

UBS Investment Research

Panoramic Resources Limited

Solid result with dividend surprise

■ Event: Interim result – beats expectations, especially on dividends

Panoramic has reported a strong interim that beat both expectations and the recent guidance by 15%. The NPAT of \$23.1m was above our forecast of \$20.9m due to some minor R&D claims and a lower D&A charge. Cashflow was impressive at \$63m (UBSe \$57m). The company declared a fully franked interim dividend of 5¢ and an additional fully franked one-off special dividend of 5¢.

■ Impact: Minimal impact on earnings

Reconciling the interim has resulted in our FY10e and FY11e earnings being reduced by ~6%, primarily due to hedging adjustments. We have maintained our previous dividend payout ratio of 25% for the remainder of FY10e before lifting to 40% thereafter.

■ Action: Buy maintained – preferred nickel stock

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 6.8x, an EV/EBITDA multiple of 4.0x and on a dividend yield of 7%, we believe PAN remains one of the best value stocks in our coverage universe.

■ Valuation: \$3.35/share (DCF, 10% discount rate)

Our valuation has been lowered by 1%, but our target price based on a 1.0x P/NPV multiple remains unchanged.

Highlights (A\$m)	06/08	06/09	06/10E	06/11E	06/12E
Revenues	232	225	265	269	266
EBIT (UBS)	67	3	73	60	67
Net Income (UBS)	53	6	54	48	56
EPS (UBS, A\$)	0.27	0.03	0.26	0.23	0.27
Net DPS (UBS, A\$)	0.12	0.03	0.14	0.09	0.11

Profitability & Valuation	5-yr hist av.	06/09	06/10E	06/11E	06/12E
EBIT margin %	-	1.1	27.6	22.2	25.3
ROIC (EBIT) %	-	1.4	33.8	34.5	46.6
EV/EBITDA (core) x	-	6.5	3.8	5.1	5.3
PE (UBS) x	-	55.7	7.0	8.0	6.8
Net dividend yield %	-	1.9	7.7	5.0	6.1

Source: Company accounts, Thomson Reuters, UBS estimates. (UBS) valuations are stated before goodwill, exceptionals and other special items. Valuations: based on an average share price that year, (E): based on a share price of A\$1.81 on 24 Feb 2010 23:38 EST

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Global Equity Research

Australia

Mining

12-month rating **Buy**
Unchanged

12m price target **A\$3.40/US\$3.03**
Unchanged

Price **A\$1.81/US\$1.61**

RIC: PAN.AX BBG: PAN AU

25 February 2010

Trading data (local/US\$)

52-wk range	A\$3.09-0.77/US\$2.60-0.49
Market cap.	A\$0.37bn/US\$0.33bn
Shares o/s	204m (ORD)
Free float	78%
Avg. daily volume ('000)	935
Avg. daily value (A\$m)	2.0

Balance sheet data 06/10E

Shareholders' equity	A\$0.30bn
P/BV (UBS)	1.2x
Net Cash (debt)	A\$0.11bn

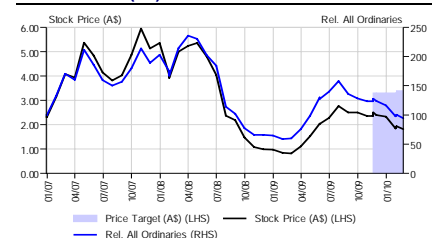
Forecast returns

Forecast price appreciation	+87.8%
Forecast dividend yield	5.0%
Forecast stock return	+92.8%
Market return assumption	9.2%
Forecast excess return	+83.6%

EPS (UBS, A\$)

	06/10E		06/09
	From	To	Actual
H1	0.10	0.11	(0.04)
H2E	0.17	0.15	0.07
06/10E	0.27	0.26	0.24
06/11E	0.24	0.23	0.23

Performance (A\$)



Source: UBS

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FY10 interim report – beats expectations

Panoramic has delivered a strong interim result with the company beating expectations on all measures - especially on the dividend front. The reported NPAT of \$23.1m was above both the recent company guidance and the UBS estimate of \$20.9m due to some minor R&D claims and a slightly lower D&A charge. The company has also declared a fully franked interim dividend of 5¢ (UBSe 2.5¢) and a one off fully franked special dividend of 5¢.

Table 1: Interim result summary

	UBSe	Actual	Var %
Income Statement			
Revenue	121.0	133.7	10%
EBITDA	56.7	60.2	6%
EBIT	28.4	31.2	10%
D&A	28.3	na	
Pre-tax profit	29.8	32.3	8%
NPAT	20.9	23.1	11%
DPS	2.5	10.0	300%
Cashflow Statement			
Operating cashflow	56.7	63.1	11%
Capex	4.0	14.0	250%
Balance Sheet			
Cash	90.0	83.4	-7%
Debt	6.5	3.1	-52%

Source: Company report, UBS estimates

Operating cashflow was reported at \$63.1m, which was 11% above the UBS estimate of \$56.7m. Cash at the end of the period was \$83.4m (UBSe \$90m) with debt of \$3.1m from the equipment leases - subsequently gearing effectively remains zero. Cash draw from the proposed dividend will be approximately \$20m, so plenty of capacity remains.

If any downside can be interpreted from the special dividend it is that the company obviously hasn't seen anything in the M&A space that meets the hurdles of the PAN Board. However, if the right opportunity presents itself we doubt that the additional \$10m paid out in the special dividend would prevent the company from moving.

Additionally, we also believe the company's mines are both good for 10-years, so cashflow should continue to be. Until another growth project presents itself shareholders should be content with the potential for future dividends.

The timetable for the dividend payments is as follows:

- Ex-Dividend Date – Thursday, 11 March 2010
- Record Date – 5.00pm (WST) Wednesday, 17 March 2010
- Payment Date – Friday, 26 March 2010

Summary of changes

Reconciling the interim has resulted in our earnings being reduced by ~6%, primarily due to hedging adjustments. We have maintained our previous dividend payout ratio of 25% for the remainder of FY10e before lifting to 40% thereafter.

Table 2: Summary of earnings changes

Jun y/e		FY10			FY11			FY12		
		New	Old	%	New	Old	%	New	Old	%
Revenue	A\$m	270	259	4%	269	269	-1%	266	266	1%
EBITDA	A\$m	125	130	-4%	106	110	-3%	113	116	-3%
EBIT	A\$m	73	78	-6%	60	63	-6%	67	68	-1%
NPAT	A\$m	54	58	-6%	48	51	-7%	56	58	-3%
EPS	A\$m	26	27	-6%	23	24	-7%	27	27	-1%
DPS	A\$m	14	7	98%	9	10	-11%	11	11	-0%
NPV	A\$/share	\$ 3.35	\$3.39	-1%						
Price Target	A\$/share	\$ 3.40	\$3.40	0%						

Source: UBS estimates

Both our valuation and target price effectively remain unchanged.

Investment thesis

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 6.8x, an EV/EBITDA multiple of 4.0x and on a dividend yield of 7%, we believe PAN remains one of the best value stocks in our coverage universe.

Additionally, the company has now demonstrated that it has a disciplined approach to capital management. It appears that dividends will be paid to shareholders when the economic conditions permit. Given our positive view on base metals demand going forward, we believe the potential for future dividends remains strong.

Chart 1:

Panoramic Resources (PAN.AX)

Analyst/s: Jo Battershill/Glyn Lawcock
Email: jo.battershill@ubs.com
25-Feb-10

MARKET INFORMATION

Rating:	Buy
Price (as of 25-Feb-10):	1.81
Price Target (12 months):	3.40
Issued Capital:	204.0
Market Capitalisation:	369.2
Avg. daily turnover (US\$m)	1.7
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	54.5	47.8	56.4
Net profit [adjusted] (\$m)	5.6	54.5	47.8	56.4
EPS [reported] (\$)	0.0	0.3	0.2	0.3
EPS [adjusted, diluted] (\$)	0.0	0.3	0.2	0.3
EPS Growth (%)	(90.0)	842.9	(12.2)	17.9
PER [adjusted] (x)	63.9	6.8	7.7	6.5
Dividend (\$)	0.0	0.1	0.1	0.1
Payout ratio (%)	100.5	52.4	38.4	39.8
Dividend Yield (%)	1.6	7.7	5.0	6.1
FCF Yield (%)	4.8	25.8	21.9	20.1
Franking (%)	0.0	0.0	0.0	0.0
Shares [period-average, diluted] (m)	205.4	211.5	211.5	211.5

OPERATIONAL ASSUMPTIONS

	1H10	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	5.01	4.86	4.95

VALUATION

Valuation per share [NAV @ 10%] (\$)	3.35
Share Price Target [12 months] (\$)	3.40
Price/NAV [10% disc rate] (x)	0.54

Operating Assets [DH10]

	A\$m	€
Savannah	281	138
Lanfranchi	296	145

Gross Assets

	A\$m	€
Exploration	30	15
Hedging	7	3
Net Cash	109	53
Corporate costs	(39)	(19)
Net Asset Value @ 10% discount rate	684	335

ENTERPRISE VALUE

(A\$m)	2009	2010E	2011E	2012E
Enterprise Value	335	492	558	614
EV/EBITDA (x)	6.5	4.0	5.3	5.4
EV/Operating Free Cash Flow (x)	6.5	5.4	7.2	9.1

EPS SENSITIVITIES

Commodity	Base Change	2010E	2011E	2012E	EPS Change
Nickel	10.0%	12.0%	27.0%	30.0%	
Copper	10.0%	2.0%	4.0%	3.0%	
Currency	5¢	-7.0%	-25.0%	-22.0%	

CASH FLOW

(A\$m)	2009	2010E	2011E	2012E
Operating income [EBIT, UBS]	3	73	60	67
Depreciation & Amortisation	49	51	46	45
Net change in working capital	16	(3)	0	0
Other (operating)	(12)	(1)	0	0
Pre-tax op cash flow	55	121	106	113
Interest (paid) / received	3	4	9	13
Tax paid	(25)	(17)	(21)	(24)
Other	0	0	0	0
Operating cash flow	34	108	94	102
Capital expenditure	(16)	(9)	(10)	(25)
Free cash flow	18	99	84	77
Net (acquisitions) / disposals	0	0	0	0
Dividends paid (Common)	(12)	(24)	(18)	(20)
Shares issued/(repurchased)	0	0	0	0

DIVISIONAL BREAKDOWN [EBIT]

(A\$m)	1H10	2H10E	2009	2010E	2011E	2012E
Savannah	10.4	18.3	14.4	28.7	35.7	36.9
Lanfranchi	13.3	20.2	36.8	33.5	43.1	43.4

PROFIT & LOSS

(A\$m)	1H10	2H10E	2009	2010E	2011E	2012E
Sales Revenue	132	133	225	265	269	266
Operating Cash Profit	66	65	112	131	131	132
Depn & Amortisation	(28)	(23)	(49)	(51)	(46)	(45)
Operating Profit	38	41	62	79	85	86
Others	(4)	5	(56)	1	(17)	(13)
SGA	(3)	(4)	(3)	(7)	(8)	(6)
EBIT	31	42	3	73	60	67
Net interest	1	3	3	4	9	13
Profit before tax	32	45	5	77	68	81
Tax expense	(9)	(13)	0	(23)	(21)	(24)
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]	23	31	6	54	48	56
Abnormal Gain/(Loss) after Tax	0	0	0	0	0	0
Net Profit [adjusted]	23	31	6	54	48	56
EBITDA margin (%)			23.0	46.9	39.4	42.3
Net Interest Cover [EBIT] (x)			0.9	19.0	6.8	5.1
Tax Rate (%)			-4%	29%	30%	30%
EBIT/Total Assets (%)			0.7	18.7	14.2	14.7
NPAT/Equity (%)			2.0	18.2	14.5	15.4

BALANCE SHEET [Selected Items]

(A\$m)	2009	2010E	2011E	2012E		
Net Working capital	75	52	52	52		
Fixed Assets	59	36	36	36		
Net Other	109	103	67	46		
Capital Employed	243	191	155	134		
Net Cash / (Debt)	43	109	174	231		
Total Equity [incl. minorities]	286	300	329	365		
Minorities	0	0	0	0		
Net Debt / Equity (%)			(15.2)	(36.3)	(53.0)	(63.2)
Book Value per Share(\$)	1.40	1.47	1.61	1.79		

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

Source: UBS estimates

■ 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.

KEY DEFINITIONS

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; Daniel Morgan; Glyn Lawcock.

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\$1.81	24 Feb 2010

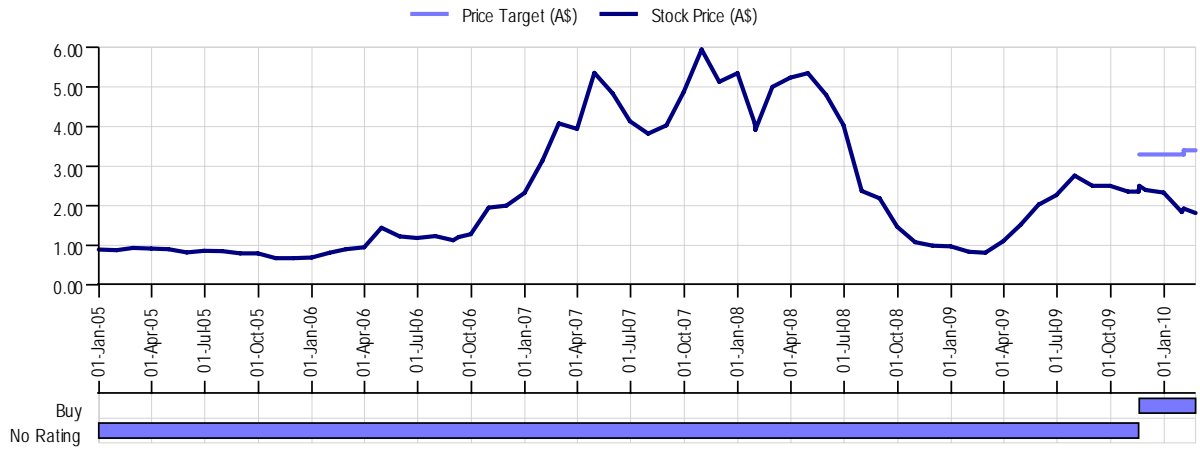
Source: UBS. All prices as of local market close.

Ratings in this table are the most current published ratings prior to this report. They may be more recent than the stock pricing date

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Unless otherwise indicated, please refer to the Valuation and Risk sections within the body of this report.

Panoramic Resources Limited (A\$)



Source: UBS; as of 24 Feb 2010

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