

Panoramic Resources Limited

H1 FY10 Profit Guidance – Down But Not Out



Wilson HTM
INVESTMENT GROUP

3 February 2010

\$1.93

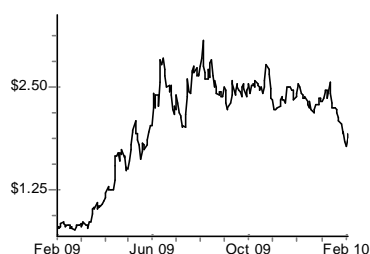
BUY

Keith Williams

03 9640 3802

keith.williams@wilsonhtm.com.au

Price Performance



Security/Capital Details

ASX Code	PAN
Market Cap	\$403 M
Issued Shares (dil)	208.7 M
Avg Mth T'over	23.29 M
12 Mth High – Low	\$3.09 - \$0.75

Key Data/Ratios – FY 2010

EBITDA / Sales	49.6%
EBIT / Sales	28.1%
Debt / Equity	0.9%
Interest Cover	197.4 x
ROE	16.6%
EPS Growth	110.0%
DCF	\$2.40
12 Mth Price Target	\$2.41

Recommendation

We are maintaining our BUY recommendation on PAN with a slightly lowered target price of \$2.41/sh (-\$0.03/sh). While Dec half profit guidance released today is notably lower than our forecast, the majority of the difference relates to the write-off of exploration and business development expenses and higher than forecast depreciation which is a timing issue. Following recent share price weakness we view PAN as an under valued nickel exposure with a strong balance sheet and with the main attraction near term being exposure to an \$8m (FY2010) exploration program in WA, the NT and Sweden.

Key Points

- PAN has today announced half year profit guidance of \$20.0m after tax. There are no impairment charges. The result compares with a reported loss of \$8.6m in the pcp which included write downs of \$25.1m pre tax.
- While the guidance is still subject to Jan 2010 quotational pricing sales revenue adjustments on Lanfranchi sales, finalisation of tax expense and audit, it is considerably below our forecast of \$34.0m.
- Despite the shortfall relative to our forecast, our view and recommendation on the stock is unchanged. We understand that the D&A charge is materially higher than our forecast as adjustment to the depreciation rate for likely increased reserves (Lower Savannah) has yet to be made and will only apply for the last quarter of FY2010 at the earliest. We understand that there is a possibility that lower D&A may not apply until production commences from any reserves declared for Lower Savannah. A maiden reserve statement for Lower Savannah is due for announcement this quarter.
- We also understand that reported profit includes various write-offs of exploration and business development expenses as well as non-cash hedging related expenses and share based employee expenses. Many of these items are difficult to forecast with any degree of accuracy.
- We also note that the effective tax rate of 33% is higher than the prima-facie corporate tax rate, whereas we had forecast the rate at just under 30%.
- We have adjusted our model to reflect guidance of \$20m profit after tax for the half year. Beyond this we have assumed higher than previous D&A in the June half and a higher than previously forecast level of write-offs consistent with the Dec half and in recognition of the level of exploration and business development activities being undertaken. Beyond FY2010, our forecasts only include a slight increase in corporate overhead costs at this stage.
- Our DCF valuation is little changed (\$2.39/sh vs \$2.44/sh) and similarly our target price (\$2.41/sh vs \$2.44/sh). FY2010 NPAT is however downgraded from previously \$71.0m to now \$50.4m.

Year to June	NPAT (Rep) \$M	NPAT (PSig) \$M	EPS (PSig) c	EPS Growth %	PER x	CFPS c	P/CF x	DPS c	Div Yld %	Franking %
2009a	5.6	24.0	11.5	-58.8	16.8	16.1	12.0	3.0	1.6	100
2010e	50.4	50.4	24.1	110.0	8.0	65.8	2.9	12.0	6.2	100
2011e	81.1	81.1	38.9	61.1	5.0	58.6	3.3	20.0	10.4	100
2012e	67.0	67.0	32.1	-17.5	6.0	47.9	4.0	16.0	8.3	100

Panoramic Resources Limited (PAN : \$1.93)

PRODUCTION

Yr Ending June	2008A	2009A	2010E	2011E	2012E
Contained Nickel (kt)	13.1	17.4	17.9	22.9	20.7
Contained Copper (kt)	4.5	5.0	5.4	6.1	5.8
Contained Cobalt (kt)	0.4	0.4	0.4	0.6	0.6

PRICES

Yr Ending June	2008A	2009A	2010E	2011E	2012E
AUDUSD (USD)	0.90	0.75	0.89	0.88	0.85
Nickel (US\$/lb)	12.95	6.13	7.98	9.00	8.75
Copper (US\$/lb)	3.53	2.14	2.77	3.19	3.25
Cobalt (US\$/lb)	37.10	21.25	18.43	19.00	17.50

INVESTMENT & VALUATION FUNDAMENTALS

Yr Ending June	2008A	2009A	2010E	2011E	2012E
EPS Before Abs (c)	27.9	11.5	24.1	38.9	32.1
EPS Growth (%)	N/A	-58.8%	110.0%	61.1%	-17.5%
PER (x)	6.9	16.8	8.0	5.0	6.0
CFPS (c)	46.1	16.1	65.8	58.6	47.9
P/CF (x)	4.2	12.0	2.9	3.3	4.0
EV/EBITDA (x)	2.7	4.4	2.2	1.4	1.3
DPS (c)	12.0	3.0	12.0	20.0	16.0
Yield (%)	6.2%	1.6%	6.2%	10.4%	8.3%
Franking (%)	100%	100%	100%	100%	100%

DCF VALUATION

@

10.5%

10.0%

Yr Ending June	A\$m	A\$ps	A\$m	A\$ps
Savannah	72.9	0.35	73.8	0.35
Lanfranchi	188.3	0.90	191.0	0.92
Corporate Costs Capitalised	-38.7	-0.19	-39.4	-0.19
Hedge Book	6.8	0.03	6.8	0.03
Interests - Other Entities	1.8	0.01	1.8	0.01
Exploration/Dev Portfolio	73.0	0.35	73.0	0.35
Franking Credits	61.5	0.29	62.3	0.30
Cash	130.3	0.62	130.3	0.62
Interest Bearing Liabilities	-2.8	-0.01	-2.8	-0.01
Minorities	0.0	0.00	0.0	0.00
Additional Capital - Dilution	6.6	0.03	6.7	0.03
Total Valuation - Diluted	499.7	2.39	503.5	2.41

PROFITABILITY RATIOS

Yr Ending June	2008A	2009A	2010E	2011E	2012E
EBIT / Sales (%)	30.2%	14.5%	28.1%	41.0%	35.6%
ROA (%)	N/A	11.8%	22.5%	38.4%	32.1%
ROE (%)	N/A	9.3%	16.6%	23.2%	17.3%
ROFE (%)	N/A	17.6%	32.4%	59.9%	51.2%

INTERIMS (\$m)

Half Yr	Dec 08	Jun 09	Dec 09	Jun 10	Dec 10
Yr Ending June	1H A	2H A	1H E	2H E	1H E
Sales Revenue	110.7	114.4	132.0	114.7	124.6
EBIT	8.2	24.4	28.8	40.5	44.0
Net Profit	-8.6	14.2	20.0	30.4	33.3
EPS	4.4	7.1	9.6	14.6	15.9

BALANCE SHEET (\$m)

Yr Ending June	2008A	2009A	2010E	2011E	2012E
Cash	110.9	50.0	140.6	201.1	243.4
Total Assets	332.1	380.3	427.6	479.7	499.4
Debt	8.4	6.6	2.8	2.8	2.8
Total Liabilities	100.4	94.0	105.2	103.3	101.3
Total Shareholders Equity	231.7	286.3	322.4	376.4	398.1
Total Funds Employed	129.2	242.9	184.5	178.0	157.5

LIQUIDITY & LEVERAGE RATIOS

Yr Ending June	2008A	2009A	2010E	2011E	2012E
Debt / Equity (%)	3.6%	2.3%	0.9%	0.7%	0.7%
Gearing (%) ¹	3.5%	2.2%	0.9%	0.7%	0.7%
Interest Cover (x)	-15.2	33.5	-20.6	-15.8	-9.0
Debt / CashFlow (x)	0.1	0.2	0.0	0.0	0.0
(Debt+CNNotes) / CashFlow	0.1	0.1	0.0	0.0	0.0

PROFIT & LOSS (\$m)

Yr Ending June	2008A	2009A	2010E	2011E	2012E
Sales Revenue	232.4	225.1	246.7	265.1	242.1
EBITDA	110.7	82.2	122.3	151.6	121.0
Depn and Amortisation	40.4	49.5	53.0	43.0	34.9
EBIT	70.3	32.7	69.3	108.6	86.1
Net Interest Expense	-4.6	1.0	-3.4	-6.9	-9.6
Pre-tax Profit	74.9	31.7	72.7	115.5	95.7
Tax	16.9	7.7	22.3	34.3	28.7
Tax rate (%)	22.5%	24.3%	30.7%	29.7%	30.0%
Minorities / pref divs	0.0	0.0	0.0	0.0	0.0
Equity accounted NPAT	0.0	0.0	0.0	0.0	0.0
Net Profit	58.0	24.0	50.4	81.1	67.0
Abnormals	-4.7	-18.4	0.0	0.0	0.0
Reported Net Profit	53.3	5.6	50.4	81.1	67.0

CASHFLOW (\$m)

Yr Ending June	2008A	2009A	2010E	2011E	2012E
Operating Cash Flow	95.8	33.5	137.2	122.2	99.9
Capital Expenditure	-22.2	-15.7	-13.1	-16.3	-1.3
Expln, Develop, Evaln	-39.6	-44.8	-19.2	-18.3	-11.2
Asset Sales/Acquisitions	-3.7	0.0	0.0	0.0	0.0
Other	0.0	-17.8	0.0	0.0	0.0
Investing Cash Flow	-65.4	-78.4	-32.3	-34.6	-12.4
Share Issues/(Buybacks)	3.6	0.2	0.0	3.7	0.0
Debt Drawdown (Repay)	-6.6	-4.7	0.0	0.0	0.0
Dividends Paid	-36.1	-11.5	-14.3	-30.7	-45.2
Other Fin. Flows	0.0	0.0	0.0	0.0	0.0
Financing Cash Flow	-39.1	-16.1	-14.3	-27.1	-45.2
Cash Increase (Decrease)	-8.7	-61.0	90.6	60.5	42.2

EARNINGS SENSITIVITIES - % CHANGE

Yr Ending June	2008A	2009A	2010E	2011E	2012E
+/- 1c Movement US\$/A\$	0.0	0.0	0.6	3.4	4.0
+/-10% Ni Price Change	0.0	0.0	10.8	20.2	27.5
+/-10% Change In Costs	0.0	0.0	10.6	14.3	18.6

1. Gearing = (Debt + CNotes) / (Debt + CNotes + Equity)



Recommendation Structure

BUY: Total return +10% or more over a 12 month period

HOLD: Total return expected to be between +10% to -10% over a 12-month period

SELL: Total return expected to be -10% or more over a 12 month period

TOTAL RETURN OR TSR = capital growth in share price + expected dividend yield in that period

Other definitions

CS Coverage Suspended. Wilson HTM Ltd has suspended coverage of this company.

NR Not Rated. The recommendation has been suspended temporarily. Such suspension is in line with Wilson HTM Investment Group Ltd policies in circumstances where Wilson HTM Corporate Finance Ltd is acting in an advisory capacity in a merger or strategic transaction involving the company and in certain other situations.

Disclaimer

Whilst Wilson HTM Ltd believes the information contained in this communication is based on reliable information, no warranty is given as to its accuracy and persons relying on this information do so at their own risk. To the extent permitted by law Wilson HTM Ltd disclaims all liability to any person relying on the information contained in this communication in respect of any loss or damage (including consequential loss or damage) however caused, which may be suffered or arise directly or indirectly in respect of such information. Any projections contained in this communication are estimates only. Such projections are subject to market influences and contingent upon matters outside the control of Wilson HTM Ltd and therefore may not be realised in the future.

The advice contained in this document is general advice. It has been prepared without taking account of any person's objectives, financial situation or needs and because of that, any person should, before acting on the advice, consider the appropriateness of the advice, having regard to the client's objectives, financial situation and needs. Those acting upon such information without first consulting one of Wilson HTM Ltd investment advisors do so entirely at their own risk. This report does not constitute an offer or invitation to purchase any securities and should not be relied upon in connection with any contract or commitment whatsoever. If the advice relates to the acquisition, or possible acquisition, of a particular financial product – the client should obtain a Product Disclosure Statement relating to the product and consider the Statement before making any decision about whether to acquire the product. This communication is not to be disclosed in whole or part or used by any other party without Wilson HTM Ltd's prior written consent.

Disclosure of Interest. Panoramic Resources Limited

The Directors of Wilson HTM Ltd advise that at the date of this report they and their associates have relevant interests in Panoramic Resources Limited. They also advise that Wilson HTM Ltd and Wilson HTM Corporate Finance Ltd A.B.N. 65 057 547 323 and their associates have received and may receive commissions or fees from Panoramic Resources Limited in relation to advice or dealings in securities. Some or all of Wilson HTM Ltd authorised representatives may be remunerated wholly or partly by way of commission.

In producing research reports, members of Wilson HTM Ltd Research may attend site visits and other meetings hosted by the issuers the subject of its research reports. In some instances the costs of such site visits or meetings may be met in part or in whole by the issuers concerned if Wilson HTM Ltd considers it is appropriate and reasonable in the specific circumstances relating to the site visit or meeting.

BRISBANE

Ph: 07 3212 1333
Fax: 07 3212 1399

SYDNEY

Ph: 02 8247 6600
Fax: 02 8247 6601

MELBOURNE

Ph: 03 9640 3888
Fax: 03 9640 3800

GOLD COAST

Ph: 07 5509 5500
Fax: 07 5509 5599

DALBY

Ph: 07 4660 8000
Fax: 07 4660 4169

HERVEY BAY

Ph: 07 4197 1600
Fax: 07 4197 1699

TOWNSVILLE

Ph: 07 4725 5787
Fax: 07 4725 5104

GEELONG

Ph: 03 5225 1500
Fax: 03 5225 1599

Our web site: www.wilsonhtm.com.au