

# Panoramic Resources Limited

June quarter result – steady as she goes



Wilson HTM  
INVESTMENT GROUP

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\$1.91

BUY

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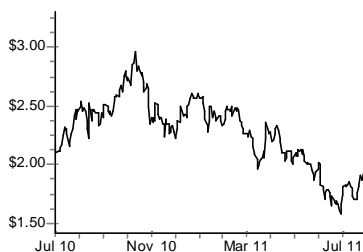
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## Price Performance



## Security/Capital Details

ASX Code	PAN
Market Cap	\$401 M
Issued Shares (dil)	209.9 M
Avg Mth T'over	23.35 M
12 Mth High – Low	\$2.96 - \$1.58

## Key Data/Ratios – FY 2011

EBITDA / Sales	42.9%
EBIT / Sales	23.4%
Debt / Equity	1.0%
Interest Cover	62.7 x
ROE	12.9%
EPS Growth	-24.6%
DCF	\$3.26
12 Mth Price Target	\$3.24

## Recommendation

PAN has met production guidance at the lower end, following mechanical failures at Savannah that limited production. FY2011 group production of nickel in con/ore was 17.0kt and compared to our forecast of 17.1kt. Production is likely to be maintained at these levels in FY2012, and we reduce our forecast by 5.7% to 18.1kt Ni to meet guidance. Despite this, PAN remains a consistent and steady nickel producer. So far, exploration success has been elusive. However, success remains a potential catalyst for the stock. BUY maintained. Valuation and target price are reduced slightly to \$3.26/sh (-0.7%) and \$3.25/sh (-4.3%) respectively.

## Key Points

- **Lanfranchi;** June quarter production of 2.8kt Ni was an increase of 14.2% qoq, importantly, this was achieved despite a decrease in grade from 2.51% Ni to 2.45% Ni. The higher production was supported by a 17.1% increase in tonnes mined, led by increased equipment availability.
- The increased material movement at Lanfranchi has in part been reflected in an increase in cash cost during the quarter to A\$6.16/lb, and compared to A\$5.76/lb in the March quarter.
- **Savannah;** June quarter production of 1.9kt Ni was an increase of 7.8% qoq. Production during the quarter was maintained by higher than expected grades in the month of June, offsetting weaker production in April and May, which was adversely affected by a failure of the surface ventilation system. The ventilation system was successfully replaced in late May.
- FY2012 group nickel production guidance has been set at 17.5-18.5kt Ni. We have revised down our FY2012 forecast by 5.7% to 18.1kt Ni.
- Reaching a production rate of 25kt Ni remains a target for PAN. However, the higher rate of production remains dependent on the development of the Copernicus and Cruickshank deposits. In our opinion, the goal of reaching a production rate of 25kt Ni remains beyond 3-4 years.
- Cash costs at Savannah and Lanfranchi were also negatively impacted by the higher A\$. PAN has since taken out a substantial amount of FX hedging over the next two years, including the purchase of puts over US\$12m at US\$1.07 for the December half, and over US\$86m at US\$1.10 delivered between August 2011 and June 2012. The company has also sold calls over US\$60m at US\$0.90. PAN continues to manage a very active hedge book.
- PAN recently acquired a 4.1% interest in a junior Chilean copper explorer Hot Chili Limited (ASX:HCH) through a placement of 6.6m shares @ \$0.60/sh, the offer price was a 14.3% discount to the previous \$0.70/sh close. Taurus Funds Management Pty Ltd took up the same deal. HCH's key asset is the Productora project. The project is prospective for poly-metallic copper mineralisation. +30km of drilling has been completed and the company is finalising a maiden resource estimate.
- Exploration efforts at the Cowan Nickel Project in WA and Blue Bush in NT have ceased and PAN is assessing both projects' remaining potential. In addition, PAN has withdrawn from both the Norrland Nickel JV in Sweden and the Tushtena Gold Project in Alaska. We no longer value these projects, previously valued at \$3m.
- Cash at 30 June was \$101m with receivables of \$24m.

Year to June	NPAT (Rep) \$M	NPAT (PSig) \$M	EPS (PSig) c	EPS Growth %	PER x	CFPS c	P/CF x	DPS c	Div Yld %	Franking %
2010a	56.2	51.2	24.5	113.1	7.8	64.9	2.9	16.5	8.6	100
2011e	42.4	38.7	18.4	-24.6	10.4	25.4	7.5	10.0	5.2	100
2012e	73.7	73.7	35.1	90.3	5.4	54.5	3.5	17.0	8.9	100
2013e	103.0	103.0	49.1	39.8	3.9	68.5	2.8	26.0	13.6	100

## Revision to modelling

### Revision to valuation and target - \$/sh

	Valuation	Target
Previous	3.28	3.39
Revised	3.26	3.24
<i>Change</i>	-0.7%	-4.3%

Source: Wilson HTM

### Revision to NPAT - \$/m

	FY2011	FY2012
Previous	40.7	79.3
Revised	38.7	73.7
<i>Change</i>	-4.8%	-7.1%

Source: Wilson HTM

### Revision to EPS - ¢/sh

	FY2011	FY2012
Previous	19.4	37.8
Revised	18.4	35.1
<i>Change</i>	-4.8%	-7.1%

Source: Wilson HTM

### Revision to production – kt Ni

	FY2011	FY2012
Previous	17.1	19.2
Revised	17.0	18.1
<i>Change</i>	-0.5%	-5.7%

Source: Wilson HTM

### PAN FY2011 production and cost highlights

	Dec-10	Jun-11	FY2011	WHTMe	Variance
<b>Lanfranchi</b>					
Nickel in con/ore t	4,931	5,175	10,106	10,134	-0.3%
Cash cost A\$/lb	6.20	6.16	6.18	6.12	1.0%
<b>Savannah</b>					
Nickel in con/ore t	3,285	3,636	6,921	6,977	-0.8%
Cash cost A\$/lb	6.68	6.25	6.45	6.67	-3.3%
<b>Total</b>					
Nickel in con/ore t	8,216	8,811	<b>17,027</b>	17,111	-0.5%
Cash cost A\$/lb	6.39	6.20	<b>6.25</b>	6.34	-0.9%

Source: PAN Wilson HTM

**Sensitivity to flat Nickel and FX rates**

		<b>Nickel \$/lb</b>				
		<b>7.5</b>	<b>8.5</b>	<b>9.5</b>	<b>10.5</b>	<b>11.5</b>
<b>AUDUSD</b>	<b>0.75</b>	2.92	3.45	3.98	4.52	5.06
	<b>0.85</b>	2.28	2.75	3.22	3.69	4.17
	<b>0.95</b>	1.79	2.21	2.63	3.05	3.48
	<b>1.05</b>	1.41	1.78	2.17	2.55	2.93
	<b>1.15</b>	1.11	1.44	1.79	2.14	2.49

Source: Wilson HTM

Using a spot nickel price of US\$10.96/lb and a spot FX rate of \$1.10, our valuation decreases to \$2.50/sh.

## Panoramic Resources Limited (PAN : \$1.91)

## PRODUCTION

Yr Ending June	2009A	2010A	2011E	2012E	2013E
Contained Nickel (kt)	17.4	17.4	17.0	18.1	18.1
Contained Copper (kt)	5.0	4.9	4.5	4.8	4.8
Contained Cobalt (kt)	0.4	0.4	0.4	0.4	0.4

## PRICES

Yr Ending June	2009A	2010A	2011E	2012E	2013E
AUDUSD (USD)	0.75	0.88	0.99	1.04	1.00
Nickel (US\$/lb)	6.13	8.81	10.88	12.31	12.70
Copper (US\$/lb)	2.08	2.42	3.94	4.81	4.48
Cobalt (US\$/lb)	21.90	20.52	18.56	17.50	15.00

## INVESTMENT &amp; VALUATION FUNDAMENTALS

Yr Ending June	2009A	2010A	2011E	2012E	2013E
EPS Before Abs (c)	11.5	24.5	18.4	35.1	49.1
EPS Growth (%)	N/A	113.1%	-24.6%	90.3%	39.8%
<b>PER (x)</b>	<b>16.6</b>	<b>7.8</b>	<b>10.4</b>	<b>5.4</b>	<b>3.9</b>
CFPS (c)	16.1	64.9	25.4	54.5	68.5
<b>P/CF (x)</b>	<b>11.9</b>	<b>2.9</b>	<b>7.5</b>	<b>3.5</b>	<b>2.8</b>
EV/EBITDA (x)	4.3	2.9	3.2	1.8	0.9
DPS (c)	3.0	16.5	10.0	17.0	26.0
<b>Yield (%)</b>	<b>1.6%</b>	<b>8.6%</b>	<b>5.2%</b>	<b>8.9%</b>	<b>13.6%</b>
Franking (%)	100%	100%	100%	100%	100%

## DCF VALUATION

Yr Ending June	@	10.5 %		10 %	
		A\$m	A\$ps	A\$m	A\$ps
Savannah		143.0	0.68	144.9	0.69
Lanfranchi		246.8	1.18	249.8	1.19
Gidgee Gold Project		31.0	0.15	31.0	0.15
Corporate Costs Capitalised		-26.5	-0.13	-27.0	-0.13
Hedge Book		7.6	0.04	7.6	0.04
Interests - Other Entities		12.1	0.06	12.1	0.06
Exploration/Dev Portfolio		70.4	0.34	70.4	0.34
Franking Credits		82.5	0.39	83.6	0.40
Cash		116.2	0.55	116.2	0.55
Interest Bearing Liabilities		-3.0	-0.01	-3.0	-0.01
Minorities		0.0	0.00	0.0	0.00
Additional Capital - Dilution		3.9	0.02	3.9	0.02
Total Valuation - Diluted		683.9	3.26	689.5	3.28

## PROFITABILITY RATIOS

Yr Ending June	2009A	2010A	2011E	2012E	2013E
<b>EBIT / Sales (%)</b>	<b>14.5%</b>	<b>25.1%</b>	<b>23.4%</b>	<b>44.5%</b>	<b>53.9%</b>
ROA (%)	N/A	20.4%	15.0%	30.9%	45.8%
<b>ROE (%)</b>	<b>N/A</b>	<b>17.7%</b>	<b>12.9%</b>	<b>22.0%</b>	<b>26.7%</b>
ROFE (%)	N/A	29.1%	22.5%	46.7%	70.7%

## INTERIMS (\$m)

Half Yr	Dec 09	Jun 10	Dec 10	Jun 11	Dec 11
Yr Ending June	1H A	2H A	1H A	2H E	1H E
Sales Revenue	132.2	151.2	125.8	95.0	106.4
EBIT	32.0	39.2	18.7	33.0	41.3
<b>Net Profit</b>	<b>23.1</b>	<b>33.1</b>	<b>17.6</b>	<b>24.8</b>	<b>30.7</b>
EPS	11.3	13.2	6.6	11.8	14.6

1. Gearing = (Debt + CNotes) / (Debt + Cnotes + Equity)

## BALANCE SHEET (\$m)

Yr Ending June	2009A	2010A	2011E	2012E	2013E
Cash	50.0	49.8	101.0	146.8	237.6
Total Assets	380.3	416.8	424.1	468.9	524.3
Debt	6.6	4.7	3.0	3.0	3.0
Total Liabilities	94.0	125.7	113.2	111.2	109.2
Total Shareholders Equity	286.3	291.1	311.0	357.7	415.1
Total Funds Employed	242.9	246.1	212.9	213.9	180.5

## LIQUIDITY &amp; LEVERAGE RATIOS

Yr Ending June	2009A	2010A	2011E	2012E	2013E
Debt / Equity (%)	2.3%	1.6%	1.0%	0.8%	0.7%
Gearing (%) <sup>1</sup>	2.2%	1.6%	0.9%	0.8%	0.7%
Interest Cover (x)	33.5	4,183.8	-10.0	-18.7	-17.8
Debt / CashFlow (x)	0.2	0.0	0.1	0.0	0.0
(Debt+CNotes) / CashFlow	0.1	0.0	0.0	0.0	0.0

## PROFIT &amp; LOSS (\$m)

Yr Ending June	2009A	2010A	2011E	2012E	2013E
Sales Revenue	225.1	283.4	220.8	224.7	258.4
EBITDA	82.2	123.8	94.7	142.6	182.0
Depn and Amortisation	49.5	52.7	43.1	42.7	42.7
<b>EBIT</b>	<b>32.7</b>	<b>71.1</b>	<b>51.7</b>	<b>99.9</b>	<b>139.3</b>
Net Interest Expense	1.0	0.0	-5.2	-5.3	-7.8
<b>Pre-tax Profit</b>	<b>31.7</b>	<b>71.1</b>	<b>56.9</b>	<b>105.2</b>	<b>147.1</b>
Tax	7.8	19.9	18.1	31.6	44.1
Tax rate (%)	24.6%	28.0%	31.9%	30.0%	30.0%
Minorities / pref divs	0.0	0.0	0.0	0.0	0.0
Equity accounted NPAT	0.0	0.0	0.0	0.0	0.0
<b>Net Profit</b>	<b>23.9</b>	<b>51.2</b>	<b>38.7</b>	<b>73.7</b>	<b>103.0</b>
Abnormals	-18.3	5.0	3.6	0.0	0.0
Reported Net Profit	5.6	56.2	42.4	73.7	103.0

## CASHFLOW (\$m)

Yr Ending June	2009A	2010A	2011E	2012E	2013E
<b>Operating Cash Flow</b>	<b>33.5</b>	<b>135.8</b>	<b>53.2</b>	<b>114.4</b>	<b>143.7</b>
Capital Expenditure	-15.7	-8.1	-23.9	-18.7	-1.3
Expln, Develop, Evaln	-44.8	-26.9	-29.5	-19.0	-6.0
Asset Sales/Acquisitions	0.0	-5.7	-7.8	-4.0	0.0
Other	-17.8	-65.9	79.9	0.0	0.0
<b>Investing Cash Flow</b>	<b>-78.4</b>	<b>-106.6</b>	<b>18.7</b>	<b>-41.7</b>	<b>-7.3</b>
Share Issues/(Buybacks)	0.2	0.6	2.7	0.0	4.5
Debt Drawdown (Repay)	-4.7	-5.4	-1.8	0.0	0.0
Dividends Paid	-11.5	-24.6	-21.6	-26.9	-50.1
Other Fin. Flows	0.0	0.0	0.0	0.0	0.0
<b>Financing Cash Flow</b>	<b>-16.1</b>	<b>-29.4</b>	<b>-20.7</b>	<b>-26.9</b>	<b>-45.6</b>
<b>Cash Increase (Decrease)</b>	<b>-60.9</b>	<b>-0.2</b>	<b>51.2</b>	<b>45.8</b>	<b>90.8</b>

## EARNINGS SENSITIVITIES - % CHANGE

Yr Ending June	2009A	2010A	2011E	2012E	2013E
+/- 1c Movement US\$/A\$	0.0	0.0	3.7	3.3	2.4
+/-10% Ni Price Change	0.0	0.0	28.2	17.9	19.1
+/-10% Change In Costs	0.0	0.0	28.4	13.8	9.6



### Recommendation Structure

BUY: Total return +10% or more over a 12 month period

HOLD: Total return expected to be between +10% to -10% over a 12-month period

SELL: Total return expected to be -10% or more over a 12 month period

TOTAL RETURN OR TSR = capital growth in share price + expected dividend yield in that period

### Other definitions

CS Coverage Suspended. Wilson HTM Ltd has suspended coverage of this company.

NR Not Rated. The recommendation has been suspended temporarily. Such suspension is in line with Wilson HTM Investment Group Ltd policies in circumstances where Wilson HTM Corporate Finance Ltd is acting in an advisory capacity in a merger or strategic transaction involving the company and in certain other situations.

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