

UBS Investment Research

Panoramic Resources Limited

September quarter production report

■ Event: September quarter report, nickel output inline, costs much higher

Nickel output from the Savannah and Lanfranchi operations totalled 4,174t, inline with UBSe of 4,170t. Cash costs were high at US\$5.55/lb, 19% above UBSe of US\$4.66/lb and +10% q-o-q due to a mill reline at Savannah, lower Ni grades at Lanfranchi and the higher A\$. Lower grades at Lanfranchi reduce the set recovery percentage received and in turn decrease overall payability under the off-take.

■ Impact: Minor changes from quarterly, big impact from currency changes

We have updated our model to reflect minor production updates, including increasing our cash cost assumptions. This in itself would have led to downgrades to FY11e and FY12e NPAT of 13% and 6% respectively. However, we have also included our updated commodity price and currency assumptions, including changing our currency to US\$0.97 (from US\$0.87) for FY11/12/13e. These combined changes have resulted in FY11e and FY12e NPAT being reduced by 29% and 48% respectively.

■ Action: Downgrade to Neutral, \$A impact and increasing costs

Due to the significant impact to earnings from the strong A\$, PAN now appears fully valued, in our view. Subsequently, we have downgraded our recommendation to Neutral. While remaining in a strong position to undertake M&A, we recognise that delivery of a deal is difficult in the current competitive environment. The company increased its investment in Magma Metals to 9.4% during the period.

■ Valuation; \$2.90/sh (DCF, 10% discount rate)

Our price target of \$2.90/sh is based on the NPV.

Highlights (A\$m)	06/09	06/10	06/11E	06/12E	06/13E
Revenues	225	283	267	247	229
EBIT (UBS)	3	75	35	37	18
Net Income (UBS)	6	56	27	30	19
EPS (UBS, A\$)	0.03	0.26	0.13	0.14	0.09
Net DPS (UBS, A\$)	0.03	0.16	0.05	0.06	0.04

Profitability & Valuation	5-yr hist av.	06/10	06/11E	06/12E	06/13E
EBIT margin %	19.3	26.4	13.0	14.8	8.1
ROIC (EBIT) %	-	30.6	15.0	17.7	10.2
EV/EBITDA (core) x	3.9	3.4	5.7	5.2	6.3
PE (UBS) x	20.1	8.8	21.0	18.7	29.3
Net dividend yield %	1.7	7.1	1.9	2.3	1.5

Source: Company accounts, Thomson Reuters, UBS estimates. (UBS) valuations are stated before goodwill, exceptionals and other special items. Valuations: based on an average share price that year, (E): based on a share price of A\$2.65 on 27 Oct 2010 23:41 EST

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Global Equity Research

Australia

Mining

12-month rating **Neutral**
Prior: Buy

12m price target A\$2.90/US\$2.81
Prior: A\$3.20/US\$3.10

Price A\$2.65/US\$2.57

RIC: PAN.AX BBG: PAN AU

28 October 2010

Trading data (local/US\$)

52-wk range	A\$2.96-1.66/US\$2.91-1.41
Market cap.	A\$0.54bn/US\$0.53bn
Shares o/s	205m (ORD)
Free float	78%
Avg. daily volume ('000)	955
Avg. daily value (m)	A\$2.5

Balance sheet data 06/11E

Shareholders' equity	A\$0.30bn
P/BV (UBS)	1.8x
Net Cash (debt)	A\$0.08bn

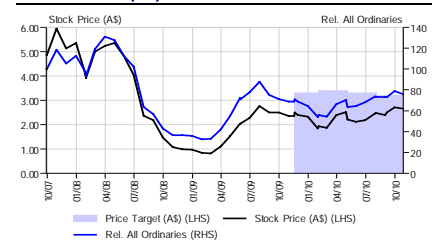
Forecast returns

Forecast price appreciation	+9.4%
Forecast dividend yield	1.9%
Forecast stock return	+11.3%
Market return assumption	9.6%
Forecast excess return	+1.7%

EPS (UBS, A\$)

	06/11E		Cons.	06/10 Actual
	From	To		
H1E	0.08	0.08	-	0.11
H2E	0.09	0.05	-	0.16
06/11E	0.18	0.13	0.25	
06/12E	0.27	0.14	0.33	

Performance (A\$)



Source: UBS

www.ubs.com/investmentresearch

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ANALYST CERTIFICATION AND REQUIRED DISCLOSURES BEGIN ON PAGE 6.

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September quarterly production report

Nickel production from the Savannah and Lanfranchi operations totalled 4,174t, inline with UBSe of 4,170t. Cash costs were high at US\$5.55/lb, 19% above UBSe of US\$4.66/lb and +10% q-o-q. due to a mill reline at Savannah, lower nickel production, lower nickel grades at Lanfranchi and higher A\$. We assume that lower ore grades at Lanfranchi have reduced the set recovery percentage received and in turn decreased overall payability under the terms of the off-take agreement with BHP.

Savannah

At Savannah, nickel production was slightly below expectations at 1,893t vs UBSe of 1,971t. Cash costs of US\$5.41/lb are 22% higher than UBSe. Milled tonnages were lower than UBSe (159kt vs 170kt) and 10% lower q-o-q. However, the mine grade was slightly better at 1.38% Ni compared to UBSe of 1.35%. Recoveries were higher at 87.2% vs UBSe of 85.9%. Higher costs have been attributed to a scheduled mill reline and we would expect, assuming no unexpected production issues, costs to reduce in the current quarter.

Costs were reported at US\$5.41/lb which is 22% above UBSe of \$4.44/lb. This is attributed to lower tonnes processed due to the mill reline.

Lanfranchi

At Lanfranchi, Ni-in-ore production was slightly ahead of forecasts at 2,281t vs UBSe of 2,199t on the back of increased ore tonnes mined. However, grade was lower at 2.33% Ni compared to UBSe at 2.44% Ni. This lower nickel grade in the Lanfranchi ore reduces the set nickel recovery they receive and in turn decreases the overall payability under the off-take contract. Given our assumptions behind the nature of the offtake agreement, we would expect PAN to be scheduling the mining and blending of ore to deliver a higher grade product to the Kambalda Concentrator in an attempt to maximise payability of contained metal.

Cash costs of \$5.71/lb are approximately 17% above UBSe due to less payable nickel units as a result of the lower grade ore.

Investments

PAN continued to actively manage equity positions in listed and unlisted companies during the period as per the previously stated strategy. Activity in listed companies during the quarter included:

- Sale of 1.24m shares in Ampella Mining (AMX.AX), retaining 2.3m shares at the end of the quarter.
- Purchase of additional 12.1m shares in Magma Metals (MMX.AX) for a total holding of 18.4m shares or 9.4%.

The Company retains 2.5m shares in Thundelarra Exploration (THX.AX) and 2.8m shares in Liontown Resources (LTR.AX).

While we believe this trading would have generated a small profit, we fail to understand the company strategy behind Panoramic taking small equity positions in exploration companies unless this was being used as a stepping

stone for growth. For example, prior to PAN acquiring 9% of Magma Metals, Magma Metals had Anglo Pacific on the register holding 14% and Anglo American holding 12%. Given this situation, we are not sure of the ultimate end game for PAN as the potential acquisition of Magma Metals could be complicated by the current shareholders.

Exploration

The Company continues on its aggressive exploration campaign with \$12m budgeted for FY11. Highlights to date include the positive exploration results from outside the Deacon resource (8.6m at 6.5% Ni & 5.1m at 6.1% Ni), backing our theory that the Lanfranchi Complex mine life will ultimately be 10 years.

The exploration drive being constructed at Lanfranchi encountered poor ground conditions and was halted 50m short of its designed end point. The drive is now scheduled for completion late October which will then allow drill testing a further 250-300m down plunge.

At the Tushtena Gold Project in Alaska, five holes were drilled in the September quarter, with weak gold assays returning from the first two holes. Better results are expected from the remaining holes (late October/early November), with at least one hole intersecting several zones of alteration and veining.

Summary of changes

Reconciling the September quarter production report had some impact to our FY11/12/13e earnings forecasts, reducing NPAT by 13%, 6% and 4% respectively. However, applying the UBS commodity price and currency assumptions has had a more significant impact (Table 1). Only small changes to our commodity prices were more than offset by an increase to the US\$:A\$ exchange rate from 0.87 to 0.97. The combination of production updates and currency has resulted in large downgrades to our earnings, with NPAT reducing by 29% in FY11e and 48% in FY12e.

Table 1: Summary of changes

Jun y/e		FY11E			FY12E			FY13E		
		new	old	%	new	old	%	new	old	%
Revenue	A\$m	271	272	0%	254	284	-11%	238	278	-14%
EBITDA	A\$m	81	96	-16%	82	121	-32%	61	109	-44%
EBIT	A\$m	35	51	-31%	37	76	-52%	18	67	-72%
NPAT	A\$m	27	38	-29%	30	58	-48%	19	55	-65%
EPS	A\$m	13	18	-29%	14	27	-48%	9	26	-65%
DPS	A\$m	5	7	-29%	6	12	-50%	4	11	-64%
Ni Price	US\$/lb	9.8	9.0	9%	9.5	9.5	0%	9.3	9.3	0%
Ni Production										
Savannah	kt	7.8	7.9	-1%	7.7	7.7	0%	7.0	7.0	0%
Lanfranchi	kt	7.9	7.7	2%	7.7	7.7	0%	7.7	7.7	0%
Group	kt	15.7	15.6	1%	15.4	15.4	0%	14.7	14.7	0%
Cash costs										
Savannah	US\$/lb	5.19	4.40	18%	5.01	4.15	21%	5.33	4.32	23%
Lanfranchi	US\$/lb	5.69	4.89	16%	5.76	4.97	16%	5.93	4.92	21%
Group	US\$/lb	5.44	4.64	17%	5.39	4.56	18%	5.65	4.64	22%
NPV	A\$/share	\$ 2.90	\$3.19	-9%						
Price Target	A\$/share	\$ 2.90	\$3.20	-9%						

Source: Company reports, UBS-e

Both our NPV and target price, derived from the NPV, have been reduced by 9% to \$2.90/sh.

Investment thesis

We downgrade our recommendation from Buy to Neutral on the back of the lower earnings forecasts due to the change in our A\$ currency forecasts.

With the exception of minor and unexpected production disruptions, the Savannah and Lanfranchi operations are performing close to expectations and offering limited organic growth options. With costs creeping up across both operations, we would like to see initiatives put into place which aim to reduce cash costs.

We continue to expect PAN management to implement a growth strategy through M&A, although we recognise that progress on this front has been made more difficult with numerous mining companies all looking to do the same thing. We do question the current strategy of taking small equity positions in junior exploration companies, with the partial sale of the AMX stake during the quarter making it look like the company is targeting short-term returns, which may be construed as a high risk strategy.

Panoramic Resources (PAN.AX)

 Analyst/s: Jo Battershill, Brett McKay, Glyn Lawcock
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28-Oct-10

MARKET INFORMATION

Rating:	Neutral
Price (as of 28-Oct-10):	2.65
Price Target (12 months):	2.90
Issued Capital:	205.3
Market Capitalisation:	543.9
Avg. daily turnover (US\$m)	2.3
Year end:	Jun 2011
Website:	http://www.panoramicresources.com
Major Shareholders:	M&G 18.15%, AMP 6.2%, Eley Griffith 5.1%

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)	2010	2011E	2012E	2013E
Net profit [reported] (\$m)	56.2	26.8	30.1	19.2
Net profit [adjusted] (\$m)	56.2	26.8	30.1	19.2
EPS [reported] (\$)	0.27	0.13	0.15	0.09
EPS [adjusted, diluted] (\$)	0.26	0.13	0.14	0.09
EPS Growth (%)	870.0	(52.5)	12.3	(36.1)
PER [adjusted] (x)	10.0	21.0	18.7	29.3
Dividend (\$)	0.2	0.1	0.1	0.0
Payout ratio (%)	60.1	38.3	40.9	42.7
Dividend Yield (%)	6.2	1.9	2.3	1.5
FCF Yield (%)	23.5	9.9	9.0	8.8
Franking (%)	100%	100%	100%	100%
Shares [period-average, diluted] (m)	212.1	212.7	212.7	212.7

VALUATION

Valuation per share [NAV @ 10%] (\$)	2.91
Share Price Target [12 months] (\$)	2.90
Price/NAV [10% disc rate] (x)	0.91

Operating Assets [DH10]

	A\$m	¢
Savannah	219	107
Lanfranchi	225	110

Gross Assets

	A\$m	¢
Investments	16	8
Exploration	35	17
Hedging	(6)	(3)
Net Cash	169	82
Corporate costs	(60)	(29)

Net Asset Value @ 10% discount rate

	A\$m	¢
	598	291

ENTERPRISE VALUE

(A\$m)	2010	2011E	2012E	2013E
Enterprise Value	431	463	422	383
EV/EBITDA (x)	3.4	5.7	5.2	6.3
EV/Operating Free Cash Flow (x)	4.5	8.7	9.1	8.9

EPS SENSITIVITIES

Commodity	Base Change	2011E	2012E	2013E
Nickel	10.0%	34.2%	46.2%	79.4%
Copper	10.0%	4.0%	4.5%	5.9%
Currency	5¢	29.9%	40.4%	60.9%

CASH FLOW

(A\$m)	2010	2011E	2012E	2013E
Operating income [EBIT, UBS]	75	35	37	18
Depreciation & Amortisation	52	46	45	42
Net change in working capital	(3)	0	0	0
Other (operating)	8	0	0	0
Pre-tax op cash flow	132	81	82	61
Interest (paid) / received	4	4	6	9
Tax paid	4	(11)	(13)	(8)
Other	0	0	0	0
Operating cash flow	140	73	75	62
Capital expenditure	(8)	(17)	(24)	(12)
Free cash flow	132	56	51	49
Net (acquisitions) / disposals	0	0	0	0
Dividends paid (Common)	(25)	(19)	(10)	(10)
Shares issued/(repurchased)	1	0	0	0

Source: Company accounts, UBS estimates. UBS valuations are stated before goodwill, exceptional and other special items. Note: The data represents an extract of the full company accounts.

OPERATIONAL ASSUMPTIONS

	1H11E	2H11E	2010	2011E	2012E	2013E
Commodity prices						
Ni price (US\$/lb)	9.96	9.60	8.82	9.78	9.45	9.30
Cu price (US\$/lb)	3.53	3.85	3.04	3.69	3.48	2.98
Co price (US\$/lb)	20.05	18.00	20.52	19.02	17.00	16.00
A\$:US\$	0.94	0.97	0.88	0.95	0.97	0.97
Production - payable Nickel						
Savannah (Mlbs)	3.9	3.9	7.3	7.8	7.7	7.0
Lanfranchi (Mlbs)	4.1	3.9	8.8	7.9	7.7	7.7
Cash costs						
Savannah (US\$/lb)			4.54	5.19	5.01	5.33
Lanfranchi (US\$/lb)			5.08	5.69	5.76	5.93

DIVISIONAL BREAKDOWN [EBIT]

(A\$m)	1H11E	2H11E	2010	2011E	2012E	2013E
Savannah	15.7	12.9	25.1	28.6	22.9	13.6
Lanfranchi	19.7	15.2	42.3	34.9	27.5	23.9

PROFIT & LOSS

(A\$m)	1H11E	2H11E	2010	2011E	2012E	2013E
Sales Revenue	138	129	283	267	247	229
Operating Cash Profit	63	54	157	117	101	85
Depn & Amortisation	(23)	(23)	(52)	(46)	(45)	(42)
Operating Profit	40	31	104	71	56	43
Others	(14)	(12)	(19)	(26)	(9)	(13)
SGA	(5)	(5)	(10)	(10)	(11)	(11)
EBIT	21	13	75	35	37	18
Net interest	2	2	4	4	6	9
Profit before tax	23	15	78	38	43	27
Tax expense	(7)	(5)	(22)	(11)	(13)	(8)
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]	16	11	56	27	30	19
Abnormal Gain/(Loss) after Tax	0	0	0	0	0	0
Net Profit [adjusted]	16	11	56	27	30	19

EBITDA margin (%)			44.9	30.2	33.0	26.6
Net Interest Cover [EBIT] (x)			20.8	9.6	5.8	2.0
Tax Rate (%)			28%	30%	30%	30%
EBIT/Total Assets (%)			17.9	8.2	8.3	4.1
NPAT/Equity (%)			19.3	9.0	9.5	5.9

BALANCE SHEET [Selected Items]

(A\$m)	2010	2011E	2012E	2013E
Net Working capital	66	66	66	66
Fixed Assets	52	52	52	52
Net Other	128	99	79	48
Capital Employed	246	217	197	166
Net Cash / (Debt)	45	81	122	161
Total Equity [incl. minorities]	291	298	318	327
Minorities	0	0	0	0
Net Debt / Equity (%)	(15.5)	(27.2)	(38.3)	(49.2)
Book Value per Share(\$)	1.43	1.45	1.55	1.59

Source: Company reports, UBS-e

■ **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	51%	37%
Neutral	Hold/Neutral	40%	33%
Sell	Sell	9%	22%
UBS Short-Term Rating	Rating Category	Coverage ³	IB Services ⁴
Buy	Buy	less than 1%	20%
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 30 September 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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UBS Securities Australia Ltd: Jo Battershill; Brett McKay; Glyn Lawcock.

Company Disclosures

Company Name	Reuters	12-mo rating	Short-term rating	Price	Price date
Panoramic Resources Limited ^{5, 13}	PAN.AX	Buy	N/A	A\$2.65	27 Oct 2010

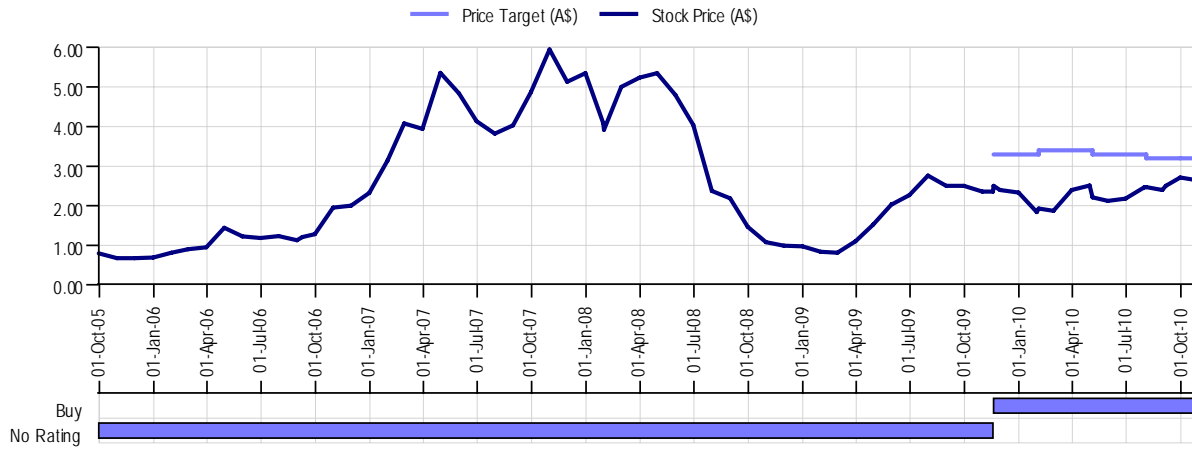
Source: UBS. All prices as of local market close.

Ratings in this table are the most current published ratings prior to this report. They may be more recent than the stock pricing date

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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 27 Oct 2010

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