

Panoramic Resources Limited

Exploration Once Again In Focus



Wilson HTM
INVESTMENT GROUP

10 August 2010

\$2.39

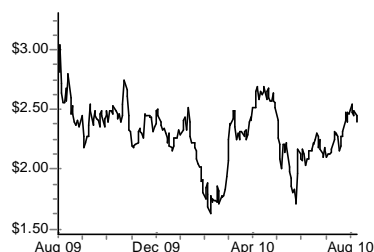
BUY

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Price Performance



Security/Capital Details

ASX Code	PAN
Market Cap	\$499 M
Issued Shares (dil)	208.7 M
Avg Mth T'over	23.29 M
12 Mth High – Low	\$2.79 - \$1.63

Key Data/Ratios – FY 2010

EBITDA / Sales	52.6%
EBIT / Sales	31.4%
Debt / Equity	1.6%
Interest Cover	145.8 x
ROE	19.5%
EPS Growth	139.7%
tDCF	\$3.24
12 Mth Price Target	\$3.25

Recommendation

We have revised forecasts and valuation to include June quarterly data. Although we have downgraded FY2010 NPAT by 13% to now \$57.4m, valuation and target are little changed at \$3.24/share and \$3.25/share respectively. MD Peter Harold has indicated that PAN is comfortable with forecasts for FY2010 in the range of \$50-60m NPAT. We retain our BUY recommendation and remain moderately bullish on the nickel price outlook for calendar 2011, forecasting an average US\$11.50/lb. We also note a minimum FY2011 exploration commitment of \$12m with \$7.5m earmarked for near mine exploration. Drill testing of the remaining two Bluebush Tennant Creek style targets in the NT is scheduled for this quarter. These coincident magnetic/gravity targets are considered the best of five original targets.

Key Points

- Panoramic released its June quarterly report late July. We have now captured June quarter actual production, sales and cost information in our model and adjusted the year end net cash position to actual which was \$132.3m. We also capture changes to the hedge book and include the purchase of two listed equity investments in our valuation and cash flow forecasts. The equity investments purchased were:
 - Ampella Mining (ASX:AMX) – 3.5m shares @ \$0.92/share (now ~A\$1.70/share). Ampella is an African focussed gold explorer.
 - Magma Metals (ASX:MMW) – 6.3m shares @ \$0.55/share (now \$0.49/share). Magma is a nickel-copper-PGE explorer with projects in WA and Canada and has ASX and TSX listings.
- June quarter and half year quarterly report highlights were:
 - As approximate production guidance had been issued early July, our forecasts were close to actual – full year production of nickel in concentrate was 17.4kt, shipments 17.5kt.
 - Payable cash cost of production in the June half year was higher than our forecast, particularly for Savannah (A\$5.77/lb vs forecast of A\$4.77/lb). Lanfranchi was A\$5.68/lb vs forecast of A\$5.42/lb. Lower than forecast by-product credits partly explained the higher than forecast cash cost for Savannah.
 - Cash balance at year end was notably higher than forecast (A\$137m vs forecast A\$123m). This was despite the \$6.7m cost for the two above-mentioned equity investments which we had not accounted for in our modelling. We understand that the higher year end balance was due to lower than forecast tax paid, lower CAPEX and exploration expenditure. In most cases the lower expenditures reflect timing issues. Debt (leasing finance) was \$1.5m higher than forecast at \$4.7m.
- We have revised earnings forecasts (pre-significant items) as follows:

NPAT A\$m	FY2010	FY2011	FY2012
Previous	66.3	73.2	144.2
Revised	57.4	74.1	135.6
% Change	-13.4	+1.2	+6.0

Source: WilsonHTM

Year to June	NPAT (Rep) \$M	NPAT (PSig) \$M	EPS (PSig) c	EPS Growth %	PER x	CFPS c	P/CF x	DPS c	Div Yld %	Franking %
2009a	5.6	23.9	11.5	-58.9	20.8	16.1	14.9	3.0	1.3	100
2010e	56.9	57.4	27.5	139.7	8.7	73.2	3.3	18.0	7.5	100
2011e	74.1	74.1	35.5	29.0	6.7	54.4	4.4	18.0	7.5	100
2012e	135.6	135.6	65.0	83.0	3.7	85.7	2.8	33.0	13.8	100

Equities Research – Panoramic Resources Limited

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Panoramic Resources Limited (PAN : \$2.39)

PRODUCTION

Yr Ending June	2008A	2009A	2010E	2011E	2012E
Contained Nickel (kt)	13.1	17.4	17.4	18.5	19.3
Contained Copper (kt)	4.5	5.0	4.9	4.4	4.7
Contained Cobalt (kt)	0.4	0.4	0.4	0.4	0.4

PRICES

Yr Ending June	2008A	2009A	2010E	2011E	2012E
AUDUSD (USD)	0.90	0.75	0.88	0.85	0.82
Nickel (US\$/lb)	12.95	6.13	8.81	9.50	12.25
Copper (US\$/lb)	3.53	2.08	2.42	3.19	3.75
Cobalt (US\$/lb)	37.10	21.90	20.52	19.00	17.50

INVESTMENT & VALUATION FUNDAMENTALS

Yr Ending June	2008A	2009A	2010E	2011E	2012E
EPS Before Abs (c)	27.9	11.5	27.5	35.5	65.0
EPS Growth (%)	N/A	-58.9%	139.7%	29.0%	83.0%
PER (x)	8.6	20.8	8.7	6.7	3.7
CFPS (c)	46.1	16.1	73.2	54.4	85.7
P/CF (x)	5.2	14.9	3.3	4.4	2.8
EV/EBITDA (x)	3.6	5.5	2.8	2.5	1.0
DPS (c)	12.0	3.0	18.0	18.0	33.0
Yield (%)	5.0%	1.3%	7.5%	7.5%	13.8%
Franking (%)	100%	100%	100%	100%	100%

DCF VALUATION

Yr Ending June	@ 10.5%		@ 10.0%	
	A\$m	A\$ps	A\$m	A\$ps
Savannah	130.4	0.63	132.3	0.63
Lanfranchi	249.9	1.20	252.9	1.21
Corporate Costs Capitalised	-37.0	-0.18	-37.6	-0.18
Hedge Book	-6.5	-0.03	-6.6	-0.03
Interests - Other Entities	11.5	0.06	11.5	0.06
Exploration/Dev Portfolio	73.0	0.35	73.0	0.35
Franking Credits	85.1	0.41	86.3	0.41
Cash	167.1	0.80	167.1	0.80
Interest Bearing Liabilities	-4.7	-0.02	-4.7	-0.02
Minorities	0.0	0.00	0.0	0.00
Additional Capital - Dilution	7.0	0.03	7.0	0.03
Total Valuation - Diluted	675.9	3.24	681.3	3.26

PROFITABILITY RATIOS

Yr Ending June	2008A	2009A	2010E	2011E	2012E
EBIT / Sales (%)	30.2%	14.5%	31.4%	45.1%	61.4%
ROA (%)	N/A	11.9%	26.0%	35.3%	66.4%
ROE (%)	N/A	9.3%	19.5%	22.8%	34.9%
ROFE (%)	N/A	17.6%	37.8%	54.3%	101.7%

INTERIMS (\$m)

Half Yr	Dec 08	Jun 09	Dec 09	Jun 10	Dec 10
Yr Ending June	1H A	2H A	1H A	2H E	1H E
Sales Revenue	110.7	114.4	132.2	116.1	108.4
EBIT	8.2	24.5	32.0	46.0	44.8
Net Profit	-8.6	14.3	23.1	33.8	33.7
EPS	4.4	7.1	11.3	16.2	16.2

BALANCE SHEET (\$m)

Yr Ending June	2008A	2009A	2010E	2011E	2012E
Cash	110.9	50.0	137.0	155.0	264.4
Total Assets	332.1	380.3	406.5	449.5	527.6
Debt	8.4	6.6	4.7	4.7	4.7
Total Liabilities	100.4	94.0	104.6	102.6	100.6
Total Shareholders Equity	231.7	286.3	301.9	346.9	426.9
Total Funds Employed	129.2	242.9	169.6	196.6	167.3

LIQUIDITY & LEVERAGE RATIOS

Yr Ending June	2008A	2009A	2010E	2011E	2012E
Debt / Equity (%)	3.6%	2.3%	1.6%	1.4%	1.1%
Gearing (%) ¹	3.5%	2.2%	1.5%	1.3%	1.1%
Interest Cover (x)	-15.2	33.5	-27.2	-16.5	-22.8
Debt / CashFlow (x)	0.1	0.2	0.0	0.0	0.0
(Debt+CNNotes) / CashFlow	0.1	0.1	0.0	0.0	0.0

PROFIT & LOSS (\$m)

Yr Ending June	2008A	2009A	2010E	2011E	2012E
Sales Revenue	232.4	225.1	248.4	220.4	302.3
EBITDA	110.7	82.2	130.6	140.8	230.7
Depn and Amortisation	40.4	49.5	52.6	41.4	45.1
EBIT	70.3	32.7	78.0	99.4	185.6
Net Interest Expense	-4.6	1.0	-2.9	-6.0	-8.1
Pre-tax Profit	74.9	31.7	80.9	105.4	193.7
Tax	16.9	7.8	23.4	31.3	58.1
Tax rate (%)	22.5%	24.6%	29.0%	29.7%	30.0%
Minorities / pref divs	0.0	0.0	0.0	0.0	0.0
Equity accounted NPAT	0.0	0.0	0.0	0.0	0.0
Net Profit	58.0	23.9	57.4	74.1	135.6
Abnormals	-4.7	-18.3	-0.6	0.0	0.0
Reported Net Profit	53.3	5.6	56.9	74.1	135.6

CASHFLOW (\$m)

Yr Ending June	2008A	2009A	2010E	2011E	2012E
Operating Cash Flow	95.8	33.5	152.7	113.5	178.7
Capital Expenditure	-22.2	-15.7	-4.5	-37.1	-3.7
Expln, Develop, Evaln	-39.6	-44.8	-15.4	-25.8	-10.2
Asset Sales/Acquisitions	-3.7	0.0	-6.7	-3.5	0.0
Other	0.0	-17.8	-12.8	0.0	0.0
Investing Cash Flow	-65.4	-78.4	-39.4	-66.4	-13.8
Share Issues/(Buybacks)	3.6	0.2	0.1	3.7	0.0
Debt Drawdown (Repay)	-6.6	-4.7	-1.9	0.0	0.0
Dividends Paid	-36.1	-11.5	-24.5	-32.8	-55.5
Other Fin. Flows	0.0	0.0	0.0	0.0	0.0
Financing Cash Flow	-39.1	-16.1	-26.3	-29.1	-55.5
Cash Increase (Decrease)	-8.7	-60.9	87.0	18.0	109.4

EARNINGS SENSITIVITIES - % CHANGE

Yr Ending June	2008A	2009A	2010E	2011E	2012E
+/- 1c Movement US\$/A\$	0.0	0.0	0.0	3.3	2.6
+/-10% Ni Price Change	0.0	0.0	0.0	13.7	18.3
+/-10% Change In Costs	0.0	0.0	0.0	12.7	8.0

1. Gearing = (Debt + CNotes) / (Debt + CNotes + Equity)



Recommendation Structure

BUY: Total return +10% or more over a 12 month period

HOLD: Total return expected to be between +10% to -10% over a 12-month period

SELL: Total return expected to be -10% or more over a 12 month period

TOTAL RETURN OR TSR = capital growth in share price + expected dividend yield in that period

Other definitions

CS Coverage Suspended. Wilson HTM Ltd has suspended coverage of this company.

NR Not Rated. The recommendation has been suspended temporarily. Such suspension is in line with Wilson HTM Investment Group Ltd policies in circumstances where Wilson HTM Corporate Finance Ltd is acting in an advisory capacity in a merger or strategic transaction involving the company and in certain other situations.

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