Panoramic Resources Limited

Global Equity Research

Australia

Mining

12-month rating	Buy
	Unchanged
12m price target	A$2.80/US$3.06
	Prior: A$3.00/US$3.28
Price	A$1.92/US$2.10

RIC: PAN.AX BBG: PAN AU

27 July 2011

Production higher, A$ hurting

■ Event: June quarter production report

Panoramic's June quarter output of 4.65kt Ni was 12% higher than UBSe driven by higher tonnes mined at Lanfranchi and better grades from Savannah. Group cash costs of US$6.63/lb were 16% higher than UBSe and +11% q/q. Ore production at Savannah was in-line with expectations, however Ni-in-con was 10% above expectations. Improved equipment availability at Lanfranchi drove a 17% increase in ore mined q/q and 13% higher Ni-in-ore output compared to UBSe. FY11 production of 17kt was 2% lower than most recent Company forecasts, with average cash cost for the year of US$6.20/lb above the $5-6/lb target range.

■ Impact: Higher costs and updated currency assumptions cut earnings

Reconciling the June quarterly report and updating FY12 with new Ni production guidance has resulted in minor changes to our production forecasts, although higher costs have been pushed through. However, we have updated our commodity price and currency assumptions including increasing our A$ to US$1.05 for the next 18 months. The net impact is significant, with FY11e, FY12e and FY13e earnings lower by 9%, 33% and 23% respectively.

■ Action: Maintain Buy – nickel production steady, high A$ risk remains

We maintain our Buy on PAN with the stock trading at a significant discount to valuation. Operations remain at steady state, however we recognise cost pressures and high A$ continue to put pressure on earnings expectations.

■ Valuation: $2.80/sh (DCF, 10% discount rate)

Our valuation and price target, based on NPV, are both 7% lower.

Highlights (A$m)	06/09	06/10	06/11E	06/12E	06/13E
Revenues	225	283	275	258	239
EBIT (UBS)	3	75	42	22	10
Net Income (UBS)	6	56	33	21	14
EPS (UBS, A$)	0.03	0.26	0.15	0.10	0.06
Net DPS (UBS, A$)	0.03	0.16	0.07	0.05	0.03

Profitability & Valuation	5-yr hist av.	06/10	06/11E	06/12E	06/13E
EBIT margin %	21.7	26.4	15.3	8.5	4.3
ROIC (EBIT) %	47.3	30.6	18.8	11.4	6.3
EV/EBITDA (core) x	3.9	3.4	3.4	3.9	3.9
PE (UBS) x	19.5	8.8	12.6	20.0	29.7
Net dividend yield %	3.2	7.1	3.6	2.6	1.6

Source: Company accounts, Thomson Reuters, UBS estimates. (UBS) valuations are stated before goodwill, exceptionals and other special items. Valuations: based on an average share price that year, (E): based on a share price of A$1.92 on 26 Jul 2011 23:37 EST

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Trading data (local/US$)

52-wk range	A$2.96-1.58/US$2.91-1.66
Market cap.	A$0.39bn/US$0.43bn
Shares o/s	205m (ORD)
Free float	78%
Avg. daily volume ('000)	959
Avg. daily value (m)	A$1.8

Balance sheet data 06/11E

Shareholders' equity	A$0.30bn
P/BV (UBS)	1.3x
Net Cash (debt)	A$0.10bn

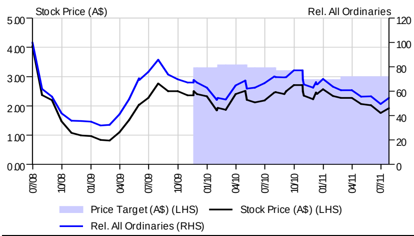
Forecast returns

Forecast price appreciation	+45.8%
Forecast dividend yield	2.6%
Forecast stock return	+48.4%
Market return assumption	9.4%
Forecast excess return	+39.0%

EPS (UBS, A$)

	06/11E			06/10
	From	To	Cons.	Actual
H1	0.08	0.08	-	0.11
H2E	0.09	0.07	-	0.16
06/11E	0.17	0.15	*0.22*	
06/12E	0.14	0.10	*0.27*	

Performance (A$)



Source: UBS

www.ubs.com/investmentresearch

June quarterly production report

Panoramic's June quarterly production of 4.65kt Ni was 12% above UBSe of 4.14kt. Group cash costs of US$6.63/lb were 16% above UBSe with cost pressures across the business and a significant impact from the higher A$.

Table 1: Quarterly production – Group summary

		Jun-10	Sep-10	Dec-10	Mar-11	Jun-11	q/q %	y/y %	Q4 11E	% Var
Group										
Ore mined	kt	287.00	255.50	249.90	239.50	263.4	10%	-8%	250.0	5%
Ore treated	kt	288.40	264.00	237.50	242.50	272.5	12%	-6%	250.0	9%
Grade	%	1.60%	1.80%	1.70%	1.74%	1.9%	7%	16%	1.8%	3%
Nickel-in-conc/ore	kt	4.20	3.90	3.70	4.08	4.65	14%	11%	4.15	12%
Copper-in-conc/ore	kt	0.98	1.01	0.80	0.88	1.23	39%	25%	1.10	12%
Payable cash cost	US$/lb	5.03	5.56	6.58	5.95	6.63	11%	32%	5.74	16%

Source: Company reports, UBSe

The split between the two operations showed some variation from our forecasts. Savannah produced 1.9kt Ni in concentrate, 10% above UBSe which had assumed a 7% lower tonnage of mill throughput and 4% lower grade. Ore mined was in-line with expectations after the rectification of ventilation issues allowed the mine to operate above budgeted rates in June to catch-up production lost in April and May. Cash costs of US$6.75/lb were 14% higher than UBSe and 10% higher q/q.

Concentrate shipments from Savannah were up strongly in the quarter after a rain-effected March quarter. The 2.1kt of nickel in concentrate shipped was the higher quarterly volume shipped since the June quarter 2009.

Table 2: Quarterly production – by operation

		Jun-10	Sep-10	Dec-10	Mar-11	Jun-11	q/q %	y/y %	Q4 11E	% Var
Savannah										
Ore mined	kt	174.3	157.6	144.5	143.2	150.6	5.2%	-13.6%	150.0	0%
Ore treated	kt	176.4	159.5	138.7	142.2	160.5	12.9%	-9.0%	150.0	7%
Grade	%	1.2%	1.4%	1.2%	1.4%	1.38%	-3.5%	20.0%	1.33%	4%
Nickel-in-conc	kt	1.8	1.9	1.39	1.75	1.89	7.8%	7.6%	1.71	10%
Copper-in-conc	kt	0.98	1.01	0.80	0.88	1.00	14.0%	2.4%	0.86	17%
Payable cash cost	US$/lb	4.91	5.41	7.51	6.16	6.75	9.6%	37.5%	5.93	14%
Lanfranchi										
Ore mined	kt	112.7	97.9	105.4	96.3	112.8	17.1%	0.1%	100.0	13%
Ore treated	kt	112.0	104.5	98.8	100.3	112.0	11.7%	0.0%	100.0	12%
Grade	%	2.4%	2.3%	2.5%	2.5%	2.4%	-5.6%	-2.1%	2.44%	-3%
Nickel-in-ore	kt	2.7	2.3	2.65	2.42	2.76	14.2%	1.2%	2.44	13%
Copper-in-ore	kt	0.21	0.19	0.20	0.23	0.22	-2.6%	7.7%	0.24	-7%
Payable cash cost	US$/lb	5.12	5.71	6.02	5.78	6.54	13.1%	27.7%	5.60	17%

Source: Company reports, UBSe

At Lanfranchi, production of 2.76kt of Ni-in-ore was 13% higher than UBSe and 14% better q/q. Increased equipment availability allowed higher ore tonnes to be mined. Grade was largely in-line with UBSe. Cash costs of US$6.54/lb were 17% higher than UBSe.

Construction on the underground paste delivery system commenced during the quarter and the construction of the Lanfranchi accommodation village continued. The target date for moving personnel into the village is 8th September 2011.

Annual nickel production of 17kt was ~2% below the most recent guidance due largely to wet weather in the previous quarter, reduced ventilation capacity which proved an ongoing problem through to May and lower equipment availability. The full year cash cost of US$6.20/lb falls above the target range of $5-6/lb, with cost pressures across the business (diesel, consumables) and the high A$ having a significant impact.

Guidance for FY12 of 17.5-18.5kt nickel has been provided. This is comparable to the prior annual production record of 17.9kt in FY09.

Cash and liquid assets is down from $136m in the previous quarter to $125m, with a number of large capital payments at both operations during the period. These include $4m for the Lanfrachi camp, $1m for the tailings dam lift and Savannah and $3m for the vent-raise at the same operation. In addition there was a negative $6m quotation period adjustment for sales made in March quarter.

Summary of changes

Reconciling the June quarterly report and updating FY12 with new Ni production guidance has resulted in minor changes to our production forecasts, although costs have been increased. However, we have updated our commodity price and currency assumptions including increasing our AUD to US$1.05 for the next 18 months. The net impact is significant, with FY11e, FY12e and FY13e earnings lower by 9%, 33% and 23% respectively.

Table 3: Summary of changes

		FY11			FY12			FY13		
Jun y/e		new	old	%	new	old	%	new	old	%
Revenue	A$m	282	279	1%	265	274	-3%	249	252	-1%
EBITDA	A$m	88	92	-4%	69	82	-17%	57	62	-8%
EBIT	A$m	42	47	-10%	22	36	-39%	10	15	-34%
NPAT	A$m	33	36	-9%	21	31	-33%	14	18	-23%
EPS	A¢/sh	15	17	-9%	10	14	-33%	6	8	-23%
DPS	A¢/sh	7	8	-13%	5	7	-29%	3	4	-25%
Ni Price	US$/lb	10.9	10.9	0%	10.1	10.4	-2%	9.4	9.4	0%
Ni-in-con production										
Savannah	kt	6.9	6.7	3%	7.5	7.5	-1%	7.5	7.5	0%
Lanfranchi	kt	9.0	8.8	2%	8.8	8.6	3%	8.6	8.6	0%
Group	kt	15.9	15.5	2%	16.3	16.1	1%	16.1	16.1	0%
Cash costs										
Savannah	US$/lb	6.41	6.19	3%	6.30	5.97	6%	5.66	5.64	0%
Lanfranchi	US$/lb	6.04	5.79	4%	5.94	5.67	5%	6.07	5.81	5%
Group	US$/lb	6.20	5.96	4%	6.11	5.81	5%	5.88	5.73	3%
NPV	A$/share	$ 2.78	$2.98	-7%						
Price Target	A$/share	$ 2.80	$3.00	-7%						

Source: Company reports, UBSe

Investment thesis

PAN remains one of our preferred Australian nickel stocks based on discount to valuation. The two operating centres have returned to normal production levels and we expect cashflows to be sufficient to maintain the dividend payout. With cash and liquid assets down q/q, the ramp up in exploration and the recent $4m payment for a 4% stake in HCH, we recognise a further reduction on the cash balance is conceivable. We also highlight the ongoing risk to earnings in an environment of a continually rising A$.

With Helmut South continuing to show upside potential, we continue to believe Lanfranchi holds further promise. Further, targets recently defined at the Gidgee Gold Project look interesting and we look forward to seeing exploration results over the coming months.

Panoramic Resources (PAN.AX)

Analyst/s: Jo Battershill, Brett McKay, Glyn Lawcock
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27-Jul-11

MARKET INFORMATION

Rating:	**Buy**
Price (as of 27-Jul-11):	1.91
Price Target (12 months):	**2.80**
Issued Capital:	205.3
Market Capitalisation:	394.1
Avg. daily turnover (US$m)	1.9
Year end:	Jun 2011
Website:	http://www.panoramicresources.com
Major Shareholders:	M&G 18.15%, AMP 6.2%, Eley Griffith 6.3%

COMPANY DESCRIPTION

Panoramic Resources Ltd is an established nickel sulphide producer operating two underground mines in Western Australia: the Savannah Project in the Kimberley and the Lanfranchi Project south of Kambalda. The two operations are forecast to produce a combined 16kt of nickel in concentrate per annum at cash costs of around US$4.30/lb. Exploration upside exists at both sites underpinning our expectation of nine to 10-year mine lives. The company has stated an intention to become a diversified mining house through the acquisitions of other assets and maintain a steady dividend stream.

INVESTMENT SUMMARY

(A$m)	**2010**	**2011E**	**2012E**	**2013E**
Net profit [reported] ($m)	56.2	32.6	20.5	13.8
Net profit [adjusted] ($m)	56.2	32.6	20.5	13.8
EPS [reported] ($)	0.27	0.16	0.10	0.07
EPS [adjusted, diluted] ($)	0.26	0.15	0.10	0.06
EPS Growth (%)	870.0	(42.5)	(37.0)	(32.5)
PER [adjusted] (x)	**7.2**	**12.5**	**19.9**	**29.5**
Dividend ($)	0.2	0.1	0.1	0.0
Payout ratio (%)	60.1	44.4	50.3	44.7
Dividend Yield (%)	8.6	3.7	2.6	1.6
FCF Yield (%)	32.6	6.8	10.6	11.8
Franking (%)	100%	100%	100%	100%
Shares [period-average, diluted] (m)	212.1	214.0	214.0	214.0

OPERATIONAL ASSUMPTIONS

	1H11A	**2H11E**	**2010**	**2011E**	**2012E**	**2013E**
Commodity prices						
Ni price (US$/lb)	10.18	11.60	8.82	10.89	10.14	9.40
Cu price (US$/lb)	3.62	4.26	3.04	3.94	3.94	3.40
Co price (US$/lb)	19.40	19.08	20.52	19.24	17.00	16.00
A$:US$	0.95	1.03	0.88	0.99	1.05	1.04
Production - payable Nickel						
Savannah (Mlbs)	3.3	3.6	7.3	6.9	7.5	7.5
Lanfranchi (Mlbs)	4.3	4.7	8.8	9.0	8.8	8.6
Cash costs						
Savannah (US$/lb)			4.54	6.41	6.30	5.66
Lanfranchi (US$/lb)			5.08	6.04	5.94	6.07

VALUATION

Valuation per share [NAV @ 10%] ($)	2.78
Share Price Target [12 months] ($)	2.80
Price/NAV [10% disc rate] (x)	0.69

Operating Assets [DH10]	**A$m**	**¢**
Savannah	218	105
Lanfranchi	230	111
Gross Assets	**448**	**217**
Investments	6	3
Exploration	66	32
Hedging	0	0
Net Cash	114	55
Corporate costs	(59)	(29)
Net Asset Value @ 10% discount rate	**575**	**278**

DIVISIONAL BREAKDOWN [EBIT]

(A$m)	**1H11A**	**2H11E**	**2010**	**2011E**	**2012E**	**2013E**
Savannah	8.8	15.0	25.1	23.8	13.1	10.7
Lanfranchi	20.5	23.9	42.3	44.4	28.0	18.5

PROFIT & LOSS

(A$m)	**1H11A**	**2H11E**	**2010**	**2011E**	**2012E**	**2013E**
Sales Revenue	126	150	283	275	258	239
Operating Cash Profit	**52**	**69**	**157**	**120**	**94**	**81**
Depn & Amortisation	(22)	(23)	(52)	(45)	(47)	(46)
Operating Profit	**30**	**46**	**104**	**75**	**47**	**35**
Others	(1)	(22)	(19)	(23)	(14)	(14)
SGA	(5)	(5)	(10)	(10)	(11)	(11)
EBIT	**24**	**18**	**75**	**42**	**22**	**10**
Net interest	3	3	4	6	7	10
Profit before tax	**27**	**22**	**78**	**48**	**29**	**20**
Tax expense	(9)	(6)	(22)	(16)	(9)	(6)
Equity Associated NPAT	0	0	0	0	0	0
Minority Interests	0	0	0	0	0	0
Dividends [preferred]	0	0	0	0	0	0
Net Profit [reported]	**18**	**15**	**56**	**33**	**21**	**14**
Abnormal Gain/(Loss) after Tax	0	0	0	0	0	0
Net Profit [adjusted]	**18**	**15**	**56**	**33**	**21**	**14**
EBITDA margin (%)			*44.9*	*31.8*	*26.6*	*23.7*
Net Interest Cover [EBIT] (x)			*20.8*	*7.2*	*3.0*	*1.1*
Tax Rate (%)			*28%*	*32%*	*30%*	*30%*
EBIT/Total Assets (%)			*17.9*	*10.2*	*5.2*	*2.4*
NPAT/Equity (%)			*19.3*	*10.8*	*6.6*	*4.4*

ENTERPRISE VALUE

(A$m)	**2010**	**2011E**	**2012E**	**2013E**
Enterprise Value	**431**	**374**	**343**	**301**
EV/EBITDA (x)	3.4	4.3	5.0	5.3
EV/Operating Free Cash Flow (x)	4.5	4.7	9.0	7.3

EPS SENSITIVITIES

Commodity	**Base Change**	**2011E**	**2012E**	**2013E**
			EPS Change	
Nickel	10%	18%	119%	178%
Copper	10%	11%	56%	39%
Currency	5¢	5%	4%	-38%

CASH FLOW

(A$m)	**2010**	**2011E**	**2012E**	**2013E**
Operating income [EBIT, UBS]	75	42	22	10
Depreciation & Amortisation	52	45	47	46
Net change in working capital	(3)	21	0	0
Other (operating)	8	(46)	0	0
Pre-tax op cash flow	**132**	**62**	**69**	**57**
Interest (paid) / received	4	5	7	10
Tax paid	4	(24)	(9)	(6)
Other	0	0	0	0
Operating cash flow	**140**	**43**	**67**	**60**
Capital expenditure	(8)	(15)	(24)	(12)
Free cash flow	**132**	**28**	**43**	**48**
Net (acquisitions) / disposals	0	(14)	0	0
Dividends paid (Common)	(25)	(22)	(12)	(6)
Shares issued/(repurchased)	1	3	0	0

BALANCE SHEET [Selected Items]

(A$m)	**2010**	**2011E**	**2012E**	**2013E**
Net Working capital	66	24	24	24
Fixed Assets	52	52	52	52
Net Other	128	127	105	70
Capital Employed	**246**	**203**	**180**	**146**
Net Cash / (Debt)	45	98	129	171
Total Equity [incl. minorities]	**291**	**301**	**309**	**317**
Minorities	0	0	0	0
Net Debt / Equity (%)	*(15.5)*	*(32.7)*	*(41.8)*	*(54.0)*
Book Value per Share($)	*1.43*	*1.46*	*1.50*	*1.54*

Source: Company accounts, UBS estimates. UBS valuations are stated before goodwill, exceptionals and other special items. Note: The data represents an extract of the full company accounts.

Source: Company reports, UBSe

Panoramic Resources Limited

Panoramic Resources Ltd is an established nickel sulphide producer operating two underground mines in Western Australia: the Savannah Project in the Kimberley and the Lanfranchi Project south of Kambalda. The two operations are forecast to produce a combined 16kt of nickel in concentrate per annum at cash costs of around US$4.30/lb. Exploration upside exists at both sites underpinning our expectation of nine to 10-year mine lives. The company has stated an intention to become a diversified mining house through the acquisitions of other assets and maintain a steady dividend stream.

Statement of Risk

Investment risk inherent in the resource sector includes, but is not limited to movement of commodity price and currency which may differ materially from the assumptions used in this report. Furthermore the sector is subject to political, financial and operational risks, each of which has the potential to significantly impact industry performance.

Analyst Certification

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UBS Investment Research: Global Equity Rating Allocations

UBS 12-Month Rating	Rating Category	Coverage[1]	IB Services[2]
Buy	**Buy**	54%	39%
Neutral	**Hold/Neutral**	39%	35%
Sell	**Sell**	7%	14%
UBS Short-Term Rating	**Rating Category**	**Coverage[3]**	**IB Services[4]**
Buy	**Buy**	less than 1%	33%
Sell	**Sell**	less than 1%	25%

1:Percentage of companies under coverage globally within the 12-month rating category.
2:Percentage of companies within the 12-month rating category for which investment banking (IB) services were provided within the past 12 months.
3:Percentage of companies under coverage globally within the Short-Term rating category.
4:Percentage of companies within the Short-Term rating category for which investment banking (IB) services were provided within the past 12 months.

Source: UBS. Rating allocations are as of 30 June 2011.

UBS Investment Research: Global Equity Rating Definitions

UBS 12-Month Rating	Definition
Buy	FSR is > 6% above the MRA.
Neutral	FSR is between -6% and 6% of the MRA.
Sell	FSR is > 6% below the MRA.
UBS Short-Term Rating	**Definition**
Buy	Buy: Stock price expected to rise within three months from the time the rating was assigned because of a specific catalyst or event.
Sell	Sell: Stock price expected to fall within three months from the time the rating was assigned because of a specific catalyst or event.

KEY DEFINITIONS

Forecast Stock Return (FSR) is defined as expected percentage price appreciation plus gross dividend yield over the next 12 months.
Market Return Assumption (MRA) is defined as the one-year local market interest rate plus 5% (a proxy for, and not a forecast of, the equity risk premium).
Under Review (UR) Stocks may be flagged as UR by the analyst, indicating that the stock's price target and/or rating are subject to possible change in the near term, usually in response to an event that may affect the investment case or valuation.
Short-Term Ratings reflect the expected near-term (up to three months) performance of the stock and do not reflect any change in the fundamental view or investment case.
Equity Price Targets have an investment horizon of 12 months.

EXCEPTIONS AND SPECIAL CASES

UK and European Investment Fund ratings and definitions are: Buy: Positive on factors such as structure, management, performance record, discount; Neutral: Neutral on factors such as structure, management, performance record, discount; Sell: Negative on factors such as structure, management, performance record, discount.
Core Banding Exceptions (CBE): Exceptions to the standard +/-6% bands may be granted by the Investment Review Committee (IRC). Factors considered by the IRC include the stock's volatility and the credit spread of the respective company's debt. As a result, stocks deemed to be very high or low risk may be subject to higher or lower bands as they relate to the rating. When such exceptions apply, they will be identified in the Company Disclosures table in the relevant research piece.

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UBS Securities Australia Ltd: Jo Battershill; Brett McKay; Glyn Lawcock.

Company Disclosures

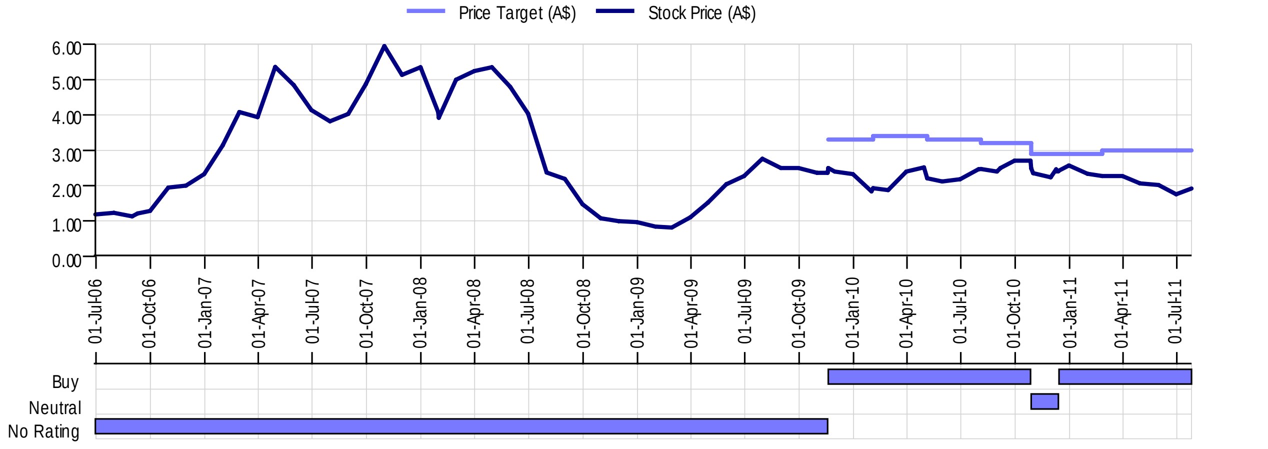
Company Name	Reuters	12-mo rating	Short-term rating	Price	Price date
Panoramic Resources Limited[5]	PAN.AX	Buy	N/A	A$1.92	26 Jul 2011

Source: UBS. All prices as of local market close.
Ratings in this table are the most current published ratings prior to this report. They may be more recent than the stock pricing date

5. UBS AG, Australia Branch or an affiliate expect to receive or intend to seek compensation for investment banking services from this company/entity within the next three months.

Unless otherwise indicated, please refer to the Valuation and Risk sections within the body of this report.

Panoramic Resources Limited (A$)



Source: UBS; as of 26 Jul 2011

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