



RATINGS REVISION | COMMENT

FEBRUARY 25, 2010

Panoramic Resources Limited (ASX: PAN)
Higher Dividends Backed by A\$113m or 55c Cash

Sector Perform

Average Risk (prev: Above Average Risk)

Price:	1.82	Price Target:	2.20 ↑ 1.90
Shares O/S (MM):	204.0	Implied All-In Return:	23%
Dividend:	0.03	Market Cap (MM):	371
NAVPS:	2.14	Yield:	1.6%
BVPS:	1.40	P/NAVPS:	0.9x
ROE:	8.0%	P/BVPS:	1.3x
Float (MM):	204.0	Enterprise Val. (\$MM):	261.0
Debt to Cap:	1%	Avg. Daily Volume (MM):	22.00

Price at close on the ASX on 25 February 2010, Australian Eastern Standard Time.

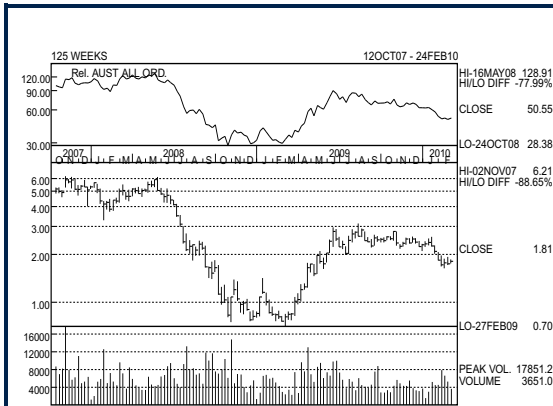
Event

Cash build of A\$63m in six months, 10c DPS is 90% payout. Maintain Sector Perform. Raise target to A\$2.20.

Investment Opinion

Panoramic released its detailed FY10 interim accounts after pre-releasing guidance on 3 Feb. Positives were a A5¢ ordinary fully franked DPS and a special unfranked A5¢ DPS. The 90% payout is backed by A\$113m or A55¢ cash in hand, which rose from A\$50m in the six months, mainly due to the inclusion of 25% of Lanfranchi acquired back to 1 Nov 08 but effective May 09. We believe Panoramic is a well-managed, attractively positioned nickel producer, and it's all cashed up. We raise our target 10% to A\$2.20, Sector Perform.

- **1H Earnings:** Revenue of A\$132m, net profit A\$23m and big dividends. Dividends were well ahead of our estimate and we have raised our future dividend forecasts but are constrained by our EPS estimates.
- **Earnings Changes:** We have raised our FY10 full-year estimate by 23% to A\$45m inclusive of lower D&A charges ahead to account for the forthcoming Savannah Deeps reserves release due very soon. Other year's profits creep higher too from low bases.
- **Savannah Deeps:** We forecast the current 50kt resource at 1.48% Ni to convert into a ~40kt reserve, thus adding 5 years to the current approx. 3-year reserve.
- **FY11E Earnings Drop:** Our A\$17m FY11 forecast is much lower than consensus of A\$47m, partly due to our US\$7/lb Ni price, vs. current spot of ~US\$/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\$1.80/lb to US\$2.11/lb next year, despite relatively flat production and unit costs.
- **Balance Sheet/Hedging.** At 31 Dec 09 the company had A\$113m in cash and essentially no debt.
- **Valuation:** We maintain Sector Perform but raise our target to A\$2.20 (A\$1.90) on an unchanged 1.0x NAV, in line with our other base metal coverage and, in our view, appropriate at this point in the cycle. We are revising our risk rating to Average (from Above Average) due to cash and steady production.



Royal Bank of Canada - Sydney Branch

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

Steuart McIntyre (Associate)
 (+61) 2 9033-3066;
 steuart.mcintyre@rbccm.com

FY Jun	2009A	2010E	2011E	2012E
Adj EPS - FD	0.12	0.22	0.08	0.10
Prev.		0.19	0.06	0.08
P/AEPS	15.2x	8.3x	22.7x	18.2x
CFPS - FD	0.16	0.57	0.26	0.30
Prev.		0.48	0.27	0.31
P/CFPS	11.4x	3.2x	7.0x	6.1x
Annual Div. - FD	0.03	0.15	0.06	0.06
Prev.		0.06		
Prod.	16	17	17	17

All values in AUD unless otherwise noted.

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.

Exhibit 1: Panoramic Forecast Financial and Operating Summary

Panoramic Resources						Sector Perform	Price Target:	A\$2.20
ASX: PAN	Share Price: (A\$ps)	1.82	Year end:	Jun	Stock Rating:	Average	NAV:	A\$2.14
	Mkt Cap: (A\$MM)	371	Issued shares (m)	204.0	Risk Qualifier:			

ASSUMPTIONS		FY08	FY09	FY10e	FY11e	FY12e	ATTRIBUTABLE MINE STATS	FY08	FY09	FY10e	FY11e	FY12e	
Exchange Rate	A\$/US\$	0.90	0.75	0.88	0.87	0.84	Nickel Production (equity)						
Spot Nickel Price	US\$/lb	12.92	6.04	7.49	7.00	7.00	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	Nickel in Concentrate	kt	12.32	16.38	17.23	17.15	17.17
							Payable Nickel Production	kt	7.96	10.56	11.10	11.06	11.07

RATIO ANALYSIS		FY08	FY09	FY10e	FY11e	FY12e	Payable Nickel Sales Hedged	%	FY08	FY09	FY10e	FY11e	FY12e
Diluted share capital	MM	193.7	204.0	208.7	208.7	208.7	Avg Cash Nickel Price Realised	US\$/lb	11.38	7.70	8.48	7.14	7.00
EPS (diluted and pre sig. items)	Ac	27.3	12.0	21.8	8.4	10.2	Net Cash Costs (per payable lb)	US\$/lb	5.32	3.94	4.78	5.03	4.99
P/E	x	6.7x	15.2x	8.3x	21.7x	17.9x	Cash Margin	US\$/lb	6.05	3.76	3.69	2.11	2.01
CFPS	Ac	49.5	16.4	57.3	25.8	30.4	Operational EBIT Contribution (pre hedging)						
P/CF	x	3.7x	11.1x	3.2x	7.1x	6.0x	Savannah	A\$MM	70	-2	13	9	15
DPS	Ac	12.0	3.0	15.0	6.0	6.0	Lanfranchi	"	39	11	21	20	23
Dividend yield	%	6.6%	1.6%	8.2%	3.3%	3.3%							
Franking Level	%	100%	100%	67%	100%	100%							
Book value per share		1.20	1.40	1.39	1.40	1.44							
P/Book value	x	1.5x	1.3x	1.3x	1.3x	1.3x							
R.O.E. (pre sig items)	%	23%	8%	16%	6%	7%							
R.O.A. (pre sig items)	%	20%	8%	16%	5%	6%							
Interest Cover	x	-14.4x	-10.1x	-16.4x	-4.5x	-4.3x							
EBITDA per share	A\$ps	0.55	0.38	0.50	0.27	0.29							
EV/EBITDA	x	2.5x	4.2x	2.6x	5.0x	4.2x							

EARNINGS		FY08	FY09	FY10e	FY11e	FY12e
Sales Revenue	A\$MM	232	225	275	233	243
Other Revenue	"	0	1	1	0	0
Total Revenue	"	232	226	276	233	243
Operating costs	"	(108)	(123)	(149)	(164)	(169)
Operational EBITDA	"	125	103	127	69	74
Exploration Expense/Write-offs	"	(2)	(8)	(8)	(5)	(5)
Corporate & Other Costs	"	(15)	(18)	(15)	(8)	(9)
EBITDA	"	107	78	104	56	60
D&A	"	(40)	(49)	(45)	(36)	(36)
EBIT	"	67	29	59	20	24
Net Interest	"	5	3	4	4	6
Profit Before Tax	"	71	32	63	24	29
Tax Expense	"	(18)	(8)	(18)	(7)	(8)
Minorities	"	0	0	0	0	0
Net Profit After Tax	"	53	24	45	18	21
Significant Items (post tax)	"	0	(18)	0	0	0
Reported NPAT	"	53	6	45	18	21

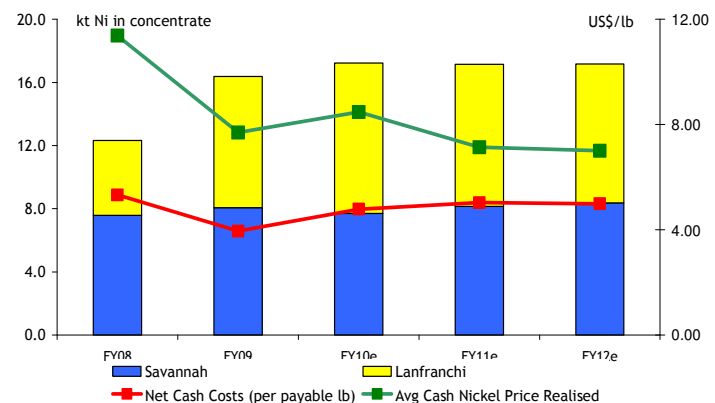
CASHFLOW		FY08	FY09	FY10e	FY11e	FY12e
Operational Cash Flow	A\$MM	112	55	121	61	65
Net Interest	"	5	3	3	4	6
Tax Paid and Other	"	(22)	(25)	(5)	(11)	(7)
Net Operating Cashflow	"	96	34	120	54	63
Exploration	"	(6)	(3)	(9)	(8)	(8)
Capital Expenditure	"	(59)	(58)	(43)	(39)	(21)
Investments	"	0	(17)	0	0	0
Sale of PPE and Other	"	0	(0)	(13)	0	0
Net Investing Cashflow	"	(65)	(78)	(65)	(47)	(29)
Dividends Paid	"	(36)	(12)	(24)	(16)	(12)
Debt	"	(7)	(5)	(3)	0	0
Equity Issuance	"	4	0	0	0	0
Other	"	0	0	0	0	0
Net Financing Cashflow	"	(39)	(16)	(28)	(16)	(12)
Net change in cash	"	(9)	(61)	27	(10)	22

BALANCE SHEET		FY08	FY09	FY10e	FY11e	FY12e
Cash & Equivalents	A\$MM	111	50	107	97	119
PP&E & Mine Development	"	136	200	199	202	199
Exploration	"	13	19	14	17	21
Total Assets	"	332	380	382	378	388
Debt	"	8	7	3	3	3
Total Liabilities	"	100	94	91	86	87
Total Net Assets / Equity	"	232	286	291	292	301
Net Debt / (Cash)	"	(103)	(43)	(104)	(94)	(116)
Gearing (net debt/(nd + equity))	%	(79%)	(18%)	(56%)	(48%)	(63%)
Gearing (net debt/equity)	%	(44%)	(15%)	(36%)	(32%)	(39%)

RESERVES AND RESOURCES (ATTRIBUTABLE)		Mt	% Ni	Ni (kt)
Reserves				
Savannah	2.9	1.3%	38	
Copernicus satellite (60%)	0.5	1.1%	5	
Lanfranchi	2.7	2.4%	66	
Total reserves (kt)			109	
			EV / Reserves	2,461
Resources				
Savannah	6.4	1.6%	99	
Copernicus satellite (60%)	0.5	1.2%	6	
Lanfranchi	5.3	2.4%	125	
Total resources (kt)			230	
			EV / Resources	1,167

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

ATTRIBUTABLE NICKEL PRODUCTION AND COST PROFILE



EQUITY DCF VALUATION		A\$MM	A\$ps
Projects			
Savannah	88	0.43	
Lanfranchi	195	0.96	
Projects and Exploration	50	0.25	
Hedging	17	0.09	
Corporate	(23)	-0.11	
Cash	113	0.55	
Debt	(3)	-0.02	
Net Equity Value (@ 8% real d.r.)	437	2.14	0.8x

Source: Company data, RBC Capital Markets estimates



Valuation

We maintain Sector Perform but raise our target to A\$2.20 (A\$1.90) on an unchanged 1.0x NAV, in line with our other base metal coverage and, in our view, appropriate at this point in the cycle. We are revising our risk rating to Average (from Above Average) due to cash and steady production.

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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Sector Perform (SP): Returns expected to be in line with sector average over 12 months.

Underperform (U): Returns expected to be materially below sector average over 12 months.

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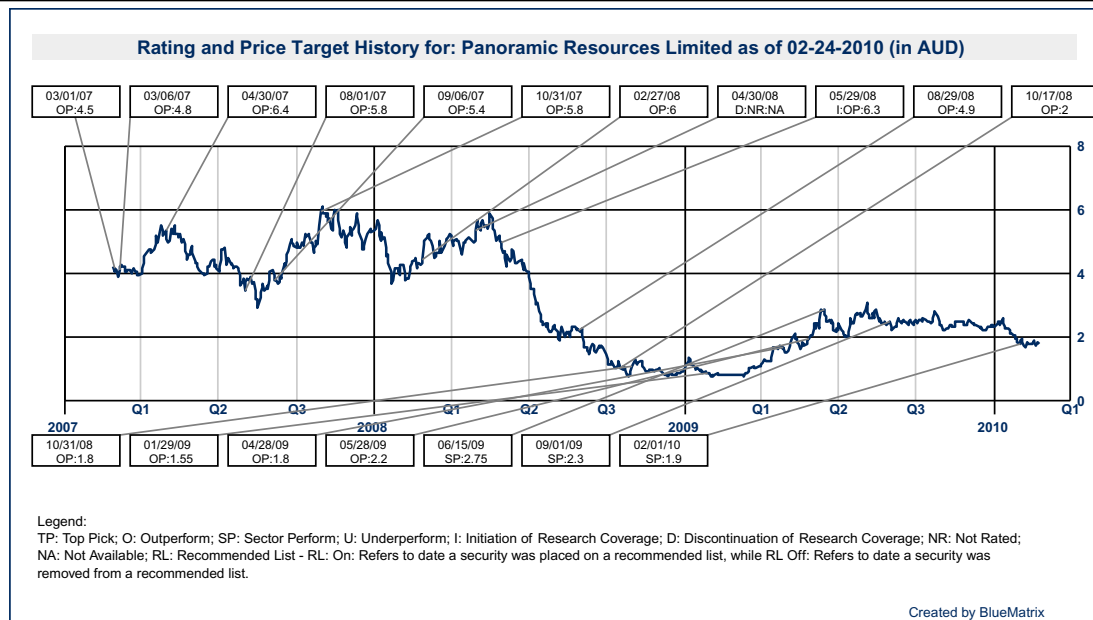
Above Average Risk (AA): Volatility and risk expected to be above sector; below average revenue and earnings predictability; may not be suitable for a significant class of individual equity investors; may have negative cash flow; low market cap or float.

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			Count	Percent
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