

Panoramic Resources Ltd. (PAN.ASX)

1HFY10 result – 15% above previously given guidance

Friday 26 February 2010

1HFY10 NPAT was \$23.1m (FSBe - \$24.9m), 15% above previously given guidance of \$20m. The difference was additional sales revenue due to QP adjustments, lower than expected D&A charges and reduced income tax due to tax concessions on R&D expenditure. Sales revenue of \$132.2m (FSBe - \$129.9m) was 19% greater than the pcp of \$110.7m. EBITDA of \$58.7m (FSBe - \$55.5m) was 59% greater than the pcp of \$36.9m.

1HFY10 Operating Cashflows of \$67.1m were significantly better than the pcp of -\$3.5m, reflecting the dramatic turnaround in global commodity markets which led to a sustained increase in nickel prices. Smaller investing cashflows also helped net cash increase from \$67.2m at 30 June 2009 to \$113.5m at 31 December 2009, including term deposits. PAN has \$3.2m in finance liabilities as at 31 December 2009.

The Board declared **a fully franked interim dividend of 5cps and a fully franked one-off special dividend of 5cps.**

While the recent quarterly report showed some slight increases in operating costs, these were not unexpected given the significant pick up in the mining industry over the last six months. For example, we understand that the 10% reduction in wages implemented across the board earlier last year at PAN has largely been given back.

The average spot nickel price during 1HFY10 was A\$9.18/lb. **With relatively steady state production and cost structures, the risk to our FY10 NPAT estimate of \$48.4m is to the upside given spot nickel prices since 1 January 2010 have averaged A\$9.41/lb and current nickel prices are ~A\$10.35/lb.**

PAN reiterated its FY10 production guidance of 18,000-19,000 tonnes of contained nickel plus cobalt and copper credits.

Valuation. Our DCF based valuation for PAN is \$2.63/share and \$2.70/share one year forward.

Recommendation. We maintain our BUY recommendation and price target of \$2.70/share, reflecting our one-year forward valuation. Short term operational catalysts include a Reserve statement for Savannah Deeps expected within weeks and the possible re-start of the Copernicus open pit.

Year to June (\$m)	2009a	2010e	2011e	2012e	2013e
Revenue	228.7	275.9	251.5	253.8	222.3
% change	-4%	21%	-9%	1%	-12%
EBITDA	81.2	117.0	91.8	94.1	72.5
EBITDA margin	35%	42%	36%	37%	33%
NPAT rep	5.6	48.4	35.4	42.5	31.1
NPAT adj	24.0	48.4	35.4	42.5	31.1
EPS adj (c)	12.4	23.2	17.0	20.4	14.9
% change	-56%	87%	-27%	20%	-27%
Dividend (c)	3.0	15.0	6.9	8.3	6.1
PER (x)	14.6	7.9	10.8	9.0	12.3
EV/EBITDA (x)	3.6	2.1	2.1	1.2	0.8
Yield (%)	0.0	8.0	3.7	4.5	3.3

Figures adjusted for NRIs and amortisation of intangibles

Source: Company, Foster Stockbroking

Resources

Rating: **BUY**
(previous): BUY

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Share price: **1.87**
Price target: \$2.70
(Previous) \$2.70
NPV per share: \$2.63
Risk: Medium

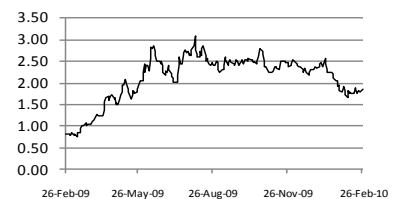
Shares on issue post deal(m): 204.0
Shares on issue (diluted) (m): 208.7
Free float: 100%
Average daily volume (m): 1.1

Market cap (\$m): 381.5
FY10e Enterprise value (\$m): 237.0
FY10e Net debt (\$m): -144.7
FY10e Gearing (ND/ND+E): nm
FY10e S'holders equity (\$m): 303.7
FY10e NTA per share (\$): 1.49

Forecast: **2010e**
Free cash flow (\$m): 108.3
Return on average equity: 16.4%
Net interest cover: nm

Forecast: **2011e**
Free cash flow (\$m): 73.6
Return on average equity: 10.9%
Net interest cover: nm

Share price (\$):



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1HFY10 RESULT

HFY10 NPAT was \$23.1m (FSBe - \$24.9m), 15% above previously given guidance of \$20m. The difference was additional sales revenue due to QP adjustments, lower than expected D&A charges and reduced income tax due to tax concessions on R&D expenditure. Sales revenue of \$132.2m (FSBe - \$129.9m) was 19% greater than the pcp of \$110.7m. EBITDA of \$58.7m (FSBe - \$55.5m) was 59% greater than the pcp of \$36.9m.

1HFY10 Result vs FSB forecast and pcp (A\$m)

	1HFY10 Actual	1HFY10 FSBe	Diff	1HFY09 Actual	PCP Diff.
Total revenue	132.2	129.9	2%	110.7	19%
EBITDA	58.7	55.5	6%	36.9	59%
EBITDA margin (%)	44.4	50.8	-13%	33.3	33%
D & A tangibles	27.6	21.7	27%	26.8	3%
EBIT	31.1	33.8	-8%	10.1	209%
EBIT margin (%)	23.6	31.0	-24%	9.1	158%
Net interest exp. / (income)	-1.5	-1.7	-12%	-2.6	-43%
Profit before tax	32.3	35.5	-9%	12.3	163%
Tax exp / (benefit)	9.2	10.7	-14%	3.7	149%
NPAT pre minorities	23.1	24.9	-7%	8.6	168%
Minority Interests	0.0	0.0	nm	0.0	nm
NPAT pre sig items	23.1	24.9	-7%	8.6	168%
Significant items	0.0	0.0	nm	-17.2	nm
NPAT reported	23.1	24.9	-7%	-8.6	-369%
NPAT adjusted*	23.1	24.9	-7%	8.6	168%
EPS adj c	11.3	11.9	-5%	-4.5	-351%

Source: Company, FSB research. *Adjusted for NRI's and amortisation of intangibles.

1HFY10 Operating Cashflows of \$67.1m were significantly better than the pcp of negative \$3.5m, reflecting the dramatic turnaround in global commodity markets which led to a sustained increase in nickel prices. Smaller investing cashflows also helped net cash increase from \$67.2m at 30 June 2009 to \$113.5m at 31 Dec 2009, including term deposits.

The Board declared **a fully franked interim dividend of 5cps and a fully franked one-off special dividend of 5cps.**

While the recent quarterly report showed some slight increases in operating costs, these were not unexpected given the significant pick up in the mining industry over the last six months. For example, we understand that the 10% reduction in wages implemented across the board earlier last year at PAN has largely been given back.

PAN ended the period with \$113.5m in cash and \$3.2m in finance liabilities.

EARNINGS OUTLOOK

PAN reiterated its FY10 production guidance of 18,000-19,000 tonnes of contained nickel plus cobalt and copper credits. Given unchanged guidance and no change in our commodity price assumptions, we have not made any changes to the earnings outlook. FY10 forecasts have reduced slightly given 1HFY10 results.

The average spot nickel price during 1HFY10 was A\$9.18/lb. **With relatively steady state production and cost structures, the risk to our FY10 NPAT estimate of \$48.4m is to the upside given spot nickel prices since 1 January 2010 have averaged A\$9.41/lb and current nickel prices are ~A\$10.35/lb.**

Revised forecasts (A\$m)

	FY10			FY11		
	Old	New	Change	Old	New	Change
Sales revenue	239.0	241.3	1%	254.0	254.0	0%
Other revenue	34.6	34.6	0%	-2.4	-2.4	0%
Total revenue	273.6	275.9	1%	251.5	251.5	0%
EBITDA	113.8	117.0	3%	91.8	91.8	0%
EBITDA margin (%)	47.6	48.5	2%	36.1	36.1	0%
D & A tangibles	46.1	51.9	13%	47.7	47.7	0%
EBIT	67.7	65.0	-4%	44.1	44.1	0%
EBIT margin (%)	28.3	26.9	-5%	17.4	17.4	0%
Net Interest/(income)	-4.1	-3.4	-18%	-6.3	-6.5	2%
Profit before tax	71.8	68.4	-5%	50.5	50.6	0%
Tax exp / (benefit)	21.5	20.0	-7%	15.1	15.2	0%
NPAT pre minorities	50.3	48.4	-4%	35.3	35.4	0%
Minority Interests	0.0	0.0	nm	0.0	0.0	nm
NPAT pre sig items	50.3	48.4	-4%	35.3	35.4	0%
Significant items	0.0	0.0	nm	0.0	0.0	nm
NPAT rep	50.3	48.4	-4%	35.3	35.4	0%
NPAT adj	50.3	48.4	-4%	35.3	35.4	0%
EPS adj	24.1	23.2	-4%	16.9	17.0	0%

Source: FSB research

VALUATION AND RECOMMENDATION

Our DCF based valuation for PAN is \$2.63/share and \$2.70/share one year forward.

We maintain our BUY recommendation and price target of \$2.70/share, reflecting our one-year forward valuation.

Short term catalysts include:

- A Reserve statement for Savannah Deeps expected within weeks;
- The possible re-start of the Copernicus open pit; &
- Continued strength in global nickel prices.

Panoramic Resources Ltd (PAN)

Full Year Ended 30 Jun

Profit and Loss (\$m)	2009a	2010e	2011e	2012e
Sales revenue	228.7	241.3	254.0	253.8
Other revenue	1.2	34.6	-2.4	0.0
Total revenue	229.9	275.9	251.5	253.8
EBITDA	81.2	117.0	91.8	94.1
EBITDA margin (%)	35.5	48.5	36.1	37.1
D & A tangibles	49.5	51.9	47.7	47.6
EBIT	31.7	65.0	44.1	46.4
EBIT margin (%)	13.9	26.9	17.4	18.3
Net interest exp. / (inc.)	0.0	-3.4	-6.5	-14.3
Profit before tax	31.7	68.4	50.6	60.7
Tax exp / (benefit)	7.7	20.0	15.2	18.2
NPAT pre minorities	24.0	48.4	35.4	42.5
Minority Interests	0.0	0.0	0.0	0.0
NPAT pre sig items	24.0	48.4	35.4	42.5
Significant items	-18.4	0.0	0.0	0.0
NPAT reported	5.6	48.4	35.4	42.5
NPAT adjusted*	24.0	48.4	35.4	42.5
EPS adj c	2.8	23.2	17.0	20.4

*NPAT adjusted for significant items and amortisation of intangibles

Cash Flow (\$m)	2009a	2010e	2011e	2012e
EBITDA	81.2	113.8	91.8	94.1
Net Interest	2.9	3.4	6.5	14.3
Tax	-24.9	-4.2	-18.4	-7.7
Δ Working Capital	-19.4	12.9	3.0	-9.9
Other	-6.3	11.2	0.0	0.0
Operating Cashflow	33.5	137.0	82.8	90.8
Capex	-57.5	-28.1	-9.3	-8.4
Net Acquisitions	-0.5	0.0	0.0	0.0
Exploration and Evaluation	-3.1	-0.7	0.0	0.0
Other	-17.3	0.0	0.0	0.0
Investing Cashflow	-78.4	-28.8	-9.3	-8.4
Equity proceeds	0.2	0.0	0.0	0.0
Debt proceeds	0.0	0.0	0.0	0.0
Debt repayment	-4.7	-3.4	0.0	0.0
Dividends paid	-11.5	-24.5	-17.1	-7.1
Other	0.0	0.0	0.0	0.0
Financing Cashflow	-16.1	-27.9	-17.1	-7.1
Net Cashflow	-60.9	80.4	56.4	75.3

Effect of exchange rate Δ

Ratios	2009a	2010e	2011e	2012e
EPS rep c	3.0	23.7	17.3	20.8
EPS adj c	12.8	23.7	17.3	20.8
EPS adj growth (%)	-55.0	85.5	-26.8	20.1
PER x	14.6	7.9	10.8	9.0
EV/EBITDA x	3.6	2.1	2.1	1.2
EV/EBIT x	2.6	1.7	2.1	2.0
Payout ratio	0.2	0.6	0.4	0.4
DPS Total c	3.0	15.0	6.9	8.3
Yield (%)	0.0	8.0	3.7	4.5
Average RoE (%)	0.0	16.4	10.9	12.1
Average RoA (%)	0.0	12.5	8.5	9.4
Gearing (ND/ND+E) (%)	nm	nm	nm	nm
Net interest cover x	nm	nm	nm	nm
ND/EBITDA x	nm	nm	nm	nm
NTA (\$ per share)	1.52	1.49	1.59	1.72
WA # shares on issue	187.8	204.0	204.0	204.0

Source: Company, FSB research

Half Year Ended 31 Dec

Profit and Loss (\$m)	1H10e	2H10e	1H11e	2H11e
Sales revenue	111.5	129.8	127.0	127.0
Other revenue	20.8	13.8	-1.2	-1.3
Total revenue	132.2	143.6	125.8	125.7
EBITDA	58.7	58.3	45.9	45.8
EBITDA margin (%)	52.7	44.9	36.2	36.1
D & A tangibles	27.6	24.4	23.8	23.8
EBIT	31.1	33.9	22.1	22.0
EBIT margin (%)	27.9	26.1	17.4	17.3
Net interest exp. / (inc.)	-1.1	-2.3	-2.9	-3.5
Profit before tax	32.2	36.2	25.0	25.5
Tax exp / (benefit)	9.2	10.8	7.5	7.7
NPAT pre minorities	23.1	25.3	17.5	17.9
Minority Interests	0.0	0.0	0.0	0.0
NPAT pre sig items	23.1	25.3	17.5	17.9
Significant items	0.0	0.0	0.0	0.0
NPAT reported	23.1	25.3	17.5	17.9
NPAT adjusted*	23.1	25.3	17.5	17.9
EPS adj c	11.1	12.1	8.4	8.6

*NPAT adjusted for significant items and amortisation of intangibles

Balance Sheet (\$m)	2009a	2010e	2011e	2012e
Cash	67.3	147.7	204.1	279.4
Receivables	30.4	24.9	24.9	24.9
Inventories	14.8	14.8	14.8	14.8
PPE	199.7	181.5	143.2	103.9
Exploration	18.7	13.3	13.3	13.3
Investments	0.0	0.0	0.0	0.0
Other	49.4	16.4	16.4	16.4
Total Assets	380.3	398.6	416.7	452.7
Accounts payable	30.8	28.0	28.0	28.0
Provisions	10.0	18.7	18.7	18.7
Tax liabilities	45.2	41.7	38.6	49.1
Debt	6.6	3.2	3.2	3.2
Other	1.4	3.3	3.3	3.3
Total Liabilities	94.0	94.9	91.7	102.2
Reserves and capital	172.9	156.2	156.2	156.2
Retained earnings	113.4	147.6	168.8	194.3
Minorities	0.0	0.0	0.0	0.0
Total Equity	286.3	303.7	325.0	350.5

Price and production	2010	2011	2012	LT
Nickel (US\$/lb)	7.99	8.00	8.00	7.00
Copper (US\$/lb)	2.92	3.00	3.00	2.50
Cobalt (US\$/lb)	15.25	15.25	15.25	15.25
AUD/USD	0.86	0.85	0.85	0.85
Production (Ni in con./ore)	2010	2011	2012	2013
Savannah	7,878	7,957	7,948	7,948
Lanfranchi	10,182	10,477	10,477	10,477
Total (tonnes)	18,060	18,434	18,425	18,425
Valuation	now	one year		
	\$m	\$ ps	\$m	\$ ps
Savannah	204.1	1.00	187.9	0.92
Lanfranchi	212.9	1.04	195.6	0.96
Corp/Exploration	-8.8	-0.04	-1.8	-0.01
Net cash / (debt)	110.3	0.54	170.9	0.84
Hedge book	17.4	0.09	-1.1	-0.01
NPV	535.9	2.63	551.6	2.70

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