



Panoramic BUY

Current Price: **\$2.55**
Valuation: **\$3.03**

Ticker: **PAN**
Sector: **Materials**

Shares on Issue (m): **204.0**
Market Cap (\$m): **520.2**
Net Cash (\$m): **97.8**
Enterprise Value (\$m): **422.4**

52 wk High/Low: **\$3.07** **\$1.43**
12m Av Daily Vol (m): **1.11**

Key Metrics

| | 09A | 10F | 11F |
|---------------|------|-----|-----|
| P/E (x) | 21.8 | 9.2 | 7.9 |
| EV/EBITDA (x) | 7.7 | 3.1 | 2.9 |

Financials:

| | 09A | 10F | 11F |
|---------------|-------|-------|-------|
| Revenue (\$m) | 228.7 | 301.6 | 313.8 |
| EBIT (\$m) | 5.9 | 82.5 | 96.1 |
| NPAT (\$m) | 5.6 | 57.6 | 67.2 |

Net Assets (\$m) 286.3 313.2 360.0

Op CF (\$m) 29.9 144.2 127.7

Per Share Data:

| | 09A | 10F | 11F |
|------------|------|------|------|
| EPS (cps) | 11.7 | 27.6 | 32.2 |
| DPS (cps) | 3.0 | 15.0 | 10.0 |
| Div Yield | 1.2% | 5.9% | 3.9% |
| CFPS (cps) | 14.5 | 69.1 | 61.2 |

Share Price Graph



Analysts:
Troy Irvin
Tim Serjeant

29 April 2010

Advantage mine life

In the March Q Panoramic (PAN) demonstrated the benefit of operating in two production centres with outstanding numbers at Lanfranchi counterbalancing soft output at Savannah. The net result was steady group production of 4,314t Ni contained at a cash cost of A\$5.72/lb payable.

Q-on-Q variances were (Figures 1-2):

- Savannah operation:
 - × Production down 15% to 1,623t (8% less ore milled, 8% lower grade of 1.21% Ni)
 - × Cash costs 25% higher at A\$5.99/lb payable
- Lanfranchi operation:
 - × Production up 21% to 2,691t (22% more ore milled, 2% higher grade of 2.48% Ni)
 - × Cash costs 12% lower at A\$5.56/lb payable

Savannah was impacted by a scheduled mill maintenance shutdown and an unexpected lower head grade in one of the stoping levels. To compensate for the lower grade, it is planned to mill 60,000t ore per month in the June Q, to achieve 7,400-7,500t Ni contained for FY2010.

The highlight of the Q was a maiden reserve statement for the Savannah Lower Zone below the 500 fault of 3.7Mt @ 1.17% for 43.2kt contained Ni. This is a stellar outcome and accentuates PAN's key point of differentiation v competitors Independence Group (IGO) and Mincor (MCR) i.e. mine life. Savannah's resource / reserve base underpins a >10 year operation in the East Kimberley compared to 3-4 yrs in the Kambalda nickel sulphide mines. The deposit remains open at depth with a strong EM anomaly recorded below the current resource for another 350m.

Following the reserve upgrade PAN is the cheapest stock in its peer group on an EV/reserve basis (Figure 3).

At 31 March the Company had \$101m cash (after paying \$20m in fully franked dividends - 5c interim, plus a 5c one-off special dividend), receivables of \$38m and no bank debt.

Based on final quarter forecasts the Group's full year nickel production is expected to be at the lower end of the 18,000-19,000t Ni range. Argonaut forecasts NPAT of \$57m for FY10.

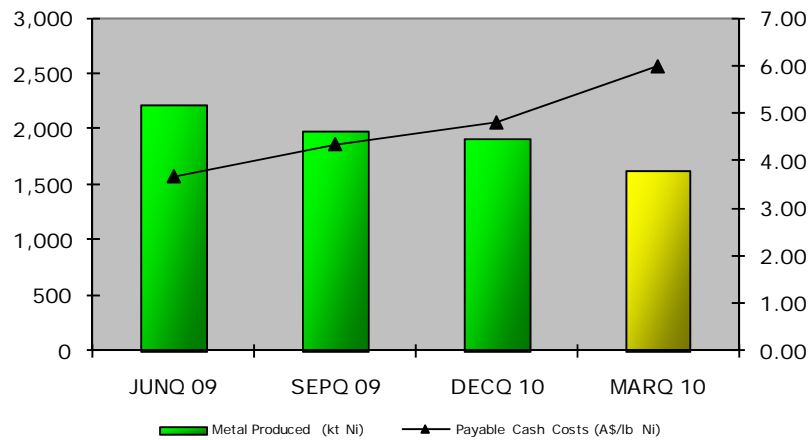
The stock is trading at a 16% discount to Argonaut's valuation of \$3.03.

BUY



In the March Q soft output at Savannah...

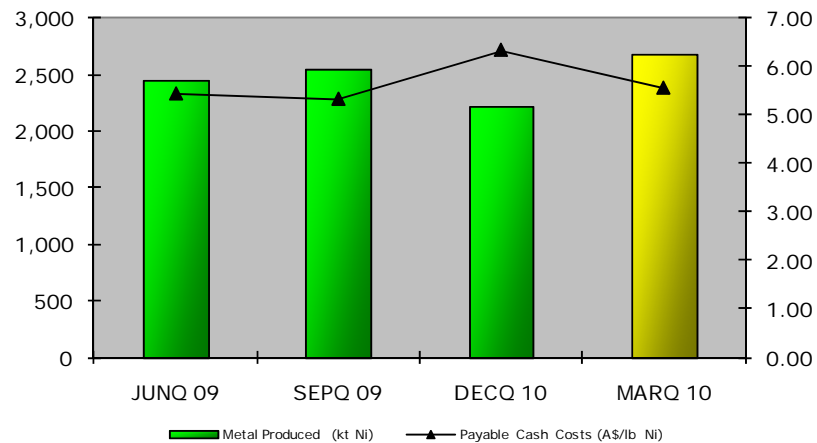
Figure 1: Savannah nickel production and cash costs



Source: Argonaut

...was counterbalanced by outstanding numbers at Lanfranchi...

Figure 2: Lanfranchi nickel production and cash costs

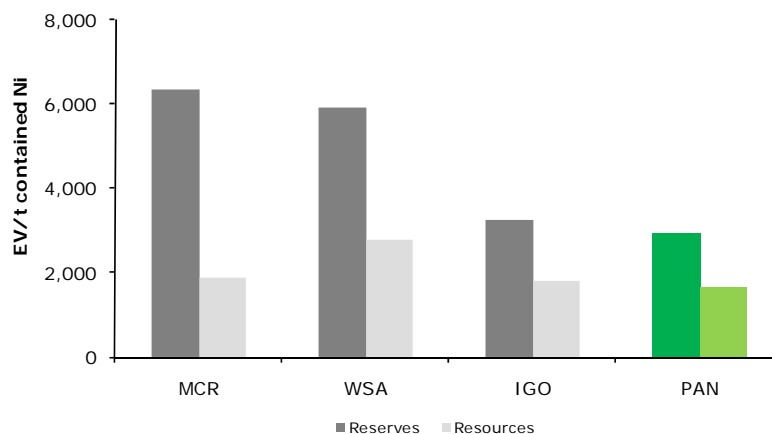


Source: Argonaut

...resulting in steady group production of 4,314t Ni at a cash cost of A\$5.72/lb

PAN is the cheapest stock in its peer group on an EV/reserve basis

Figure 3: Peer comparison – EV / reserve and EV / resource



Source: Argonaut



Panoramic

Equities Research

Analyst: Troy Irvin

Recommendation BUY
Current Price \$2.55
Valuation \$3.03
All Ords (XAO) 4,826

Sector Materials
Issued Capital (m) 204.0
Market Cap (m) \$520.2
Updated 29-April-2010

| Profit & Loss (\$m) 30 June | 2009A | 2010E | 2011E | 2012E |
|---|--------------|--------------|--------------|--------------|
| Sales Revenue | 228.7 | 301.6 | 313.8 | 286.4 |
| Other Income | 1.2 | 4.5 | 7.6 | 2.5 |
| Operating Costs | 124.8 | 152.6 | 157.1 | 159.4 |
| Depn & Amort | 49.3 | 54.0 | 50.0 | 45.5 |
| Exploration Exp. | 7.6 | 10.0 | 10.1 | 10.3 |
| Corporate/Admin | 10.0 | 7.0 | 8.1 | 8.3 |
| Derivatives Loss / Impairment of assets | 32.2 | 0.0 | 0.0 | 0.0 |
| EBIT | 5.9 | 82.5 | 96.1 | 65.5 |
| Interest Paid | 0.5 | 0.3 | 0.2 | 0.2 |
| Operating Profit | 5.4 | 82.2 | 95.9 | 65.3 |
| Tax expense | -0.2 | 24.7 | 28.8 | 20.8 |
| Minorities | 0.0 | 0.0 | 0.0 | 0.0 |
| NPAT | 5.6 | 57.6 | 67.2 | 44.5 |
| Normalised NPAT | 24.0 | 57.6 | 67.2 | 44.5 |

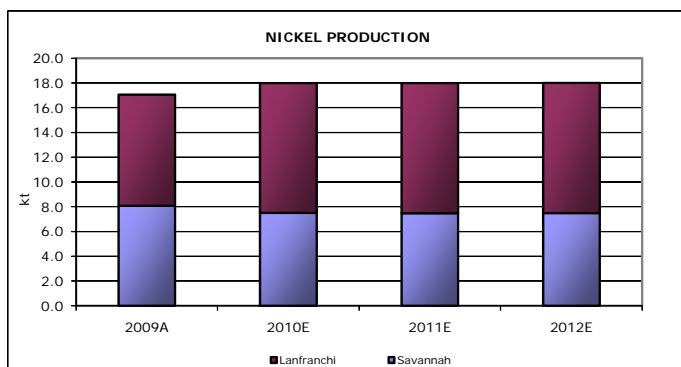
| Cash Flow (\$m) | 2009A | 2010E | 2011E | 2012E |
|-----------------------------------|---------------|--------------|--------------|--------------|
| Operating Cashflow | 29.9 | 144.2 | 127.7 | 106.1 |
| - Capital Expenditure | 55.7 | 20.0 | 25.1 | 15.2 |
| - Exploration & Evaluation | 3.1 | 10.0 | 10.1 | 10.3 |
| - Asset Purchases (+ Asset Sales) | 16.0 | 12.8 | 0.0 | 0.0 |
| Free Cashflow | (44.9) | 101.4 | 92.5 | 80.6 |
| - Dividends (ords & pref) | 11.5 | 26.5 | 20.4 | 20.4 |
| + Equity Raised | 0.2 | 0.0 | 0.0 | 0.0 |
| + Debt Drawdown (Repaid) | (4.8) | 0.0 | 0.0 | 0.0 |
| - Other | 0.0 | 0.0 | 0.0 | 0.0 |
| Net Change in Cash | (61.0) | 74.9 | 72.1 | 60.2 |
| Cash at end period | 49.9 | 124.8 | 196.9 | 257.1 |

| Balance Sheet (\$m) | 2009A | 2010E | 2011E | 2012E |
|---------------------------|--------------|--------------|--------------|--------------|
| Cash | 49.9 | 124.8 | 196.9 | 257.1 |
| Total Assets | 380.3 | 337.1 | 397.4 | 431.1 |
| Total Debt | 6.6 | 3.2 | 3.2 | 3.2 |
| Total Liabilities | 94.0 | 23.8 | 37.4 | 45.8 |
| Shareholders Funds | 286.3 | 313.2 | 360.0 | 385.3 |

| Production Summary | 2009A | 2010E | 2011E | 2012E |
|---|-------------|-------------|-------------|-------------|
| Savannah (kt) | 8.1 | 7.5 | 7.5 | 7.5 |
| Lanfranchi (kt) | 9.0 | 10.5 | 10.5 | 10.5 |
| Total Nickel Production | 17.1 | 18.0 | 18.0 | 18.0 |
| Ni Cash Cost - net of credits (US\$/lb) | 3.98 | 4.81 | 4.99 | 5.22 |
| Ni Price Realised (US\$/lb) | 6.85 | 9.60 | 9.84 | 9.00 |

| Reserves & Resources | Mt | Grade | Ni (kt) |
|------------------------|-------------|-------------|--------------|
| Nickel Reserves | | | |
| Savannah | 5.49 | 1.20 | 66.0 |
| Lanfranchi | 2.68 | 2.61 | 69.9 |
| Copernicus | 0.22 | 1.03 | 2.3 |
| Total Reserves | 8.39 | 1.65 | 138.1 |

| Nickel Resources | Mt | Grade | Ni (kt) |
|------------------------|--------------|-------------|--------------|
| Savannah | 6.05 | 1.53 | 92.8 |
| Lanfranchi | 7.63 | 2.00 | 152.8 |
| Copernicus | 0.49 | 1.23 | 6.0 |
| Total Resources | 14.16 | 1.78 | 251.6 |



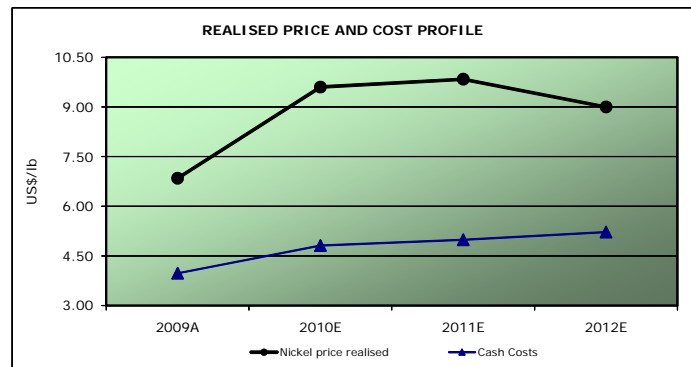
| Financial Summary | 2009A | 2010E | 2011E | 2012E |
|----------------------------|--------|-------|-------|--------|
| Reported Earnings | | | | |
| Net Profit (\$m) | 5.6 | 57.6 | 67.2 | 44.5 |
| EPS (cents) | 2.7 | 27.6 | 32.2 | 21.3 |
| PER (x) | 93.3 | 9.2 | 7.9 | 11.9 |
| Normalised Earnings | | | | |
| Net Profit (\$m) | 24.0 | 57.6 | 67.2 | 44.5 |
| EPS (cents) | 11.7 | 27.6 | 32.2 | 21.3 |
| EPS Growth (%) | (57.6) | 136.2 | 16.7 | (33.7) |
| PER (x) | 21.8 | 9.2 | 7.9 | 11.9 |
| Cashflow | | | | |
| Operating Cashflow (\$m) | 29.9 | 144.2 | 127.7 | 106.1 |
| GCFPS (cents) | 14.5 | 69.1 | 61.2 | 50.8 |
| PCF (x) | 17.6 | 3.7 | 4.2 | 5.0 |
| Dividend | | | | |
| Dividend (cents) | 3.0 | 15.0 | 10.0 | 10.0 |
| Yield (%) | 1.2 | 5.9 | 3.9 | 3.9 |
| Franking (%) | 100 | 100 | 100 | 100 |

| Financial Ratios | 2009A | 2010E | 2011E | 2012E |
|-----------------------------|-------|-------|-------|-------|
| Balance Sheet Ratios | | | | |
| Total Debt / Equity (%) | 2.3 | 1.0 | 0.9 | 0.8 |
| Interest Cover (x) | 12.0 | 292.9 | 475.4 | 323.9 |
| Acid test ratio (x) | 3.1 | 16.5 | 11.0 | 10.1 |
| Profitability Ratios | | | | |
| Net Profit Margin (%) | 10.5 | 19.1 | 21.4 | 15.5 |
| Return on Assets (%) | 1.8 | 38.9 | 48.0 | 37.7 |
| Return on Equity (%) | 2.0 | 18.4 | 18.7 | 11.6 |

| Valuation Summary | A\$m | A\$/sh |
|----------------------------------|------------|-------------|
| Savannah | 284.2 | 1.36 |
| Lanfranchi | 198.0 | 0.95 |
| Forwards | 4.4 | 0.02 |
| Corporate | -26.8 | -0.13 |
| Cash at 31 March | 101.0 | 0.48 |
| Debt | -3.2 | -0.02 |
| Exploration | 65.0 | 0.31 |
| Unpaid capital | 8.2 | 0.04 |
| Listed Investments | 1.4 | 0.01 |
| Total @ 10% discount rate | 631 | 3.03 |

| Directors | |
|---------------------|------------------------|
| C J G de Guingand | Non-Executive Chairman |
| Peter Harold | Managing Director |
| Christopher Langdon | Non-Executive Director |
| John Rowe | Non-Executive Director |
| Brian Phillips | Non-Executive Director |

| Substantial Shareholders | % |
|--------------------------|------|
| M & G Investment | 18.1 |
| Blackrock | 6.7 |
| Eley Griffiths Group | 5.1 |
| AMP | 5.1 |



**Contact Details****Research:**

Ian Christie
Director Research
+61 8 9224 6872

Troy Irvin
Associate Director
+61 8 9224 6871

Tim Serjeant
Analyst
+61 8 9224 6806

Institutional Sales:

Paul Carter
Executive Director
+61 8 9224 6864

Chris Wippl
Senior Institutional Dealer
+61 8 9224 6875

John Santul
Consultant, Sales & Research
+61 8 9224 6859

Damian Rooney
Senior Institutional Dealer
+61 8 9224 6862

Ben Willoughby
Institutional Dealer
+61 8 9224 6876

Corporate and Retail Sales:

Kevin Johnson
Executive Director
+61 8 9224 6880

Glen Colgan
Executive Director
+61 8 9224 6874

Geoff Barnesby-Johnson
Senior Dealer
+61 8 9224 6854

James McGlew
Senior Dealer
+61 8 9224 6866

Andrew Venn
Dealer
+61 8 9224 6865

Rob Hamilton
Dealer
+61 8 9224 6830

Melaney Brans
Dealer
+61 8 9224 6873

General Disclosure and Disclaimer

This research has been prepared by Argonaut Securities Pty Limited (ABN 72 108 330 650) ("ASPL") for the use of the clients of ASPL and its related bodies corporate (the "Argonaut Group") and must not be copied, either in whole or in part, or distributed to any other person. If you are not the intended recipient you must not use or disclose the information in this report in any way. ASPL is a holder of an Australian Financial Services Licence No. 274099 and is a Market Participant of the Australian Stock Exchange Limited.

Nothing in this report should be construed as personal financial product advice for the purposes of Section 766B of the Corporations Act. This report does not consider any of your objectives, financial situation or needs. The report may contain general financial product advice and you should therefore consider the appropriateness of the advice having regard to your situation. We recommend you obtain financial, legal and taxation advice before making any financial investment decision.

This research is based on information obtained from sources believed to be reliable and ASPL has made every effort to ensure the information in this report is accurate, but we do not make any representation or warranty that it is accurate, reliable, complete or up to date. The Argonaut Group accepts no obligation to correct or update the information or the opinions in it. Opinions expressed are subject to change without notice and accurately reflect the analyst(s)' personal views at the time of writing. No member of the Argonaut Group or its respective employees, agents or consultants accepts any liability whatsoever for any direct, indirect, consequential or other loss arising from any use of this research and/or further communication in relation to this research.

Nothing in this research shall be construed as a solicitation to buy or sell any financial product, or to engage in or refrain from engaging in any transaction. The Argonaut Group and/or its associates, including ASPL, officers or employees may have interests in the financial products or a relationship with the issuer of the financial products referred to in this report by acting in various roles including as investment banker, underwriter or dealer, holder of principal positions, broker, director or adviser. Further, they may buy or sell those securities as principal or agent, and as such may effect transactions which are not consistent with the recommendations (if any) in this research. The Argonaut Group and/or its associates, including ASPL, may receive fees, brokerage or commissions for acting in those capacities and the reader should assume that this is the case.

There are risks involved in securities trading. The price of securities can and does fluctuate, and an individual security may even become valueless. International investors are reminded of the additional risks inherent in international investments, such as currency fluctuations and international stock market or economic conditions, which may adversely affect the value of the investment.

The analyst(s) principally responsible for the preparation of this research may receive compensation based on ASPL's overall revenues.

© 2010. All rights reserved. No part of this document may be reproduced or distributed in any manner without the written permission of Argonaut Securities Pty Limited. Argonaut Securities Pty Limited specifically prohibits the re-distribution of this document, via the internet or otherwise, and accepts no liability whatsoever for the actions of third parties in this respect.