



Panoramic BUY

Current Price: **\$1.91**
Valuation: **\$2.33**

Ticker: **PAN**
Sector: **Materials**

Shares on Issue (m): **207.1**
Market Cap (\$m): **395.5**
Net Cash (\$m): **98.1**
Enterprise Value (\$m): **297.4**

52 wk High/Low: **\$2.97** **\$1.57**
12m Av Daily Vol (m): **0.99**

Key Metrics

	10A	11F	12F
P/E (x)	7.8	12.1	12.1
EV/EBITDA (x)	2.3	3.3	3.1

Financials:

	2010	2011	2012
Revenue (\$m)	287.8	278.7	283.8
EBIT (\$m)	77.3	47.7	50.4
NPAT (\$m)	56.2	33.2	33.3

Net Assets (\$m) 291.1 303.6 318.1

Op CF (\$m) 135.8 56.6 92.9

Per Share Data:

	2010	2011	2012
EPS (cps)	24.4	15.8	15.8
DPS (cps)	15.0	10.0	10.0
Div Yield	7.9%	5.2%	5.2%
CFPS (cps)	64.8	26.9	44.2

Share Price Graph



Analysts:
Troy Irvin
Tim Serjeant

27 July 2011

Dipping in

June Q:

Panoramic (PAN) delivered June Q group production of 4,645t Ni at a cash cost of \$6.25/lb payable (Argonaut F 4,500t at US\$6.00/lb). Q-on-Q variances were:

Savannah operation:

- Nickel - Up 8% to 1,886t (13% more ore milled, steady grade of 1.38%)
- Cash costs - 4% higher at \$6.36/lb

Lanfranchi operation:

- Nickel (delivered) - Up 5% to 2,658t (12% more ore, 6% lower grade of 2.37%)
- Cash costs - 7% higher at \$6.16/lb

Cash at 30 June was \$101m (v 31 March \$96m) after ~\$8m in project capex.

An initial Resource was reported at the Helmut South Extension of 7.1kt Ni at 3.9%, proximal to existing development. The ore is open down plunge with the possibility of a new channel further to the east. Based on current production rates of ~10ktpa the maiden estimate adds >8 months to the mine life at Lanfranchi.

Impact:

Positive

FY11 output was 17.0kt at cash costs of \$6.25/lb. Although missing original guidance (well flagged) of 18-19kt, output has recovered post a problematic December Q (when exhaust fan failures restricted mining at Savannah and lowered the grade to 1.17%).

View:

Positive

PAN intentions to become a "diversified mining company" are starting to take form:

- Nickel - Targeting +25ktpa for +10 years
- Gold - Targeting 500koz Reserves in two years and 100kozpa production in three years at Gidgee
- Copper - Took a \$4m placement in copper junior Hot Chili (HCH), following the issue PAN will hold 4.1% (6.67m shares @ \$0.60ps)
- FY12 group exploration budget \$12.5m (\$4.0m to be allocated to Gidgee Gold)

Recommendation:

Buy

Argonaut's FY12F is 18.0kt. Our valuation has decreased to \$2.33 (was \$2.39) after increasing FY12 costs by US40c to US\$6.35.

BUY recommendation maintained.



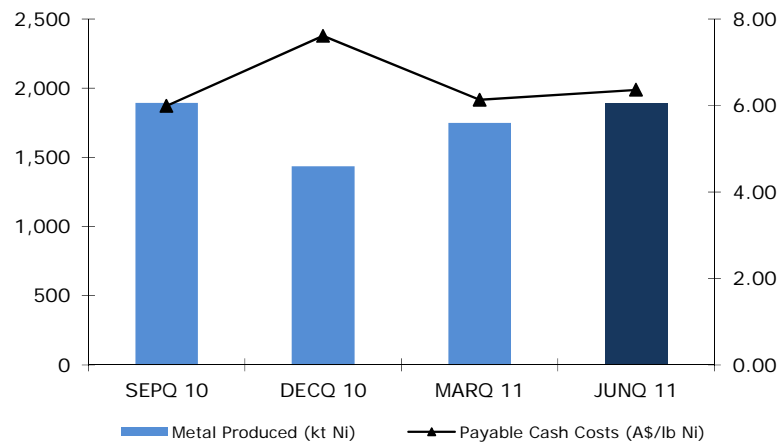
June Q production

June Q output was higher at both operations...

June Q production was 4,645t Ni at a cash cost of \$6.25/lb payable.

12 month trends in production and cash costs for the Savannah and Lanfranchi mines are presented in Figures 1-2.

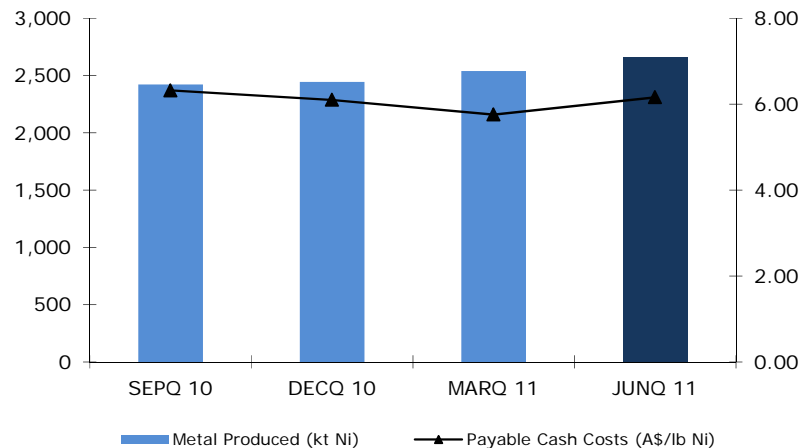
Figure 1: Savannah - Production and cash costs



...resulting in group production of 4,645t Ni...

Source: Argonaut

Figure 2: Lanfranchi - Production and cash costs



...at a cash cost of A\$6.25/lb

Source: Argonaut

Second half recovery

FY11 output was 17.0kt at cash costs of \$6.25/lb

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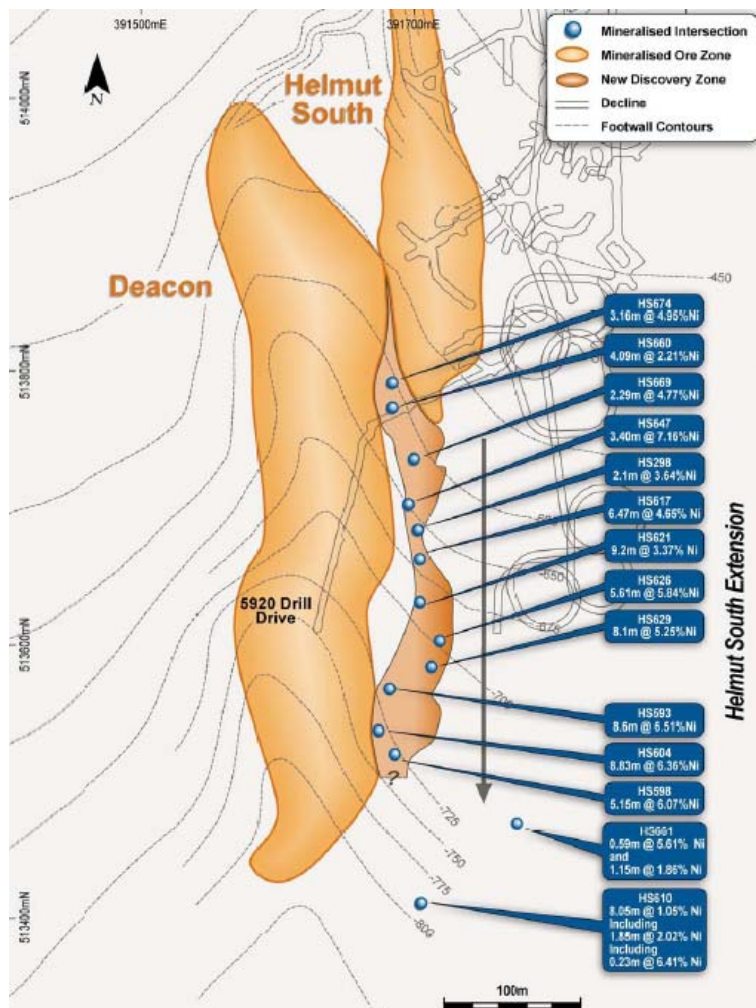


Helmut South Extension

The initial Helmut South Extension Resource...

PAN reported an initial Resource at the Helmut South Extension of 7.1kt contained nickel at an average grade of 3.9%. The estimate is proximal to existing development, and is open down plunge with the possibility of a new channel further to the east.

Figure 3: Helmut South Extension – Plan



...adds >8 months to the mine life...

...proximal to existing development

...and remains open down plunge

Source: PAN

Based on current production rates of ~10ktpa the maiden estimate adds >8 months to the mine life at the Lanfranchi Project.

Diversification strategy taking shape

Diversification strategy taking shape

PAN's intentions to become a "diversified mining company" are starting to take form:

- Nickel - Target +25ktpa for +10 years
- Gold - Targeting 500koz Reserves in two years and 100kozpa production in three years at Gidgee
- Copper - Took a \$4m placement in copper junior Hot Chili (HCH), following the issue PAN will hold 4.1% (6.67m shares @ \$0.60ps)
- FY12 group exploration budget \$12.5m (\$4.0m to be allocated to Gidgee Gold)



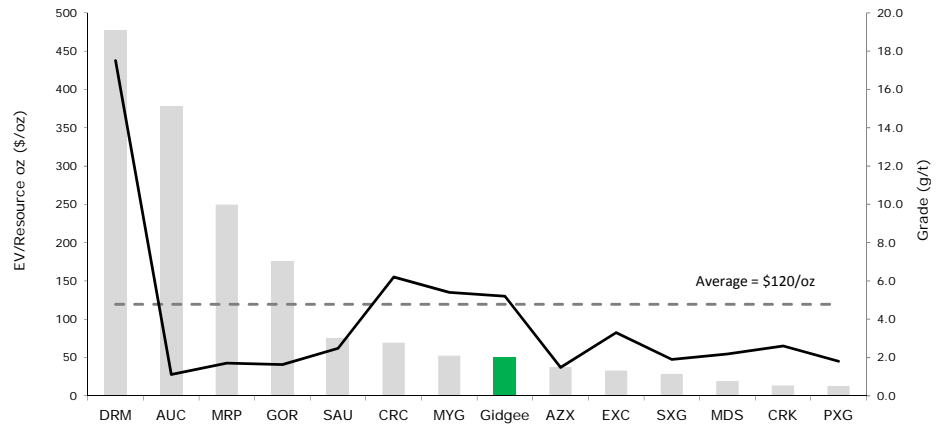
Gidgee Gold drilling underway

A 20,000m air core drill program is underway, and an initial 15,000m RC and diamond drill program is planned to commence in the December Q.

Argonaut's \$50/oz valuation appears conservative...

Argonaut currently values Gidgee at its purchase price of \$50/Resource oz. This number appears conservative given Australian gold explorer peers are commanding an average of \$120/oz. Gidgee carries a Resource grade of 5.2g/t compared to a peer average of 2.9g/t (excluding DRM).

Figure 4: Peer comparison – Australian gold explorers



... given peers are commanding an average of \$120/oz...

...with lower grade (2.9g/t v Gidgee 5.2g/t)

Source: Argonaut

Dipping into Hot Chili

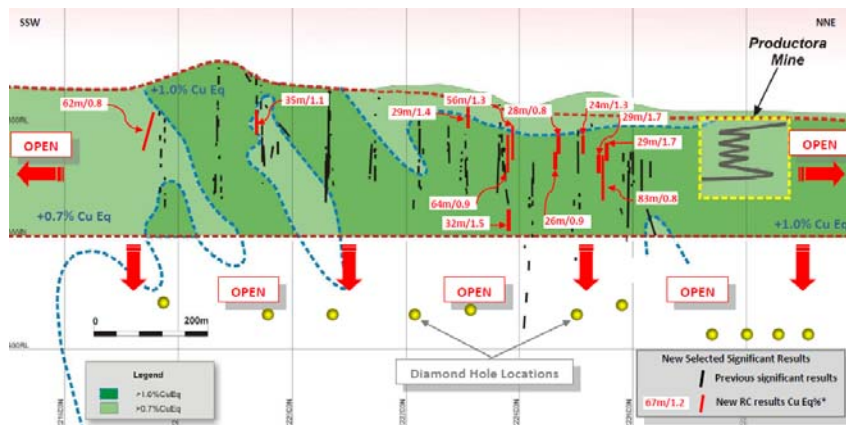
\$4m placement in copper junior Hot Chili...

HCH has secured major interests in several large multi-commodity IOCG projects (Cu, Mo, Au, U, Co) on Chile's Coastal Range.

The Coastal Range has a strong geological track record. Neighbours include Teck (Andacollo – 464Mt @ 0.36% Cu) and Freeport McMoRan (Candealera 600Mt @ 0.95% Cu).

The Company's two leading projects, Productora and Los Mantos, are located adjacent to a sealed road and are no more than 50km from port. Both feature active copper mining by third parties in the upper levels with reported head grades of 1.2% Cu and 1.7% Cu respectively.

Figure 5: Long section of Productora Central Area



...targeting a maiden Resource at Productora...

Source: HCH

...Argonaut's estimate is 70Mt @ 0.9% Cueq

A maiden Resource is anticipated at Productora as soon as the current Q, followed by Scoping Studies. Argonaut's "back of the envelope" estimate is 70Mt @ 0.9% Cu eq.



Panoramic Resources

Recommendation BUY
Current Price \$1.91
Valuation \$2.33

Sector Materials
Issued Capital (m) 207.1
Market Cap (m) \$395.5
Updated 27-July-2011

Profit & Loss (\$m) 30 June	2010A	2011E	2012E	2013E
Sales Revenue	287.8	278.7	283.8	265.8
Other Income	4.5	5.7	6.3	8.8
Operating Costs	147.1	173.1	173.7	158.6
Exploration Exp.	7.2	12.0	12.4	12.6
Corporate/Admin	8.0	8.0	8.1	8.2
EBITDA	130.0	91.3	95.8	95.1
D & A	52.7	43.6	45.5	20.5
EBIT	77.3	47.7	50.4	74.6
Interest Paid	0.4	0.2	0.2	0.2
Reversal of impairment of assets	-7.2	0.0	0.0	0.0
Mark to market of derivatives	5.9	0.0	0.0	0.0
Operating Profit	78.3	47.4	50.2	74.4
Tax expense	22.1	14.2	16.9	22.3
Minorities	0.0	0.0	0.0	0.0
NPAT	56.2	33.2	33.3	52.1
Normalised NPAT	51.2	33.2	33.3	52.1

Financial Summary	2010A	2011E	2012E	2013E
Reported Earnings				
Net Profit (\$m)	56.2	33.2	33.3	52.1
EPS (cents)	26.8	15.8	15.8	24.8
PER (x)	7.1	12.1	12.1	7.7
Normalised Earnings				
Net Profit (\$m)	51.2	33.2	33.3	52.1
EPS (cents)	24.4	15.8	15.8	24.8
EPS Growth (%)	(261.0)	(35.2)	0.2	56.6
PER (x)	7.8	12.1	12.1	7.7
Cashflow				
Operating Cashflow (\$m)	135.8	56.6	92.9	84.6
GCFPS (cents)	64.8	26.9	44.2	40.3
PCF (x)	2.9	7.1	4.3	4.7
Dividend				
Dividend (cents)	15.0	10.0	10.0	10.0
Yield (%)	7.9	5.2	5.2	5.2
Franking (%)	100	100	100	100

Cash Flow (\$m)	2010A	2011E	2012E	2013E
Operating Cashflow	135.8	56.6	92.9	84.6
- Capital Expenditure	33.3	39.9	20.1	20.3
- Exploration & Evaluation	1.7	12.0	12.4	12.6
- Asset Purchases (+ Asset Sales)	(15.9)	15.5	0.0	0.0
Free Cashflow	116.8	(10.8)	60.5	51.7
- Dividends (ords & pref)	24.6	23.7	20.7	20.7
+ Equity Raised	0.6	0.0	0.0	0.0
+ Debt Drawdown (Repaid)	(5.4)	(1.8)	0.0	0.0
- Other	0.0	0.0	0.0	0.0
Net Change in Cash	87.4	(36.3)	39.8	31.0
Cash at end period	137.3	101.0	140.8	171.8

Financial Ratios	2010A	2011E	2012E	2013E
Balance Sheet Ratios				
Total Debt / Equity (%)	1.6	1.0	0.9	0.8
Interest Cover (x)	211.3	197.2	273.7	405.4
Acid test ratio (x)	2.7	4.0	4.0	5.1
Profitability Ratios				
Net Profit Margin (%)	17.8	11.9	11.7	19.6
Return on Assets (%)	27.7	16.2	17.8	25.6
Return on Equity (%)	19.3	10.9	10.5	14.4

Balance Sheet (\$m)	2010A	2011E	2012E	2013E
Cash	137.3	101.0	140.8	171.8
Total Assets	416.8	396.0	424.0	463.2
Total Debt	4.7	2.9	2.9	2.9
Total Liabilities	125.7	92.4	106.0	101.5
Shareholders Funds	291.1	303.6	318.1	361.7

Valuation Summary	A\$m	A\$/sh
Savannah	183	0.87
Lanfranchi	112	0.53
Gidgee Gold	16	0.07
Forwards	3	0.02
Corporate	-22	-0.10
Cash at 30 June	101	0.48
Debt	-3	-0.01
Exploration	80	0.38
Unpaid capital	8	0.04
Listed Investments	10	0.05
Total @ 11% discount rate	488	2.33

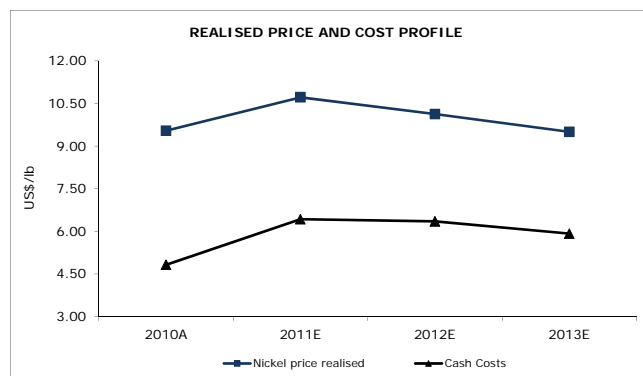
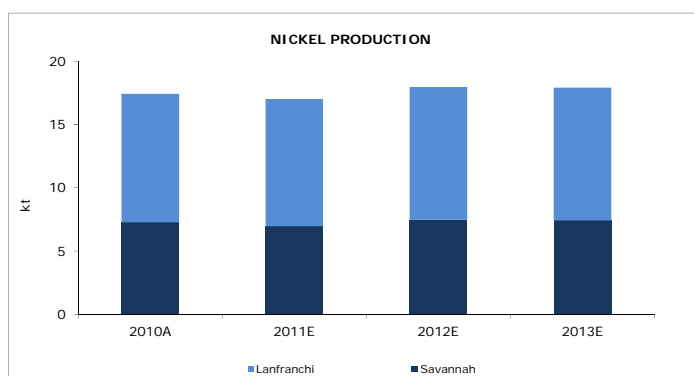
Production Summary	2010A	2011E	2012E	2013E
Savannah (kt)	7.3	7.0	7.5	7.4
Lanfranchi (kt)	10.2	10.1	10.5	10.5
Total Nickel Production	17.4	17.0	18.0	17.9
Ni Cash Cost - net of credits (US\$/lb)	4.82	6.42	6.35	5.92
Ni Price Realised (US\$/lb)	9.54	10.72	10.12	9.50
fx (USD:AUD)	0.88	0.99	1.00	1.00

Directors	
C J G de Guingand	Non-Executive Chairman
Peter Harold	Managing Director
Christopher Langdon	Non-Executive Director
John Rowe	Non-Executive Director
Brian Phillips	Non-Executive Director

Reserves & Resources		Mt	Grade	Ni (kt)
Nickel Reserves				
Savannah		5.30	1.2	63.4
Lanfranchi		2.3	2.4	55.9
Copernicus		0.13	1.0	1.4
Total Reserves		7.77	1.6	120.7

Nickel Resources		Mt	Grade	Ni (kt)
Savannah		5.41	1.5	83.1
Lanfranchi		8.3	1.9	158.1
Copernicus		0.29	1.2	3.6
Total Resources		14.04	1.7	244.8

Substantial Shareholders	%
M & G Investment	19.5
AMP	8.4
Eley Griffiths Group	6.4



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