



COMPANY UPDATE | COMMENT

APRIL 29, 2010

Panoramic Resources Limited (ASX: PAN)
In Great Shape as Cash Builds to A\$101m

Outperform
Average Risk

Price:	2.54	Price Target:	2.85
Shares O/S (MM):	204.0	Implied All-In Return:	13%
Dividend:	0.03	Market Cap (MM):	518
NAVPS:	2.52	Yield:	1.2%
BVPS:	1.40	P/NAVPS:	1.0x
ROE:	8.0%	P/BVPS:	1.8x
Float (MM):	204.0	Enterprise Val. (\$MM):	420.0
Debt to Cap:	1%	Avg. Daily Volume (MM):	22.00

Share price as of ASX close, 29 April 2010.

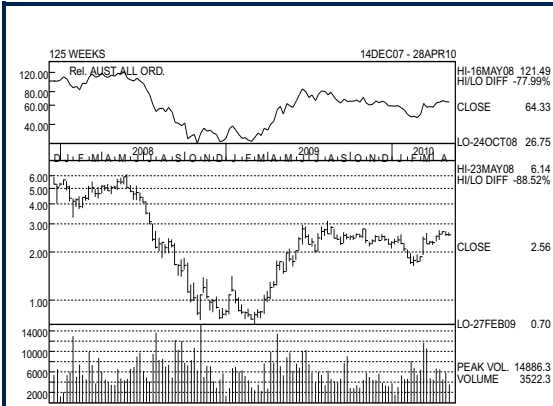
Event

A steady March Q but guidance eased slightly to lower end of 18-19kt nickel range. Outperform, target A\$2.85.

Investment Opinion

Group production rose 6% to 4.3kt nickel but cash costs were up slightly at US\$5.18/lb. The balance sheet remains very strong with A\$101m or A49c cash per share in hand and building. Panoramic has been a good performer within the ASX nickel sector and is consolidating at this time as markets await a move on the perceived over-extended nickel price. After this 'settling' period, we believe that there remains good upside to PAN's share price with earnings risk, and dividends, skewed to the upside.

- **March Q:** The Q was a little softer at Savannah but good at Lanfranchi. Cash costs rose slightly as a group. Good exploration and reserve additions were released during the Q. The range for FY10 guidance of 18-19kt nickel was unchanged but is to be at the "lower end". Our forecast of 17.9kt is down slightly.
- **Earnings Changes:** The March Q lowered our FY10E profit by 3% but applying the MTM of US\$11.80/lb for nickel in April raises earnings 9% to A\$63m. Higher hedged nickel prices increase FY11E earnings by 14% to A\$26m with FY12E unchanged.
- **Nickel Sensitivity:** Earnings for the nickel sector are, of course, very sensitive to spot the nickel price. Specifically, if spot nickel were to remain around the current level of US\$11.60/lb for the next 14 months, FY10E earnings would rise 10% to A\$70m or A34c/share – a very modest P/E of 7.6x and CFM of 3.5x – and our FY11E earnings would rise from A\$22m to A\$90m or A43c/share – 6x P/E and ~4x CFM. The nickel price is almost everything and looking very good right now.
- **Hedging:** In line with company policy, PAN added to its hedgebook during the quarter to take advantage of the sharp rally in nickel. The MTM went from +A\$17.4m to negative A\$17.9m.
- **Valuation:** We retain our Outperform and target of A\$2.85 on an unchanged 1.1x 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	0.30	0.12	0.14
Prev.		0.28	0.11	
P/AEPS	21.2x	8.5x	21.2x	18.1x
CFPS - FD	0.16	0.68	0.27	0.35
Prev.		0.65	0.26	
P/CFPS	15.9x	3.7x	9.4x	7.3x
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.

In Great Shape with A\$101m Cash in Hand

Panoramic’s March Q report contained no real surprises with group production up 6%, with cash costs slightly higher. Lanfranchi nickel production was up 25% in the March Q and Savannah down 15% compared to the previous Dec Q 09. The balance sheet remains very healthy with A\$101m or A49c per share cash on hand and minimal A\$2.6m of debt. The strong rally in the nickel price this year has allowed the company to add to its hedge book, in line with its policy.

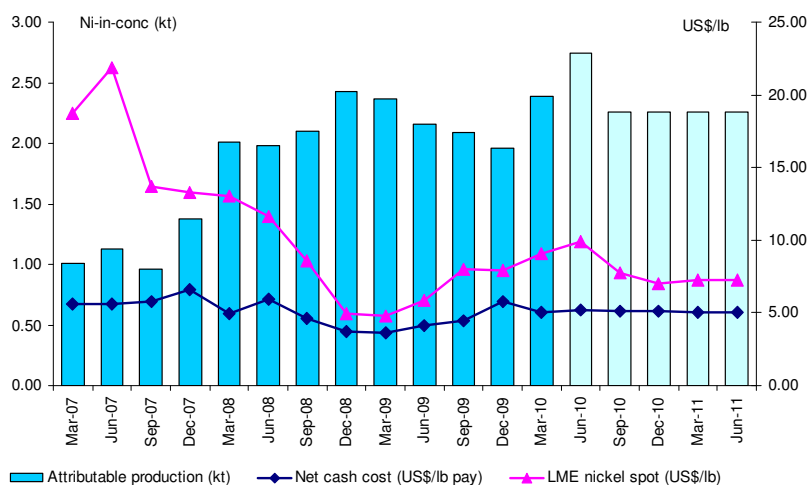
Panoramic has been a relatively good performer within the ASX nickel sector and is consolidating at this time as markets await a move on the perceived over-extended nickel price. After this “settling” period, we believe that there remains good upside to PAN’s share price with earnings risk, and dividends, skewed to the upside. Specifically, if spot nickel were to remain around current spot of US\$11.60/lb for the next 14 months, FY10E earnings would rise 10% to A\$70m or A34c per share – a very modest P/E of 7.6x and CFM of 3.5x – and our FY11E earnings would rise from A\$22m to A\$90m or A43c per share – 6x P/E and ~4x CFM. We retain our Outperform rating and our A\$2.85 target.

Features of the March Q:

- **Q production** of 4,314 tonnes nickel in concentrate/ore, up 6% on the Dec 09 Q of 4,078 tonnes. Cash costs of US\$5.18/lb were slightly up on the pcp.
- **Lanfranchi** produced 2,691 t at US\$5.03/lb, up 25% on the Dec Q 09, with record production in the month of January.
- **Savannah** produced 1,623 tonnes at US\$5.42/lb due to lower-than-forecast head grade, down 8%, and a planned mill shutdown. The maiden Lower Savannah reserve was announced during the Q and the 86% conversion from reserves was excellent. A new 10-year off-take agreement was signed with Jinchuan during the Q.
- **Quotational Pricing:** Positive adjustments should be included in revenue for settlements in the March Q. We estimate a QP of around A\$3.5m. There is a 3-month delay in settlements plus one month longer for cash top-up or repayment. We expect further gains in the current higher priced Q.
- **Exploration:** The Deacon down-plunge extension program s is being reviewed and the up-plunge extension has basically been closed off.
- **Cash on hand** was A\$101m plus receivables of A\$38m after paying out A\$20m in dividends. Debt is only A\$2.6m.
- **Hedging:** PAN added hedges during the Q, in line with its policy. Additions were 1,200t of nickel puts bought at US\$18k/t with offsetting calls sold at US\$24k/t to Dec 2010. Bought 600t puts at US\$18.5k/t with offsetting calls sold, at US\$25.5k/t to June 2011. Also diesel, copper and A\$/US\$ were hedged.

The M-T-M of the whole hedge book moved from positive A\$17.4m at Dec 09 to negative A\$17.9m at March. This is not a bad thing, in our view, showing that PAN is benefiting from a strong nickel price cash flow near term and hedging is thus “under water”.

Exhibit 1: Lanfranchi Production & Cash Costs by Quarter



- Lanfranchi nickel production was up 25% in the March Q and the month of January was a record.
- The mine needs to produce ~3.1kt to make the lower end of guidance for FY10 of 10.4-10.5kt Ni in ore.
- Cash costs of US\$5.03/lb were down from US\$5.77/lb in the last Q.

Source: Company, RBC Capital Markets estimates

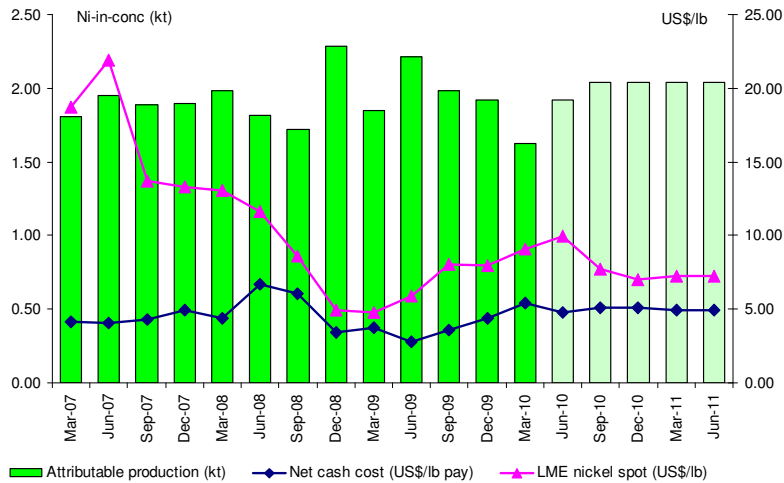


FY10 Guidance Update:

- Group guidance is to be the **“lower end” of the previously advised 18-19kt nickel range**. RBC forecasts 17.9kt.
- **Lanfranchi:** 10.4-10.5kt of Ni in ore, slightly down on the 10.5-11 kt in the Dec Q report.
- **Savannah:** 7.4- 7.5kt of Ni in conc., slightly down on the 7.5-8.0 kt in the Dec Q report.

Our FY10 production estimate drops 4% to 17.9kt after including the slightly lower than forecast March Q figures.

Exhibit 2: Savannah Production & Cash Costs by Quarter



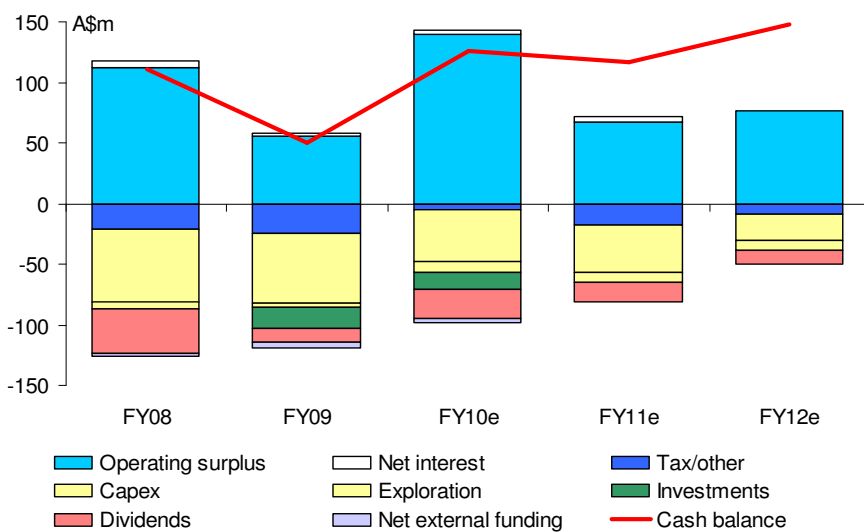
- Savannah nickel production was down 15% in the March Q but is forecast to rebound in the June Q.
- The mine needs to produce ~1.9kt to make the lower end of guidance for FY10 of 7.4-7.5kt Ni in conc.
- Cash costs of US\$5.42/lb were up from US\$4.37/lb in the last Q.

Source: Company, RBC Capital Markets estimates

Cash Flow Remains Strong, Cash Building

We graphically show in Exhibit 3 the cash flow of Panoramic from FY08 through to FY12E. 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 3: Cash Flow Analysis to FY12E



- Cash on hand was A\$101m or 49c per share at March 2010.
- We project cash to be not less than A\$116m over the next 2-3 years even at our modest forecast nickel prices.
- Cash on hand will grow very rapidly if the nickel price is sustained anywhere the current plus US\$11/lb level.

Source: Company data, RBC Capital Markets estimates

Estimate Revisions

We have made only minor revisions to our forecasts as follows:

- Slightly lower nickel production and higher costs in the March Q lowers our FY10E EPS by 3%.
- Higher nickel prices by marking to market for the month of April raises our EPS estimate by 7% in the current year.

Exhibit 4: Panoramic Estimate Revisions

		FY10E			FY11E			FY12E		
		Revised	Previous	Change	Revised	Previous	Change	Revised	Previous	Change
Underlying Profit	A\$m	62.8	57.5	9%	25.5	22.5	14%	29.8	29.7	0%
Pre Tax Profit	A\$m	87.1	79.8	9%	35.2	31.0	14%	41.1	41.0	0%
EPS	¢	30.3	27.7	9%	12.2	10.8	14%	14.3	14.2	0%
DPS	¢	15.0	15.0	0%	6.0	6.0	0%	6.0	6	0%
Net Operating Cashflow	A\$m	149.9	144.0	4%	79.7	75.6	5%	84.9	84.9	0%
Cashflow/share	¢	68.2	65.3	4%	27.1	26.3	3%	34.9	35.1	(1%)
Nickel in conc	kt	16.6	17.2	(4%)	17.2	17.2	0%	17.2	17.2	0%
Cash Costs	US\$/lb	4.84	4.81	1%	5.05	5.05	0%	5.00	5.00	0%
Nickel Price	US\$/lb	8.75	8.39	4%	7.31	7.31	0%	7.38	7.38	0%
Exchange Rate	A\$/US\$	0.88	0.88	0%	0.87	0.87	0%	0.84	0.84	0%
Valuation (A\$/sh)		2.52	2.58	(2%)						

Source: 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.

Firstly, in Exhibit 5, we show quarterly nickel price averages and feature the rising trend of spot nickel. The YTD average has risen significantly recently. Further positive QP adjustments can be expected in the current Q for all nickel producers.

Exhibit 5: Nickel Price, June 08 to Present

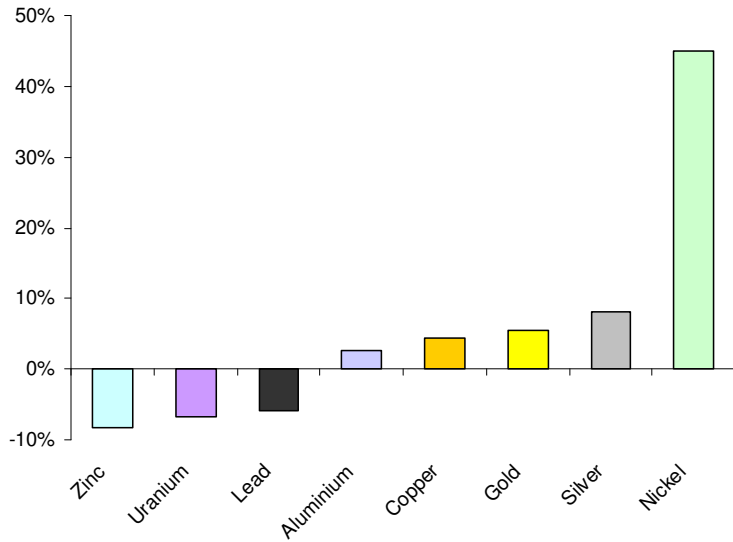


- Nickel averaged US\$9.11/lb in the March Q 09.
- Nickel has averaged an excellent US\$11.80/lb for the month of April so far.

Source: IRESS, RBC Capital Markets estimates

Nickel has been the star performer in 2010 – up 45% – and the next best, silver, is up a mere 8% with several metals falling in price this year.

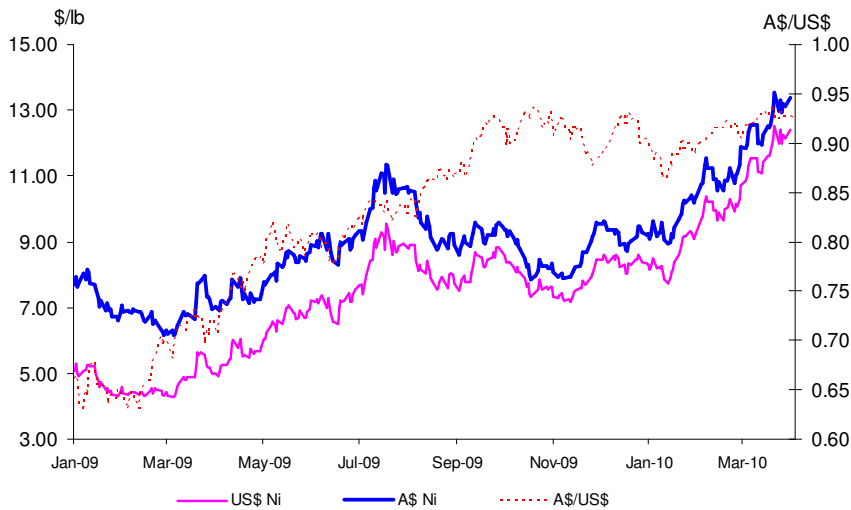
Exhibit 6: Commodity price performance, year-to-date 2010



Source: Bloomberg, RBC Capital Markets estimates

The exhibit below shows the rally in both US\$ and domestic nickel prices since about late January this year. The rising A\$/US\$ has not hindered the nickel price rally to any degree.

Exhibit 7: Nickel Price in A\$ & US\$ terms and A\$/US\$ exchange rate

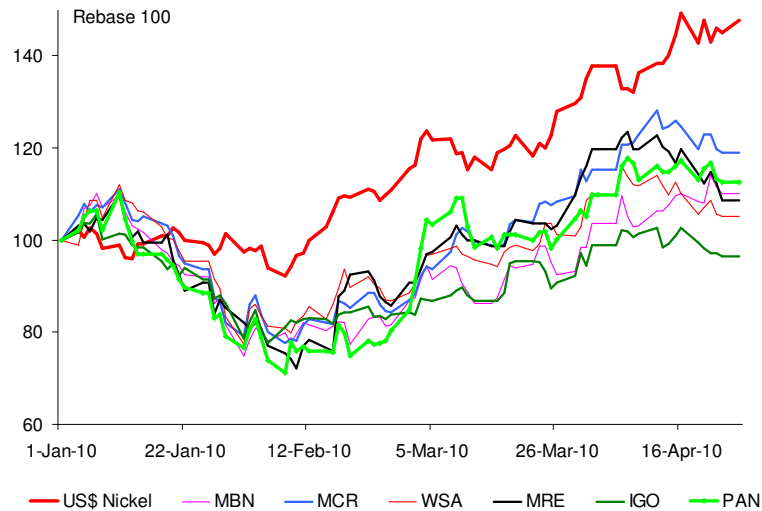


Source: IRESS

The exhibit below shows the relative performance this year of the nickel price and ASX-listed nickel shares under coverage. The red line of the metal has basically been straight up since late January this year. ASX nickels went with the metal until about 3 weeks ago when they flattened off.

We believe that equity participants may await the direction of the metal price before buying the sector. If nickel was to settle at say US\$9/lb or higher, widespread earnings upgrades would be expected by us, thus lifting the shares' attractiveness.

Exhibit 8: Relative Performance of Nickel Price to ASX Nickel Shares

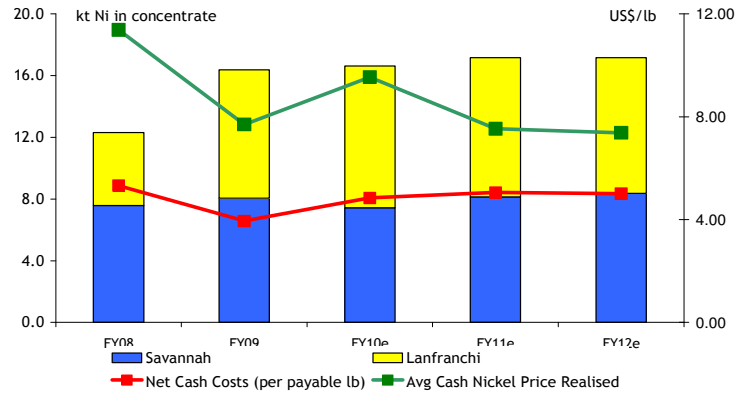


- Nickel price has rallied strongly since Feb this year.
- The metal has averaged an excellent US\$11.80/lb for the month of April so far.
- ASX nickel shares have been selling off over the past couple of weeks – while the metal price has been going higher.

Source: IRESS

Exhibit 9: Panoramic Forecast Financial & Operating Summary

Panoramic Resources											
ASX: PAN	Share Price: (A\$ps)	2.54	Year end:	Jun	Stock Rating:	Outperform	Price Target:	A\$2.85			
	Mkt Cap: (A\$MM)	518	Issued shares (m)	204.0	Risk Qualifier:	Average	NAV:	A\$2.52			
ASSUMPTIONS											
		FY08	FY09	FY10e	FY11e	FY12e					
Exchange Rate	A\$/US\$	0.90	0.75	0.88	0.87	0.84					
Spot Nickel Price	US\$/lb	12.92	6.04	8.75	7.31	7.38					
Spot Cobalt Price	US\$/lb	39.32	22.55	19.50	12.63	11.50					
Spot Copper Price	US\$/lb	3.53	2.24	3.03	3.13	3.38					
RATIO ANALYSIS											
		FY08	FY09	FY10e	FY11e	FY12e					
Diluted share capital	MM	193.7	204.0	208.7	208.7	208.7					
EPS (diluted and pre sig. items)	Ac	27.3	12.0	30.3	12.2	14.3					
P/E	x	9.3x	21.2x	8.4x	20.7x	17.8x					
CFPS	Ac	49.5	16.4	68.2	27.1	34.9					
P/CF	x	5.1x	15.5x	3.7x	9.4x	7.3x					
DPS	Ac	12.0	3.0	15.0	6.0	6.0					
Dividend yield	%	4.7%	1.2%	5.9%	2.4%	2.4%					
Franking Level	%	100%	100%	67%	100%	100%					
Book value per share		1.20	1.40	1.48	1.52	1.61					
P/Book value	x	2.1x	1.8x	1.7x	1.7x	1.6x					
R.O.E. (pre sig items)	%	23%	8%	20%	8%	9%					
R.O.A. (pre sig items)	%	20%	8%	21%	7%	8%					
Interest Cover	x	-14.4x	-10.1x	-23.1x	-6.3x	-5.8x					
EBITDA per share	A\$ps	0.55	0.38	0.61	0.32	0.34					
EV/EBITDA	x	3.9x	6.1x	3.1x	6.0x	5.1x					
ATTRIBUTABLE MINE STATS											
		FY08	FY09	FY10e	FY11e	FY12e					
Nickel Production (equity)											
Savannah	kt	7.58	8.06	7.44	8.14	8.37					
Lanfranchi	kt	4.74	8.32	9.18	9.01	8.80					
Nickel in Concentrate	kt	12.32	16.38	16.62	17.15	17.17					
Payable Nickel Production	kt	7.96	10.56	10.71	11.06	11.07					
Payable Nickel Sales Hedged	%	30%	39%	25%	39%	0%					
Avg Cash Nickel Price Realised	US\$/lb	11.38	7.70	9.54	7.53	7.38					
Net Cash Costs (per payable lb)	US\$/lb	5.32	3.94	4.84	5.05	5.00					
Cash Margin	US\$/lb	6.05	3.76	4.69	2.48	2.37					
Operational EBIT Contribution (pre hedging)											
Savannah	A\$MM	70	-2	27	13	20					
Lanfranchi	"	39	11	39	25	28					
RESERVES AND RESOURCES (ATTRIBUTABLE)											
		Mt	% Ni	Ni (kt)							
Reserves											
Savannah - Upper Zone		1.8	1.32%	22.8							
Savannah - Lower Zone		3.7	1.17%	43.2							
Copernicus satellite (60%)		0.5	1.10%	5.2							
Lanfranchi		2.7	2.42%	66.3							
Total reserves (kt)		137.4									
					EV / Reserves	3,024					
Resources											
		Mt	% Ni	Ni (kt)							
Savannah - Upper Zone		6.4	1.55%	98.7							
Savannah - Lower Zone				50.1							
Copernicus satellite (60%)		0.5	1.24%	6.3							
Lanfranchi		5.3	2.4%	125.3							
Total resources (kt)		280.4			EV / Resources	1,482					
EPS SENSITIVITIES											
			FY10e	FY10e							
			Acps	%							
Nickel Price (US\$/lb)		+10%	5.4	23%							
		-10%	(5.4)	-23%							
A\$/US\$ (Usc)		+10%	(3.6)	-15%							
		-10%	6.4	27%							
ATTRIBUTABLE NICKEL PRODUCTION AND COST PROFILE											
		FY08	FY09	FY10e	FY11e	FY12e					
Operational Cash Flow	A\$MM	112	55	144	71	76					
Net Interest	"	5	3	3	5	6					
Tax Paid and Other	"	(22)	(25)	(5)	(20)	(10)					
Net Operating Cashflow	"	96	34	142	56	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)	49	(7)	31					
BALANCE SHEET											
		FY08	FY09	FY10e	FY11e	FY12e					
Cash & Equivalents	A\$MM	111	50	130	123	154					
PP&E & Mine Development	"	136	200	200	203	188					
Exploration	"	13	19	14	17	21					
Total Assets	"	332	380	406	405	425					
Debt	"	8	7	3	3	3					
Total Liabilities	"	100	94	98	88	90					
Total Net Assets / Equity	"	232	286	308	318	335					
Net Debt / (Cash)	"	(103)	(43)	(127)	(120)	(151)					
Gearing (net debt/(nd + equity))	%	(79%)	(18%)	(70%)	(61%)	(82%)					
Gearing (net debt/equity)	%	(44%)	(15%)	(41%)	(38%)	(45%)					
EQUITY DCF VALUATION											
		A\$MM	A\$ps								
Projects											
Savannah		195	0.95								
Lanfranchi		179	0.87								
Projects and Exploration		50	0.24								
Hedging		17	0.08								
Corporate		(22)	-0.11								
Cash		101	0.49								
Debt		(3)	-0.02								
Net Equity Value (@ 8% real d.r.)		517	2.52								
				P / NPV							
				1.0x							



Source: Company Reports and RBC Capital Markets estimates



Valuation

We retain our Outperform and target of A\$2.85 on an unchanged 1.1x 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

Geoff Breen and Stuart McIntyre (i) are not registered/qualified as research analysts with the NYSE and/or FINRA and (ii) may not be associated persons of the RBC Capital Markets Corporation and therefore may not be subject to FINRA Rule 2711 and NYSE Rule 472 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account.

Conflicts Disclosures

The analyst(s) responsible for preparing this research report received compensation that is based upon various factors, including total revenues of the member companies of RBC Capital Markets and its affiliates, a portion of which are or have been generated by investment banking activities of the member companies of RBC Capital Markets and its affiliates.

An analyst involved in the preparation of this report has visited certain material operations of Panoramic Resources Limited.

The author is employed by Royal Bank of Canada - Sydney Branch, a securities broker-dealer with principal offices located in Sydney, Australia.

Explanation of RBC Capital Markets Equity Rating System

An analyst's 'sector' is the universe of companies for which the analyst provides research coverage. Accordingly, the rating assigned to a particular stock represents solely the analyst's view of how that stock will perform over the next 12 months relative to the analyst's sector average.

Ratings

Top Pick (TP): Represents best in Outperform category; analyst's best ideas; expected to significantly outperform the sector over 12 months; provides best risk-reward ratio; approximately 10% of analyst's recommendations.

Outperform (O): Expected to materially outperform sector average over 12 months.

Sector Perform (SP): Returns expected to be in line with sector average over 12 months.

Underperform (U): Returns expected to be materially below sector average over 12 months.

Risk Qualifiers (any of the following criteria may be present):

Average Risk (Avg): Volatility and risk expected to be comparable to sector; average revenue and earnings predictability; no significant cash flow/financing concerns over coming 12-24 months; fairly liquid.

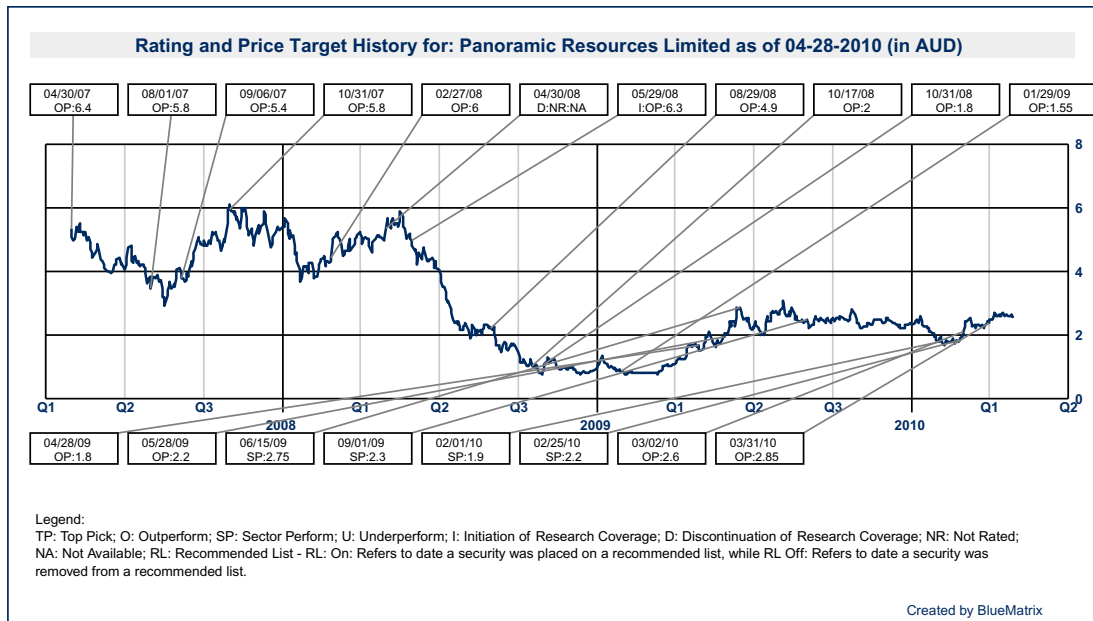
Above Average Risk (AA): Volatility and risk expected to be above sector; below average revenue and earnings predictability; may not be suitable for a significant class of individual equity investors; may have negative cash flow; low market cap or float.

Speculative (Spec): Risk consistent with venture capital; low public float; potential balance sheet concerns; risk of being delisted.

Distribution of Ratings

For the purpose of ratings distributions, regulatory rules require member firms to assign ratings to one of three rating categories - Buy, Hold/Neutral, or Sell - regardless of a firm's own rating categories. Although RBC Capital Markets' ratings of Top Pick/Outperform, Sector Perform and Underperform most closely correspond to Buy, Hold/Neutral and Sell, respectively, the meanings are not the same because our ratings are determined on a relative basis (as described above).

Distribution of Ratings RBC Capital Markets, Equity Research				
Rating	Count	Percent	Investment Banking Serv./Past 12 Mos.	
			Count	Percent
BUY[TP/O]	609	49.40	192	31.53
HOLD[SP]	557	45.20	133	23.88
SELL[U]	67	5.40	9	13.43



References to a Recommended List in the recommendation history chart may include one or more recommended lists or model portfolios maintained by a business unit of the Wealth Management Division of RBC Capital Markets Corporation. These Recommended Lists include the Prime Opportunity List (RL 3), a former list called the Private Client Prime Portfolio (RL 4), the Prime Income List (RL 6), the Guided Portfolio: Large Cap (RL 7), and the Guided Portfolio: Dividend Growth (RL 8). The abbreviation 'RL On' means the date a security was placed on a Recommended List. The abbreviation 'RL Off' means the date a security was removed from a Recommended List.

Conflicts Policy

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