



RATINGS REVISION | COMMENT

OCTOBER 27, 2010

Panoramic Resources Limited (ASX: PAN)
Downgrade to Sector Perform but Company
Performing Well

Sector Perform (prev: Outperform)
Average Risk

Price:	2.65	Price Target:	2.60 ↓ 2.80
Shares O/S (MM):	205.3	Implied All-In Return:	5%
Dividend:	0.17	Market Cap (MM):	544
NAVPS:	2.59	Yield:	6.4%
BVPS:	1.39	P/NAVPS:	1.0x
ROE:	19.0%	P/BVPS:	1.9x
Float (MM):	205.3	Enterprise Val. (\$MM):	435.0
Debt to Cap:	1%	Avg. Daily Volume (MM):	1.09

Share price as at 10:15am on the ASX on 28 October 2010.

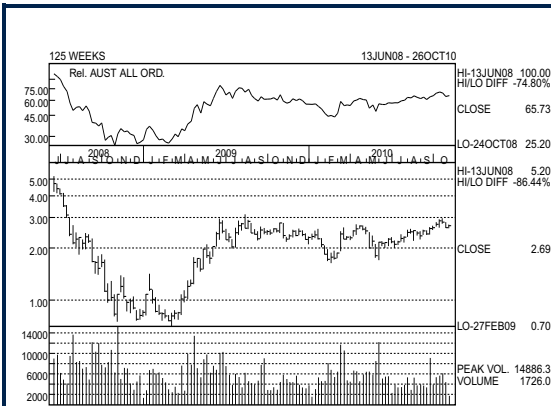
Event

Steady Sept Q but downgrade to SP (from OP), A\$2.60 (from A\$2.80) target, on 76% share price appreciation since mid year.

Investment Opinion

The 4.17kt of nickel in the Sept Q was good and on budget and PAN remains cashed up with A\$113m or A55c/share. Since the mid year low of A\$1.70, PAN has risen 76% to almost A\$3.00 this month. Over the same period, nickel has rallied 37% from ~ US\$8.00 to over US\$11.00/lb. We downgrade PAN to Sector Perform (from OP) and reduce the target to A\$2.60 from A\$2.80, using the same 1.0 P/NAV method. This downgrade is also on the back of 11% lower FY11 earnings, rising LME inventories and in our view a need for nickel shares to consolidate for a period. We prefer gold shares at this time.

- **Sept Q:** A steady 4.2kt Ni at US\$5.55/lb and FY11 guidance retained at 18-19kt contained Ni. Our forecast remains within this range but at the low end.
- **Earnings:** FY11 earnings declined 11% to A\$36m due to slightly lower production and higher costs than we forecast in the Sept Q. Other years are unchanged. Our new FY11 npat is at the low end of consensus of A\$35m to A\$91m; however, at spot Ni and A\$, it would rise 46% to A\$53m. Extending spot for 2 years would take our NAV and hence target to A\$2.80.
- **Exploration & Strategy:** FY11's budget of A\$12m is the largest ever and global in reach. Developments in Alaska and Sweden for gold and metals are at an early stage whereas Lanfranchi underground drilling for orebody extensions can be expected to add much more value near-term.
- **Nickel Market:** Nickel has eased from a recent peak of over US\$11/lb to US\$10.30/lb with LME inventories rising 8kt to 128kt over the past month. However, sort-after briquettes remain relatively tight and Norilsk cathode abundant. In other words, rising inventories do not tell the full story.
- **Valuation:** We downgrade to SP (from OP) rating and ease our target to A\$2.60 (from A\$2.80) on an unchanged ~1.0x NAV, in line with nickel peers and in our view appropriate at this point in the cycle. Maintain Average Risk.



Royal Bank of Canada - Sydney Branch

Geoff Breen (Analyst)
 (+61) 2 9033-3022; geoff.breen@rbccm.com

Steuart McIntyre (Analyst)
 (+61) 2 9033-3066;
 steuart.mcintyre@rbccm.com

Michael Orphanides, CFA (Associate)
 (+61) 2 9033-3087;
 michael.orphanides@rbccm.com

FY Jun	2009A	2010A	2011E	2012E
Adj EPS - FD	0.12	0.27	0.17	0.22
Prev.			0.19	
P/AEPS	22.1x	9.8x	15.6x	12.0x
CFPS - FD	0.16	0.70	0.35	0.44
Prev.			0.37	
P/CFPS	16.6x	3.8x	7.6x	6.0x
Annual Div.	0.03	0.17	0.06	0.06
Prod.	16	16	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 4.

Exhibit 1: Panoramic Forecast Financial and Operating Summary

Panoramic Resources									
ASX: PAN	Share Price: (A\$ps)	2.65	Year end:	Jun	Stock Rating:	Sector Perform	Price Target:	A\$2.60	
	Mkt Cap: (A\$MM)	544	Issued shares (m)	205.3	Risk Qualifier:	Average	NAV:	A\$2.59	

ASSUMPTIONS		FY09	FY10	FY11e	FY12e	FY13e	ATTRIBUTABLE MINE STATS	FY09	FY10	FY11e	FY12e	FY13e	
Exchange Rate	A\$/US\$	0.75	0.88	0.87	0.84	0.82	Nickel Production (equity)						
Spot Nickel Price	US\$/lb	6.04	8.80	8.40	8.00	8.25	Savannah	kt	8.06	7.27	8.00	8.37	8.37
Spot Cobalt Price	US\$/lb	22.55	20.79	14.26	11.50	11.50	Lanfranchi	kt	8.32	8.80	8.77	8.80	8.80
Spot Copper Price	US\$/lb	2.24	3.04	3.06	3.13	3.50	Nickel in Concentrate	kt	16.38	16.08	16.77	17.17	17.17
							Payable Nickel Production	kt	10.56	10.36	10.81	11.07	11.07
							Payable Nickel Sales Hedged	%	39%	25%	34%	11%	0%

RATIO ANALYSIS		FY09	FY10	FY11e	FY12e	FY13e
Diluted share capital	MM	204.0	210.0	210.0	210.0	210.0
EPS (diluted and pre sig. items)	A¢	12.0	26.9	16.9	22.4	26.0
P/E	x	22.1x	9.8x	15.7x	11.8x	10.2x
CFPS	A¢	16.4	70.1	34.6	44.4	48.3
P/CF	x	16.1x	3.8x	7.7x	6.0x	5.5x
DPS	A¢	3.0	16.5	6.0	6.0	6.0
Dividend payout ratio	%	25%	61%	35%	27%	23%
Dividend yield	%	1.1%	6.2%	2.3%	2.3%	2.3%
Franking level	%	100%	94%	100%	100%	100%
Book value per share		1.40	1.39	1.46	1.63	1.83
P/Book value	x	1.9x	1.9x	1.8x	1.6x	1.4x
R.O.E. (pre sig items)	%	8%	19%	12%	14%	14%
R.O.A. (pre sig items)	%	8%	18%	10%	13%	14%
Interest Cover	x	-10.1x	-20.7x	-8.7x	-9.3x	-8.3x
EBITDA per share	A\$ps	0.38	0.60	0.38	0.45	0.51
EV/EBITDA	x	5.6x	3.4x	5.5x	4.6x	4.1x

OPERATIONAL EBIT CONTRIBUTION (pre hedging)		FY09	FY10	FY11e	FY12e	FY13e
Savannah	A\$MM	-2	24	26	27	39
Lanfranchi	A\$MM	11	39	36	37	46

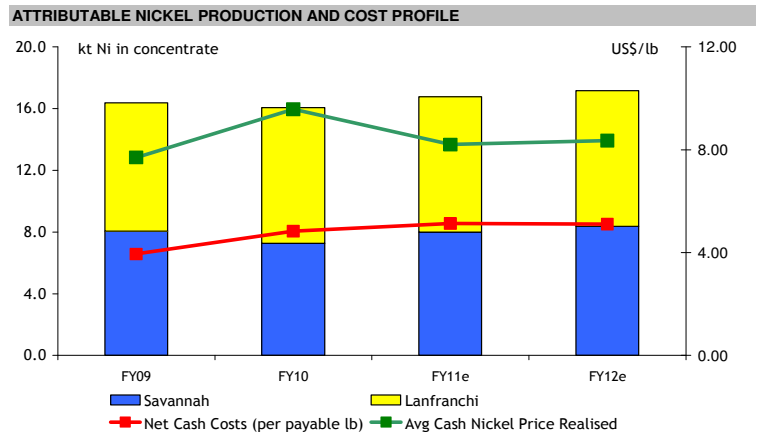
RESERVES AND RESOURCES (ATTRIBUTABLE)				30 June 2009	
P+P Reserves	Mt	% Ni	Ni (kt)		
Savannah - Upper Zone	2.2	1.26%	27.2		
Savannah - Lower Zone	3.7	1.17%	43.2		
Copernicus satellite (60%)	0.4	1.03%	3.8		
Lanfranchi	2.7	2.62%	69.9		
Total P+P Reserves (kt)	8.9	1.62%	144.1		
				EV / Reserves	
				A\$'000/t	3.02
				US\$'000/t	2.65

M+I Resources	Mt	% Ni	Ni (kt)	EV / Resources	
Savannah	6.0	1.55%	92.6		
Copernicus satellite (60%)	0.8	1.23%	9.7		
Lanfranchi	2.6	3.27%	85.3		
Total M+I Resources (kt)	9.4	2.00%	187.6		
				A\$'000/t	2.32
				US\$'000/t	2.04

EARNINGS		FY09	FY10	FY11e	FY12e	FY13e
Sales Revenue	A\$MM	225	283	259	281	295
Other Revenue	"	1	0	0	0	0
Total Revenue	"	226	284	259	281	295
Operating costs	"	(123)	(139)	(164)	(170)	(175)
Operational EBITDA	"	103	144	95	111	121
Exploration Expense/Write-offs	"	(8)	(7)	(7)	(7)	(6)
Corporate & Other Costs	"	(18)	(10)	(8)	(9)	(9)
EBITDA	"	78	127	80	95	106
D&A	"	(49)	(53)	(36)	(36)	(26)
EBIT	"	29	74	44	59	70
Net Interest	"	3	4	5	6	8
Profit Before Tax	"	32	78	49	65	78
Tax Expense	"	(8)	(22)	(13)	(18)	(23)
Minorities	"	0	0	0	0	0
Net Profit After Tax	"	24	56	36	47	55
Significant Items (post tax)	"	(18)	0	0	0	0
Reported NPAT	"	6	56	36	47	55

EPS SENSITIVITIES		FY11e	FY11e
		Acps	%
Nickel Price (US\$/lb)	+10%	5.4	23%
	-10%	(5.4)	-23%
A\$/US\$ (USc)	+10%	(3.6)	-15%
	-10%	6.4	27%

CASHFLOW		FY09	FY10	FY11e	FY12e	FY13e
Operational Cash Flow	A\$MM	55	139	87	102	112
Net Interest	"	3	4	5	6	8
Tax Paid and Other	"	(25)	4	(19)	(15)	(19)
Net Operating Cashflow	"	34	147	73	93	102
Exploration	"	(3)	(9)	(12)	(12)	(10)
Capital Expenditure	"	(58)	(33)	(35)	(21)	(16)
Investments	"	(17)	(7)	0	0	0
Sale of PPE and Other	"	(0)	(69)	0	0	0
Net Investing Cashflow	"	(78)	(118)	(47)	(33)	(26)
Dividends Paid	"	(12)	(25)	(19)	(12)	(12)
Debt	"	(5)	(5)	0	0	0
Equity Issuance	"	0	1	0	0	0
Other	"	0	0	0	0	0
Net Financing Cashflow	"	(16)	(29)	(19)	(12)	(12)
Net change in cash	"	(61)	(0)	6	48	63



BALANCE SHEET		FY09	FY10	FY11e	FY12e	FY13e
Cash & Equivalents	A\$MM	50	137	144	191	255
PP&E & Mine Development	"	200	206	206	191	170
Exploration	"	19	14	19	24	28
Total Assets	"	380	417	427	464	511
Debt	"	7	5	5	5	5
Total Liabilities	"	94	126	120	122	127
Total Net Assets / Equity	"	286	291	307	342	384
Net Debt / (Cash)	"	(43)	(133)	(139)	(186)	(250)
Gearing (net debt/(nd + equity))	%	(18%)	(84%)	(83%)	(120%)	(186%)
Gearing (net debt/equity)	%	(15%)	(46%)	(45%)	(55%)	(65%)

EQUITY DCF VALUATION	A\$MM	A\$ps	P / NPV
Projects			
Savannah	218	1.06	
Lanfranchi	156	0.76	
Projects, Exploration & Investments	80	0.39	
Hedging	(9)	-0.04	
Corporate	(22)	-0.11	
Cash	113	0.55	
Debt	(4)	-0.02	
Net Equity Value (@ 8% real d.r.)	533	2.59	1.0x

Source: Company reports, RBC Capital Markets estimates



Valuation

We downgrade to SP (from OP) rating and ease our target to A\$2.60 (from A\$2.80) on an unchanged ~1.0x NAV, in line with nickel peers and in our view appropriate at this point in the cycle. Maintain 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 wholly owns and operates two nickel mines in Western Australia and produced 17.4kt attributable nickel-in-concentrate last year. The **Savannah** underground mine in the Kimberley region produces ~7.5kt pa nickel-in-concentrate. It is a nickel-copper-cobalt ore-body with significant by-product credits and solid extension potential at depth and nickel concentrate is sold to Chinese nickel producer Jinchuan until 2020. The **Lanfranchi** underground mine, near Kambalda produce ~10-12kt pa nickel-in-concentrate and ore is sold directly to BHP Billiton, inclusive of a toll treatment arrangement at its nearby Kambalda nickel concentrator.

Panoramic's attributable nickel production guidance is 18-19kt Ni in FY11, with the split being Ni in ore for Lanfranchi and Ni in conc. at Savannah. Exploration budget is A\$12m in FY11, the biggest ever and has spread to Alaska and Sweden etc. Strong exploration potential remains at Lanfranchi and in the Tramways tenements and at depth and in satellite ore-bodies at Savannah. Investments totaled ~A\$20m at Sept 10. Cash in hand at Sept 2010 was A\$113m or A55c/share with minimal A\$4m debt.

Required Disclosures

Non-U.S. Analyst Disclosure

Geoff Breen, Stuart McIntyre and Michael Orphanides (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.

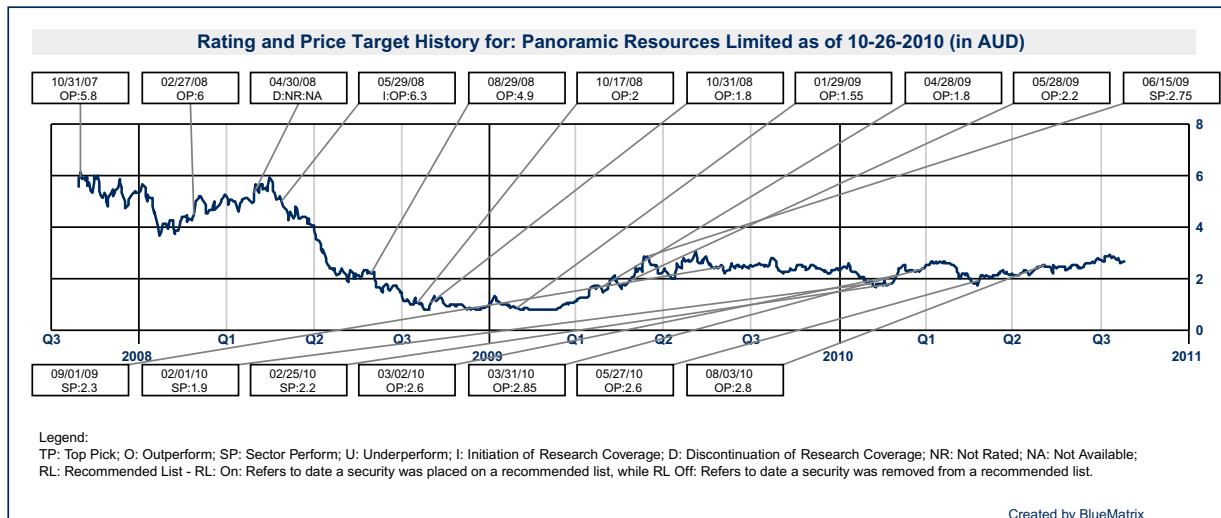
Above Average Risk (AA): Volatility and risk expected to be above sector; below average revenue and earnings predictability; may not be suitable for a significant class of individual equity investors; may have negative cash flow; low market cap or float.

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]	655	50.40	196	29.92
HOLD[SP]	585	45.00	131	22.39
SELL[U]	60	4.60	10	16.67



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 Guided Portfolio: Prime Income (RL 6), the Guided Portfolio: Large Cap (RL 7), the Guided Portfolio: Dividend Growth (RL 8), and the Guided Portfolio: Midcap 111 (RL9). 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

RBC Capital Markets Policy for Managing Conflicts of Interest in Relation to Investment Research is available from us on request. To access our current policy, clients should refer to <https://www.rbccm.com/global/file-414164.pdf> or send a request to RBC CM Research Publishing, P.O. Box 50, 200 Bay Street, Royal Bank Plaza, 29th Floor, South Tower, Toronto, Ontario M5J 2W7. We reserve the right to amend or supplement this policy at any time.

Dissemination of Research and Short-Term Trading Calls

RBC Capital Markets endeavors to make all reasonable efforts to provide research simultaneously to all eligible clients, having regard to local time zones in overseas jurisdictions. RBC Capital Markets' equity research is posted to our proprietary websites to ensure eligible clients receive coverage initiations and changes in ratings, targets and opinions in a timely manner. Additional distribution may be done by the sales personnel via email, fax or regular mail. Clients may also receive our research via third-party vendors. Please contact your investment advisor or institutional salesperson for more information regarding RBC Capital Markets' research. RBC Capital Markets also provides eligible clients with access to SPARC on the Firm's proprietary INSIGHT website. SPARC contains market color and commentary, and may also contain Short-Term Trade Ideas regarding the publicly-traded common equity of subject companies on which the Firm currently provides equity research coverage. SPARC may be accessed via the following hyperlink: <https://www.rbcinsight.com>. A Short-Term Trade Idea reflects the research analyst's directional view regarding the price of the subject company's publicly-traded common equity in the coming days or weeks, based on market and trading events. A Short-Term Trade Idea may differ from the price targets and recommendations in our published research reports reflecting the research analyst's views of the longer-term (one year) prospects of the subject company, as a result of the differing time horizons, methodologies and/or other factors. Thus, it is possible that a subject company's common equity that is considered a long-term 'sector perform' or even an 'underperform' might be a short-term buying opportunity as a result of temporary selling pressure in the market; conversely, a subject company's common equity rated a long-term 'outperform' could be considered susceptible to a short-term downward price correction. Short-Term Trade Ideas are not ratings, nor are they part of any ratings system, and the Firm generally does not intend, nor undertakes any obligation, to maintain or update Short-Term Trade Ideas. Securities and Short-Term Trade Ideas discussed in SPARC may not be suitable for all investors and have not been tailored to individual investor circumstances and objectives, and investors should make their own independent decisions regarding any securities or strategies discussed herein.

Analyst Certification

All of the views expressed in this report accurately reflect the personal views of the responsible analyst(s) about any and all of the subject securities or issuers. No part of the compensation of the responsible analyst(s) named herein is, or will be, directly or indirectly, related to the specific recommendations or views expressed by the responsible analyst(s) in this report.



Disclaimer

RBC Capital Markets is the business name used by certain subsidiaries of Royal Bank of Canada, including RBC Dominion Securities Inc., RBC Capital Markets Corporation, Royal Bank of Canada Europe Limited and Royal Bank of Canada - Sydney Branch. The information contained in this report has been compiled by RBC Capital Markets from sources believed to be reliable, but no representation or warranty, express or implied, is made by Royal Bank of Canada, RBC Capital Markets, its affiliates or any other person as to its accuracy, completeness or correctness. All opinions and estimates contained in this report constitute RBC Capital Markets' judgement as of the date of this report, are subject to change without notice and are provided in good faith but without legal responsibility. Nothing in this report constitutes legal, accounting or tax advice or individually tailored investment advice. This material is prepared for general circulation to clients and has been prepared without regard to the individual financial circumstances and objectives of persons who receive it. The investments or services contained in this report may not be suitable for you and it is recommended that you consult an independent investment advisor if you are in doubt about the suitability of such investments or services. This report is not an offer to sell or a solicitation of an offer to buy any securities. Past performance is not a guide to future performance, future returns are not guaranteed, and a loss of original capital may occur. RBC Capital Markets research analyst compensation is based in part on the overall profitability of RBC Capital Markets, which includes profits attributable to investment banking revenues. Every province in Canada, state in the U.S., and most countries throughout the world have their own laws regulating the types of securities and other investment products which may be offered to their residents, as well as the process for doing so. As a result, the securities discussed in this report may not be eligible for sale in some jurisdictions. This report is not, and under no circumstances should be construed as, a solicitation to act as securities broker or dealer in any jurisdiction by any person or company that is not legally permitted to carry on the business of a securities broker or dealer in that jurisdiction. To the full extent permitted by law neither RBC Capital Markets nor any of its affiliates, nor any other person, accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or the information contained herein. No matter contained in this document may be reproduced or copied by any means without the prior consent of RBC Capital Markets.

Additional information is available on request.

To U.S. Residents:

This publication has been approved by RBC Capital Markets Corporation (member FINRA, NYSE), which is a U.S. registered broker-dealer and which accepts responsibility for this report and its dissemination in the United States. Any U.S. recipient of this report that is not a registered broker-dealer or a bank acting in a broker or dealer capacity and that wishes further information regarding, or to effect any transaction in, any of the securities discussed in this report, should contact and place orders with RBC Capital Markets Corporation.

To Canadian Residents:

This publication has been approved by RBC Dominion Securities Inc. (member IIROC). Any Canadian recipient of this report that is not a Designated Institution in Ontario, an Accredited Investor in British Columbia or Alberta or a Sophisticated Purchaser in Quebec (or similar permitted purchaser in any other province) and that wishes further information regarding, or to effect any transaction in, any of the securities discussed in this report should contact and place orders with RBC Dominion Securities Inc., which, without in any way limiting the foregoing, accepts responsibility for this report and its dissemination in Canada.

To U.K. Residents:

This publication has been approved by Royal Bank of Canada Europe Limited ('RBCEL') which is authorized and regulated by Financial Services Authority ('FSA'), in connection with its distribution in the United Kingdom. This material is not for general distribution in the United Kingdom to retail clients, as defined under the rules of the FSA. However, targeted distribution may be made to selected retail clients of RBC and its affiliates. RBCEL accepts responsibility for this report and its dissemination in the United Kingdom.

To Persons Receiving This Advice in Australia:

This material has been distributed in Australia by Royal Bank of Canada - Sydney Branch (ABN 86 076 940 880, AFSL No. 246521). This material has been prepared for general circulation and does not take into account the objectives, financial situation or needs of any recipient. Accordingly, any recipient should, before acting on this material, consider the appropriateness of this material having regard to their objectives, financial situation and needs. If this material relates to the acquisition or possible acquisition of a particular financial product, a recipient in Australia should obtain any relevant disclosure document prepared in respect of that product and consider that document before making any decision about whether to acquire the product.

To Hong Kong Residents:

This publication is distributed in Hong Kong by RBC Investment Services (Asia) Limited and RBC Investment Management (Asia) Limited, licensed corporations under the Securities and Futures Ordinance or, by Royal Bank of Canada, Hong Kong Branch, a registered institution under the Securities and Futures Ordinance. This material has been prepared for general circulation and does not take into account the objectives, financial situation, or needs of any recipient. Hong Kong persons wishing to obtain further information on any of the securities mentioned in this publication should contact RBC Investment Services (Asia) Limited, RBC Investment Management (Asia) Limited or Royal Bank of Canada, Hong Kong Branch at 17/Floor, Cheung Kong Center, 2 Queen's Road Central, Hong Kong (telephone number is 2848-1388).

To Singapore Residents:

This publication is distributed in Singapore by RBC (Singapore Branch) and RBC (Asia) Limited, registered entities granted offshore bank status by the Monetary Authority of Singapore. This material has been prepared for general circulation and does not take into account the objectives, financial situation, or needs of any recipient. You are advised to seek independent advice from a financial adviser before purchasing any product. If you do not obtain independent advice, you should consider whether the product is suitable for you. Past performance is not indicative of future performance.

® Registered trademark of Royal Bank of Canada. RBC Capital Markets is a trademark of Royal Bank of Canada. Used under license.

Copyright © RBC Capital Markets Corporation 2010 - Member SIPC

Copyright © RBC Dominion Securities Inc. 2010 - Member CIPF

Copyright © Royal Bank of Canada Europe Limited 2010

Copyright © Royal Bank of Canada 2010

All rights reserved

