

UBS Investment Research

Panoramic Resources Limited

March groupwide production inline

■ EVENT: PAN reports March quarterly production

PAN produced 4,004kt Ni in concentrate during the quarter, +3% q/q and inline with UBSe of 3,951kt. Good performance from Lanfranchi (+20% q/q and +20% vs UBSe) was offset by lower production at Savannah (-15% q/q and +18% vs UBSe). Cash costs were US\$5.18/lb in quarter, inline q/q but above UBSe of US\$4.59/lb. PAN alluded to input cost pressures during the quarter.

■ IMPACT: Marginal changes to our estimates.

We have increased our production estimates for FY10e to 16.3kt on a Ni in concentrate basis. Offsetting this favourable impact is an increase in our costs assumptions following higher than forecast costs in the quarter. Our FY10e NPAT is reduced 2% to \$54m while our NPV is unchanged at \$3.36ps.

■ ACTION: Buy maintained – PAN remains our preferred Ni stock

PAN remains our preferred Ni stock due to undemanding valuation multiples including an FY10e P/E multiple of 10x, a P/NPV of 0.76x and a dividend yield of 5.5%, we believe PAN remains one of the best value stocks in our coverage universe.

■ VALUATION: \$3.36/share (DCF, 10% discount rate)

Both our valuation and price target remain unchanged.

Highlights (A\$m)	06/08	06/09	06/10E	06/11E	06/12E
Revenues	232	225	272	269	267
EBIT (UBS)	67	3	73	61	69
Net Income (UBS)	53	6	54	49	57
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	26.7	22.6	25.7
ROIC (EBIT) %	-	1.4	33.5	35.4	47.7
EV/EBITDA (core) x	-	6.5	5.0	6.5	6.6
PE (UBS) x	-	55.7	10.0	11.1	9.4
Net dividend yield %	-	1.9	5.5	3.5	4.3

Source: Company accounts, Thomson Reuters, UBS estimates. (UBS) valuations are stated before goodwill, exceptional and other special items. Valuations: based on an average share price that year, (E): based on a share price of A\$2.55 on 29 Apr 2010 19:43 EST

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Global Equity Research

Australia

Mining

12-month rating **Buy**
Unchanged

12m price target **A\$3.40/US\$3.12**
Unchanged

Price **A\$2.55/US\$2.34**

RIC: PAN.AX BBG: PAN AU

29 April 2010

Trading data (local/US\$)

52-wk range	A\$3.09-1.51/US\$2.60-1.11
Market cap.	A\$0.52bn/US\$0.48bn
Shares o/s	204m (ORD)
Free float	78%
Avg. daily volume ('000)	1,306
Avg. daily value (A\$m)	2.9

Balance sheet data 06/10E

Shareholders' equity	A\$0.30bn
P/BV (UBS)	1.7x
Net Cash (debt)	A\$0.11bn

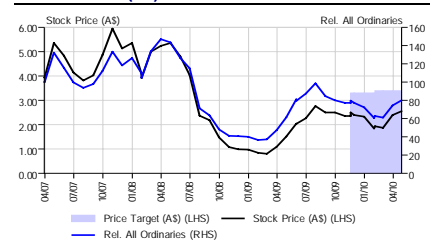
Forecast returns

Forecast price appreciation	+33.3%
Forecast dividend yield	3.5%
Forecast stock return	+36.8%
Market return assumption	9.4%
Forecast excess return	+27.4%

EPS (UBS, A\$)

	06/10E		Cons.	06/09 Actual
	From	To		
H1	0.11	0.11	-	(0.04)
H2E	0.15	0.15	-	0.07
06/10E	0.26	0.26	0.28	
06/11E	0.23	0.23	0.24	

Performance (A\$)



Source: UBS

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ANALYST CERTIFICATION AND REQUIRED DISCLOSURES BEGIN ON PAGE 5.

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PAN reports March quarterly production

PAN produced 4,004kt Ni in concentrate during the quarter, +3% q/q and inline with UBSe of 3,951kt. Good performance from Lanfranchi (+20% q/q and +20% vs UBSe) was offset by lower production at Savannah (-15% q/q and +18% vs UBSe).

Table 1: Quarterly production summary

		QM09a	QJ09a	QS09a	QD 09a	QM 10a	% Change			UBSe QM10e	Var %
							3 mth	6 mth	12 mth		
Sally Malay											
Ore mined	t	174,478	168,875	171,876	164,326	161,376	-2%	-6%	-8%	170,000	-5%
Nickel grade	%	1.2%	1.5%	1.3%	1.3%	1.2%	-8%	-9%	-2%	1.4%	-10%
Ore treated	t	174,217	163,548	170,997	170,321	156	-100%	-100%	-100%	170,000	-100%
Nickel grade	%	1.2	1.5	1.3	1.3	1.2	-8%	-9%	-2%	1.4	-10%
Nickel recovery	%	86.2	90.2	86.9	85.9	86.1	0%	-1%	0%	85.9	0%
Concentrate produced	dmt	25,396	29,030	20,677	24,958	20,840	-16%	1%	-18%	25,669	-19%
Concentrate grade	%	7.3%	7.6%	7.6%	7.7%	7.8%	1%	3%	7%	7.7%	1%
Nickel in concentrate	t	1854	2212	1569	1917	1623	-15%	3%	-12%	1971	-18%
Lanfranchi (100%)											
Ore mined	t	104,137	104,935	88,805	88,951	108,471	22%	22%	4%	90,000	21%
Nickel grade	%	2.6%	2.6%	2.9%	2.4%	2.5%	2%	-14%	-4%	2.5%	-1%
Ore treated	t	104,856	94,175	95,092	89,005	110,908	25%	17%	6%	90,000	23%
Nickel grade	%	2.6%	2.6%	2.5%	2.5%	2.4%	-2%	-2%	-5%	2.5%	-2%
Nickel in concentrate	t	2,470	2,261	2,092	1,958	2,381	22%	14%	-4%	1,980	20%

Source: PAN and UBSe.

Savannah was impacted by lower grade (-8% q/q) and a maintenance shutdown during the quarter. PAN is looking to make lost production up in June qtr by milling 60kt of ore a month to end of year. PAN is still forecasting Savannah to produce 7.4-7.5kt of Ni contained for FY10, implicitly 2.3-2.4kt for the June quarter. Lanfranchi production was driven largely by mining rates, with ore mined +22% q/q. PAN is forecasting 10.4-10.5kt of Ni contained production for FY10.

On a group basis, PAN expect their combined operations for FY10 to produce at the lower end of the previously advised guidance range of 18-19kt Ni contained.

Cash costs were US\$5.18/lb in quarter, inline q/q but above UBSe of US\$4.59/lb. PAN alluded to input cost pressures during the quarter.

Earnings changes

We have increased our production estimates for FY10e to 16.3kt on a Ni in concentrate basis. Offsetting this favourable impact is an increase in our costs assumptions following higher than forecast costs in the quarter. Our FY10e NPAT is reduced 2% to \$54m while our NPV is unchanged at \$3.36ps.

Table 2: Summary of earnings changes

Jun y/e		FY10			FY11			FY12		
		new	old	%	new	old	%	new	old	%
Revenue	A\$m	276	271	2%	279	279	0%	280	280	0%
EBITDA	A\$m	125	126	-1%	107	107	0%	114	114	0%
EBIT	A\$m	73	74	-2%	61	61	0%	69	68	0%
NPAT	A\$m	54	55	-2%	49	49	0%	57	57	0%
EPS	A\$m	26	26	-2%	23	23	0%	27	27	0%
DPS	A\$m	14	14	0%	9	9	0%	11	11	0%
Ni Price	US\$/lb	8.6	8.6	0%	9.4	9.4	0%	9.5	9.5	0%
Ni Production										
Savannah	kt	7.5	7.9	-5%	7.9	7.9	0%	7.7	7.7	0%
Lanfranchi	kt	8.9	8.0	11%	7.9	7.9	0%	7.9	7.9	0%
Group	kt	16.3	15.9	3%	15.8	15.8	0%	15.6	15.6	0%
Cash costs										
Savannah	US\$/lb	4.36	4.04	8%	4.23	4.23	0%	4.01	4.01	0%
Lanfranchi	US\$/lb	5.02	5.00	1%	4.85	4.86	0%	4.93	4.94	0%
Group	US\$/lb	4.72	4.52	4%	4.54	4.54	0%	4.48	4.48	0%
NPV	A\$/share	\$ 3.36	\$3.36	0%						
Price Target	A\$/share	\$ 3.40	\$3.40	0%						

Source: UBSe.

Investment view

PAN remains our preferred Ni stock due to undemanding valuation multiples including an FY10e P/E multiple of 10x, a P/NPV of 0.76x and a dividend yield of 5.5%, we believe PAN remains one of the best value stocks in our coverage universe.

Table 3: Ni valuation summary

Stock	NPV	P/NPV	Div Yield (%)		PE (x)		
			10e	11e	10e	11e	12e
MRE	\$0.95	0.94	0.0%	0.0%	16.5	10.7	12.4
MBN	\$3.70	0.71	0.0%	0.0%	53.0	7.4	4.8
PAN	\$3.36	0.76	5.5%	3.5%	9.6	10.9	9.3
WSA	\$5.53	0.92	0.0%	0.0%	49.6	8.5	9.1

Source: UBSe.

Panoramic Resources (PAN.AX)

MARKET INFORMATION	
Rating:	Buy
Price (as of 29-Apr-10):	2.55
Price Target (12 months):	3.40
Issued Capital:	204.0
Market Capitalisation:	522.2
Avg. daily turnover (US\$m)	2.6
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	54.0	48.8	57.3
Net profit [adjusted] (\$m)	5.6	54.0	48.8	57.3
EPS [reported] (\$)	0.03	0.26	0.24	0.28
EPS [adjusted, diluted] (\$)	0.03	0.26	0.23	0.27
EPS Growth (%)	(90.0)	835.5	(9.8)	17.5
PER [adjusted] (x)	93.4	10.0	11.1	9.4
Dividend (\$)	0.0	0.1	0.1	0.1
Payout ratio (%)	100.5	52.9	37.7	39.2
Dividend Yield (%)	1.1	5.5	3.5	4.3
FCF Yield (%)	3.4	18.3	15.7	14.5
Franking (%)	100%	100%	100%	100%
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)	7.98	9.18	6.10	8.58	9.35	9.45
Cu price (US\$/lb)	2.84	3.65	2.24	3.24	3.78	3.83
Co price (US\$/lb)	19.34	22.87	22.45	21.10	19.00	17.00
A\$:US\$	0.87	0.91	0.73	0.89	0.92	0.92
Production - payable Nickel						
Savannah (Mlbs)	3.9	3.6	8.1	7.5	7.9	7.7
Lanfranchi (Mlbs)	4.1	4.8	9.3	8.9	7.9	7.9
Cash costs						
Savannah (US\$/lb)			3.77	4.36	4.23	4.01
Lanfranchi (US\$/lb)			3.92	5.02	4.85	4.93

VALUATION	
Valuation per share [NAV @ 10%] (\$)	3.36
Share Price Target [12 months] (\$)	3.40
Price/NAV [10% disc rate] (x)	0.76

Operating Assets [DH10]	A\$m	€
Savannah	283	139
Lanfranchi	296	145

Gross Assets	578	284
Exploration	30	15
Hedging	7	3
Net Cash	109	53
Corporate costs	(39)	(19)
Net Asset Value @ 10% discount rate	685	336

DIVISIONAL BREAKDOWN [EBIT]						
(A\$m)	1H10	2H10E	2009	2010E	2011E	2012E
Savannah	10.4	13.6	14.4	24.0	36.7	37.9
Lanfranchi	13.4	24.7	36.8	38.0	43.3	43.6

ENTERPRISE VALUE				
(A\$m)	2009	2010E	2011E	2012E
Enterprise Value	335	493	559	617
EV/EBITDA (x)	6.5	4.0	5.2	5.4
EV/Operating Free Cash Flow (x)	6.5	5.4	7.1	9.0

EPS SENSITIVITIES				
Commodity	Base Change	2010E	2011E	2012E
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%

PROFIT & LOSS						
(A\$m)	1H10	2H10E	2009	2010E	2011E	2012E
Sales Revenue	132	139	225	272	269	267
Operating Cash Profit	66	67	112	133	132	133
Depn & Amortisation	(28)	(24)	(49)	(52)	(46)	(45)
Operating Profit	38	43	62	81	86	87
Others	(4)	2	(56)	(1)	(17)	(13)
SGA	(3)	(4)	(3)	(7)	(8)	(6)
EBIT	31	41	3	73	61	69
Net interest	1	3	3	4	9	13
Profit before tax	32	44	5	76	70	82
Tax expense	(9)	(13)	0	(22)	(21)	(25)
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	49	57
Abnormal Gain/(Loss) after Tax	0	0	0	0	0	0
Net Profit [adjusted]	23	31	6	54	49	57
EBITDA margin (%)			23.0	45.9	39.7	42.7
Net Interest Cover [EBIT] (x)			0.9	18.9	6.9	5.2
Tax Rate (%)			-4%	29%	30%	30%
EBIT/Total Assets (%)			0.7	18.6	14.4	14.9
NPAT/Equity (%)			2.0	18.1	14.8	15.6

CASH FLOW				
(A\$m)	2009	2010E	2011E	2012E
Operating income [EBIT, UBS]	3	73	61	69
Depreciation & Amortisation	49	52	46	45
Net change in working capital	16	(3)	0	0
Other (operating)	(12)	(1)	0	0
Pre-tax op cash flow	55	121	107	114
Interest (paid) / received	3	4	9	13
Tax paid	(25)	(17)	(21)	(25)
Other	0	0	0	0
Operating cash flow	34	108	95	103
Capital expenditure	(16)	(9)	(10)	(25)
Free cash flow	18	99	85	78
Net (acquisitions) / disposals	0	0	0	0
Dividends paid (Common)	(12)	(24)	(18)	(20)
Shares issued/(repurchased)	0	0	0	0

BALANCE SHEET [Selected Items]				
(A\$m)	2009	2010E	2011E	2012E
Net Working capital	75	52	52	52
Fixed Assets	59	35	35	35
Net Other	109	103	67	46
Capital Employed	243	190	154	133
Net Cash / (Debt)	43	109	175	233
Total Equity [incl. minorities]	286	299	329	366
Minorities	0	0	0	0
Net Debt / Equity (%)	(15.2)	(36.4)	(53.2)	(63.6)
Book Value per Share(\$)	1.40	1.47	1.62	1.80

Source: UBS

■ 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 is not limited to movement of commodity price and currency which may differ materially from the assumptions used in this report. Furthermore the sector is subject to political, financial and operational risks, each of which has the potential to significantly impact industry performance.

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UBS Investment Research: Global Equity Rating Allocations

UBS 12-Month Rating	Rating Category	Coverage ¹	IB Services ²
Buy	Buy	50%	39%
Neutral	Hold/Neutral	40%	33%
Sell	Sell	11%	24%
UBS Short-Term Rating	Rating Category	Coverage ³	IB Services ⁴
Buy	Buy	less than 1%	29%
Sell	Sell	less than 1%	0%

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 March 2010.

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.

Short-Term Ratings reflect the expected near-term (up to three months) performance of the stock and do not reflect any change in the fundamental view or investment case.

Equity Price Targets have an investment horizon of 12 months.

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Company Disclosures

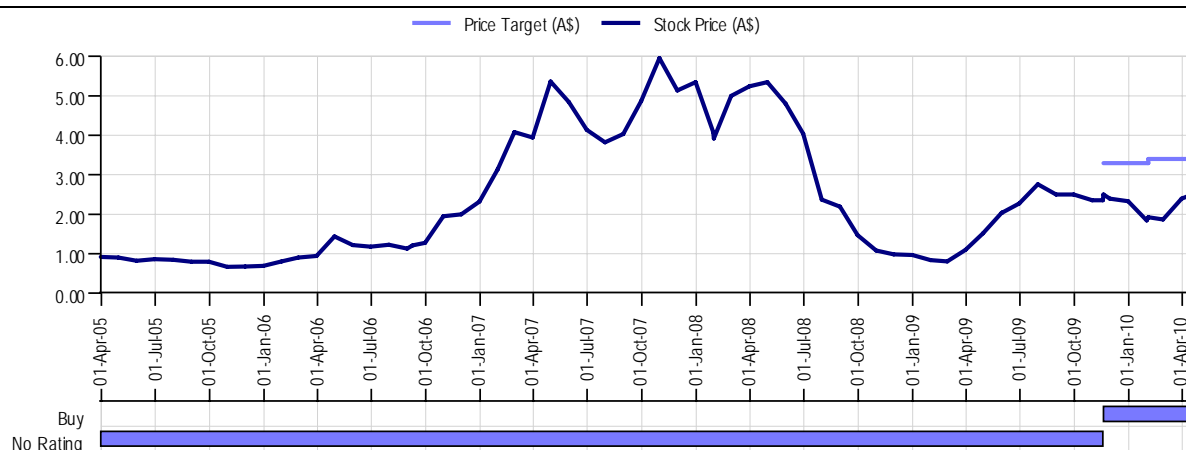
Company Name	Reuters	12-mo rating	Short-term rating	Price	Price date
Panoramic Resources Limited	PAN.AX	Buy	N/A	A\$2.56	28 Apr 2010

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

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 28 Apr 2010

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