

# Panoramic Resources Ltd

## (PAN \$2.25) Buy, Upgrade from Hold

### Comments

**Price Target: \$2.70/sh**

PAN is a well managed profitable nickel producer with consistent returns over a period of some years. Strong cashflow has allowed payment of fully franked dividends, increased exploration expenditure and acquisitions. We have upgraded our nickel price assumptions which combined with a stronger 2nd H should see a re-rating towards our revised valuation of \$2.70/sh.

1st H NPAT of \$17.5m was below our \$23m forecast and due to a weaker than expected 2'Q result where production at Savannah was ~ 300t below budget due to ventilation failures which restricted the access to ore. As a consequence Savannah operating costs were US\$7.51/lb per lb payable versus US\$6/lb payable at Lanfranchi (group costs of US\$6.58/lb vs US\$5.55/lb in the pcg).

Operating cashflow was weak with an unfavourable \$20.6m increase in working capital and a \$18m tax payment. The balance sheet remains strong with \$110.4m in cash. An interim dividend of 4 cps fully franked was declared, slightly below our 5 cps forecast.

Full year guidance of 18kt is maintained, implying a 2nd H of ~ 9.5kt, up 1.5kt from 1st H of 8.2kt. Lower costs, better nickel prices and lower D&A should result in a doubling of earnings in the 2nd H FY'11. ie \$38m vs \$17m.

In Jan PAN agreed to buy the Gidgee gold project from Apex Gold for \$15.5m. The purchase includes 1,200 sqkm of tenements, 310koz of gold resource, a 600kt processing plant and 150 person camp. The mine is on care and maintenance. PAN see real upside with no significant exploration done since 2005. The acquisition also brings copper potential with a number of historical intersections 944m @ 1.21% Cu, 12m @ 1.67% Cu).

PAN has increased its exploration budget from \$8.7m to a minimum of \$12m in FY'11. Further drilling at the new discovery, interpreted as the down plunge continuation of Helmut 5th, continued to provide encouragement. Better results include 7.3m @ 7.44% Ni, 8.6m @ 6.5% Ni etc. A total of 19 holes were completed with 15 holes intersecting significant mineralisation.

The Lanfranchi down plunge drilling was a little disappointing, only returning small widths with modest grades. Down hole EM showed some off hole conductors which will be followed up shortly.

During the Q PAN continued to liquidate its Ampella Mining investment selling a further 1.8m shares to hold 0.5m at the end of the Q. It did not buy any further investments with its equity portfolio worth \$13.6m at Q end.

PAN continues to actively manage its hedge book, adding some modest Ni forwards at US\$10.24/lb. some nickel puts and FX puts. Excluding the nickel puts and assuming the sold nickel call options are all exercised the company is ~ 30% hedged in FY'11 and 13% hedged in FY'12. The mark to market value of the book was -A\$8.3m versus -\$8.5m in the pcg.

### Investment Case

Operationally PAN continues to perform reasonably well and despite the slight production hiccup in the Dec Q, maintains full yr guidance of 18kt. The operations continue to generate significant surplus cash which PAN is looking to utilize for acquisitions. It has been disciplined in its approach thus far but the competition for good assets remains tough.

We are neutral on the Gidgee acquisition, remembering this as a fairly tough asset when Abelle Mining operated it. However, we do acknowledge the gold price has double since these times and its probably fair to say the previous owners interest was distracted once it merged with Aurora.

PAN has probably lacked a little bit of exploration sizzle over the past 12-18 months after the original Deacon discovery, so this new discovery at Lanfranchi has come at an opportune time. Initial results are good and being close to existing development, capex to access this potential new ore source will be low.

PAN now trades at a 20% discount to our valuation and as a consequence we have upgraded to a Buy. It trades on FY'11 PER and CFM multiples of 7x and 4x respectively, undemanding for a company with 9-10yrs mine life. Any exploration success and/or nickel price appreciated will be a price catalyst.

### Top 20 Shareholders as at 18 February 2011

Shareholders	Shares (m)	(%)
1 JP Morgan Nominees Australia Ltd	47.53	22.96
2 HSBC Custody Nominees (Aus) Ltd	42.45	20.50
3 National Nominees Ltd	25.29	12.21
4 JP Morgan Nominees Australia Ltd	19.09	9.22
5 Citicorp Nominees Pty Ltd	8.47	4.09
6 AMP Life Ltd	6.57	3.17
7 Cogent Nominees Pty Ltd	4.44	2.15
8 RBC Dexia Investor Svcs Aus Nom Pty Ltd	2.39	1.16
9 Springway Investments Pty Ltd	1.46	0.70
10 Queensland Investment Corporation	1.40	0.68
11 Cogent Nominees Pty Limited	1.22	0.59
12 UBS Wealth Mgt Aus Nom Pty Ltd	1.07	0.52
13 Winton Vale Pty Ltd	0.99	0.48
14 HSBC Custody Nominees (Aus) Ltd	0.94	0.45
15 ABN Amro Clearing Sydney Nom Pty Ltd	0.67	0.33
16 Mr Peter John Harold + Ms Ariane Harold	0.65	0.31
17 Merrill Lynch (Aus) Nominees Pty Ltd	0.64	0.31
18 HSBC Custody Nominees (Aus) Ltd	0.62	0.30
19 Brispot Nominees Pty Ltd	0.59	0.29
20 Citicorp Nominees Pty Ltd	0.57	0.27
<b>TOTAL</b>	<b>167.06</b>	<b>80.69</b>

### Market Statistics

<b>Share Price</b>	<b>\$2.25 A\$/sh</b>	<b>Directors</b>	
Issued Capital		C.de Guingand	Chairman
FP Ord	206.5 m	P.Harold	Mgr Dir
Opts (var) 3.0	m	J.Rowe	Dir
<b>Total Dil. FPOrd</b>	<b>209.5 m</b>	C.Langdon	Dir
		B.Phillips	Dir
Market Capitalisation	\$467 m	<b>Shareholders</b>	
Enterprise Value	\$352 m	M&G	17%
Debt	\$- m	Blackrock	8%
Cash	\$115 m	AMP	6%
Hedging	1.5kt @ US\$24,350/t	EGG	6%
	1.25t @ US\$16,770/t		
	Bought puts US48m @ US\$1.017		

### Share Price Performance



# Panoramic Resources Ltd

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AUSTRALIAN RESEARCH

PANORAMIC RESOURCES LTD (PAN)		YEAR END 30 JUNE					
ASSET VALUATION		A\$M	A\$/sh				
Savannah Nickel		165	0.79				
Lanfranchi		235	1.12				
Hedging		(10)	(0.05)				
Corporate		(19)	(0.09)				
Exploration		50	0.24				
Debt		-	-				
Unpaid Capital		7	0.03				
Cash		115	0.55				
<b>Total @ 10% nom</b>		<b>559</b>	<b>2.67</b>				
FORECAST PRODUCTION (A\$m) June H'11 2011f 2012f 2013f 2014f							
Attributable production							
Savannah Nickel (100%)	kt	3.9	7.3	7.1	7.1	7.1	
Lanfranchi (100%)	kt	5.7	10.5	11.2	10.0	10.0	
Ni in con	kt	9.5	17.7	18.3	17.1	17.1	
Copper in con	kt	2.1	4.0	4.2	4.2	4.3	
Cobalt in con	kt	0.2	0.4	0.4	0.4	0.4	
Operating cost per payable	A\$/lb	5.34	5.60	5.52	5.79	5.94	
FX Rate assumed	US\$:A\$1	1.00	0.97	0.93	0.90	0.90	
Ni Price assumed	US\$/lb	12.50	11.33	10.50	9.00	9.00	
Ni Price achieved	US\$/lb	11.35	10.60	10.45	9.00	9.00	
Ni Price achieved	A\$/lb	11.35	10.88	11.29	10.00	10.00	
RATIO ANALYSIS (A\$m) June H'11 2011f 2012f 2013f 2014f							
CF (A\$m)		52	46	97	62	62	
CF / Sh (Ac/sh)		25	22	46	30	30	
CF Ratio (x)		-	10.3	4.9	7.5	7.5	
Earnings (A\$m)		35	52	69	50	46	
EPS (Ac/sh)		17	25	33	24	22	
EPS Growth (%)		0%	2%	32%	-27%	-8%	
Earnings Ratio (x)		-	9.0	6.8	9.3	10.1	
E'prise Val. (A\$m)		336	336	268	233	200	
EV : EBITDA (x)		-	2.7	2.0	2.6	2.3	
EV : EBIT (x)		-	4.7	2.9	3.8	3.7	
Net Debt / ND+Eq (%)		0%	na	na	na	na	
Interest Cover (x)		-	na	na	na	na	
EBIT Margin (%)		0%	25%	31%	24%	21%	
ROE (%)		0%	17%	18%	12%	11%	
ROA (%)		0%	17%	19%	12%	10%	
Div. (Ac/sh)		5	9	10	10	10	
Div. payout ratio		30%	39%	30%	41%	45%	
Div. Yield		0%	4%	4%	4%	4%	
Div. Franking		100	100	100	100	100	
RESOURCES AND RESERVES							
		Reserves			Resources		
		mt	Ni% (eq)	Ni eq.	mt	Ni% (eq)	Ni cont.
Savannah (100%)		6.2	1.9	74.2	6.87	1.55	102.8
Lanfranchi (100%)		2.50	2.4	71	6.9	2.4	165.0
<b>Total Attributable EV/lb</b>				<b>145</b>			<b>268</b>
							0.6

PROFIT AND LOSS (A\$m)	June H'11	2011f	2012f	2013f	2014f
Ni Conc. Sales	157	273	273	226	226
By Product Revenue	14	25	28	27	27
Hedging Revenue	(14)	(19)	(1)	(0)	(0)
Revenue Adjustment	-	3	-	-	-
Interest Revenue	3	6	8	10	12
Other Revenue	-	5	-	-	-
<b>TOTAL REVENUE</b>	<b>160</b>	<b>294</b>	<b>308</b>	<b>263</b>	<b>265</b>
Operating Costs	81	155	160	157	160
Dep/Amort	20	42	41	28	31
O/H + Bus Dev	5	9	7	7	7
W/O & Provisions	4	10	0	0	0
EBITDA	72	123	133	89	86
EBIT	47	71	92	61	54
Interest Expense	0	1	0	0	0
Net Profit Before Tax	50	76	99	71	66
Tax	15	24	30	21	20
Minorities	-	-	-	-	-
<b>NET PROFIT</b>	<b>35</b>	<b>52</b>	<b>69</b>	<b>50</b>	<b>46</b>
Net Abnormal Gain/(Loss)	-	-	-	-	-
<b>NET PROFIT After Abn'l</b>	<b>35</b>	<b>52</b>	<b>69</b>	<b>50</b>	<b>46</b>
CASH FLOW (A\$m)	June H'11	2011f	2012f	2013f	2014f
Net Profit	35	52	69	50	46
+ Working Capital Adj.	-	(30)	-	-	-
+ Dep/Amort	20	42	41	28	31
+ Provisions	4	10	0	0	0
+ Tax Expense	15	24	30	21	20
- Tax Paid	15	33	30	21	20
<b>Operating Cashflow</b>	<b>59</b>	<b>66</b>	<b>111</b>	<b>78</b>	<b>78</b>
-Capex + Development	7	20	14	16	16
-Exploration	6	11	8	8	8
-Assets Purchased	15	21	-	-	-
+Asset Sales	-	2	-	-	-
<b>Investing Cashflow</b>	<b>(28)</b>	<b>(50)</b>	<b>(22)</b>	<b>(24)</b>	<b>(24)</b>
+Equity Issues	-	-	-	-	-
+Loan D'down/Receivable	-	3	-	-	-
-Loan Repayment	-	-	-	-	-
-Dividends	8	22	21	21	21
<b>Financing Cashflow</b>	<b>(8)</b>	<b>(19)</b>	<b>(21)</b>	<b>(21)</b>	<b>(21)</b>
<b>Period Sur (Def)</b>	<b>23</b>	<b>(3)</b>	<b>68</b>	<b>33</b>	<b>33</b>
<b>Cash Balance</b>	<b>134</b>	<b>134</b>	<b>202</b>	<b>235</b>	<b>268</b>
BALANCE SHEET (A\$m)	June H'11	2011f	2012f	2013f	2014f
<b>Assets</b>					
Cash	134	134	202	235	268
Current Receivables	46	46	46	46	46
Other Current Assets	17	17	17	17	17
Non-Current Assets	233	233	227	223	217
<b>Total Assets</b>	<b>429</b>	<b>429</b>	<b>491</b>	<b>521</b>	<b>547</b>
<b>Liabilities</b>					
Borrowings	3	3	3	3	3
Current Accounts Payable	28	28	28	28	28
Other Liabilities	83	83	83	83	83
<b>Total Liabilities</b>	<b>114</b>	<b>114</b>	<b>114</b>	<b>114</b>	<b>114</b>
<b>Net Assets</b>	<b>314</b>	<b>314</b>	<b>377</b>	<b>406</b>	<b>433</b>
DIVISIONAL EBIT	June H'11	2011f	2012f	2013f	2014f
Sally Malay	31	48	44	33	23
Lanfranchi	42	65	61	35	38
Hedging	(14)	(19)	(1)	(0)	(0)
Total Nickel	59	95	105	68	61
Other (Corp+Expl'n)	12	24	13	7	7
<b>Total</b>	<b>47</b>	<b>71</b>	<b>92</b>	<b>61</b>	<b>54</b>

Resources Quarterly ▶ March 2011

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