAL BREAKDOWN [EBIT]

| (A\$m) | 1H10E | 2H10E | 2009 | 2010E | 2011E | 2012E |
|------------|-------|-------|------|-------|-------|-------|
| Savannah | 10.4 | 18.3 | 14.4 | 28.7 | 35.7 | 36.9 |
| Lanfranchi | 13.4 | 20.1 | 36.8 | 33.4 | 42.9 | 43.1 |

PROFIT & LOSS

| (A\$m) | 1H10E | 2H10E | 2009 | 2010E | 2011E | 2012E |
|--------------------------------|-----------|-----------|------------|------------|------------|------------|
| Sales Revenue | 121 | 133 | 225 | 254 | 269 | 266 |
| Operating Cash Profit | 86 | 88 | 161 | 174 | 177 | 177 |
| Depn & Amortisation | (28) | (23) | (49) | (51) | (46) | (45) |
| Operating Profit | 58 | 64 | 112 | 122 | 131 | 131 |
| Exploration | 0 | 0 | 0 | 0 | 0 | 0 |
| SGA | (29) | (15) | (109) | (44) | (67) | (64) |
| EBIT | 28 | 50 | 3 | 78 | 63 | 68 |
| Net interest | 1 | 3 | 3 | 4 | 10 | 14 |
| Profit before tax | 30 | 53 | 5 | 82 | 73 | 82 |
| Tax expense | (9) | (16) | 0 | (25) | (22) | (25) |
| Equity Associated NPAT | 0 | 0 | 0 | 0 | 0 | 0 |
| Minority Interests | 0 | 0 | 0 | 0 | 0 | 0 |
| Dividends [preferred] | 0 | 0 | 0 | 0 | 0 | 0 |
| Net Profit [reported] | 21 | 37 | 6 | 58 | 51 | 58 |
| Abnormal Gain/(Loss) after Tax | 0 | 0 | 0 | 0 | 0 | 0 |
| Net Profit [adjusted] | 21 | 37 | 6 | 58 | 51 | 58 |
| EBITDA margin (%) | | | 23.0 | 51.0 | 40.8 | 42.5 |
| Net Interest Cover [EBIT] (x) | | | 0.9 | 18.4 | 6.4 | 4.7 |
| Tax Rate (%) | | | -4% | 30% | 30% | 30% |
| EBIT/Total Assets (%) | | | 0.7 | 18.5 | 14.0 | 13.9 |
| NPAT/Equity (%) | | | 2.0 | 17.5 | 14.2 | 14.6 |

BALANCE SHEET [Selected Items]

| (A\$m) | 2009 | 2010E | 2011E | 2012E |
|--|------------|------------|------------|------------|
| Net Working capital | 75 | 75 | 75 | 75 |
| Fixed Assets | 59 | 17 | 17 | 17 |
| Net Other | 109 | 109 | 73 | 53 |
| Capital Employed | 243 | 201 | 165 | 144 |
| Net Cash / (Debt) | 43 | 129 | 195 | 251 |
| Total Equity [incl. minorities] | 286 | 330 | 360 | 395 |
| Minorities | 0 | 0 | 0 | 0 |
| Net Debt / Equity (%) | (15.2) | (39.0) | (54.2) | (63.4) |
| Book Value per Share(\$) | 1.40 | 1.62 | 1.77 | 1.94 |

Source: Company accounts, UBS estimates. UBS valuations are stated before goodwill, exceptional and other special items. Note: For some companies, the data represents an extract of the full company accounts.

Source: UBSe

■ Panoramic Resources Limited

Panoramic Resources Ltd is an established nickel sulphide producer operating two underground mines in Western Australia: the Savannah Project in the Kimberley and the Lanfranchi Project south of Kambalda. The two operations are forecast to produce a combined 16kt of nickel in concentrate per annum at cash costs of around US\$4.30/lb. Exploration upside exists at both sites underpinning our expectation of nine to 10-year mine lives. The company has stated an intention to become a diversified mining house through the acquisitions of other assets and maintain a steady dividend stream.

■ Statement of Risk

Investment risk inherent in the resource sector includes, but it is not limited to, movements in commodity price and currency which may differ materially from the assumption used in this report. Furthermore, the sector is subject to political, financial and operational risks, each of which has the potential to significantly impact company/industry performance.

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| UBS 12-Month Rating | Rating Category | Coverage ¹ | IB Services ² |
|-----------------------|-----------------|-----------------------|--------------------------|
| Buy | Buy | 48% | 40% |
| Neutral | Hold/Neutral | 40% | 35% |
| Sell | Sell | 13% | 26% |
| UBS Short-Term Rating | Rating Category | Coverage ³ | IB Services ⁴ |
| Buy | Buy | less than 1% | 17% |
| Sell | Sell | less than 1% | 67% |

1:Percentage of companies under coverage globally within the 12-month rating category.

2:Percentage of companies within the 12-month rating category for which investment banking (IB) services were provided within the past 12 months.

3:Percentage of companies under coverage globally within the Short-Term rating category.

4:Percentage of companies within the Short-Term rating category for which investment banking (IB) services were provided within the past 12 months.

Source: UBS. Rating allocations are as of 31 December 2009.

UBS Investment Research: Global Equity Rating Definitions

| UBS 12-Month Rating | Definition |
|-----------------------|---|
| Buy | FSR is > 6% above the MRA. |
| Neutral | FSR is between -6% and 6% of the MRA. |
| Sell | FSR is > 6% below the MRA. |
| UBS Short-Term Rating | Definition |
| Buy | Buy: Stock price expected to rise within three months from the time the rating was assigned because of a specific catalyst or event. |
| Sell | Sell: Stock price expected to fall within three months from the time the rating was assigned because of a specific catalyst or event. |

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Forecast Stock Return (FSR) is defined as expected percentage price appreciation plus gross dividend yield over the next 12 months.

Market Return Assumption (MRA) is defined as the one-year local market interest rate plus 5% (a proxy for, and not a forecast of, the equity risk premium).

Under Review (UR) Stocks may be flagged as UR by the analyst, indicating that the stock's price target and/or rating are subject to possible change in the near term, usually in response to an event that may affect the investment case or valuation.

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UBS Securities Australia Ltd: Jo Battershill; Glyn Lawcock; Daniel Morgan.

Company Disclosures

| Company Name | Reuters | 12-mo rating | Short-term rating | Price | Price date |
|--|---------|--------------|-------------------|---------|-------------|
| Panoramic Resources Limited ^{5, 13} | PAN.AX | Buy | N/A | A\$1.88 | 02 Feb 2010 |

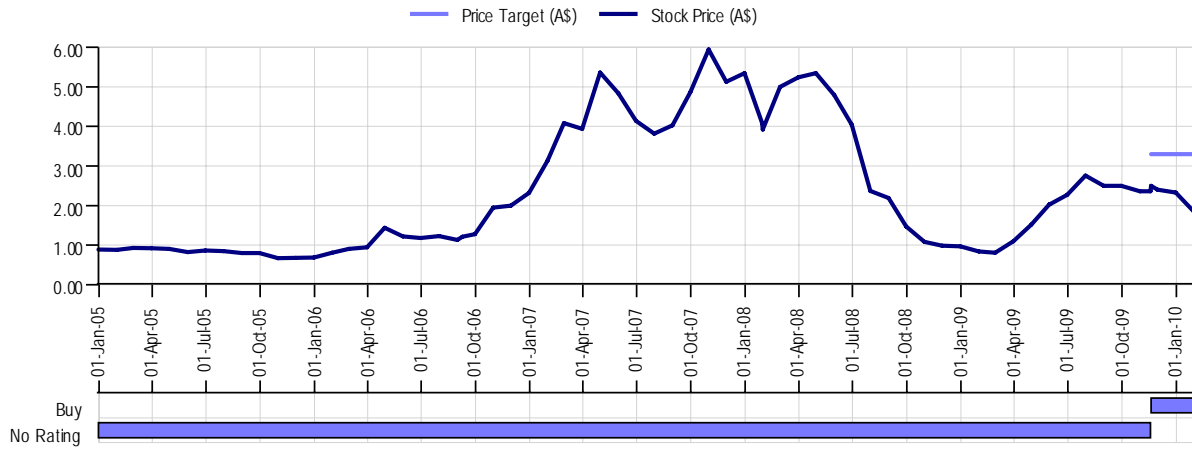
Source: UBS. All prices as of local market close.

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Panoramic Resources Limited (A\$)



Source: UBS; as of 02 Feb 2010

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