Deutsche Bank

29 April 2011

Panoramic Resources

Reuters: **PAN.AX** Bloomberg: **PAN AU** Exchange: **ASX** Ticker: **PAN**

Improved Q, looking for catalysts but too cheap

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Improved production and reduced costs but looking for catalysts
PAN has reported an improved Q with production up 3% and costs down 10% qoq. While operations are maturing, PAN continues to offer excellent value trading at 0.84x our NPV, 3.9x FY12 earnings and 1.6x EV/EBITDA. We continue to back management to add value through exploration (both near mine and regionally) or corporately. We retain a BUY with a $2.46/sh PT.

Group production of 4,166t Ni (+3%) at US$5.95/lb payable cash costs (-10%)
Savannah produced 1,750t Ni, 878t Cu and 94t Co. This was up 26% qoq on the back of higher head grades (1.43%) and pushed cash costs 18% lower to US$6.16/lb as the mine neared full production after the Dec Q ventilation issues. At Lanfranchi nickel mined was down 9% qoq on the back of low equipment availability and paste plant downtime however cost controls saw cash costs fall 4% qoq. Despite the improved production and particularly lower costs we have reduced our FY guidance to 16.9kt. This is marginally below PAN guidance and has reduced our NPV by 6cps or 2% and FY11 earnings by $2m or 7%.

Exploration and business development key value drivers
While it was an improved Q with unit costs moving in the right direction, catalysts are most likely from exploration, corporate action or a potential nickel price spike. Exploration continues to focus on Savannah (near mine), Cruickshank and Helmut South deposit at Lanfranchi (4 rigs currently active), East Kimberly JV, and Scandinavian targets. PAN now has ownership of Gidgee and is reviewing data before re-running pit shapes at higher gold prices and planning drilling holes.

PT reduces marginally to A$2.46/sh, maintain Buy
Our $2.46/sh PT is broadly based on our $2.46/sh DCF valuation. This assumes a long term nickel price of US$7.71/lb, and AUDUSD of 0.78. We discount the life of mine cash flow from PAN's operations using a real discount rate of 10%, consistent across the mining companies in our coverage universe. Macro risks include movements in the nickel, copper, and AUDUSD. Downside risks include potential weakness in the nickel price plus lower grades and/or higher mining and development costs at both the Lanfranchi and Savannah operations.

Forecasts and ratios

Year End Jun 30	2009A	2010A	**2011E**	2012E	2013E
Sales (AUDm)	229	283	**272**	372	384
EBITDA (AUDm)	81	127	**103**	174	183
Net Profit (AUDm)	24	56	**49**	109	115
EPS (AUD)	0.12	0.27	**0.24**	0.53	0.57
% Change	0.0%	0.0%	**-7.6%**	-3.5%	-1.2%
PER (x)	13.0	8.5	**8.7**	3.9	3.6
EV/EBITDA (x)	2.9	3.0	**2.9**	1.6	1.1
DPS (net) (AUD)	0.06	0.16	**0.09**	0.10	0.10
Yield (net) (%)	3.9	7.1	**4.4**	4.9	4.9

Source: Deutsche Bank estimates, company data

[1] Pre-exceptionals/extraordinaries
[2] Multiples and yields calculations use average historical prices for past years and spot prices for current and future years, except P/B

Forecast Change

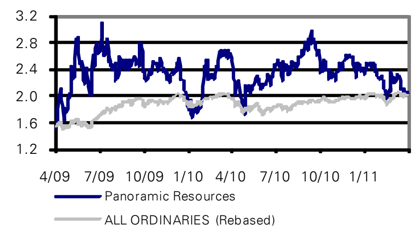
Buy

Price at 29 Apr 2011	**2.06**
Price target - 12mth	**2.46**
52 week range (AUD)	**2.96 - 1.72**
ALL ORDINARIES	**4,952**

Key changes

Price target	2.52 to 2.46	↓	**-2.4%**
Sales (FYE)	289 to 272	↓	**-5.9%**
EBIT margin (FYE)	24.7 to 24.1	↓	**-2.2%**
Net profit (FYE)	52.5 to 48.5	↓	**-7.6%**

Price/price relative



Performance (%)	1m	3m	12m
Absolute	*-8.8*	*-11.6*	*-19.2*
ALL ORDINARIES	*2.1*	*1.6*	*2.8*

Stock data

Market cap (AUDm)	**420**
Market cap (USDm)	**459**
Shares outstanding (m)	**204.0**
Daily volume (USDm)	**4.34**
Free float	**100.00**

Key indicators (FY1)

ROE (%)	**15.6**
ROA (%)	**20.4**
Net debt/equity (%)	**-32.1**
Book value/share (AUD)	**1.52**
Price/book (x)	**1.4**
Net interest cover (x)	**-12.7**
EBIT margin (%)	**24.1**

Deutsche Bank AG/Sydney

Model updated:29 April 2011

Running the numbers

Australasia

Australia

M&M - Other Metals

Panoramic Resources

Reuters: PAN.AX Bloomberg: PAN AU

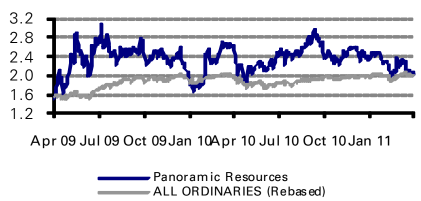
Buy

Price (29 Apr 11)	AUD 2.06
Target price	AUD 2.46
52-week Range	AUD 1.72 - 2.96
Market Cap (m)	AUDm 420 USDm 459

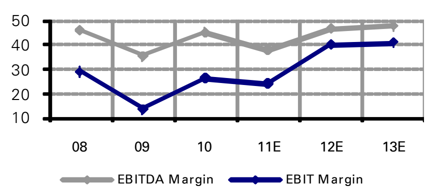
Company Profile

Panoramic Resources Limited

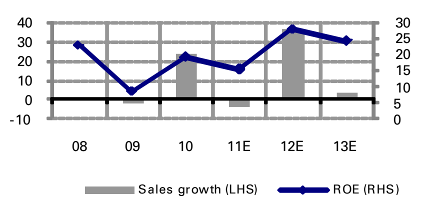
Price Performance



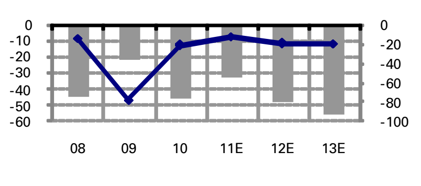
Margin Trends



Growth & Profitability



Solvency



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Fiscal year end 30-Jun	2008	2009	2010	2011E	2012E	2013E
Financial Summary						
DB EPS (AUD)	0.28	0.12	0.27	0.24	0.53	0.57
Reported EPS (AUD)	0.28	0.03	0.27	0.24	0.53	0.57
DPS (AUD)	0.19	0.06	0.17	0.09	0.10	0.10
BVPS (AUD)	1.21	1.40	1.42	1.52	1.90	2.32
Valuation Metrics						
Price/Sales (x)	3.9	1.4	1.7	1.5	1.1	1.1
P/E (DB) (x)	16.9	13.0	8.5	8.7	3.9	3.6
P/E (Reported) (x)	16.9	55.7	8.5	8.7	3.9	3.6
P/BV (x)	3.3	1.6	1.5	1.4	1.1	0.9
FCF yield (%)	8.2	5.7	27.8	29.3	33.7	28.7
Dividend yield (%)	4.0	3.9	7.1	4.4	4.9	4.9
EV/Sales	3.4	1.0	1.3	1.1	0.7	0.5
EV/EBITDA	7.5	2.9	3.0	2.9	1.6	1.1
EV/EBIT	11.9	7.4	5.1	4.6	1.9	1.2
Income Statement (AUDm)						
Sales	232	229	283	272	372	384
EBITDA	107	81	127	103	174	183
EBIT	67	31	75	66	148	157
Pre-tax profit	71	5	78	71	156	165
Net income	**53**	**6**	**56**	**49**	**109**	**115**
Cash Flow (AUDm)						
Cash flow from operations	**96**	**34**	**140**	**51**	**144**	**133**
Net Capex	-22	-16	-7	72	-3	-13
Free cash flow	**74**	**18**	**133**	**123**	**142**	**121**
Equity raised/(bought back)	4	0	1	3	0	0
Dividends paid	-36	-12	-25	-23	-21	-21
Net inc/(dec) in borrowings	-7	-5	-5	-1	-1	0
Other investing/financing cash flows	-37	-60	-102	-52	-23	-10
Net cash flow	**-9**	**-61**	**0**	**38**	**86**	**78**
Change in working capital	*0*	*0*	*0*	*0*	*-4*	*-1*
Balance Sheet (AUDm)						
Cash and cash equivalents	111	67	137	102	188	266
Property, plant & equipment	62	59	52	47	39	41
Goodwill	0	0	0	0	0	0
Other assets	159	254	227	276	299	306
Total assets	**332**	**380**	**417**	**425**	**526**	**613**
Debt	8	7	5	2	2	2
Other liabilities	92	87	121	112	136	139
Total liabilities	**100**	**94**	**126**	**114**	**138**	**141**
Total shareholders' equity	**232**	**286**	**291**	**311**	**388**	**473**
Net debt	*-103*	*-61*	*-133*	*-100*	*-186*	*-264*
Key Company Metrics						
Sales growth (%)	nm	-1.6	23.9	-4.0	36.7	3.3
DB EPS growth (%)	na	-57.9	132.6	-13.1	124.4	6.0
Payout ratio (%)	67.9	217.1	60.3	37.8	18.7	17.7
EBITDA Margin (%)	45.9	35.3	44.9	37.9	46.7	47.6
EBIT Margin (%)	28.7	13.7	26.4	24.1	39.7	40.8
ROE (%)	23.0	8.4	19.3	15.6	28.0	24.4
Net debt/equity (%)	-44.2	-21.2	-45.6	-32.1	-47.9	-55.8
Net interest cover (x)	-14.4	-79.2	-20.8	-12.7	-18.7	-19.8
DuPont Analysis						
EBIT margin (%)	28.7	13.7	26.4	24.1	39.7	40.8
x Asset turnover (x)	0.7	0.6	0.7	0.6	0.7	0.6
x Financial cost ratio (x)	1.1	1.0	1.0	1.1	1.1	1.1
x Tax and other effects (x)	0.7	0.2	0.7	0.7	0.7	0.7
= ROA (post tax) (%)	**16.1**	**1.5**	**13.5**	**11.4**	**20.7**	**18.8**
x Financial leverage (x)	1.4	1.3	1.4	1.4	1.4	1.3
= ROE (%)	**23.0**	**2.0**	**19.3**	**15.6**	**28.0**	**24.4**
annual growth (%)	*na*	*-91.5*	*885.0*	*-19.1*	*79.6*	*-12.9*
x NTA/share (avg) (x)	1.2	1.4	1.4	1.5	1.9	2.3
= Reported EPS	**0.28**	**0.03**	**0.27**	**0.24**	**0.53**	**0.57**
annual growth (%)	*na*	*-90.2*	*895.5*	*-13.1*	*124.4*	*6.0*

Source: Company data, Deutsche Bank estimates

PANORAMIC OPERATIONAL AND FINANCIAL SUMMARY DATA

		2008A	2009A	2010A	2011F	2012F	2013F	2014F	2015F	2016F	2017F
COMMODITY & CURRENCY											
Nickel	US$/lb	13.01	6.03	8.82	10.98	13.50	12.93	12.02	9.53	7.71	7.71
Copper	US$/lb	3.53	2.23	3.04	4.02	5.27	4.65	4.09	2.95	2.27	2.27
Cobalt	US$/lb	37.86	21.86	20.52	19.29	17.50	15.00	15.00	14.00	13.00	13.00
AUDUSD		0.90	0.75	0.88	0.98	0.97	0.92	0.86	0.80	0.78	0.78
PRODUCTION											
Savannah											
Ore mined & processed	kt	688	684	674	608	690	690	690	680	680	680
Ni grade	%	1.26%	1.35%	1.25%	1.30%	1.24%	1.24%	1.24%	1.24%	1.24%	1.24%
Cu grade	%	0.6%	0.7%	0.7%	0.6%	0.6%	0.6%	0.6%	0.6%	0.6%	0.6%
Co grade	%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%
Ni recovery	%	87.3%	87.8%	86.4%	86.0%	86.0%	86.0%	86.0%	86.0%	86.0%	86.0%
Cu recovery	%	96.1%	96.5%	96.3%	95.9%	96.0%	96.0%	96.0%	96.0%	96.0%	96.0%
Co recovery	%	89.2%	90.4%	90.0%	89.2%	90.0%	90.0%	90.0%	90.0%	90.0%	90.0%
Nickel (in conc.)	kt	7.6	8.1	7.3	6.8	7.4	7.4	7.4	7.3	7.3	7.3
Copper (in conc.)	kt	4.1	4.2	4.1	3.7	4.2	4.2	4.2	4.1	4.1	4.1
Cobalt (in conc.)	kt	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4
Lanfranchi											
Ore mined	kt	286	406	399	408	410	410	410	400	380	380
Ni grade	%	2.55%	2.63%	2.54%	2.47%	2.51%	2.51%	2.51%	2.51%	2.51%	2.51%
Nickel (in feed)	kt	7.3	10.7	10.1	10.1	10.3	10.3	10.3	10.0	9.5	9.5
Total Ni in conc.	**kt**	**14.9**	**18.8**	**17.4**	**16.9**	**17.6**	**17.6**	**17.6**	**17.3**	**16.8**	**16.8**
CASH COST											
Savannah											
C1 - pre metal credits	US$/lb	6.39	4.78	5.99	7.45	7.97	7.41	7.35	7.08	7.10	7.28
C1 - net metal credits	US$/lb	4.12	3.38	4.36	5.59	5.52	5.32	5.46	5.61	5.89	6.07
Lanfranchi											
C1 - pre metal credits	US$/lb	4.93	4.66	4.59	5.80	6.13	6.23	6.30	5.98	6.00	6.09
C1 - net metal credits	US$/lb	4.82	4.53	4.53	5.56	5.77	5.93	6.06	5.83	5.89	5.98
Average cash cost	**US$/lb**	**4.39**	**3.91**	**4.44**	**5.57**	**5.63**	**5.60**	**5.74**	**5.71**	**5.89**	**6.03**
CAPEX											
Savannah											
Development	A$m	25.0	10.0	10.0	24.0	18.0	5.0	5.0	5.0	3.0	3.0
Sustaining	A$m	1.4	1.4	1.3	1.2	1.4	1.4	1.4	1.4	1.4	1.4
Lanfranchi											
Development	A$m	28.7	10.0	10.0	5.0	5.0	5.0	5.0	5.0	3.0	-
Sustaining	A$m	0.6	0.8	0.8	1.2	1.2	1.2	1.2	1.2	1.1	1.1
Total exploration expense	A$m	6.1	3.1	1.7	11.7	12.0	12.0	12.0	12.0	12.0	12.0
SALES REVENUE BY ASSET											
Savannah											
Nickel	A$m	162	101	108	116	155	158	157	132	109	109
Copper	A$m	18	14	16	17	25	23	22	17	13	13
Cobalt	A$m	19	13	10	8	9	8	8	8	8	8
Lanfranchi											
Nickel	A$m	158	151	206	146	185	188	187	156	122	122
OPERATING PROFIT BY ASSET											
Savannah	A$m	69.4	53.9	68.1	20.1	66.7	77.1	71.6	47.1	25.5	23.0
Lanfranchi	A$m	50.0	4.1	47.1	56.5	89.1	85.0	76.0	44.6	14.3	12.7

RESOURCES & RESERVES

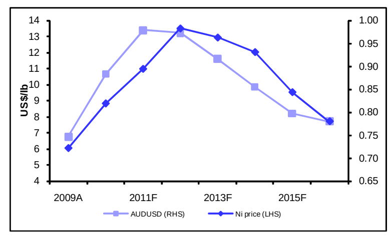
	Mt	%Ni	kt Ni	%Cu	kt Cu	%Co	kt Co
Savannah							
Resources	5.4	1.54%	83.1	0.78%	42.0	0.08%	4.3
Reserves	5.3	1.20%	63.5	0.63%	33.4	0.01%	3.2
Copernicus							
Resources	0.5	1.23%	6.0	0.82%	4.0	0.04%	0.2
Reserves	0.2	1.03%	2.3	0.63%	1.4	0.04%	0.1
Lanfranchi (other)							
Resources	7.5	1.89%	141.4				
Reserves	2.2	2.45%	55.0				

NPV (HJ11)

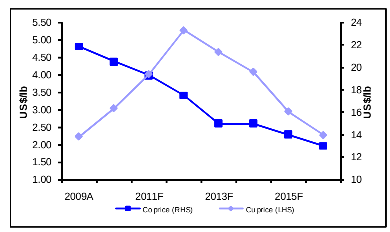
	A$m	A$ps	(%)
Savannah	189	0.92	47%
Lanfranchi	209	1.03	52%
Copernicus	10	0.05	2%
Exploration	50	0.25	12%
Investments	7	0.03	2%
Corporate	(62)	(0.31)	-15%
Gross Asset Value	**403**	**1.97**	100%
Net debt	(100)	(0.49)	
Valuation	**502**	**2.46**	

*NPV discounting rate: 10.0%

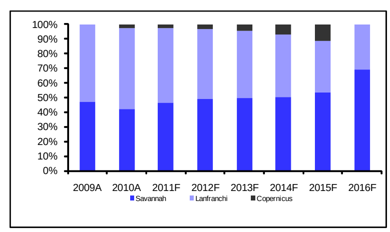
Nickel Price & AUDUSD



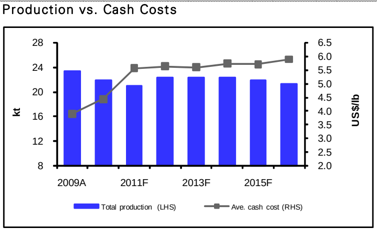
Copper Price & Cobalt Price



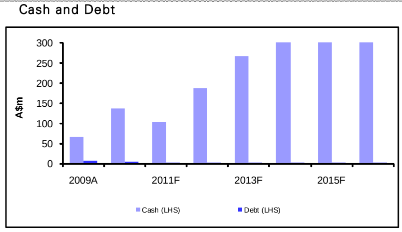
NPV by Asset



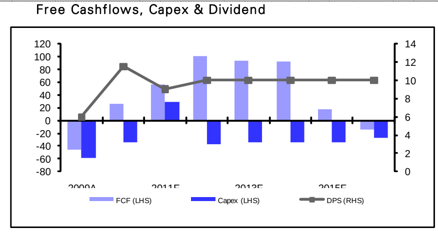
Production vs. Cash Costs



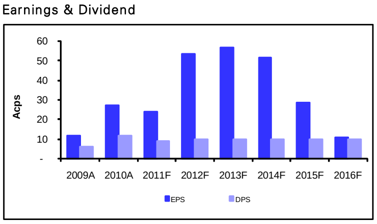
Cash and Debt



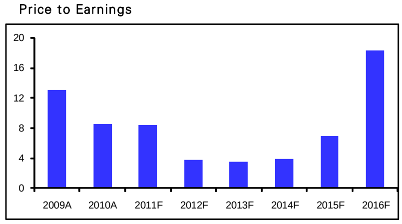
Free Cashflows, Capex & Dividend



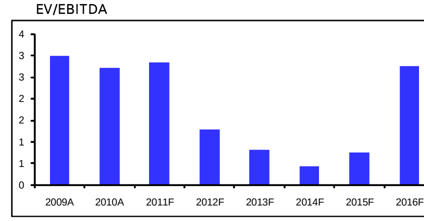
Earnings & Dividend



Price to Earnings



EV/EBITDA



Source: Deustche, company data

Investment thesis

Outlook

PAN is one of Australia's largest nickel producers; however, it has high costs. Group production has steadily increased from ~10kt in FY2005 to 18.8kt (100% basis) in FY2009 before steadying to 17.5kt in FY10. Increases were mainly due to the discovery and first production from the large (72kt Ni) Deacon orebody at Lanfranchi. We forecast FY11 group production of 17kt. PAN has total reserves supporting 17-18kt of nickel production for at least 8 years (Savannah 9 years, Lanfranchi 7 years). The balance sheet is strong with no debt. With the stock trading at a discount to our price target, we rate PAN a Buy.

Valuation

Our price target is set broadly in line with our DCF valuation. Our DCF assumes a long-term nickel price of US$7.71/lb, and AUD/USD of 0.78. We discount the life of mine cash flow from PAN's operations using a real discount rate of 10%, consistent across the mining companies in our coverage universe.

Risks

Downside risks include potential weakness in the nickel price plus lower grades and/or higher mining and development costs at both the Lanfranchi and Savannah operations. Macro risks include movements in the nickel, copper, and AUD/USD.

Appendix 1

Important Disclosures

Additional information available upon request

Disclosure checklist			
Company	**Ticker**	**Recent price***	**Disclosure**
Panoramic Resources	PAN.AX	2.06 (AUD) 29 Apr 11	NA

*Prices are sourced from local exchanges via Reuters, Bloomberg and other vendors. Data is sourced from Deutsche Bank and subject companies.

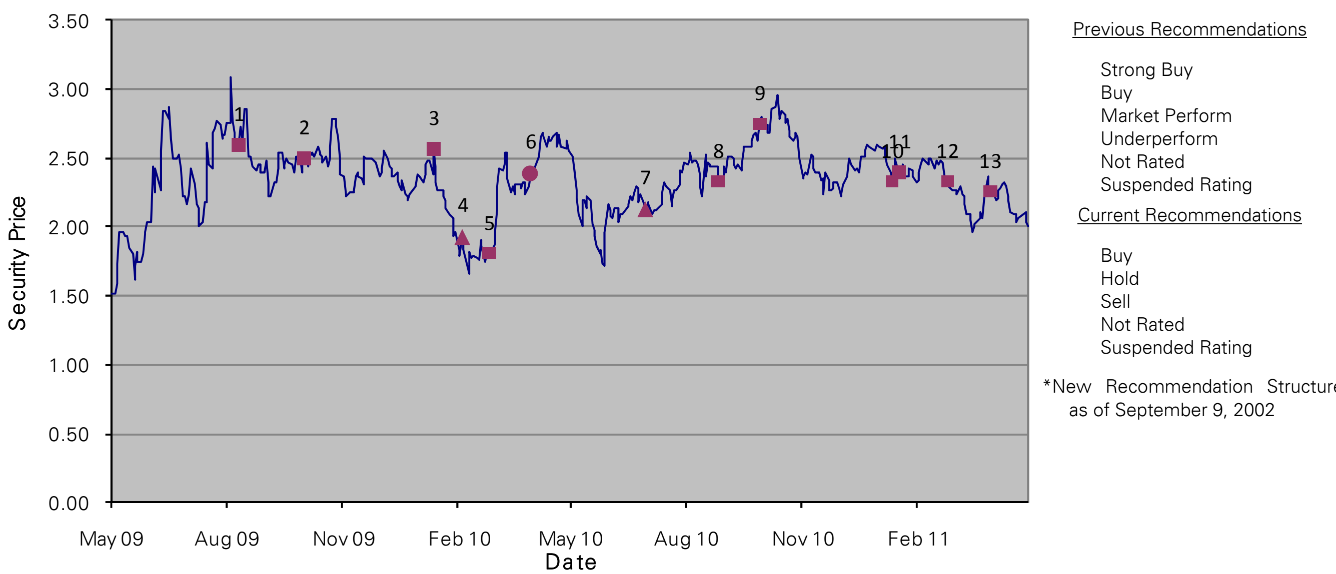
For disclosures pertaining to recommendations or estimates made on securities other than the primary subject of this research, please see the most recently published company report or visit our global disclosure look-up page on our website at http://gm.db.com/ger/disclosure/Disclosure.eqsr?ricCode=PAN.AX**.**

Analyst Certification

The views expressed in this report accurately reflect the personal views of the undersigned lead analyst(s) about the subject issuer and the securities of the issuer. In addition, the undersigned lead analyst(s) has not and will not receive any compensation for providing a specific recommendation or view in this report. Levi Spry

Historical recommendations and target price: Panoramic Resources (PAN.AX)

(as of 4/29/2011)



1.	10/8/2009:	Hold, Target Price Change AUD2.30	8.	26/8/2010:	Buy, Target Price Change AUD2.85
2.	1/10/2009:	Hold, Target Price Change AUD2.45	9.	28/9/2010:	Buy, Target Price Change AUD2.94
3.	12/1/2010:	Hold, Target Price Change AUD2.60	10.	11/1/2011:	Buy, Target Price Change AUD3.30
4.	4/2/2010:	Upgrade to Buy, Target Price Change AUD2.70	11.	17/1/2011:	Buy, Target Price Change AUD3.28
5.	25/2/2010:	Buy, Target Price Change AUD2.50	12.	24/2/2011:	Buy, Target Price Change AUD3.00
6.	30/3/2010:	Downgrade to Hold, Target Price Change AUD2.35	13.	30/3/2011:	Buy, Target Price Change AUD2.52
7.	29/6/2010:	Upgrade to Buy, Target Price Change AUD2.75			

Equity rating key

Buy: Based on a current 12- month view of total share-holder return (TSR = percentage change in share price from current price to projected target price plus projected dividend yield) , we recommend that investors buy the stock.
Sell: Based on a current 12-month view of total share-holder return, we recommend that investors sell the stock
Hold: We take a neutral view on the stock 12-months out and, based on this time horizon, do not recommend either a Buy or Sell.
Notes:
1. Newly issued research recommendations and target prices always supersede previously published research.
2. Ratings definitions prior to 27 January, 2007 were:
    Buy: Expected total return (including dividends) of 10% or more over a 12-month period
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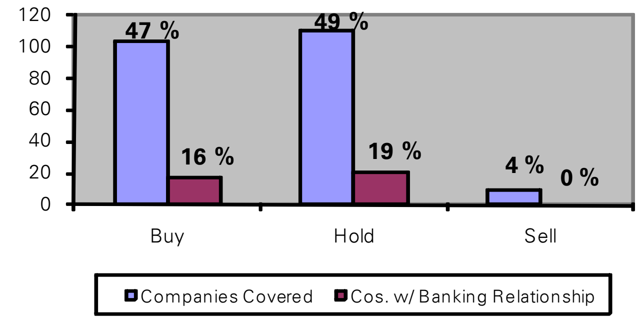
Equity rating dispersion and banking relationships



Australia Universe

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