

# Panoramic Resources Limited

## Q3 report – Production lower than forecast



Wilson HTM  
INVESTMENT GROUP

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\$2.49

Hold

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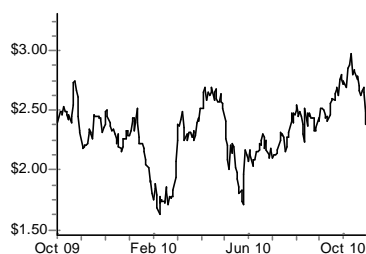
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### Price Performance



### Security/Capital Details

ASX Code	PAN
Market Cap	\$523 M
Issued Shares (dil)	209.9 M
Avg Mth T'over	23.29 M
12 Mth High – Low	\$2.96 - \$1.63

### Key Data/Ratios – FY 2011

EBITDA / Sales	60.7%
EBIT / Sales	41.4%
Debt / Equity	1.0%
Interest Cover	428.6 x
ROE	21.6%
EPS Growth	30.6%
DCF	\$2.75
12 Mth Price Target	\$2.75

### Recommendation

Mined grades were lower than forecast, resulting in lower than expected production for the September quarter. This suggests that our December half production estimates could be optimistic. However, nickel prices have been trending above our December half estimates. Metallurgical test results from Cruickshank have been positive, suggesting potential for the current inferred resource to be economic. There are minor changes to the hedge book, equity investments and exploration expenditure. We maintain our HOLD recommendation. Valuation and target price are both down ~1% to A\$2.75/share.

### Key Points

- In the September quarter, nickel production at both Savannah and Lanfranchi were below our forecasts. This was a result of lower than expected mined grades.
- During the quarter, nickel production from Savannah was 1,893k Ni, when compared to our December half forecast of 4,366t Ni, nickel production for the quarter was lower by 13%. Mined grades were 1.38% Ni, compared to our forecast of 1.50% Ni. Cash costs were subsequently 6% higher than expected at A\$5.99/lb compared to A\$5.64/lb of payable nickel.
- Lanfranchi also produced less nickel than forecast. September quarter nickel production totalled 2,281t Ni, compared to our December half forecast of 5,203t Ni, nickel production for the quarter was lower by 12%. Mined grades were 2.33%, compared to our forecast of 2.54% Ni. Cash cost were 6% higher than forecast at A\$6.32/lb compared to our forecast of A\$5.98/lb of payable nickel.
- Following on from the lower than expected mined grades in the September quarter, our production forecasts for the December half appear optimistic.
- However, potentially lower than expected production is likely to be somewhat offset by higher than expected spot nickel prices, we currently forecast the nickel price to average US\$10/lb in the December half. Nickel has traded as high as US\$11.25/lb in the September quarter. During the December half, we expect PAN to deliver approximately 20% of its nickel production into its hedge book, mitigating some of the impact of higher than forecast nickel prices.
- Metallurgical analysis of core from the Cruickshank deposit at Lanfranchi supports the case for part of the ore to be economic. Results suggested potential for the Cruickshank deposit to produce a 9-10% nickel concentrate. Cruickshank only has an inferred resource of 2.1mt @ 1.23% Ni for 26.6kt Ni. The metallurgical results could lead to an eventual reserve for the deposit, extending the Lanfranchi mine life beyond 2016. PAN forecasts A\$12m on exploration expenditure in FY2011, across Savannah, Lanfranchi and regional exploration sites.
- During the quarter, PAN took profits from the sale of shares in Ampella (AMX) and acquired additional shares in Magma Metals (MMW). The company also added small amounts to its nickel, diesel and FX hedges.
- Cash and receivables at 30 September totalled \$144m

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 %
2010a	56.2	51.2	24.5	113.1	10.2	64.9	3.8	16.5	6.6	100
2011e	67.1	67.1	32.0	30.6	7.8	50.7	4.9	16.0	6.4	100
2012e	109.1	109.1	52.0	62.6	4.8	72.5	3.4	27.0	10.8	100
2013e	86.9	86.9	41.4	-20.4	6.0	57.6	4.3	22.0	8.8	100

### Equities Research – Panoramic Resources Limited

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**Revision the valuation and target price – A\$/share**

	<b>Valuation</b>	<b>Target</b>
<b>Previous</b>	<b>2.80</b>	<b>2.76</b>
<b>Revised</b>	<b>2.75</b>	<b>2.75</b>
<b>Change</b>	<b>-1.8%</b>	<b>-0.4%</b>

Source: Wilson HTM

**Exploration activity**

PAN is forecasting a total exploration budget of \$12m for FY2011, of which \$4.5m or 38%, will be spent outside of the primary Savannah and Lanfranchi assets.

**Lanfranchi**

PAN will be targeting 15,000m of underground drilling in FY2011.

During the quarter, exploration works at Lanfranchi underground were limited. The exploration drive, which would have allowed access for drilling, was halted just short of the designated end point following poor ground conditions. Once the drive is complete, exploration drilling will be able to target the ore body for a further 250-300m down plunge.

Underground exploration activities at the Deacon deposit returned two highly mineralised holes outside of the current resource. The results include HS593 8.6m @ 6.51% Ni and HS598 5.1m @ 6.07% Ni. It is likely that further testing will result in an upgrade to the current Deacon resource.

Metallurgical analysis of core from the Cruickshank deposit at Lanfranchi supports the case for part of ore to be economic. Results suggested the potential for the Cruickshank deposit to produce a 9-10% nickel concentrate. Currently, the Cruickshank deposit only has an inferred resource of 2.1mt @ 1.23% Ni for 26.6kt Ni. The metallurgical results suggest that the ore is potentially economic, leading to a possible reserve for the deposit and extending the mine life beyond 2016.

**Bluebush – 80%**

Results from two diamond holes at the Bluebush project in the Northern Territory are expected imminently. The project is prospective for copper/gold

## Panoramic Resources Limited (PAN : \$2.49)

## PRODUCTION

Yr Ending June	2009A	2010A	2011E	2012E	2013E
Contained Nickel (kt)	17.4	17.4	18.5	19.3	19.3
Contained Copper (kt)	5.0	4.9	4.4	4.7	4.7
Contained Cobalt (kt)	0.4	0.4	0.4	0.4	0.4

## PRICES

Yr Ending June	2009A	2010A	2011E	2012E	2013E
AUDUSD (USD)	0.75	0.88	0.90	0.89	0.85
Nickel (US\$/lb)	6.13	8.81	10.25	12.25	10.00
Copper (US\$/lb)	2.08	2.42	3.52	3.94	3.38
Cobalt (US\$/lb)	21.90	20.52	19.98	17.50	15.00

## INVESTMENT &amp; VALUATION FUNDAMENTALS

Yr Ending June	2009A	2010A	2011E	2012E	2013E
EPS Before Abs (c)	11.5	24.5	32.0	52.0	41.4
EPS Growth (%)	N/A	113.1%	30.6%	62.6%	-20.4%
<b>PER (x)</b>	<b>21.7</b>	<b>10.2</b>	<b>7.8</b>	<b>4.8</b>	<b>6.0</b>
CFPS (c)	16.1	64.9	50.7	72.5	57.6
<b>P/CF (x)</b>	<b>15.5</b>	<b>3.8</b>	<b>4.9</b>	<b>3.4</b>	<b>4.3</b>
EV/EBITDA (x)	5.8	3.9	3.6	1.9	2.1
DPS (c)	3.0	16.5	16.0	27.0	22.0
<b>Yield (%)</b>	<b>1.2%</b>	<b>6.6%</b>	<b>6.4%</b>	<b>10.8%</b>	<b>8.8%</b>
Franking (%)	100%	100%	100%	100%	100%

## DCF VALUATION

Yr Ending June	@	10.5 %		10 %	
		A\$m	A\$ps	A\$m	A\$ps
Savannah		116.7	0.56	118.1	0.56
Lanfranchi		207.7	0.99	210.0	1.00
Corporate Costs Capitalised		-39.2	-0.19	-39.8	-0.19
Hedge Book		-10.8	-0.05	-10.8	-0.05
Interests - Other Entities		15.0	0.07	15.0	0.07
Exploration/Dev Portfolio		73.0	0.35	73.0	0.35
Franking Credits		68.8	0.33	69.7	0.33
Cash		144.7	0.69	144.7	0.69
Interest Bearing Liabilities		-3.3	-0.02	-3.3	-0.02
Minorities		0.0	0.00	0.0	0.00
Additional Capital - Dilution		3.7	0.02	3.7	0.02
Total Valuation - Diluted		576.4	2.75	580.3	2.76

## PROFITABILITY RATIOS

Yr Ending June	2009A	2010A	2011E	2012E	2013E
<b>EBIT / Sales (%)</b>	<b>14.5%</b>	<b>25.1%</b>	<b>41.4%</b>	<b>53.8%</b>	<b>46.9%</b>
ROA (%)	N/A	20.4%	23.4%	39.2%	32.4%
<b>ROE (%)</b>	<b>N/A</b>	<b>17.7%</b>	<b>21.6%</b>	<b>30.0%</b>	<b>21.1%</b>
ROFE (%)	N/A	29.1%	34.2%	57.0%	48.8%

## INTERIMS (\$m)

Half Yr	Dec 09	Jun 10	Dec 10	Jun 11	Dec 11
Yr Ending June	1H A	2H A	1H E	2H E	1H E
Sales Revenue	132.2	151.2	113.2	101.9	138.9
EBIT	32.0	39.2	51.2	37.9	76.7
<b>Net Profit</b>	<b>23.1</b>	<b>33.1</b>	<b>38.3</b>	<b>28.8</b>	<b>56.0</b>
EPS	11.3	13.2	18.2	13.7	26.7

## BALANCE SHEET (\$m)

Yr Ending June	2009A	2010A	2011E	2012E	2013E
Cash	50.0	49.8	57.9	156.0	215.6
Total Assets	380.3	416.8	452.2	515.8	546.8
Debt	6.6	4.7	3.3	3.3	3.3
Total Liabilities	94.0	125.7	122.3	120.3	118.3
Total Shareholders Equity	286.3	291.1	329.9	395.5	428.5
Total Funds Employed	242.9	246.1	275.3	242.8	216.2

## LIQUIDITY &amp; LEVERAGE RATIOS

Yr Ending June	2009A	2010A	2011E	2012E	2013E
Debt / Equity (%)	2.3%	1.6%	1.0%	0.8%	0.8%
Gearing (%) <sup>1</sup>	2.2%	1.6%	1.0%	0.8%	0.8%
Interest Cover (x)	33.5	5,470.8	-14.3	-19.2	-9.2
Debt / CashFlow (x)	0.2	0.0	0.0	0.0	0.0
(Debt+CNNotes) / CashFlow	0.1	0.0	0.0	0.0	0.0

## PROFIT &amp; LOSS (\$m)

Yr Ending June	2009A	2010A	2011E	2012E	2013E
Sales Revenue	225.1	283.4	215.2	275.4	238.6
EBITDA	82.2	123.8	130.5	193.3	147.9
Depn and Amortisation	49.5	52.7	41.4	45.1	35.9
<b>EBIT</b>	<b>32.7</b>	<b>71.1</b>	<b>89.1</b>	<b>148.1</b>	<b>112.0</b>
Net Interest Expense	1.0	0.0	-6.2	-7.7	-12.1
<b>Pre-tax Profit</b>	<b>31.7</b>	<b>71.1</b>	<b>95.4</b>	<b>155.8</b>	<b>124.1</b>
Tax	7.8	19.9	28.3	46.7	37.2
Tax rate (%)	24.6%	28.0%	29.7%	30.0%	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
<b>Net Profit</b>	<b>23.9</b>	<b>51.2</b>	<b>67.1</b>	<b>109.1</b>	<b>86.9</b>
Abnormals	-18.3	5.0	0.0	0.0	0.0
Reported Net Profit	5.6	56.2	67.1	109.1	86.9

## CASHFLOW (\$m)

Yr Ending June	2009A	2010A	2011E	2012E	2013E
<b>Operating Cash Flow</b>	<b>33.5</b>	<b>135.8</b>	<b>106.5</b>	<b>152.2</b>	<b>120.8</b>
Capital Expenditure	-15.7	-8.1	-37.1	-3.7	-1.3
Expln, Develop, Evaln	-44.8	-26.9	-25.0	-7.0	-6.0
Asset Sales/Acquisitions	0.0	-5.7	-8.0	0.0	0.0
Other	-17.8	-65.9	0.0	0.0	0.0
<b>Investing Cash Flow</b>	<b>-78.4</b>	<b>-106.6</b>	<b>-70.0</b>	<b>-10.7</b>	<b>-7.3</b>
Share Issues/(Buybacks)	0.2	0.6	3.7	0.0	4.5
Debt Drawdown (Repay)	-4.7	-5.4	0.0	0.0	0.0
Dividends Paid	-11.5	-24.6	-32.0	-43.5	-58.4
Other Fin. Flows	0.0	0.0	0.0	0.0	0.0
<b>Financing Cash Flow</b>	<b>-16.1</b>	<b>-29.4</b>	<b>-28.3</b>	<b>-43.5</b>	<b>-53.9</b>
<b>Cash Increase (Decrease)</b>	<b>-60.9</b>	<b>-0.2</b>	<b>8.1</b>	<b>98.1</b>	<b>59.7</b>

## EARNINGS SENSITIVITIES - % CHANGE

Yr Ending June	2009A	2010A	2011E	2012E	2013E
+/- 1c Movement US\$/A\$	0.0	0.0	3.4	2.7	3.1
+/-10% Ni Price Change	0.0	0.0	20.8	18.6	22.5
+/-10% Change In Costs	0.0	0.0	14.7	10.1	12.0

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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