



RATINGS REVISION | COMMENT

APRIL 29, 2011

Panoramic Resources Limited (ASX: PAN)
Upgrading to Outperform on Relative Value

Outperform (prev: Sector Perform)
Average Risk

Price:	2.06	Price Target:	2.60
Shares O/S (MM):	206.5	Implied All-In Return:	34%
Dividend:	0.17	Market Cap (MM):	425
NAVPS:	2.56	Yield:	8.3%
BVPS:	1.39	P/NAVPS:	0.8x
ROE:	19.0%	P/BVPS:	1.5x
Float (MM):	206.5	Enterprise Val. (MM):	331
Debt to Cap:	0%	Avg. Daily Volume (MM):	1.09

Share price as at close on the ASX on 29 April 2011.

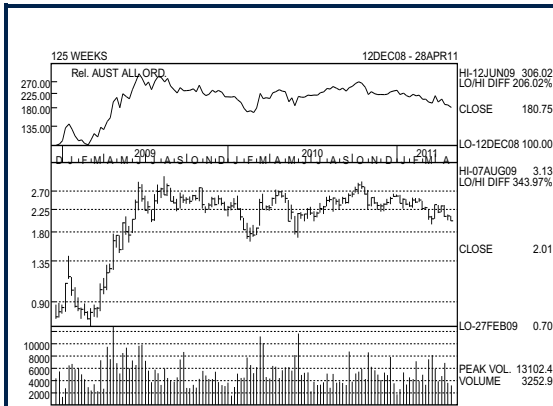
Event

An improved March Q of 4.2kt at US\$5.95/lb. Maintain A\$2.60 target, but upgrade to Outperform on relative value.

Investment Opinion

Panoramic delivered improved production Q-on-Q and more notably managed to reduce cash costs by 10% to US\$5.95/lb, despite the stronger A\$. While the improvement was a positive, equipment downtime at Lanfranchi prevented the stellar quarter required to keep FY11 production guidance intact, and guidance was trimmed ~5% to 17-17.2kt. Bigger picture, since mid October last year, Panoramc has been sold down ~29% from a high of A\$2.91, while A\$ nickel price has remained relatively steady at ~A\$11.00/lb. We believe Panoramc is compelling on relative value at the current levels and upgrade to Outperform.

- **An Improved March Q:** 4.2kt of Ni was less than our 4.7kt forecast, but an improvement on the previous quarter. Lanfranchi produced 2.4kt of Ni-in-ore at US\$5.78/lb and Savannah produced 1.75kt of Ni-in-conc at US\$6.16/lb.
- **Relative Value:** Panoramc is now trading on 0.8x P/NAV compared to most comparable peers on 1-1.3x. PAN is also trading on ~10x FY12E P/E and is now the cheapest ASX nickel under coverage on this metric.
- **Upcoming Catalysts:** A resource update is due this quarter at Helmut South, which could potentially add to the mine life at Lanfranchi. In addition, Panoramc is looking to update the pitshells on the gold resource at Gidgee over the next few months. The current Gidgee resource is 310koz at 5.2g/t but was calculated using only US\$500/oz gold - we believe increasing the pitshells to US\$1,000/oz (or higher) could result in a material increase in the number of ounces, and potentially with only a minimal reduction in grade.
- **Balance Sheet:** At end March, Panoramc has A\$96m in cash and essentially no debt. Cash decreased A\$14m during the quarter due to the A\$15.5m purchase of the Gidgee Gold Project northeast of Perth, and A\$8.2m paid in dividends. The company also sold the balance of its equity stake in Ampella during the quarter, and we estimate the total gain on this trade at ~A\$5-6m.
- **Valuation:** We upgrade our rating to Outperform but maintain our A\$2.60 price target on an unchanged ~1.0x NAV, in line with nickel peers and in our view appropriate at this point in the cycle. Maintaining Average Risk.



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FY Jun	2009A	2010A	2011E	2012E
Adj EPS - FD	0.12	0.27	0.24	0.23
Prev.			0.27	0.20
Div. Yield	1%	8%	4%	4%
P/AEPS	17.2x	7.6x	8.6x	9.0x
CFPS - FD	0.16	0.70	0.32	0.42
Prev.			0.36	0.37
P/CFPS	12.9x	2.9x	6.4x	4.9x
Annual Div.	0.03	0.17	0.08	0.08
Prod.	16	16	16	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 & Operating Summary

Panoramic Resources									
ASX: PAN	Share Price: (A\$ps)	2.06	Year end:	Jun	Stock Rating:	Outperform	Price Target:	A\$2.60	
	Mkt Cap: (A\$MM)	425	Issued shares (m)	206.5	Risk Qualifier:	Average	NAV:	A\$2.56	

ASSUMPTIONS		FY09	FY10	FY11e	FY12e	FY13e	ATTRIBUTABLE MINE STATS	FY09	FY10	FY11e	FY12e	FY13e	
Exchange Rate	A\$/US\$	0.75	0.88	0.97	0.96	0.92	Nickel Production (equity)						
Spot Nickel Price	US\$/lb	6.04	8.80	11.14	8.94	8.75	Savannah	kt	8.06	7.27	7.07	8.37	8.37
Spot Cobalt Price	US\$/lb	22.55	20.79	19.40	18.00	16.50	Lanfranchi	kt	8.32	8.80	8.95	8.80	8.80
Spot Copper Price	US\$/lb	2.24	3.04	3.99	3.94	3.88	Nickel in Concentrate	kt	16.38	16.08	16.02	17.17	17.17
							Payable Nickel Production	kt	10.56	10.36	10.32	11.07	11.07

RATIO ANALYSIS		FY09	FY10	FY11e	FY12e	FY13e
Diluted share capital	m	204.0	210.0	211.2	211.2	211.2
EPS (diluted and pre sig. items)	A¢	12.0	26.9	24.2	23.4	22.5
P/E	x	17.2x	7.7x	8.5x	8.8x	9.2x
CFPS	A¢	16.4	70.1	31.5	42.2	44.1
P/CF	x	12.5x	2.9x	6.5x	4.9x	4.7x
DPS	A¢	3.0	16.5	8.0	8.0	8.0
Dividend payout ratio	%	25%	61%	33%	34%	36%
Dividend yield	%	1.5%	8.0%	3.9%	3.9%	3.9%
Franking level	%	100%	94%	100%	100%	100%
Book value per share		1.40	1.39	1.50	1.66	1.81
P/Book value	x	1.5x	1.5x	1.4x	1.2x	1.1x
R.O.E. (pre sig items)	%	8%	19%	16%	14%	12%
R.O.A. (pre sig items)	%	8%	18%	15%	13%	12%
Interest Cover	x	-10.1x	-20.7x	-13.3x	-10.5x	-7.7x
EBITDA per share	A\$ps	0.38	0.60	0.50	0.47	0.46
EV/EBITDA	x	4.2x	2.6x	3.1x	3.4x	3.4x

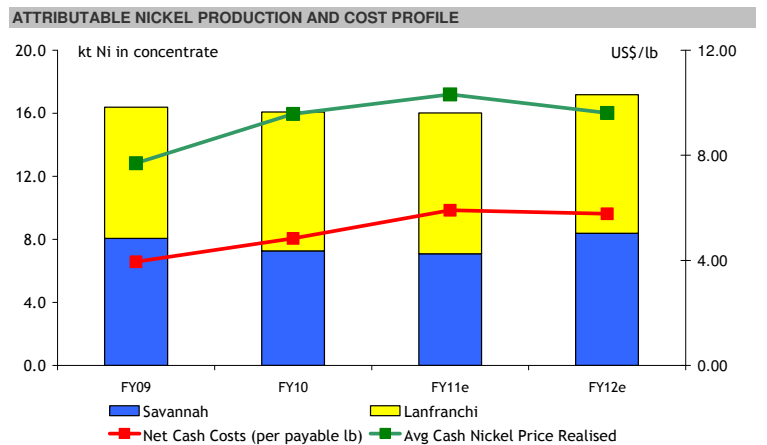
Payable Nickel Sales Hedged	%	39%	25%	28%	24%	6%
Avg Cash Nickel Price Realised	US\$/lb	7.70	9.57	10.31	9.61	8.95
Net Cash Costs (per payable lb)	US\$/lb	3.94	4.83	5.91	5.77	5.61
Cash Margin	US\$/lb	3.76	4.74	4.41	3.84	3.35
Operational EBIT Contribution (pre hedging)						
Savannah	A\$m	-2	24	38	26	32
Lanfranchi	A\$m	11	39	61	35	38

RESERVES AND RESOURCES (ATTRIBUTABLE)			
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 2.30
			US\$'000/t 2.02
M+I Reserves	mt	% Ni	Ni (kt)
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 Reserves (kt)	9.4	2.00%	187.6
EV / Reserves			
			A\$'000/t 1.77
			US\$'000/t 1.56

EARNINGS		FY09	FY10	FY11e	FY12e	FY13e
Sales Revenue	A\$m	225	283	275	288	286
Other Revenue	"	1	0	5	0	0
Total Revenue	"	226	284	280	288	286
Operating costs	"	(123)	(139)	(155)	(174)	(175)
Operational EBITDA	"	103	144	125	114	111
Exploration Expense/Write-offs	"	(8)	(7)	(8)	(7)	(6)
Corporate & Other Costs	"	(18)	(10)	(10)	(9)	(9)
EBITDA	"	78	127	106	99	96
D&A	"	(49)	(53)	(39)	(36)	(36)
EBIT	"	29	74	68	62	60
Net Interest	"	3	4	5	6	8
Profit Before Tax	"	32	78	73	68	68
Tax Expense	"	(8)	(22)	(22)	(19)	(20)
Minorities	"	0	0	0	0	0
Net Profit After Tax	"	24	56	51	49	48
Significant Items (post tax)	"	(18)	0	0	0	0
Reported NPAT	"	6	56	51	49	48

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

CASHFLOW		FY09	FY10	FY11e	FY12e	FY13e
Operational Cash Flow	A\$m	55	139	90	106	102
Net Interest	"	3	4	4	6	8
Tax Paid and Other	"	(25)	4	(27)	(23)	(17)
Net Operating Cashflow	"	34	147	67	89	93
Exploration	"	(3)	(9)	(12)	(12)	(10)
Capital Expenditure	"	(58)	(33)	(32)	(21)	(16)
Investments	"	(17)	(7)	(22)	0	0
Sale of PPE and Other	"	(0)	(69)	80	0	0
Net Investing Cashflow	"	(78)	(118)	15	(33)	(26)
Dividends Paid	"	(12)	(25)	(22)	(17)	(17)
Debt	"	(5)	(5)	(2)	0	0
Equity Issuance	"	0	1	3	0	0
Other	"	0	0	0	0	0
Net Financing Cashflow	"	(16)	(29)	(21)	(17)	(17)
Net change in cash	"	(61)	(0)	61	39	51



BALANCE SHEET		FY09	FY10	FY11e	FY12e	FY13e
Cash & Equivalents	A\$m	50	137	126	165	216
PP&E & Mine Development	"	200	206	204	189	168
Exploration	"	19	14	13	18	22
Total Assets	"	380	417	437	466	501
Debt	"	7	5	5	5	5
Total Liabilities	"	94	126	120	116	119
Total Net Assets / Equity	"	286	291	318	351	382
Net Debt / (Cash)	"	(43)	(133)	(121)	(160)	(211)
Gearing (net debt/(nd + equity))	%	(18%)	(84%)	(62%)	(84%)	(124%)
Gearing (net debt/equity)	%	(15%)	(46%)	(38%)	(46%)	(55%)

EQUITY DCF VALUATION	A\$m	A\$ps
Projects	A\$m	A\$ps
Savannah	227	1.11
Lanfranchi	159	0.78
Projects, Exploration & Investments	71	0.35
Hedging	(8)	-0.04
Corporate	(18)	-0.09
Cash	96	0.47
Debt	(2)	-0.01
Net Equity Value (@ 8% real d.r.)	526	2.56
P / NPV		0.8x

Source: Company Reports and RBC Capital Markets estimates



Valuation

We upgrade our rating to Outperform but maintain our A\$2.60 price target on an unchanged ~1.0x NAV, in line with nickel peers and in our view appropriate at this point in the cycle. Maintaining 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, produces ~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 March 2010 was A\$96m with minimal A\$2m debt.

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An analyst involved in the preparation of this report has visited certain material operations of Panoramic Resources Limited.

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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.

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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.

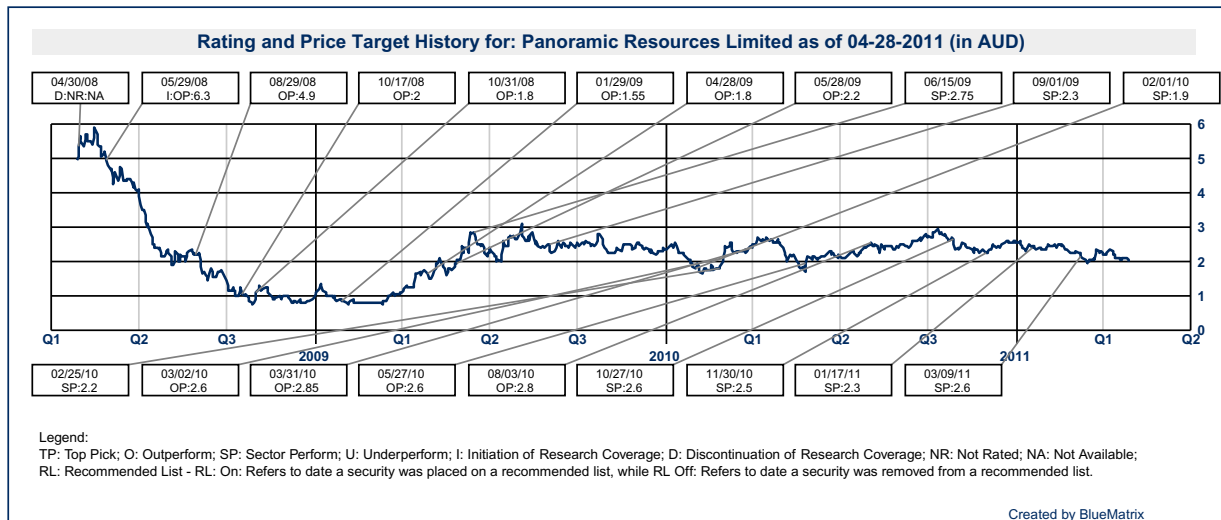
Above Average Risk (AA): Volatility and risk expected to be above sector; below average revenue and earnings predictability; may not be suitable for a significant class of individual equity investors; may have negative cash flow; low market cap or float.

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			Count	Percent
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HOLD[SP]	582	43.20	135	23.20
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