



RATINGS REVISION | COMMENT

MARCH 2, 2010

Panoramic Resources Limited (ASX: PAN)
Upgrading to Outperform: Higher Nickel Price and Savannah Reserve Extensions

Outperform (prev: Sector Perform)
Average Risk

Price:	2.12	Price Target:	2.60 ↑ 2.20
Shares O/S (MM):	204.0	Implied All-In Return:	24%
Dividend:	0.03	Market Cap (MM):	432
NAVPS:	2.58	Yield:	1.4%
BVPS:	1.40	P/NAVPS:	0.8x
ROE:	8.0%	P/BVPS:	1.5x
Float (MM):	204.0	Enterprise Val. (\$MM):	323.0
Debt to Cap:	1%	Avg. Daily Volume (MM):	22.00

Price at close on the ASX on March 2 2010, Australian Eastern Standard Time

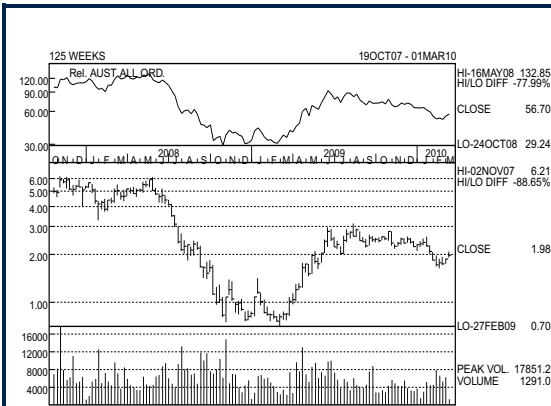
Event

Reserve extensions and rallying nickel price lead to an upgrade to Outperform (SP), target to A\$2.60 (A\$2.20)

Investment Opinion

A 5-year reserve extension to the Savannah mine was released on 2 March and the nickel price has traded through US\$10/lb. We also upgrade our nickel prices. These are the key near-term share price drivers and we upgrade to Outperform with a A\$2.60 target. **We believe there are tailwinds all over for PAN** at present: reserve additions, earnings upgrades, higher dividends, strong balance sheet and an oversold nickel sector relative to the spot price.

- **Nickel Forecasts:** We raise CY10E to US\$8/lb (US\$7) and increase other years by lesser amounts. The A\$/US\$ is unchanged.
- **Earnings Increases:** We increase all years significantly: by 27-28% over the next 2 years and by 40% in FY12 to A\$30m. We remain well under consensus in future years. At US\$9/lb, FY12 earnings would rise to A\$65m, a CFM of <3x and even better at spot nickel. Lower D&A charges for Savannah boost earnings.
- **Savannah Deeps:** The 50kt resource at 1.48% Ni converted to a 43kt reserve, thus adding 5 years to the current approximately 3-year reserve. We had only partially included it in our forecasts.
- **FY11E Earnings Drop:** Our A\$22m FY11 forecast is well under consensus of A\$48m, partly due to our US\$7.30/lb Ni price, vs. current spot of ~US\$10/lb. The major reason is the depletion of hedging. Cash margins drop from US\$4.28/lb to US\$2.33/lb next year, despite relatively flat production and unit costs. We expect hedging to be added in this current rally and hence see upside in FY11 earnings.
- **Balance Sheet/Hedging:** At 31 Dec 09 the company had A\$113m or A55¢ in cash and essentially no debt. We do not expect the current yield of 7% to continue and forecast lower dps ahead.
- **Valuation:** We upgrade to Outperform (SP) and raise our target to A\$2.60 (A\$2.20) 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. Average risk.



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FY Jun	2009A	2010E	2011E	2012E
Adj EPS - FD	0.12	0.28	0.11	0.14
Prev.		0.22	0.08	0.10
P/AEPS	17.7x	7.6x	19.3x	15.1x
CFPS - FD	0.16	0.65	0.26	0.35
Prev.		0.57		0.30
P/CFPS	13.2x	3.3x	8.2x	6.1x
Annual Div. - FD	0.03	0.15	0.06	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 9.

Savannah Reserve Upgrade & Nickel Price Strength = Strong Near-Term Drivers

We upgrade Panoramic to Outperform (SP), Average Risk and raise our target to A\$2.60 (A\$2.20).

There are two major near-term share price drivers:

1. **The nickel price** has surged through US\$10/lb on 3 March 2010.
2. **Savannah Lower Zone reserves** announced on 2 March, add 5 years to mine life and significantly lowers the D&A charge, thus raising earnings.

We have raised our forecasts significantly: by 27% and 28% respectively over the next two years and by 40% in FY12. One reason for the magnitude of the increases is that we had been using a low US\$7.00/lb forecast for nickel over the next several years. Our forecasts can still be regarded as conservative given that spot has rallied over US\$10/lb and year-to-date nickel in CY10 is US\$8.51 and rising. RBC upgrades the nickel price as follows:

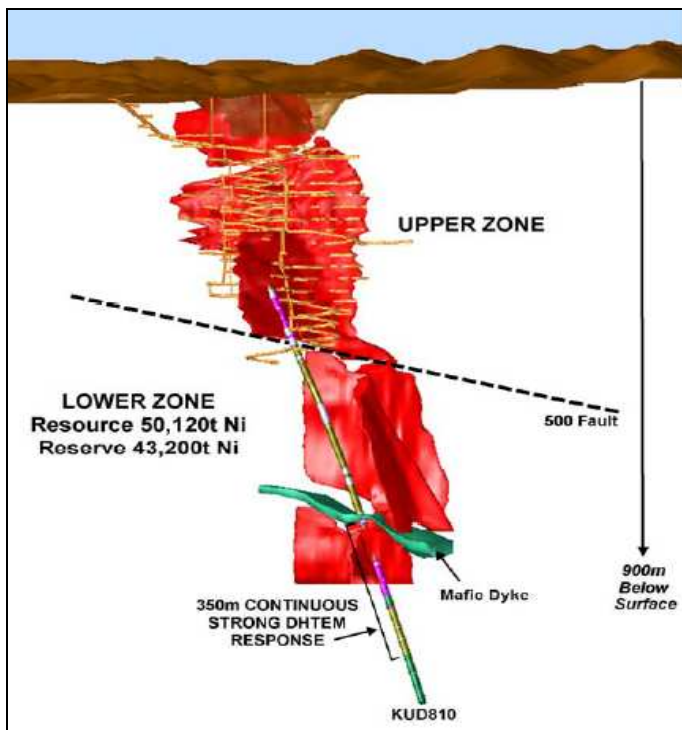
- CY10 increased by US\$1.00 to US\$8.00/lb
- CY11 increased by US\$25¢ to US\$7.25/lb
- CY12 increased by US\$50¢ to US\$7.50/lb
- CY14 increased to US\$8.25/lb
- Long-term nickel is unchanged at US\$7.50/lb from 2015 and all A\$/US\$ forecasts are unchanged.

Savannah Reserve Addition of 43kt

On 2 March, Panoramic released initial reserves for the Savannah Lower Zone as shown in Exhibit 1. Resources are 50kt of nickel and hence the conversion was a very good 86%. Key points:

- Reserve of 43.2 kt of nickel, 23.5 kt of copper and 2.16kt of cobalt contained between 500m and 900m depth
- Lower Zone Reserve extends the mine life beyond 2018 (it was about 3 years only previously)

Exhibit 1: Savannah Cross-Section Showing Lower Zone Reserves of 43kt



Source: Company reports

- A strong EM anomaly recorded below the current resource for another 350m indicates that there is a good chance of an extension which remains open. As the company states, Savannah mineralisation could extend at least another 350-400m and a 12- to 18-month drilling program is under way.
- A further concentrate offtake was agreed to with Jinchuan for the next 10 years covering all expected production from the Upper and Lower zones. The current contract was due to expire in March 2010. Importantly, Panoramic receives payment when the conc. leaves the site – there are no 3-month QP adjustments applicable to Savannah sales as there are in Kambalda.

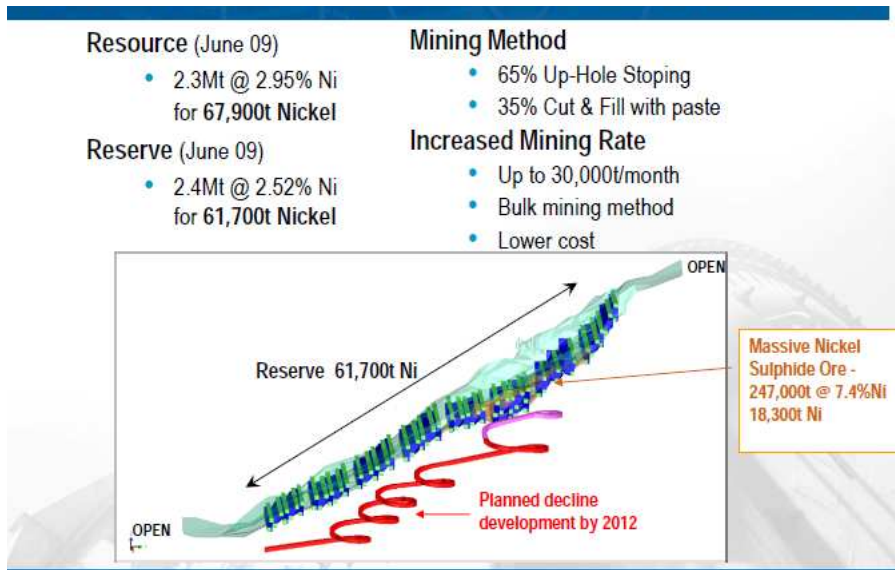
The Upper Zone reserve was 27.2kt of nickel as at June 09 and depleting for production of 4.4kt in the Dec Hf 09 gives an updated 22.8kt at 1.32% nickel. Total company reserves are now 66.0kt and total resources are 148.9kt (inclusive of reserves). The Savannah mine produced 8.1kt of nickel in conc. last year.

Lanfranchi Is Higher Grade and Reserves Are Growing

A feature of the company’s Kambalda operations at Lanfranchi is the growth in reserves and hence the mine life. June ‘09 reserves totaled 61.7kt grading 2.95% nickel. This mine produced 8.3kt of nickel in conc. last year and we forecast growth to 9.5kt in FY10.

Mine life has recently been extended to +2020 with the addition of the high grade Deacon orebody highlighted in Exhibit 2.

Exhibit 2: Lanfranchi Reserves Summary and Deacon Cross-Section



Source: Company reports

Growth Strategy - Diversify!

A feature of the ASX nickel sector is the cash build. Panoramic currently has A\$113m or A55c per share cash and no debt, Minara has A\$247m, Mincor has A\$99m and Independence holds A\$137m, much destined for its 30% of the Tropicana Gold Project. It is very tough to find a suitable acquisition, most of all in the nickel sector. All of these nickel companies’ CEOs including Panoramic’s Peter Harold will know this only too well!

Panoramic listed its *Acquisition Targets* at its AGM Presentation as shown in Exhibit 3. **Its ultimate aim is to become a diversified mining house.**

Exhibit 3: Panoramic Acquisition Targets

Acquisition Targets
(bolt on or company transforming)

Tier 1 – Nickel, PGM, Copper, Gold

Tier 2 – Zinc, Lead, Bulk Commodity

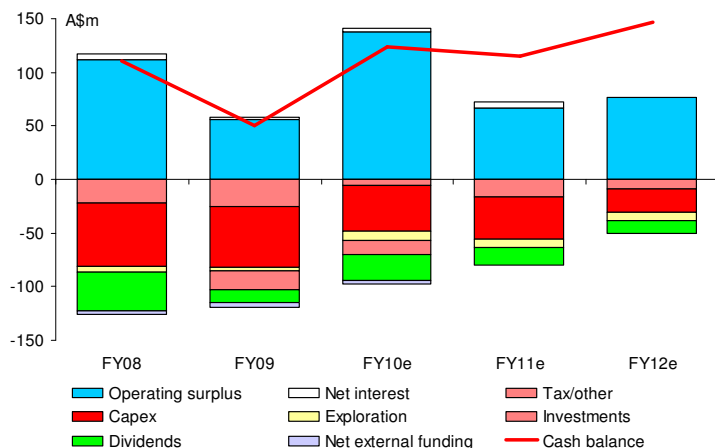
Tier 3 – Energy, Industrial Min.

Source: Company presentation

Cash Flow Remains Strong; Cash Building

Exhibit 4 shows our projection of Panoramic's cash flow from FY08 through FY12. The key point is that our forecasts of US\$7-8/lb nickel over the next few years are conservative. Even though dividend payments have risen (10c dps in total in the Dec 09 half), capex is reducing and hence net cash is steadily growing. An acquisition and/or dividend or capital returns are the possible uses of excess funds.

Exhibit 4: Cash Flow Analysis to FY12



Source: Company data, RBC Capital Markets estimates

Earnings Revisions

We have made revisions to our forecasts as follows:

- Higher nickel prices as discussed above.
- Reserve addition at Savannah and slightly lower D&A than previously modeled. We did flag a likely 40kt reserve in our note last week.

The dividend policy is to maintain a franked stream and our dividend forecasts could be exceeded.

We point out that Panoramic has a quite active **hedging policy** and we would expect (quite strongly in fact) that management is locking in some of the attractive forward rates right now. This action would further increase our cash flow forecasts given our current US\$7-8/lb assumptions.

Exhibit 5: Panoramic Earnings Revisions

		FY10			FY11			FY12		
		Revised	Previous	Change	Revised	Previous	Change	Revised	Previous	Change
Underlying Profit	A\$m	57.4	45.3	27%	22.5	17.5	28%	29.7	21.2	40%
Pre Tax Profit	A\$m	79.7	62.9	27%	31.0	24.2	28%	41.0	29.3	40%
EPS	¢	27.7	21.8	27%	10.8	8.4	28%	14.2	10.2	40%
DPS	¢	15.0	15.0	0%	6.0	6.0	0%	6.0	6	0%
Net Operating Cashflow	A\$m	143.9	127.1	13%	75.6	69.1	9%	84.9	73.6	15%
Cashflow/share	¢	65.3	57.3	14%	26.3	25.8	2%	35.1	30.4	16%
Nickel in conc	kt	17.2	17.2	0%	17.2	17.2	0%	17.2	17.2	0%
Cash Costs	US\$/lb	4.77	4.78	(0%)	5.05	5.03	0%	5.00	4.99	0%
Nickel Price	US\$/lb	8.31	7.49	11%	7.31	7.00	4%	7.38	7.00	5%
Exchange Rate	A\$/US\$	0.88	0.88	0%	0.87	0.87	0%	0.84	0.84	0%
Valuation (A\$/sh)		2.58	2.14	20%						

Source: Company reports, RBC Capital Markets estimates

ASX Nickel Sector Comparatives

We have updated our data base covering six producing nickel miners listed on the ASX. All are sulphide producers with the exception of Minara, which operates the ~32kt pa Murrin Murrin laterite project in WA.

In Exhibit 6 we show quarterly nickel price averages and feature the rising trend of spot nickel. YTD average has risen significantly in the past week and stands at US\$8.51/lb at present. Positive QP adjustments can be expected in the current half year results for all nickel producers.

Exhibit 6: Spot Nickel Price with Quarterly Averages Since June 2008

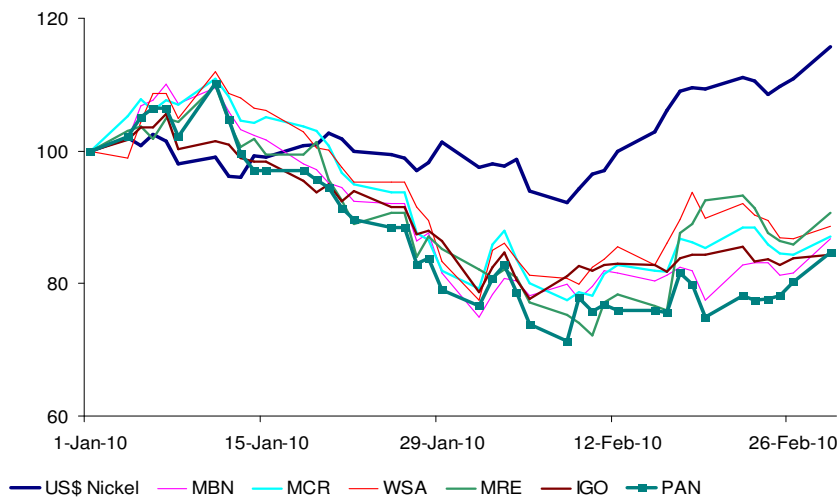


Source: IRESS, RBC Capital Markets estimates

Exhibit 7 plots the relative performance of US\$ nickel versus the share prices in our coverage. The key message is very obvious, we believe – spot nickel is outperforming shares or, to put it another way, **equity investors are tending to discount the sustainability of the rally in nickel and are not pricing higher nickel into valuations.**

Something must give, we think – and probably a little of each is most likely. **Thus, in summary, our view is that there is upside in nickel equities and probably some downside in spot nickel. Net-net, we are buyers of Panoramic.**

Exhibit 7: Relative Performance of ASX Nickel Shares vs. Spot Nickel Price, YTD



Source: IRESS, RBC Capital Markets estimates

Finally, we include data in Exhibit 8 and highlight the features for Panoramic in red.

Exhibit 8: ASX Nickel Share Data Base with Panoramic's features Highlighted

Company	Code	Share Price	FD shares	Mcap	Net debt	EV	Year end	Rsv	Rsc	Production (kt)			EPS (A\$)			CFPS (A\$)			NAV
		A\$	m	A\$m	A\$m	A\$m		kt	kt	09E	10E	11E	09E	10E	11E	09E	10E	11E	A\$
Independence	IGO	4.07	115	467	(137)	330	Jun	52	94	8.2	7.8	8.3	0.19	0.22	0.26	0.28	0.44	0.38	4.96
Minara	MRE	0.735	1168	858	(248)	611	Dec	1,602	3,213	18.9	19.4	19.1	0.04	0.01	0.01	0.08	0.05	0.05	0.54
Mincor	MCR	1.55	199	309	(99)	209	Jun	45	154	15.8	11.3	14.0	(0.08)	0.08	0.05	0.27	0.28	0.25	1.83
Mirabela	MBN	2.17	355	770	263	1,032	Dec	726	1,591	0.9	15.4	26.9	(0.05)	0.06	0.30	(0.05)	0.17	0.48	3.51
Panoramic	PAN	1.975	204	403	(110)	293	Jun	137	280	16.4	17.2	17.2	0.12	0.28	0.11	0.16	0.65	0.26	2.58
Western Areas	WSA	4.43	180	796	224	1,020	Jun	122	372	8.5	10.3	24.5	(0.21)	(0.04)	0.35	(0.15)	0.39	0.75	3.76

Company	Code	EBITDA / share (A\$)			EV / EBITDA			EV / Rsv	EV / Rsc	EV / Production (A\$/ktpa)			P / E			P / CF			P / NAV
		09E	10E	11E	09E	10E	11E	A\$'000/t	A\$'000/t	09E	10E	11E	09E	10E	11E	09E	10E	11E	x
Independence	IGO	0.34	0.37	0.39	8.4	7.8	7.3	6.38	3.52	40	42	40	21.2	18.6	15.6	14.4	9.2	10.7	0.82
Minara	MRE	0.07	0.05	0.04	7.8	11.4	12.2	0.38	0.19	32	31	32	17.7	nmf	nmf	9.2	15.6	16.3	1.37
Mincor	MCR	0.24	0.27	0.22	4.3	3.8	4.9	4.61	1.36	13	18	15	nmf	19.7	33.1	5.6	5.5	6.2	0.85
Mirabela	MBN	(0.06)	0.25	0.58	-	11.5	5.0	1.42	0.65	-	67	38	nmf	33.7	7.2	nmf	12.7	4.6	0.62
Panoramic	PAN	0.38	0.58	0.30	3.7	2.5	4.8	2.13	1.04	18	17	17	16.5	7.1	18.4	12.0	3.0	7.5	0.77
Western Areas	WSA	(1.13)	0.99	4.27	(5.0)	5.7	1.3	8.33	2.74	120	99	42	nmf	nmf	12.5	nmf	11.5	5.9	1.18
Average/Total					3.9	7.1	5.9	3.88	1.58	45	46	31	18.5	19.8	17.4	10.3	9.6	8.5	0.93

Source: IRESS, Company data, RBC Capital Markets estimates

Exhibit 9: Panoramic Forecast Financial & Operating Summary

Panoramic Resources														
ASX: PAN	Share Price: (A\$ps)	2.12	Year end: Jun		Stock Rating:	Outperform	Price Target:		A\$2.60					
	Mkt Cap: (A\$MM)	432	Issued shares (m)		204.0	Risk Qualifier:	Average	NAV:		A\$2.58				
ASSUMPTIONS		FY08	FY09	FY10e	FY11e	FY12e	ATTRIBUTABLE MINE STATS							
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	8.31	7.31	7.38	Savannah	kt	7.58	8.06	7.69	8.14	8.37	
Spot Cobalt Price	US\$/lb	39.32	22.55	19.62	12.63	11.50	Lanfranchi	kt	4.74	8.32	9.54	9.01	8.80	
Spot Copper Price	US\$/lb	3.53	2.24	3.02	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	
							Payable Nickel Sales Hedged	%	30%	39%	32%	23%	0%	
							Avg Cash Nickel Price Realised	US\$/lb	11.38	7.70	9.04	7.38	7.38	
							Net Cash Costs (per payable lb)	US\$/lb	5.32	3.94	4.77	5.05	5.00	
							Cash Margin	US\$/lb	6.05	3.76	4.28	2.33	2.37	
							Operational EBIT Contribution (pre hedging)							
							Savannah	A\$MM	70	-2	24	13	20	
							Lanfranchi	"	39	11	35	25	28	
RATIO ANALYSIS		FY08	FY09	FY10e	FY11e	FY12e	RESERVES AND RESOURCES (ATTRIBUTABLE)							
Diluted share capital	MM	193.7	204.0	208.7	208.7	208.7	Reserves							
EPS (diluted and pre sig. items)	A¢	27.3	12.0	27.7	10.8	14.2		Mt	% Ni	Ni (kt)				
P/E	x	7.8x	17.7x	7.7x	19.7x	14.9x	Savannah - Upper Zone	1.8	1.32%	22.8				
CFPS	A¢	49.5	16.4	65.3	26.3	35.1	Savannah - Lower Zone	3.7	1.17%	43.2				
P/CF	x	4.3x	12.9x	3.2x	8.1x	6.0x	Copernicus satellite (60%)	0.5	1.10%	5.2				
DPS	A¢	12.0	3.0	15.0	6.0	6.0	Lanfranchi	2.7	2.42%	66.3				
Dividend yield	%	5.7%	1.4%	7.1%	2.8%	2.8%	Total reserves (kt)			137.4	EV / Reserves			2.401
Franking Level	%	100%	100%	67%	100%	100%	Resources							
Book value per share		1.20	1.40	1.45	1.48	1.57		Mt	% Ni	Ni (kt)				
P/Book value	x	1.8x	1.5x	1.5x	1.4x	1.4x	Savannah - Upper Zone	6.4	1.55%	98.7				
R.O.E. (pre sig items)	%	23%	8%	19%	7%	9%	Savannah - Lower Zone			50.1				
R.O.A. (pre sig items)	%	20%	8%	19%	7%	8%	Copernicus satellite (60%)	0.5	1.24%	6.3				
Interest Cover	x	-14.4x	-10.1x	-21.1x	-5.6x	-5.9x	Lanfranchi	5.3	2.4%	125.3				
EBITDA per share	A\$ps	0.55	0.38	0.58	0.30	0.34	Total resources (kt)			280.4	EV / Resources			1,176
EV/EBITDA	x	3.1x	5.0x	2.6x	5.1x	4.0x	EPS SENSITIVITIES							
										FY10e	FY11e			
										Acps	%			
										5.4	23%			
										(5.4)	-23%			
										(3.6)	-15%			
										6.4	27%			
EARNINGS		FY08	FY09	FY10e	FY11e	FY12e	ATTRIBUTABLE NICKEL PRODUCTION AND COST PROFILE							
Sales Revenue	A\$MM	232	225	293	239	255								
Other Revenue	"	0	1	1	0	0								
Total Revenue	"	232	226	293	239	255								
Operating costs	"	(108)	(123)	(150)	(164)	(170)								
Operational EBITDA	"	125	103	144	76	85								
Exploration Expense/Write-offs	"	(2)	(8)	(8)	(5)	(5)								
Corporate & Other Costs	"	(15)	(18)	(15)	(8)	(9)								
EBITDA	"	107	78	121	62	71								
D&A	"	(40)	(49)	(45)	(36)	(36)								
EBIT	"	67	29	76	26	35								
Net Interest	"	5	3	4	5	6								
Profit Before Tax	"	71	32	80	31	41								
Tax Expense	"	(18)	(8)	(22)	(9)	(11)								
Minorities	"	0	0	0	0	0								
Net Profit After Tax	"	53	24	57	22	30								
Significant Items (post tax)	"	0	(18)	0	0	0								
Reported NPAT	"	53	6	57	22	30								
CASHFLOW		FY08	FY09	FY10e	FY11e	FY12e								
Operational Cash Flow	A\$MM	112	55	138	67	76								
Net Interest	"	5	3	3	5	6								
Tax Paid and Other	"	(22)	(25)	(5)	(17)	(9)								
Net Operating Cashflow	"	96	34	136	55	73								
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)	44	(8)	32								
BALANCE SHEET		FY08	FY09	FY10e	FY11e	FY12e	EQUITY DCF VALUATION							
Cash & Equivalents	A\$MM	111	50	124	115	147	Projects							
PP&E & Mine Development	"	136	200	199	202	187	Savannah	A\$MM	194	A\$ps				
Exploration	"	13	19	14	17	21	Lanfranchi	"	177	0.87				
Total Assets	"	332	380	399	396	416	Projects and Exploration	"	50	0.25				
Debt	"	8	7	3	3	3	Hedging	"	17	0.09				
Total Liabilities	"	100	94	96	87	90	Corporate	"	(22)	-0.11				
Total Net Assets / Equity	"	232	286	303	309	327	Cash	"	113	0.55				
Net Debt / (Cash)	"	(103)	(43)	(121)	(112)	(144)	Debt	"	(3)	-0.02				
Gearing (net debt/(nd + equity))	%	(79%)	(18%)	(66%)	(57%)	(79%)	Net Equity Value (@ 8% real d.r.)	A\$MM	526	A\$ps				
Gearing (net debt/equity)	%	(44%)	(15%)	(40%)	(36%)	(44%)				2.58				
										0.8x				

Source: Company reports and RBC Capital Markets estimates



Valuation

We upgrade to Outperform (SP) and raise our target to A\$2.60 (A\$2.20) 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. 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 new and existing orebodies; and (4) operating cost risk - increases in operating inputs would adversely affect earnings.

Company Description

Panoramic fully owns and operates two nickel operations in Western Australia and produced 16.4kt attributable nickel-in-concentrate in FY09. The Savannah underground mine is located in the Kimberley region and produced over 8kt nickel-in-concentrate in FY09. It is a nickel-copper-cobalt ore-body with significant by-product cost credits and solid extension potential at depth. The nickel concentrate is sold to Chinese nickel producer Jinchuan under a 10-year contract. The Lanfranchi underground mine (now 100%) is near Kambalda and produced 8.3kt nickel-in-concentrate in FY09. Ore is sold directly to BHP Billiton, inclusive of a toll treatment arrangement at its Kambalda nickel concentrator.

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

Required Disclosures

Non-U.S. Analyst Disclosure

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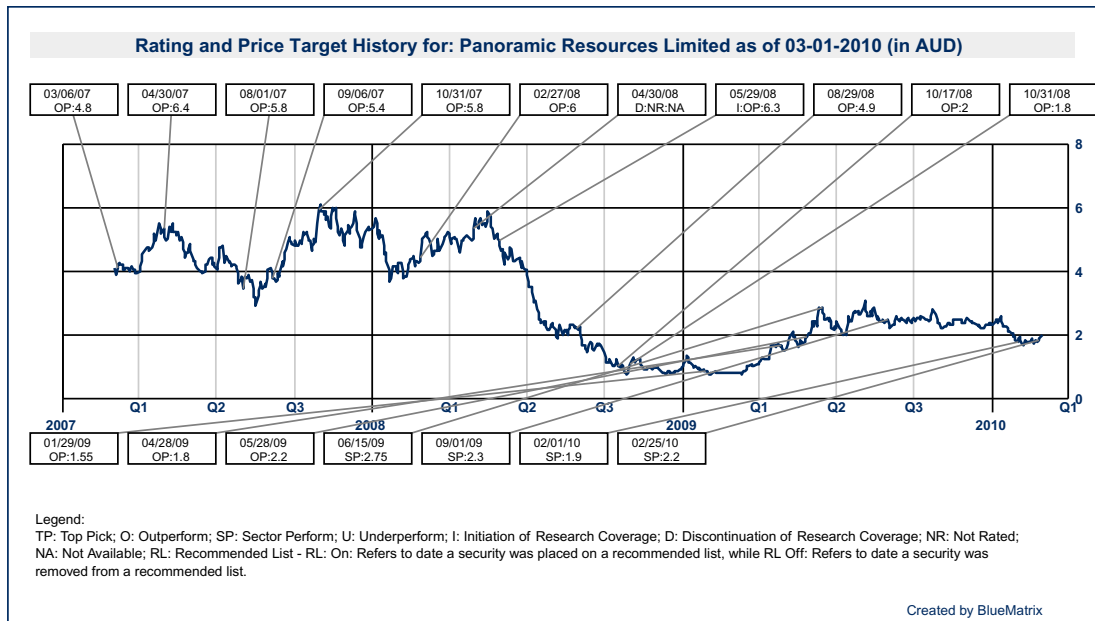
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