

## Panoramic Resources Ltd. (PAN.ASX)

### 3QFY10 result – On track for ~18kt of Ni in FY10

Thursday 29 April 2010

**3QFY10 Group production was 4,314t Ni contained in ore and concentrate, up 6% on previous quarter.** Increased ore mined and increased grades at Lanfranchi more than offset reduced milled tonnes and lower grades at Savannah.

**Production at Savannah during the quarter was 1,623t of nickel in concentrate, ~18% lower than the December quarter of 1,917 tonnes.** Ore mined in 3QFY10 at Savannah was slightly lower than 2QFY10, while ore milled during the quarter was ~8% lower, at 156.1kt, due to a planned maintenance shutdown. Further contributing to lower production was unexpectedly lower head grades. Nickel grades mined in the quarter were 1.21% Ni and 0.55% Cu vs 1.32% Ni and 0.73% Cu in 2QFY10.

**Production at Lanfranchi during the quarter was 2,691t of nickel in ore, ~25% higher than the December quarter of 2,161 tonnes.** While a ~22% increase in tonnes mined was the largest factor positively effecting nickel production, mined grades increases from 2.43% Ni in 2QFY10 to 2.48% Ni in 3QFY10 also contributed to the higher throughput.

**Production guidance.** PAN stated FY10 production is forecast to be at the low end of previously given guidance of 18,000-19,000 tonnes of contained nickel.

We have revised our nickel price forecasts for the balance of FY10 and FY11 and consequently revised PAN's FY10 and FY11 earnings estimates upwards. **Our FY10 forecast eps adj. has increased 38%, from 23cps to 32cps and our FY11 forecast eps adj. has increased 81%, from 17cps to 31cps.**

**Valuation.** Our DCF based valuation for PAN has increased to \$2.76/share from \$2.63/share and **our year-forward valuation has increased to \$2.87/share** from \$2.70/share. The change in valuation largely reflects our increased price assumptions but is offset by a downward revaluation of the hedge book and rolling the model six months forward.

**Recommendation.** We maintain our **BUY** recommendation and have increased our price target to **\$2.90/share from \$2.70/share**, broadly in line with our one-year forward valuation. Our increased price target results from increasing our near term nickel price assumptions.

Year to June (\$m)	2009a	2010e	2011e	2012e	2013e
Revenue	228.7	298.5	284.8	246.1	215.6
% change	-4%	31%	-5%	-14%	-12%
EBITDA	81.2	138.0	129.3	98.7	68.2
EBITDA margin	35%	46%	45%	40%	32%
NPAT rep	5.6	66.6	69.6	54.5	36.7
NPAT adj	24.0	66.6	69.6	54.5	36.7
EPS adj (c)	12.4	32.0	33.4	26.1	17.6
% change	-56%	158%	4%	-22%	-33%
Dividend (c)	3.0	18.5	13.7	10.7	7.2
PER (x)	14.6	7.8	7.5	9.5	14.2
EV/EBITDA (x)	3.6	2.6	2.3	2.3	2.6
Yield (%)	0.0	7.3	5.4	4.2	2.8

Figures adjusted for NRIs and amortisation of intangibles

Source: Company, Foster Stockbroking

#### Resources

<b>Rating:</b>	<b>Buy</b>
(previous):	uy

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<b>Share price:</b>	<b>2.55</b>
Price target:	\$2.90
(Previous)	\$2.70
NPV per share:	\$2.76
Risk:	Medium

Shares on issue post deal(m):	205.2
Shares on issue (diluted) (m):	209.7
Free float:	100%
Average daily volume (m):	1.1

Market cap (\$m):	520.2
FY10e Enterprise value (\$m):	346.9
FY10e Net debt (\$m):	-173.4
FY10e Gearing (ND/ND+E):	nm
FY10e S'holders equity (\$m):	314.7
FY10e NTA per share (\$):	1.54

<b>Forecast:</b>	<b>2010e</b>
Free cash flow (\$m):	137.1
Return on average equity:	21.6%
Net interest cover:	nm

<b>Forecast:</b>	<b>2011e</b>
Free cash flow (\$m):	96.8
Return on average equity:	19.5%
Net interest cover:	nm

#### Share price (\$):



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## 3QFY10 PRODUCTION RESULT

**3QFY10 Group production was 4,314t Ni contained in ore and concentrate, up 6% on previous quarter.** Increased ore mined and increased grades at Lanfranchi more than offset reduced milled tonnes and lower grades at Savannah. Group cash costs increased ~3% to \$5.73/lb (US\$5.18/lb). We consider the slight increase in costs as negligible considering the upward pressures on input costs in the resources industry in general due to the general pickup in activity in the sector.

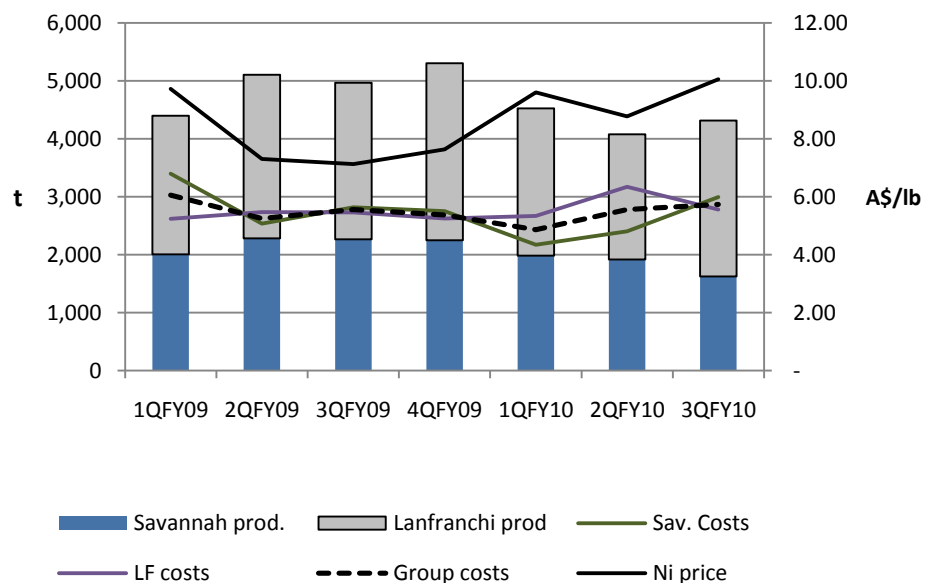
**Production at Savannah during the quarter was 1,623t of nickel in concentrate, ~18% lower than the December quarter of 1,917 tonnes.** Ore mined in 3QFY10 at Savannah was slightly lower than 2QFY10, while ore milled during the quarter was ~8% lower, at 156.1kt, due to a planned maintenance shutdown. Further contributing to lower production was unexpectedly lower head grades. Nickel grades mined in 3QFY10 were 1.21% Ni and 0.55% Cu vs 1.32% Ni and 0.73% Cu in 2QFY10.

**Production at Lanfranchi during the quarter was 2,691t of nickel in ore, ~25% higher than the December quarter of 2,161 tonnes.** While a ~22% increase in tonnes mined was the largest factor positively effecting nickel production, mined grades increases from 2.43% Ni in 2QFY10 to 2.48% Ni in 3QFY10 also contributed to the higher throughput.

**PAN stated FY10 production is forecast to be at the low end of previously given guidance of 18,000-19,000 tonnes of contained nickel** plus cobalt and copper credits.

The graph below indicates that, despite a very small increase in costs during the quarter, **PAN's Group margins have increased significantly due to stronger nickel prices which have extended into the final quarter of FY10.**

### Quarterly production results and costs for the last seven quarters



Source: Company, FSB research.

PAN ended the period with \$101m in cash plus \$38m in receivables and \$2.6m in finance liabilities.

PAN is continuing to explore for possible extensions to both Savannah and Lanfranchi mine lives. Some of the most encouraging results during the quarter came from West Lanfranchi where underground drilling beyond the current resource intersected 5.27m @ 3.81% Ni, 7.45m @ 3.96% Ni, 7.13m @ 4.40% Ni and 9.4m @ 2.99% Ni.

## INCREASED NICKEL PRICE ASSUMPTIONS

Given continued strength in nickel prices in CY10 to date, we have increased our FY10 and FY11 nickel price assumptions. Our FY10 nickel price average price assumes nickel prices remain around current levels for the balance of FY10. We have made a similar assumption regarding the AUD/USD. We have increased our FY11 nickel price forecast to US\$10.00/lb from US\$8.00/lb previously. Our long term nickel price forecast remains unchanged at US\$7.00/lb.

### Changes in nickel price and exchange rate assumptions – year ending June

Nickel price		2010	2011	2012	LT
New	US\$/lb	9.29	10.00	8.00	7.00
Old	US\$/lb	7.99	8.00	8.00	7.00
Change	%	16.3%	25%	-	-
AUD/USD					
New		0.92	0.85	0.85	0.85
Old		0.85	0.85	0.85	0.85
Change	%	8.2%	-	-	-

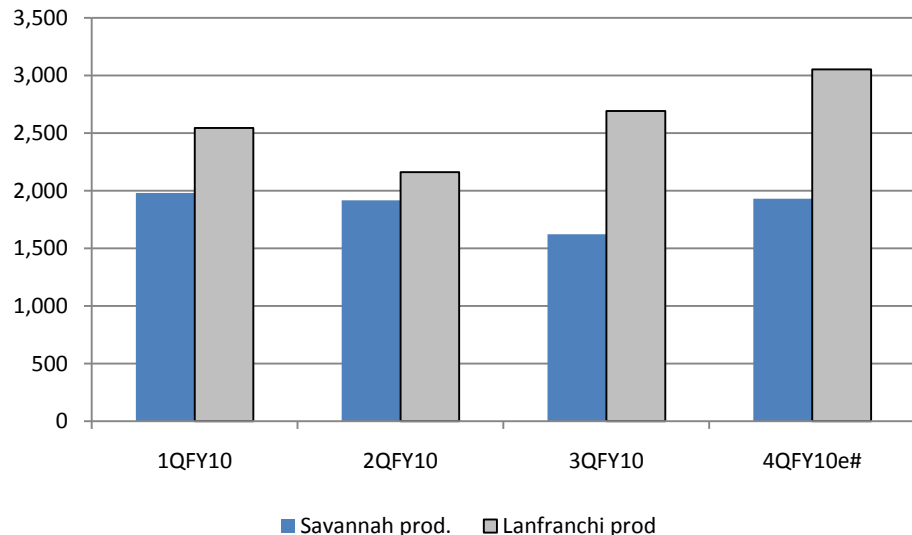
Source: Iress, FSB research

## EARNINGS OUTLOOK

In our view, **a combination of higher forecast nickel prices and higher forecast production in 4QFY10 compared to 3QFY10 will result in PAN achieving significantly higher profits than we previously estimated.**

PAN estimated that FY10 production at Savannah to be in the range of 7,400t and 7,500t. Production at Lanfranchi for FY10 is estimated by the company to be between 10,400t and 10,500t. Using the midpoint of these two guidance ranges implies PAN expects a significant 4QFY10 as shown below.

### PAN Group Quarterly nickel production – Actual to Mar Q and June Q forecast



Source: Iress, Company, FSB research. #4QFY10 is the midpoint of PAN's guidance, which we assume in our modeling.

The significant impact higher production levels combined with higher nickel prices can have at an operational level, and subsequent margins, is demonstrated in the table over the page.

**Group operational margin comparisons – 3QFY10 Actual vs 4QFY10 estimate**

		3QFY10a	4QFY10e
Group production	Mlb	9.5	11.0
Payable nickel (~58%)	Mlb	5.5	6.4
Ni price	A\$/lb	10.05	12.00
Group Ni cash cost	A\$/lb	5.73	5.75
Group operating margin	A\$/lb	4.32	6.25
Group operating margin	A\$m	23.8	39.9

Source: Iress, Company, FSB research

Given our revised nickel price forecasts for the balance of FY10 and FY11 we have revised PAN's FY10 and FY11 earnings estimates upwards. **Our FY10 eps adj. forecast has increased 38%, from 23cps to 32cps and our FY11 eps adj. forecast has increased 81%, from 17cps to 31cps.** Other changes to our earnings assumptions are shown below.

**Revised forecasts (A\$m)**

	FY10			FY11		
	Old	New	Change	Old	New	Change
Sales revenue	241.3	262.7	9%	254.0	301.7	19%
Other revenue	34.6	35.9	4%	-2.4	-16.9	602%
<b>Total revenue</b>	<b>275.9</b>	<b>298.5</b>	<b>8%</b>	<b>251.5</b>	<b>284.8</b>	<b>13%</b>
<b>EBITDA</b>	<b>117.0</b>	<b>138.0</b>	18%	<b>91.8</b>	<b>121.3</b>	32%
EBITDA margin (%)	48.5	52.5	8%	36.1	40.2	11%
D & A tangibles	51.9	47.3	-9%	47.7	37.7	-21%
<b>EBIT</b>	<b>65.0</b>	<b>90.7</b>	40%	<b>44.1</b>	<b>83.7</b>	90%
EBIT margin (%)	26.9	34.5	28%	17.4	27.7	60%
Net Interest/(income)	-3.4	-3.7	11%	-6.5	-7.7	19%
<b>Profit before tax</b>	<b>68.4</b>	<b>94.5</b>	<b>38%</b>	<b>50.6</b>	<b>91.3</b>	<b>81%</b>
Tax exp / (benefit)	20.0	27.8	39%	15.2	27.4	81%
<b>NPAT pre minorities</b>	<b>48.4</b>	<b>66.6</b>	<b>38%</b>	<b>35.4</b>	<b>63.9</b>	<b>81%</b>
Minority Interests	0.0	0.0	nm	0.0	0.0	nm
<b>NPAT pre sig items</b>	<b>48.4</b>	<b>66.6</b>	<b>38%</b>	<b>35.4</b>	<b>63.9</b>	<b>81%</b>
Significant items	0.0	0.0	nm	0.0	0.0	nm
<b>NPAT rep</b>	<b>48.4</b>	<b>66.6</b>	<b>38%</b>	<b>35.4</b>	<b>63.9</b>	<b>81%</b>
<b>NPAT adj</b>	<b>48.4</b>	<b>66.6</b>	<b>38%</b>	<b>35.4</b>	<b>63.9</b>	<b>81%</b>
EPS adj	23.2	32.0	38%	17.0	30.6	81%

Source: FSB research

## VALUATION AND RECOMMENDATION

Our DCF based valuation for PAN has increased to \$2.76/share from \$2.63/share and **our year-forward valuation has increased to \$2.87/share** from \$2.70/share. The change in valuation largely reflects our increased price assumptions but is offset by a downward revaluation of the hedge book and rolling the model six months forward.

**We maintain our BUY recommendation and have increased our price target to \$2.90/share** (from \$2.70/share), broadly in line with our year-forward valuation. Our increased price target results from increasing our near term nickel price assumptions.

**Short term catalysts include:**

- A stronger than anticipated FY10 profit;
- The possible re-start of the Copernicus open pit later in 2010;
- Further brownfield exploration success; &
- 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	262.7	301.7	246.1
Other revenue	1.2	35.9	-16.9	0.0
<b>Total revenue</b>	<b>229.9</b>	<b>298.5</b>	<b>284.8</b>	<b>246.1</b>
<b>EBITDA</b>	<b>81.2</b>	<b>138.0</b>	<b>129.3</b>	<b>98.7</b>
EBITDA margin (%)	35.5	52.5	42.9	40.1
D & A tangibles	49.5	47.3	37.7	37.6
<b>EBIT</b>	<b>31.7</b>	<b>90.7</b>	<b>91.7</b>	<b>61.1</b>
EBIT margin (%)	13.9	34.5	30.4	24.8
Net interest exp. / (inc.)	0.0	-3.7	-7.8	-16.8
<b>Profit before tax</b>	<b>31.7</b>	<b>94.5</b>	<b>99.5</b>	<b>77.9</b>
Tax exp / (benefit)	7.7	27.8	29.8	23.4
<b>NPAT pre minorities</b>	<b>24.0</b>	<b>66.6</b>	<b>69.6</b>	<b>54.5</b>
Minority Interests	0.0	0.0	0.0	0.0
<b>NPAT pre sig items</b>	<b>24.0</b>	<b>66.6</b>	<b>69.6</b>	<b>54.5</b>
Significant items	-18.4	0.0	0.0	0.0
<b>NPAT reported</b>	<b>5.6</b>	<b>66.6</b>	<b>69.6</b>	<b>54.5</b>
<b>NPAT adjusted*</b>	<b>24.0</b>	<b>66.6</b>	<b>69.6</b>	<b>54.5</b>
EPS adj c	12.4	32.0	33.4	26.1

\*NPAT adjusted for significant items and amortisation of intangibles

Cash Flow (\$m)	2009a	2010e	2011e	2012e
<b>EBITDA</b>	<b>81.2</b>	<b>134.8</b>	<b>129.3</b>	<b>98.7</b>
Net Interest	2.9	3.7	7.8	16.8
Tax	-24.9	-4.2	-35.3	-13.2
Δ Working Capital	-19.4	5.6	5.1	-9.5
Other	-6.3	25.3	-0.9	0.0
<b>Operating Cashflow</b>	<b>33.5</b>	<b>165.3</b>	<b>106.1</b>	<b>92.9</b>
Capex	-57.5	-27.4	-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
<b>Investing Cashflow</b>	<b>-78.4</b>	<b>-28.1</b>	<b>-9.3</b>	<b>-8.4</b>
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	-33.0	-12.3
Other	0.0	0.0	0.0	0.0
<b>Financing Cashflow</b>	<b>-16.1</b>	<b>-27.9</b>	<b>-33.0</b>	<b>-12.3</b>
Net Cashflow	-60.9	109.3	63.9	72.1
Effect of exchange rate Δ				

Ratios	2009a	2010e	2011e	2012e
EPS rep c	3.0	32.7	34.1	26.7
EPS adj c	12.8	32.7	34.1	26.7
EPS adj growth (%)	-55.0	155.5	4.5	-21.7
PER x	20.0	7.8	7.5	9.5
EV/EBITDA x	5.1	2.6	2.3	2.3
EV/EBIT x	2.6	1.5	1.4	1.6
Payout ratio	0.2	0.6	0.4	0.4
DPS Total c	3.0	18.5	13.7	10.7
Yield (%)	0.0	7.3	5.4	4.2
Average RoE (%)	0.0	21.6	19.5	14.0
Average RoA (%)	0.0	16.3	15.3	11.0
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	1.54	1.75	1.91
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)	1H10a	2H10e	1H11e	2H11e
Sales revenue	111.5	151.2	164.7	137.0
Other revenue	20.8	15.1	-12.3	-4.6
<b>Total revenue</b>	<b>132.2</b>	<b>166.3</b>	<b>152.4</b>	<b>132.4</b>
<b>EBITDA</b>	<b>58.7</b>	<b>79.3</b>	<b>70.7</b>	<b>58.7</b>
EBITDA margin (%)	52.7	52.4	42.9	42.8
D & A tangibles	27.6	19.7	18.8	18.8
<b>EBIT</b>	<b>31.1</b>	<b>59.6</b>	<b>51.8</b>	<b>39.8</b>
EBIT margin (%)	27.9	39.4	31.5	29.1
Net interest exp. / (inc.)	-1.1	-2.6	-3.6	-4.2
<b>Profit before tax</b>	<b>32.2</b>	<b>62.2</b>	<b>55.5</b>	<b>44.0</b>
Tax exp / (benefit)	9.2	18.7	16.6	13.2
<b>NPAT pre minorities</b>	<b>23.1</b>	<b>43.6</b>	<b>38.8</b>	<b>30.8</b>
Minority Interests	0.0	0.0	0.0	0.0
<b>NPAT pre sig items</b>	<b>23.1</b>	<b>43.6</b>	<b>38.8</b>	<b>30.8</b>
Significant items	0.0	0.0	0.0	0.0
<b>NPAT reported</b>	<b>23.1</b>	<b>43.6</b>	<b>38.8</b>	<b>30.8</b>
<b>NPAT adjusted*</b>	<b>23.1</b>	<b>43.6</b>	<b>38.8</b>	<b>30.8</b>
EPS adj c	11.1	20.9	18.6	14.8

\*NPAT adjusted for significant items and amortisation of intangibles

Balance Sheet (\$m)	2009a	2010e	2011e	2012e
Cash	67.3	176.6	240.4	312.6
Receivables	30.4	24.9	24.9	24.9
Inventories	14.8	14.8	14.8	14.8
PPE	199.7	185.6	157.2	127.9
Exploration	18.7	13.3	13.3	13.3
Investments	0.0	0.0	0.0	0.0
Other	49.4	2.3	3.2	3.2
<b>Total Assets</b>	<b>380.3</b>	<b>417.4</b>	<b>453.7</b>	<b>496.6</b>
Accounts payable	30.8	28.0	28.0	28.0
Provisions	10.0	18.7	18.7	18.7
Tax liabilities	45.2	49.6	44.1	54.3
Debt	6.6	3.2	3.2	3.2
Other	1.4	3.3	3.3	3.3
<b>Total Liabilities</b>	<b>94.0</b>	<b>102.7</b>	<b>97.2</b>	<b>107.4</b>
Reserves and capital	172.9	156.2	156.2	156.2
Retained earnings	113.4	158.5	200.3	233.0
Minorities	0.0	0.0	0.0	0.0
<b>Total Equity</b>	<b>286.3</b>	<b>314.7</b>	<b>356.5</b>	<b>389.2</b>

Price and production	2010	2011	2012	LT
Nickel (US\$/lb)	9.29	10.00	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	0.90	0.85	0.85	0.85
Production (Ni in con./ore)	2010	2011	2012	2013
Savannah	7,436	7,957	7,948	7,948
Lanfranchi	10,460	9,920	9,920	9,920
Total (tonnes)	17,895	17,877	17,868	17,868
<b>Valuation</b>	<b>now</b>	<b>one year</b>		
	\$m	\$ ps	\$m	\$ ps
Savannah	194.3	0.95	165.2	0.81
Lanfranchi	216.6	1.06	179.5	0.88
Corp/Exploration	-2.8	-0.01	3.4	0.02
Net cash / (debt)	173.4	0.85	237.2	1.16
Hedge book	-17.6	-0.09	0.2	0.00
<b>NPV</b>	<b>563.9</b>	<b>2.76</b>	<b>585.5</b>	<b>2.87</b>

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