



COMPANY UPDATE | COMMENT

FEBRUARY 11, 2010

Panoramic Resources Limited (ASX: PAN)

Cashed Up and Well Positioned

Sector Perform  
Above Average Risk

Price:	1.79	Price Target:	1.90
Shares O/S (MM):	204.0	Implied All-In Return:	8%
Dividend:	0.03	Market Cap (MM):	365
NAVPS:	1.89	Yield:	1.7%
BVPS:	1.40	P/NAVPS:	0.9x
ROE:	8.0%	P/BVPS:	1.3x
Float (MM):	204.0	Enterprise Val. (\$MM):	254.0
Debt to Cap:	1%	Avg. Daily Volume (MM):	22.01

Price at 3pm on the ASX on 11 February 2010, Australian Eastern Standard Time.

Event

Earnings revision after 1H09 profit guidance of A\$20m. Maintain Sector Perform and A\$1.90 target.

Investment Opinion

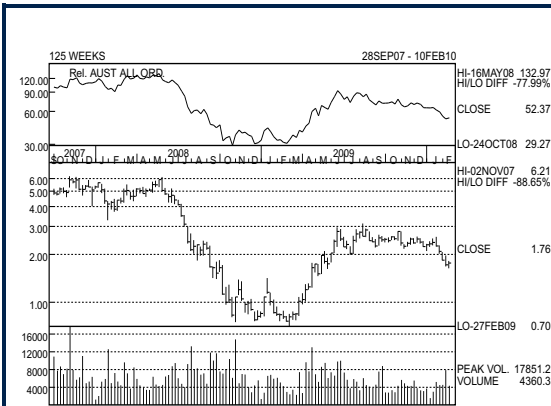
We have revised our forecasts for Panoramic following the company issuing guidance for the 1H FY10 period. The A\$20m net profit was below our forecast and we have lowered FY10E accordingly. Other years are essentially unchanged.

Within a month, the share price of PAN has dropped 37% from a peak A\$2.58 mid Jan to a low of A\$1.63 this week, worse than other nickels. Panoramic is a well-managed and attractively positioned junior nickel producer, and with A\$0.55c cash backing, we see upside risk to our target.

- **Earnings Guidance:** PAN issued the following figures for the Dec 09 half year: revenue of A\$132m, pre tax profit of A\$30m and net profit A\$20m.
- **Earnings Changes:** We have lowered our FY10 full year estimate by 18% to A\$40m. Consensus is A\$51m. We forecast a US\$7/lb Ni price for the next 2 years, and at US\$8/lb Ni, FY10 earnings increase to A\$47m, and FY11 more than doubles from A\$14m to A\$30m.
- **FY11 Earnings Drop:** Our A\$14m FY11 forecast is much lower than consensus of A\$47m, partly due to our US\$7/lb Ni price, vs. current spot of ~US\$8/lb. The major reason for the drop from FY10 is the depletion of the hedgebook, which is delivering gains of ~A\$5m per Q to June 2010. Cash margins decrease by US\$1.60/lb to US\$2.11/lb next year, despite relatively flat production and unit costs.
- **Guidance:** FY10 production guidance of 18-19kt remains intact, with 10.5-11kt of Ni-in-ore to come from Lanfranchi and 7.5kt of Ni-in-conc from Savannah.
- **Balance Sheet/Hedging.** At 31 Dec 09 the company had A\$113m in cash and essentially no debt. Hedging MTM is +A\$17m at end Dec.
- **Dividends:** We forecast a flat A3c per half dividend going forwards, given the A\$113m or A\$0.55cps cash backing, with potential for it to be higher.
- **Valuation:** We maintain Sector Perform and our A\$1.90 target using an unchanged 1.0x NAV, in line with our other base metal coverage and, in our view, appropriate at this point in the cycle. Maintain Above Average Risk.

Priced as of prior trading day's market close, EST (unless otherwise noted).

For Required Non-U.S. Analyst and Conflicts Disclosures, see page 4.



Royal Bank of Canada - Sydney Branch

Geoff Breen (Analyst)

(+61) 2 9033-3022; geoff.breen@rbccm.com

Stuart McIntyre (Associate)

(+61) 2 9033-3066;

stuart.mcintyre@rbccm.com

FY Jun	2009A	2010E	2011E	2012E
Adj EPS - FD	0.12	0.19	0.06	0.08
Prev.		0.24		
P/AEPS	14.9x	9.4x	29.8x	22.4x
CFPS - FD	0.16	0.48	0.27	0.31
Prev.		0.47	0.24	0.28
P/CFPS	11.2x	3.7x	6.6x	5.8x
Annual Div. - FD	0.03	0.06	0.06	0.06
Prev.			0.02	0.02
Prod.	16	17	17	17

All values in AUD unless otherwise noted.

Exhibit 1: Panoramic Forecast Financial and Operating Summary

<b>Panoramic Resources</b>									
<b>ASX: PAN</b>	Share Price: (A\$ps)	<b>1.79</b>	Year end:	Jun	Stock Rating:	<b>Sector Perform</b>	Price Target:	<b>A\$1.90</b>	
	Mkt Cap: (A\$MM)	<b>364</b>	Issued shares (m)	204.0	Risk Qualifier:	<b>Above Average</b>	NAV:	<b>A\$1.89</b>	

ASSUMPTIONS		FY08	FY09	FY10e	FY11e	FY12e	ATTRIBUTABLE MINE STATS						
Exchange Rate	A\$/US\$	0.90	0.75	0.88	0.87	0.84	<b>Nickel Production (equity)</b>						
Spot Nickel Price	US\$/lb	<b>12.92</b>	<b>6.04</b>	<b>7.49</b>	<b>7.00</b>	<b>7.00</b>	Savannah	kt	7.58	8.06	7.69	8.14	8.37
Spot Cobalt Price	US\$/lb	39.32	22.55	17.26	13.25	11.50	Lanfranchi	kt	4.74	8.32	9.54	9.01	8.80
Spot Copper Price	US\$/lb	3.53	2.24	2.92	3.13	3.38	<b>Nickel in Concentrate</b>	<b>kt</b>	<b>12.32</b>	<b>16.38</b>	<b>17.23</b>	<b>17.15</b>	<b>17.17</b>
							<b>Payable Nickel Production</b>	<b>kt</b>	<b>7.96</b>	<b>10.56</b>	<b>11.10</b>	<b>11.06</b>	<b>11.07</b>

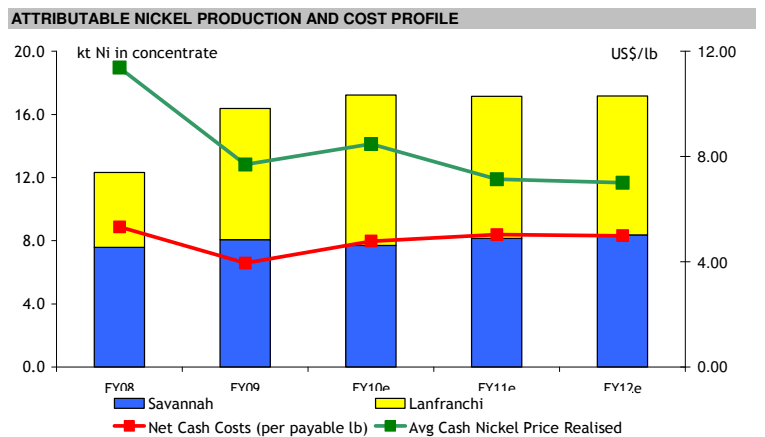
RATIO ANALYSIS		FY08	FY09	FY10e	FY11e	FY12e
Diluted share capital	MM	193.7	204.0	208.7	208.7	208.7
EPS (diluted and pre sig. items)	A¢	27.3	12.0	19.4	6.5	8.3
<b>P/E</b>	<b>x</b>	<b>6.5x</b>	<b>14.9x</b>	<b>9.2x</b>	<b>27.6x</b>	<b>21.5x</b>
CFPS	A¢	49.5	16.4	48.3	26.6	30.9
P/CF	x	3.6x	10.9x	3.7x	6.7x	5.8x
DPS	A¢	12.0	3.0	6.0	6.0	6.0
<b>Dividend yield</b>	<b>%</b>	<b>6.7%</b>	<b>1.7%</b>	<b>3.4%</b>	<b>3.4%</b>	<b>3.4%</b>
Franking Level	%	100%	100%	100%	100%	100%
Book value per share		1.20	1.40	1.51	1.52	1.54
P/Book value	x	1.5x	1.3x	1.2x	1.2x	1.2x
R.O.E. (pre sig items)	%	23%	8%	13%	4%	5%
R.O.A. (pre sig items)	%	20%	8%	13%	4%	5%
Interest Cover	x	-14.4x	-10.1x	-16.7x	-3.7x	-3.6x
EBITDA per share	A\$ps	0.55	0.38	0.50	0.27	0.29
<b>EV/EBITDA</b>	<b>x</b>	<b>2.4x</b>	<b>4.1x</b>	<b>2.7x</b>	<b>5.2x</b>	<b>4.4x</b>

RESERVES AND RESOURCES (ATTRIBUTABLE)		FY08	FY09	FY10e	FY11e	FY12e
<b>Reserves</b>	Mt					
Savannah		2.9				
Copernicus satellite (60%)		0.5				
Lanfranchi		2.7				
<b>Total reserves (kt)</b>		<b>109</b>				
<b>EV / Reserves</b>	A\$/t					<b>2,395</b>
<b>Resources</b>	Mt					
Savannah		6.4				
Copernicus satellite (60%)		0.5				
Lanfranchi		5.3				
<b>Total resources (kt)</b>		<b>230</b>				
<b>EV / Resources</b>	A\$/t					<b>1,136</b>

EARNINGS		FY08	FY09	FY10e	FY11e	FY12e
Sales Revenue	A\$MM	232	225	275	233	243
Other Revenue	"	0	1	2	0	0
<b>Total Revenue</b>	<b>"</b>	<b>232</b>	<b>226</b>	<b>276</b>	<b>233</b>	<b>243</b>
Operating costs	"	(108)	(123)	(149)	(164)	(169)
<b>Operational EBITDA</b>	<b>"</b>	<b>125</b>	<b>103</b>	<b>128</b>	<b>69</b>	<b>74</b>
Exploration Expense/Write-offs	"	(2)	(8)	(8)	(5)	(5)
Corporate & Other Costs	"	(15)	(18)	(15)	(8)	(9)
<b>EBITDA</b>	<b>"</b>	<b>107</b>	<b>78</b>	<b>104</b>	<b>56</b>	<b>60</b>
D&A	"	(40)	(49)	(50)	(41)	(41)
<b>EBIT</b>	<b>"</b>	<b>67</b>	<b>29</b>	<b>54</b>	<b>15</b>	<b>19</b>
Net Interest	"	5	3	3	4	5
<b>Profit Before Tax</b>	<b>"</b>	<b>71</b>	<b>32</b>	<b>57</b>	<b>19</b>	<b>24</b>
Tax Expense	"	(18)	(8)	(17)	(5)	(7)
Minorities	"	0	0	0	0	0
<b>Net Profit After Tax</b>	<b>"</b>	<b>53</b>	<b>24</b>	<b>40</b>	<b>13</b>	<b>17</b>
Significant Items (post tax)	"	0	(18)	0	0	0
<b>Reported NPAT</b>	<b>"</b>	<b>53</b>	<b>6</b>	<b>40</b>	<b>13</b>	<b>17</b>

EPS SENSITIVITIES		FY10e	FY10e
<b>Nickel Price (US\$/lb)</b>	+10%	<b>Acps</b>	<b>%</b>
	-10%	5.4	23%
		(5.4)	-23%
<b>A\$/US\$ (Usc)</b>	+10%	(3.6)	-15%
	-10%	6.4	27%

CASHFLOW		FY08	FY09	FY10e	FY11e	FY12e
<b>Operational Cash Flow</b>	<b>A\$MM</b>	<b>112</b>	<b>55</b>	<b>111</b>	<b>61</b>	<b>65</b>
Net Interest	"	5	3	3	4	5
Tax Paid and Other	"	(22)	(25)	(13)	(9)	(6)
<b>Net Operating Cashflow</b>	<b>"</b>	<b>96</b>	<b>34</b>	<b>101</b>	<b>55</b>	<b>64</b>
Exploration	"	(6)	(3)	(10)	(8)	(8)
Capital Expenditure	"	(59)	(58)	(45)	(39)	(21)
Investments	"	0	(17)	0	0	0
Sale of PPE and Other	"	0	(0)	0	0	0
<b>Net Investing Cashflow</b>	<b>"</b>	<b>(65)</b>	<b>(78)</b>	<b>(55)</b>	<b>(47)</b>	<b>(29)</b>
Dividends Paid	"	(36)	(12)	(10)	(12)	(12)
Debt	"	(7)	(5)	(4)	0	0
Equity Issuance	"	4	0	0	0	0
Other	"	0	0	0	0	0
<b>Net Financing Cashflow</b>	<b>"</b>	<b>(39)</b>	<b>(16)</b>	<b>(14)</b>	<b>(12)</b>	<b>(12)</b>
<b>Net change in cash</b>	<b>"</b>	<b>(9)</b>	<b>(61)</b>	<b>32</b>	<b>(4)</b>	<b>23</b>



BALANCE SHEET		FY08	FY09	FY10e	FY11e	FY12e
Cash & Equivalents	A\$MM	111	50	82	78	101
PP&E & Mine Development	"	136	200	194	192	172
Exploration	"	13	19	21	24	27
<b>Total Assets</b>	<b>"</b>	<b>332</b>	<b>380</b>	<b>409</b>	<b>406</b>	<b>412</b>
Debt	"	8	7	3	3	3
<b>Total Liabilities</b>	<b>"</b>	<b>100</b>	<b>94</b>	<b>93</b>	<b>89</b>	<b>90</b>
<b>Total Net Assets / Equity</b>	<b>"</b>	<b>232</b>	<b>286</b>	<b>316</b>	<b>317</b>	<b>322</b>
Net Debt / (Cash)	"	(103)	(43)	(79)	(75)	(98)
Gearing (net debt/(nd + equity))	%	(79%)	(18%)	(33%)	(31%)	(44%)
Gearing (net debt/equity)	%	(44%)	(15%)	(25%)	(24%)	(30%)

EQUITY DCF VALUATION		A\$MM	A\$ps
<b>Projects</b>			
Savannah		88	0.43
Lanfranchi		153	0.75
Projects and Exploration		40	0.20
Hedging		17	0.09
Corporate		(23)	-0.11
Cash		113	0.55
Debt		(3)	-0.01
<b>Net Equity Value (@ 8% real d.r.)</b>		<b>385</b>	<b>1.89</b>
			<b>P / NPV</b>
			<b>0.9x</b>

Source: Company data, RBC Capital Markets estimates



## Valuation

We maintain Sector Perform and our A\$1.90 target using an unchanged 1.0x NAV, in line with our other base metal coverage and, in our view, appropriate at this point in the cycle. Maintain Above Average Risk..

## Price Target Impediment

Potential impediments to our price target include: (1) nickel price risk - a weakening in nickel prices would adversely affect earnings; (2) currency risk - a strengthening of the A\$/US\$ rate would adversely affect earnings; (3) development risk - there are risks in the development of both new and existing orebodies; and (4) operating cost risk - increases in key operating inputs (energy and labour costs) would adversely affect earnings.

## Company Description

Panoramic owns and operates two nickel operations in Western Australia and produced 12.3kt attributable nickel-in-concentrate in FY08. The Savannah underground mine (100%) is located in the Kimberley region and produced over 7.5kt nickel-in-concentrate in FY08. It is a nickel-copper-cobalt ore-body with significant by-product cost credits and solid extension potential at depth. The nickel concentrate product is currently sold to Chinese nickel producer Jinchuan. The Lanfranchi underground mine (now 100%) is located near Kambalda and produced 4.7kt nickel-in-concentrate in FY08. Ore is mined and sold directly to BHP Billiton, inclusive of a toll treatment arrangement at BHP Billiton's Kambalda nickel concentrator.

We expect Panoramic's attributable nickel production (in-concentrate) base to grow from 12.3kt in FY08 to ~17kt in FY10, predominantly driven by mining of the Deacon orebody at Lanfranchi and the recent purchase of the Brilliant minority stake (25%) in Lanfranchi. Significant further exploration potential remains at Lanfranchi (and the Tramways tenements) and Savannah (at depth and satellite ore-bodies).

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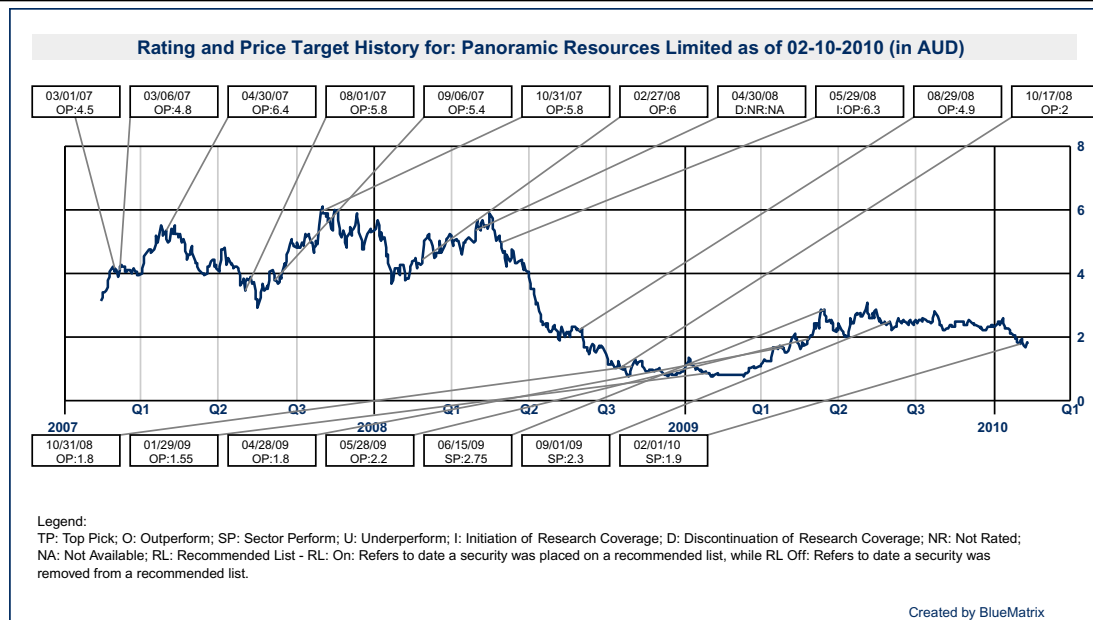
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			Count	Percent
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