

Panoramic Resources (PAN.AX / PAN AU)

UPGRADE RATING

Rating (from Underperform) OUTPERFORM* [V]	
Price (03 Feb 10, A\$)	1.93
Target price (A\$)	(from 1.85) 2.40 ¹
Market cap. (A\$m)	393.74
Yr avg. mthly trading (A\$m)	47
Last month's trading (A\$m)	46
Projected return:	
Capital gain (%)	24.0
Gross yield (%)	5.0
Total return (%)	29.0
52-week price range (A\$)	3.09 - 0.74

* Stock ratings are relative to the relevant country benchmark.

¹Target price is for 12 months.

[V] = Stock considered volatile (see Disclosure Appendix).

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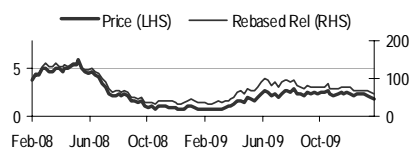
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Three value indicators

- **Increasing to OUTPERFORM on valuation grounds. Despite making minor downgrades to earnings for revised AUD nickel price forecasts, we now see value in Panoramic Resources from three perspectives: 1) sum of parts discounted cashflow valuation (A\$2.40), 2) asset backing perspective (1.2x book, forecast cash backing FY10 34% of market cap) and 3) low PE (6.6x Credit Suisse, 7x consensus).** The rapid share price descent in the past month (down 23%) puts PAN at a level not seen since May 2008, creating an attractive entry point for investors and leading us to upgrade investment rating to OUTPERFORM (from Underperform). Target price increased to \$2.40 (from \$1.85).
- **Minor adjustments to AUD nickel price forecasts:** In the latest round of commodity price adjustments, Credit Suisse nickel forecasts are unchanged (US\$8/lb CY2010, US\$7.5/lb CY2011, current spot US\$8.2/lb); however, there is a slight decrease in AUD terms due to AUD appreciation. Revised earnings forecasts in FY10 and FY11 of -11% and -6%, respectively, take little away from PAN's current valuation story.
- **Catalysts:** 1H FY10 earnings due 26 February. Company guidance is now for A\$20mn (released 3 February), above our anticipated A\$19mn. We forecast an interim dividend of 4 cents per share (1 cent 1HFY09).
- **DCF valuation A\$2.40 (producing mines \$1.60, non producing assets \$0.10, \$0.70 cash).** Valuation struck off average nickel price over next four years of US\$7.40/lb (spot US\$8.2/lb / AUDUSD 0.82). Nominal value (A\$20mn) given to PAN's non-producing assets (including Copernicus Project on care and maintenance). Forecast cash at June 2010 A\$135mn (current December 2009 A\$126mn) makes up 37% of current market cap. We see upside risk to dividend forecasts. A low PE consistent with short mine life (less than ten years) but at 6.6x Credit Suisse earnings (6.6x excluding interest on high cash balance) and 7x consensus is conservative in our view.

Share price performance



The price relative chart measures performance against the Australia S&P/ASX 200 index which closed at 4647.89 on 03/02/10

On 03/02/10 the spot exchange rate was A\$1.13/US\$1

Performance Over	1M	3M	12M
Absolute (%)	-17.2	-13.5	145.9
Relative (%)	-12.6	-16.0	113.4

Financial and valuation metrics

Year	06/09A	06/10E	06/11E	06/12E
Revenue (A\$m)	226.3	298.8	291.2	291.7
EBITDA (A\$m)	78.2	126.8	123.3	128.2
EBIT (A\$m)	28.8	81.8	82.6	90.3
Net income (A\$m)	31.9	58.6	61.0	67.7
EPS (CS adj.) (Ac)	16.13	28.07	29.24	32.47
Change from previous EPS (%)	n.a.	-11.5	-5.9	11.9
Consensus EPS (Ac)	n.a.	29.50	22.90	23.30
EPS growth (%)	-51.8	74.1	4.2	11.0
P/E (x)	12.0	6.9	6.6	5.9
Dividend (Ac)	3.00	10.00	15.00	16.24
Dividend yield (%)	1.6	5.2	7.8	8.4
P/B (x)	1.4	1.2	1.1	1.0
Net debt/equity (%)		net cash	net cash	net cash

Source: Company data, ASX, Credit Suisse estimates. * Adj. for goodwill, notional interest and unusual items. Relative P/E against ASX/S&P200 based on pre GW in AUD. Company PE calculation is based on displayed EPS Currency

DISCLOSURE APPENDIX CONTAINS ANALYST CERTIFICATIONS AND THE STATUS OF NON-US ANALYSTS. U.S. Disclosure: Credit Suisse does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the Firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision.

Figure 1: Financial summary

PANORAMIC RESOURCES LIMITED

In \$mn, unless otherwise stated

Year ending 30 Jun

Profit & Loss	2008A	2009A	2010F	2011F	2012F
Sales revenue	232.4	225.1	298.8	291.2	291.7
EBITDA	119.3	78.2	126.8	123.3	128.2
Depr. & Amort.	40.4	49.3	45.0	40.6	37.8
Goodwill amort.	0.0	0.0	0.0	0.0	0.0
EBIT	78.8	28.8	81.8	82.6	90.3
Equity adjustment	0.0	0.0	0.0	0.0	0.0
Net interest	-4.6	-2.9	-1.8	-4.5	-6.4
Profit before tax	83.5	31.7	83.7	87.2	96.8
Income tax	18.1	-0.2	25.1	26.1	29.0
Profit after tax	65.4	31.9	58.6	61.0	67.7
Minorities	0.0	0.0	0.0	0.0	0.0
Net profit after tax	65.4	31.9	58.6	61.0	67.7
Preferred dividends	na	na	na	na	na
Net profit after tax	65.4	31.9	58.6	61.0	67.7
Unusual item after tax	0.0	-26.3	0.0	0.0	0.0
Reported profit after tax	65.4	5.6	58.6	61.0	67.7
Balance Sheet	2008A	2009A	2010F	2011F	2012F
Cash & equivalents	110.9	50.0	134.8	177.1	214.2
Inventories	11.2	14.8	14.8	14.8	14.8
Receivables	17.2	46.0	46.0	46.0	46.0
Other current assets	28.8	46.1	46.1	46.1	46.1
Current assets	168.1	156.8	241.7	283.9	321.1
Property, plant & equip.	135.9	199.7	175.9	156.4	139.8
Intangibles	0.0	0.0	0.0	0.0	0.0
Other non-current assets	28.1	23.8	23.8	23.8	23.8
Non-current assets	164.1	223.5	199.6	180.2	163.6
Total assets	332.1	380.3	441.3	464.1	484.7
Payables	31.3	30.8	30.8	30.8	30.8
Interest bearing debt	8.4	6.6	6.6	6.6	6.6
Other liabilities	60.7	56.6	73.4	69.9	70.5
Total liabilities	100.4	94.0	110.8	107.3	108.0
Net assets	231.7	286.3	330.5	356.8	376.7
Ordinary equity	231.7	286.3	330.7	357.0	376.9
Minority interests	0.0	0.0	0.0	0.0	0.0
Preferred capital	na	na	na	na	na
Total shareholder funds	231.7	286.3	330.5	356.8	376.7
Cashflow	2008A	2009A	2010F	2011F	2012F
EBIT	78.8	28.8	81.8	82.6	90.3
Net interest	-0.8	3.6	1.8	4.5	6.4
Depr & Amort	40.4	49.3	45.0	40.6	37.8
Tax paid	-21.5	-24.9	-8.3	-29.7	-28.4
Working capital	-5.1	-15.6	0.0	0.0	0.0
Other	-8.2	-11.0	0.0	0.0	0.0
Operating cashflow	83.7	30.2	120.4	98.1	106.2
Capex	-59.4	-55.7	-21.2	-21.2	-21.2
Acquisitions & Invest	0.0	-19.7	0.0	0.0	0.0
Asset sale proceeds	0.0	0.0	0.0	0.0	0.0
Other	6.1	0.1	0.0	0.0	0.0
Investing cashflow	-53.2	-75.3	-21.2	-21.2	-21.2
Dividends paid	-36.1	-11.5	-14.2	-34.7	-47.8
Equity raised	3.6	0.2	0.0	0.0	0.0
Net borrowings	-6.6	-4.7	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0
Financing cashflow	-39.1	-16.1	-14.2	-34.7	-47.8
Net cashflow	-8.7	-61.1	85.0	42.2	37.2

Share Price: A\$1.93

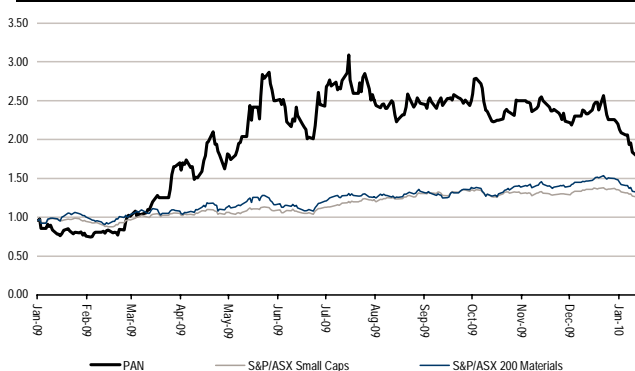
Financial Summary	2008A	2009A	2010F	2011F	2012F	
NPAT	\$mn	65.4	31.9	58.6	61.0	67.7
Credit Suisse NPAT	\$mn	65.4	31.9	58.6	61.0	67.7
Credit Suisse EPS	c	33.5	16.1	28.1	29.2	32.5
EPS growth	%	-26.7	-51.8	74.1	4.2	11.0
P/E	x	5.8	12.0	6.9	6.6	5.9
P/Earnings Growth	x	na	0.3	0.9	0.7	2.7
Dividend payout ratio	%	35.8	18.6	35.6	51.3	50.0
Dividend	c	12.0	3.0	10.0	15.0	16.2
Yield	%	6.2	1.6	5.2	7.8	8.4
Franking	%	100	100	100	100	100
Operating CFPS	c	42.8	15.3	57.7	47.0	50.9
P/OCF	x	4.5	12.6	3.3	4.1	3.8
EV/EBITDA	x	2.9	4.5	2.8	2.8	2.7
FCF yield	%	6.4	-6.7	24.6	19.1	21.1

Financial Ratios	2008A	2009A	2010F	2011F	2012F	
Profitability Ratios						
EBITDA margin	%	51.3	34.7	42.4	42.3	43.9
EBIT margin	%	33.9	12.8	27.4	28.4	31.0
Return on equity	%	28.2	11.1	17.7	17.1	18.0
Return on assets	%	35.6	8.7	26.7	28.8	33.4
ROCE	%	109.1	15.5	36.8	42.5	50.8
Effective tax rate	%	21.6	-0.7	30.0	30.0	30.0

Balance Sheet Ratios	2008A	2009A	2010F	2011F	2012F	
Net debt	\$mn	-102.5	-43.4	-128.2	-170.5	-207.7
Net debt/Equity	%	-44.2	-15.2	-38.8	-47.8	-55.1
Net debt/Capital	%	-79.4	-17.9	-63.4	-91.5	-122.8
Interest cover	x	-17.0	-10.1	-44.2	-18.3	-14.0
Capex/Sales	%	-25.5	-24.7	-7.1	-7.3	-7.3
Capex/Deprn	%	-1.5	-1.1	-0.5	-0.5	-0.6
Working capital/Sales	%	-2.2	-6.9	0.0	0.0	0.0

Share Items	2008A	2009A	2010F	2011F	2012F	
Equiv. FPO (period avg.)	mn	195	198	209	209	209

Share Price Performance 52 week range: \$0.75 - \$3.09



Source: ASX Share price as of 3 Feb 10, 17:53 AET

Source: Company data, Credit Suisse estimates

Figure 2: Detailed financials

Assumptions	FY08	FY09	FY10F	FY11F	FY12F	FY13F	FY14F	1H09	2H09	1H10F	2H10F	1H11F	2H11F
AUD:USD	0.89	0.75	0.88	0.87	0.83	0.79	0.76	0.78	0.71	0.87	0.90	0.88	0.86
Nickel (US\$/lb)	12.90	6.00	8.08	7.66	7.25	7.00	7.00	6.69	5.30	7.99	8.18	7.83	7.50
Nickel (A\$/lb)	14.42	8.04	9.15	8.86	8.79	8.92	9.21	8.58	7.45	9.16	9.13	8.94	8.77
Copper (US\$/lb)	3.55	2.22	3.02	3.40	3.35	3.15	3.00	2.61	1.83	2.84	3.20	3.40	3.40
Production	FY08	FY09	FY10F	FY11F	FY12F	FY13F	FY14F	1H09	2H09	1H10F	2H10F	1H11F	2H11F
Production contained - Savannah (kt)	7.6	8.1	7.9	8.2	8.3	8.3	7.9	4.0	4.1	3.9	4.0	4.0	4.2
Production contained - Lanfranchi (100% basis) (kt)	7.3	10.7	10.5	10.0	10.1	10.5	10.5	5.2	5.5	4.7	5.8	5.0	5.0
Production - contained Ni	14.9	18.7	18.4	18.2	18.5	18.8	18.4	9.2	9.5	8.6	9.8	9.0	9.2
Payable Ni production - Savannah (kt)	5.1	5.5	5.3	5.6	5.7	5.7	5.4	2.7	2.8	2.6	2.7	2.7	2.8
Payable Ni production - Lanfranchi (100% basis) (kt)	4.3	6.1	6.2	6.0	6.1	6.3	6.3	3.1	3.1	2.8	3.5	3.0	3.0
Total Ni production (kt)	9.4	11.6	11.6	11.5	11.7	11.9	11.6	5.8	5.8	5.4	6.2	5.7	5.8
Payable Cu production - Savannah (kt)	2.0	2.1	2.2	2.2	2.2	2.2	2.2	1.0	1.1	1.1	1.1	1.1	1.1
Payable Cu production - Lanfranchi (100% basis) (kt)	0.3	0.3	0.3	0.3	0.3	0.4	0.4	0.2	0.2	0.2	0.2	0.2	0.2
Total Cu production (kt)	2.3	2.5	2.6	2.5	2.5	2.5	2.5	1.2	1.3	1.3	1.3	1.3	1.3
Co production - Savannah (kt)	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.1	0.1	0.1	0.1	0.1	0.1
Grade and cash costs	FY08	FY09	FY10F	FY11F	FY12F	FY13F	FY14F	1H09	2H09	1H10F	2H10F	1H11F	2H11F
Cash costs, pre by-product credits - US\$/lb	9.17	4.55	5.55	5.44	5.08	4.83	4.80	4.90	4.20	5.49	5.62	5.57	5.31
By-product credits - US\$/lb	4.73	1.41	2.03	2.24	2.07	1.85	1.51	1.78	1.04	1.91	2.14	2.30	2.18
Cash costs, including by-product credits - US\$/lb	4.44	3.14	3.52	3.20	3.01	2.98	3.28	3.13	3.16	3.58	3.47	3.27	3.13
Average head grade - nickel	1.5%	1.7%	1.7%	1.7%	1.7%	1.7%	1.7%	1.7%	1.7%	1.7%	1.74%	1.7%	1.7%
Consolidated P&L (A\$mn)	FY08	FY09	FY10F	FY11F	FY12F	FY13F	FY14F	1H09	2H09	1H10F	2H10F	1H11F	2H11F
Revenues from operating activities	232.4	225.1	298.8	291.2	291.7	296.6	287.9	110.7	114.4	133.2	165.6	145.9	145.3
Other income	0.0	1.2	-	-	-	-	-	1.3	-0.1	-	-	-	-
Total revenues	232.4	226.3	298.8	291.2	291.7	296.6	287.9	111.9	114.4	133.2	165.6	145.9	145.3
Cost of goods sold	95.8	113.6	160.0	159.9	159.0	161.9	161.9	66.1	47.5	74.5	85.4	80.2	79.7
Other expenses	29.5	34.5	12.0	8.0	4.5	2.5	1.5	7.7	26.8	8.8	3.3	4.0	4.0
Total operating expenses	125.3	148.1	172.0	167.9	163.5	164.4	163.4	73.8	74.3	83.3	88.7	84.2	83.7
EBITDA	107.2	78.2	126.8	123.3	128.2	132.1	124.5	38.1	40.0	49.9	76.9	61.7	61.6
Depreciation and amortisation	40.4	49.3	45.0	40.6	37.8	35.4	33.0	27.4	21.9	23.0	22.0	20.7	19.9
EBIT	66.8	28.8	81.8	82.6	90.3	96.7	91.5	10.7	18.1	26.9	54.9	41.0	41.7
Net interest	4.6	2.9	1.8	4.5	6.4	7.9	9.6	2.2	0.6	0.8	1.1	1.9	2.6
Profit before tax	71.4	31.7	83.7	87.2	96.8	104.7	101.1	12.9	18.8	27.7	56.0	42.9	44.3
Tax	-18.1	0.2	-25.1	-26.1	-29.0	-31.4	-30.3	4.2	-4.0	-8.3	-16.8	-12.9	-13.3
Underlying NPAT	53.3	31.9	58.6	61.0	67.7	73.3	70.7	17.1	14.8	19.4	39.2	30.0	31.0
Net significant items (post tax)	-	-26.3	-	-	-	-	-	-25.7	-0.5	-	-	-	-
Reported NPAT	53.3	5.6	58.6	61.0	67.7	73.3	70.7	-8.6	14.3	19.4	39.2	30.0	31.0
Key financials	FY08	FY09	FY10F	FY11F	FY12F	FY13F	FY14F	1H09	2H09	1H10F	2H10F	1H11F	2H11F
Underlying EPS - basic (cps)	28.4	16.5	28.7	29.9	33.2	35.9	34.7	8.9	7.5	9.5	19.2	14.7	15.2
Underlying EPS - diluted (cps)	27.3	16.1	28.1	29.2	32.5	35.1	33.9	8.9	7.3	9.3	18.8	14.4	14.8
Cash EPS (diluted)	48.0	41.1	49.7	48.7	50.6	52.1	49.7	23.2	18.1	20.3	29.3	24.3	24.4
EPS growth	-40%	-41%	74%	4%	11%	8%	-3%	-29%	-51%	4%	157%	55%	-21%
Diluted average shares	195.4	197.8	208.6	208.6	208.6	208.6	208.6	192.1	202.7	208.6	208.6	208.6	208.6
PER (x) (nom EPS - basic)	6.8x	11.7x	6.7x	6.5x	5.8x	5.4x	5.6x	21.7x	25.8x	20.3x	10.0x	13.1x	12.7x
PER (x) (nom EPS - diluted)	7.1x	12.0x	6.9x	6.6x	5.9x	5.5x	5.7x	21.7x	26.4x	20.8x	10.3x	13.4x	13.0x
DPS (cps)	12.0	3.0	10.0	15.0	16.2	15.5	17.0	1.0	2.0	4.0	6.0	7.0	8.0
Payout ratio (%)	44%	106%	36%	51%	50%	44%	50%	-22%	28%	43%	32%	49%	54%
Dividend yield (net)	6.2%	1.6%	5.2%	7.8%	8.4%	8.0%	8.8%	0.5%	1.0%	2.1%	3.1%	3.6%	4.1%
Franking	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
Dividend yield (gross)	8.9%	2.2%	7.4%	11.1%	12.0%	11.4%	12.5%	0.7%	1.5%	3.0%	4.4%	5.2%	5.9%
EBITDA margin (%)	46.1%	34.7%	42.4%	42.3%	43.9%	44.6%	43.2%	34.5%	35.0%	37.5%	46.5%	42.3%	42.4%
EBIT margin (%)	28.7%	12.8%	27.4%	28.4%	31.0%	32.6%	31.8%	9.7%	15.8%	20.2%	33.1%	28.1%	28.7%
NPAT margin (%)	22.9%	2.5%	19.6%	21.0%	23.2%	24.7%	24.6%	-7.8%	12.5%	14.6%	23.7%	20.6%	21.3%
Tax rate (%)	25.3%	-0.7%	30.0%	30.0%	30.0%	30.0%	30.0%	-32.4%	21.2%	30.0%	30.0%	30.0%	30.0%
EBITDA growth (%)	-35.8%	-27.1%	62.3%	-2.8%	4.0%	3.1%	-5.8%	-19.8%	-32.9%	30.8%	92.3%	23.6%	-19.9%
EBIT growth (%)	-46.6%	-56.8%	183.8%	1.0%	9.3%	7.1%	-5.4%	-65.9%	-48.7%	151.8%	202.6%	52.2%	-24.1%
NPAT growth (%)	-39.5%	-89.5%	943.9%	4.2%	11.0%	8.1%	-3.4%	-135.5%	-50.8%	-324.3%	174.9%	54.9%	-20.9%
Gearing	FY08	FY09	FY10F	FY11F	FY12F	FY13F	FY14F	1H09	2H09	1H10F	2H10F	1H11F	2H11F
Net Debt	-102.5	-60.7	-145.5	-187.8	-225.0	-265.7	-306.2	-45.1	-43.4	-94.6	-145.5	-161.3	-187.8
Net Debt / Equity (%)	-44.2%	-21.2%	-44.0%	-52.6%	-59.7%	-66.2%	-72.6%	-18.4%	-15.2%	-31.6%	-44.0%	-47.4%	-52.6%
Cashflows (A\$mn)	FY08	FY09	FY10F	FY11F	FY12F	FY13F	FY14F	1H09	2H09	1H10F	2H10F	1H11F	2H11F
Operating cashflows	89.8	33.3	131.4	106.6	111.2	113.7	103.7	5.0	28.3	58.9	72.5	51.0	55.6
Capex - maintenance	-	-15.8	-21.2	-21.2	-21.2	-21.2	-11.0	-14.7	-1.2	-10.6	-10.6	-10.6	-10.6
Free cash flow	89.8	17.5	110.2	85.4	90.0	92.5	92.7	-9.7	27.2	48.3	61.9	40.4	45.0
Capex - growth	-59.4	-39.8	-	-	-	-	-	-31.6	-8.3	-	-	-	-
Other investing cashflows	-0.0	-22.7	-11.0	-8.5	-5.0	-3.0	-2.0	-6.7	-16.0	-8.3	-2.8	-4.3	-4.3
Financing cashflows	-39.1	-16.1	-14.2	-34.7	-47.8	-48.7	-50.3	-13.4	-2.7	-6.0	-8.2	-20.4	-14.3
Net increase in cash	-8.7	-61.1	85.0	42.2	37.2	40.8	40.4	-61.3	0.2	34.1	50.9	15.8	26.4
Cash at end of the year	110.9	49.8	134.8	177.1	214.2	255.0	295.5	49.6	49.8	83.9	134.8	150.6	177.1
Balance Sheet (A\$mn)	FY08	FY09	FY10F	FY11F	FY12F	FY13F	FY14F	1H09	2H09	1H10F	2H10F	1H11F	2H11F
Cash	110.9	50.0	134.8	177.1	214.2	255.0	295.5	49.6	50.0	83.9	134.8	150.6	177.1
Receivables	17.2	28.7	28.7	28.7	28.7	28.7	28.7	30.3	28.7	28.7	28.7	28.7	28.7
Inventories	11.2	14.8	14.8	14.8	14.8	14.8	14.8	12.6	14.8	14.8	14.8	14.8	14.8
Plant & equipment	135.9	199.7	175.9	156.4	139.8	125.6	103.6	136.5	199.7	187.3	175.9	165.8	156.4
Other assets	56.9	87.2	87.2	87.2	87.2	87.2	87.2	100.3	87.2	87.2	87.2	8	

Value indicators

We are increasing PAN's investment rating to OUTPERFORM on valuation grounds.

We now see value in Panoramic Resources from three perspectives:

1. Sum of parts discounted cash flow valuation (A\$2.40),
2. Asset backing perspective (1.2x book, forecast cash backing FY10 34% of market cap); and
3. Low PE (6.6x Credit Suisse, 7x consensus average FY10 and FY11).

The rapid share price descent in the past month (down 23%) puts PAN at a level not seen since May 2008, creating an attractive entry point for investors, in our view, and leading us to upgrade investment rating to OUTPERFORM (from Underperform).

No change to nickel price forecasts in USD but strong AUD to play its part. In the latest round of Credit Suisse Commodity Forecasts (refer [Credit Suisse Commodity Quarterly – Bulk Up](#), 4 February 2010), we are making minor adjustments to AUD nickel price forecasts as a result of FX adjustments. Credit Suisse nickel forecasts are unchanged at US\$8/lb CY2010 and US\$7.5/lb CY2011 while CY2012 forecasts up 8% to US\$7/lb as we expect prices to trend down to our long-term nickel price forecast of US\$6.5/lb (real 2010 terms) (unchanged) from 2014. Current spot nickel is trading at US\$8.20/lb on the LME. In AUD terms, nickel price forecasts have been reduced by 3-4% over 2011 and 2012 as a result of a higher AUD:USD rate.

Figure 3: Nickel price forecast changes

	US\$/lb			AUD:USD			A\$/lb		
	Old	New	Change	Old	New		Old	New	Change
2010E	8.00	8.00	0%	0.85	0.89	4%	9.41	9.04	-4%
2011E	7.50	7.50	0%	0.82	0.85	3%	9.12	8.88	-3%
2012E	6.50	7.00	8%	0.79	0.81	2%	8.23	8.70	6%
2013E	7.04	7.00	-1%	0.73	0.77	5%	9.64	9.12	-5%
2014E, LT, real	6.50	6.50	0%	0.73	0.73	0%	8.90	8.90	0%

Source: Company data, Credit Suisse estimates

Nickel market outlook – Goro the swing factor

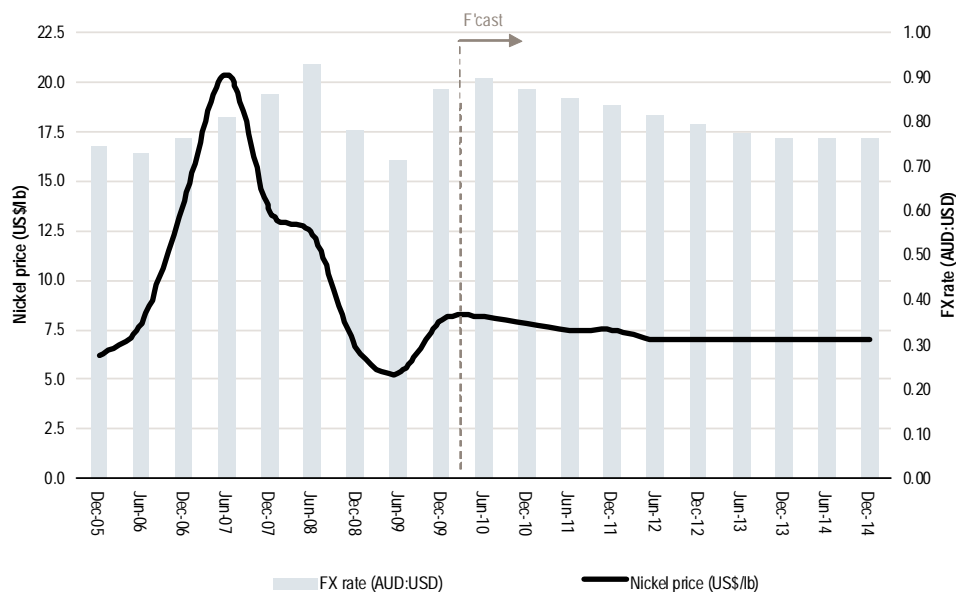
Nickel is probably our least favoured metal at the moment but we would seem to have a reprieve from the endless stock build that occurred in 2010 as long as:

- The Vale Sunbury strike continues for some months;
- Restocking of about 60kt occurs; and
- Stainless steel production increases (as our Credit Suisse steel analysts forecast).

Nevertheless, it remains difficult to love a metal with record LME stock balances dependent, on strikes and restocking to reach a balance. If the market balances as we predict, prices could be volatile all year, swinging wildly with sentiment.

The looming threat to the nickel market now is the supply side, with a lot of very large nickel laterite projects due to start up. We see the fate of the nickel price over the next two years closely tied to the success of Vale's Goro project in New Caledonia. If Goro ramps up on schedule (initial production in 2010 with slow ramp up over two to three years to full capacity of 60kt), nickel would look to have a diabolical surplus; if Goro fails, the price would surge on anticipated failure of the other projects too. We assume the project will work, so we forecast a gradually declining price trend. Overall, our price forecasts are conservatively stated.

Figure 4: Credit Suisse nickel and FX forecasts



Source: Company data, Credit Suisse estimates

Near-term earnings changes take little away from PAN’s current valuation story. The adjusted AUD-denominated nickel price forecasts, minor changes to production and a reassessment of unit costs (up 10%) have led us to downgrade earnings by 11.5% in FY10 and 6% in FY11. Forecast earnings in FY12 up 9% and we have put through substantial forecast dividend increases in each period reflective of PAN’s strong cash position.

Figure 5: PAN earnings forecast changes

	FY10F			FY11F			FY12F		
	Old	New	Ch %	Old	New	Ch %	Old	New	Ch %
Sales revenue (\$mn)	300.9	298.8	-0.7%	293.0	291.2	-0.6%	281.6	291.7	3.6%
EBITDA (\$mn)	137.5	126.8	-7.8%	128.2	123.3	-3.9%	116.6	128.2	9.9%
EBIT (\$mn)	92.5	81.8	-11.6%	87.6	82.6	-5.6%	78.8	90.3	14.7%
NPAT (\$mn)	66.2	58.6	-11.5%	64.9	61.0	-5.9%	60.5	67.7	11.9%
EPS Pre-GW (¢)	31.7	28.1	-11.5%	31.1	29.2	-5.9%	29.0	32.5	11.9%
DPS (¢)	6.0	10.0	66.7%	7.0	15.0	114.3%	12.8	16.2	27.2%

Source: Company data, Credit Suisse estimates

Our sum-of-parts discounted cash flow valuation of PAN comes to A\$2.40. This is made up of the two producing mines \$1.60, the non-producing assets including the Copernicus Nickel Project on care and maintenance \$0.10 and a healthy \$0.70 in cash (refer Figure 6).

Our valuation is struck off a conservative average nickel price over next four years of US\$7.40/lb (spot US\$8.2/lb / AUD:USD 0.82), in line with our generally downbeat view of the global nickel market. Weighted average cost of capital used is 10%. We forecast cash at June 2010 of A\$135mn (current December 2009 A\$126mn), which makes up 37% of the current market cap. We can see upside risk to our increased dividend forecasts, but the chance of PAN making an acquisition of another small nickel project should never be ruled out.

PAN’s current low PE is consistent with its short mine life (less than ten years), but at 6.6x Credit Suisse earnings (6.7x excluding interest on high cash balance) and 7.3x consensus it is quite conservative in our view and has the potential to re-rate.

Figure 6: PAN – Valuation summary

	A\$m	A\$/share	% of total
Savannah	192.0	0.92	38%
Lanfranchi	141.7	0.68	28%
Copernicus Project	15.0	0.07	3%
Other non producing assets	5.0	0.02	1%
Corporate / exploration / other	0.9	0.00	0%
Total mining enterprise	354.6	1.70	71%
Cash / (Net debt)	146.8	0.70	29%
Net value	501.4	2.40	100%

Source: Credit Suisse estimates

Covering the downside risk. If we take an even more negative stance on nickel pricing and reduce our already conservative nickel forecasts over the forecast period by 15%, PAN's valuation would reduce to \$1.90, just below the current share price.

Half-year results. 1H FY10 earnings are due 26 February 2010. On 3 February PAN released guidance of A\$20mn, just above our forecast of \$19mn, with an interim dividend 4 cents per share (1 cent 1HFY09).

Figure 7: Half-year earnings expectations

In A\$m unless otherwise stated

	Actual 1H09	Actual 2H09	Credit Suisse 1H10F	3-Feb guidance 1H10F	FY10F
Total revenues	111.9	114.4	133.2	132.0	298.8
Cost of goods sold	66.1	47.5	74.5	na	160.0
Other expenses	7.7	26.8	8.8	na	12.0
Total operating expenses	73.8	74.3	83.3	na	172.0
EBITDA	38.1	40.0	49.9	na	126.8
Depreciation and amortisation	27.4	21.9	23.0	na	45.0
EBIT	10.7	18.1	26.9	na	81.8
Net interest	2.2	0.6	0.8	na	1.8
Profit before tax	12.9	18.8	27.7	30.0	83.7
Tax	4.2	-4.0	8.3	10.0	-25.1
Underlying NPAT	17.1	14.8	19.4	20.0	58.6
Net significant items (post tax)	-25.7	-0.5	-	-	-
Reported NPAT	-8.6	14.3	19.4	20.0	58.6
Underlying EPS - basic (cps)	8.9	7.5	9.5	na	29.0
Dividend per share	1.0	2.0	4.0	na	10.0

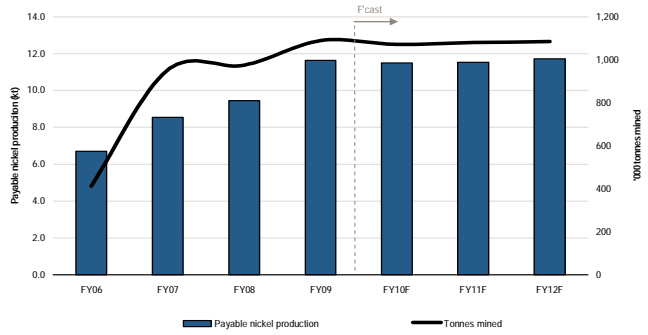
Source: Company data, Credit Suisse estimates, na = not available, company did not disclose.

Production on the rebound after a mixed December Quarter

Production in the December quarter was mixed, with mechanical issues impacting on underground truck availability at Lanfranchi. This saw Lanfranchi and overall ore production lower than anticipated, but at the time of the quarterly report PAN was expecting a very strong rebound in January to a rate well above any previous quarter. The expected 40kt of mined ore rate for January is a rate above Lanfranchi record production of 115kt in the December 2008 Quarter. PAN is not deviating from its nickel production guidance for the full year (18-19kt total, 7.5-8kt from Savannah, 10.5-11kt from Lanfranchi) and our forecasts are set at the lower end of this.

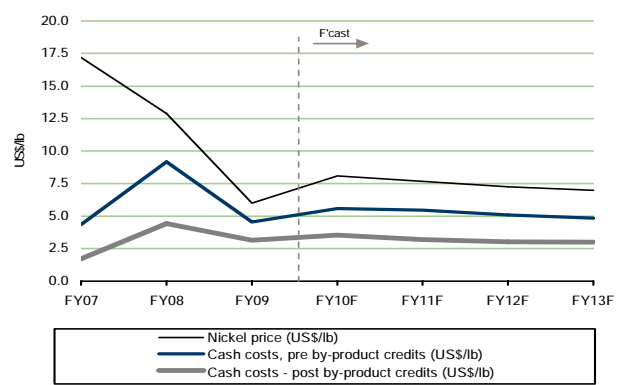
Upside from current hedging positions. PAN continues to benefit from favourable hedging positions of which it has a hedge book A\$17mn in the money at 31 December 2009. With hedges booked at US\$26,578/t and AUD/USD 0.78 compared to current (US\$18,225/t and AUD:USD 0.886), PAN's upside revenue risk from hedging does not look to be going away any time soon. We have A\$12mn in additional income factored into our forecasts for FY10; however, on current prices there would be an additional \$3mn-\$4mn of upside (5-10% of EBIT).

Figure 8: Production profile (annual)



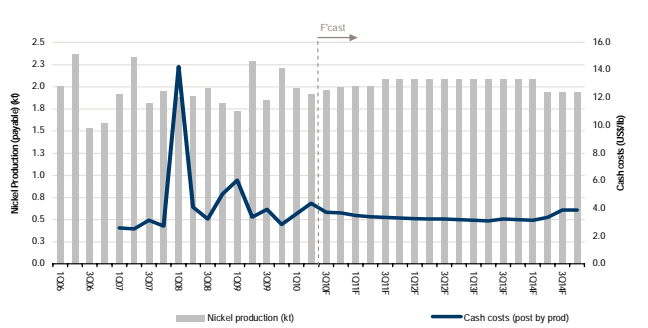
Source: Company data, Credit Suisse estimates

Figure 9: Unit costs



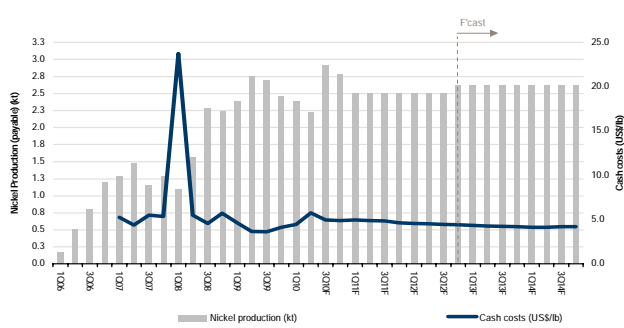
Source: Company data, Credit Suisse estimates

Figure 10: Savannah - nickel production and cash costs



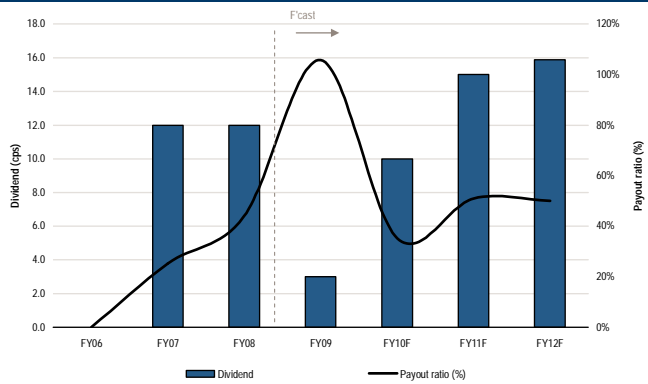
Source: Company data, Credit Suisse estimates

Figure 11: Lanfranchi - nickel production and cash costs



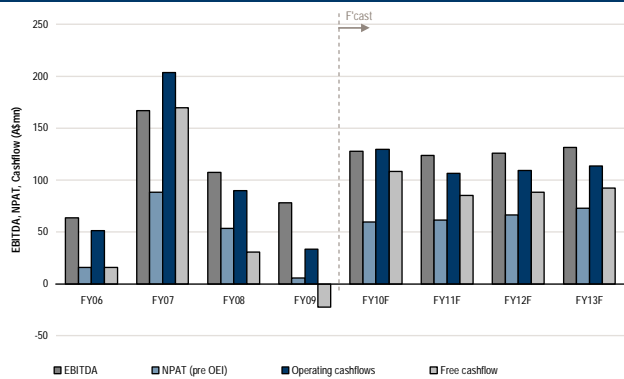
Source: Company data, Credit Suisse estimates

Figure 12: Forecast dividends



Source: Company data, Credit Suisse estimates

Figure 13: NPAT and EBITDA comparisons (A\$m)



Source: Company data, Credit Suisse estimates

Companies Mentioned (Price as of 03 Mar 10)
 Panoramic Resources (PAN.AX, A\$1.93, OUTPERFORM [V], TP A\$2.4)
 Vale (VALE, \$27.56, OUTPERFORM [V], TP \$34.00)

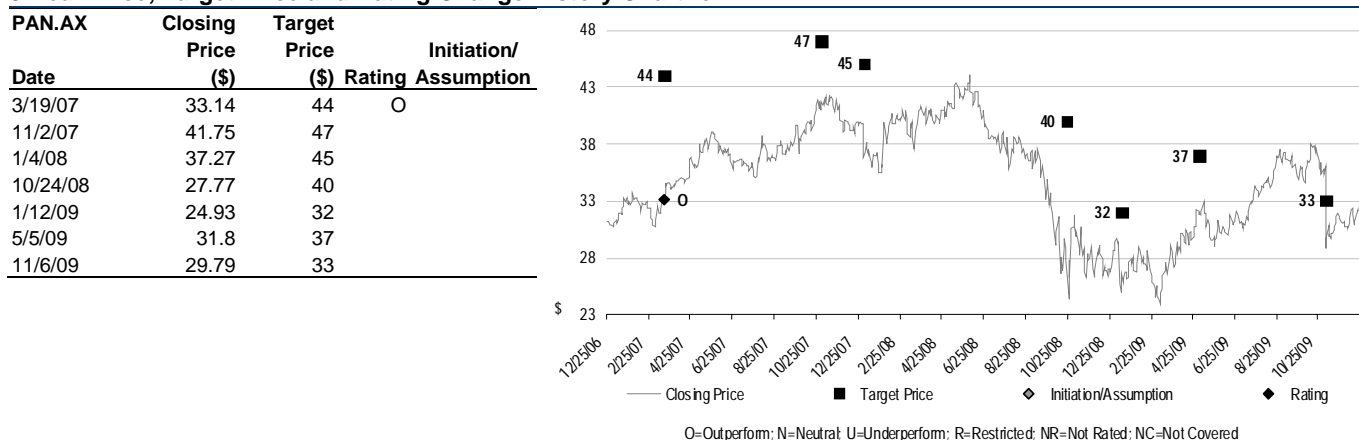
Disclosure Appendix

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3-Year Price, Target Price and Rating Change History Chart for PAN.AX



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**An analyst's coverage universe consists of all companies covered by the analyst within the relevant sector.

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Market Weight: Industry expected to perform in-line with the relevant broad market benchmark over the next 12 months.

Underweight: Industry expected to underperform the relevant broad market benchmark over the next 12 months.

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Restricted	2%	

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Price Target: (12 months) for (PAN.AX)

Method: Target price of \$2.40 per share based on sum of parts discounted cash flow valuation (producing mines \$1.60, non producing assets \$0.10, \$0.70 cash). Weighted average cost of capital (WACC) used is 10%. Valuation struck on average nickel price over next four years of US\$7.40/lb and AUD:USD 0.82. Nominal value (A\$20mn) given to PAN's non-producing assets (including Copernicus Project on care and maintenance).

Risks: Risks to our \$2.40 target price include commodity price risk and production risk. Our forecast is for a long-term nickel price of US\$6.50/lb, our forecast and target price would be lower if the actual nickel price turns out to be lower than our forecast (forecast average US\$7.40 over next 4 years) or AUD shifts materially higher than 0.80 cents on average over next 5 years. We are forecasting nickel grades of 1.6%. If the company yields a materially lower grade than our forecasts and target price for the business would be revised down.

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