

UBS Investment Research

Panoramic Resources Limited

Result weaker on hedging and impairment

■ Event: Full-year financial result

PAN has announced a reported profit of \$22.3m for FY11. The headline result was weaker than expected with revenue \$13.8m lower due to hedging losses and the write-down of \$5.5m on the equity investment in Magma Metals (ASX: MMW). The underlying result of \$26.2m was 20% lower than UBS-e of \$32.6m and below consensus of \$39m. A 2¢/share fully franked dividend was declared, below UBS-e at 3¢/share, with a 2H payout ratio of 87%. FY12 production guidance of 17.5-18.5kt contained nickel has been maintained, with UBS-e currently 17.5kt.

■ Impact: Higher costs offset by impact of forward sales

Reconciling the result and upwardly adjusting our operating costs in line with WA mining industry cost inflation would have resulted in earnings downgrades in the coming years. However, the company has sold forward around 20% of FY12e production and a small amount in FY13e, which has helped lift FY12e and FY13e earnings estimates by 13% and 2%, respectively. It is possible additional hedging could be taken out during times of nickel price spikes.

■ Action: Maintain Buy – deep discount to valuation

We maintain our Buy rating based on a deep discount to valuation and the potential for the delineation of additional resources. Whilst we recognise the business is exposed to industry-wide cost pressures and a high A\$, we acknowledge PAN is attempting to mitigate these exposures through hedging.

■ Valuation: \$2.68/sh (DCF, 10% discount rate)

Our valuation and price target, based on NPV, are both 4% lower.

Highlights (A\$m)	06/10	06/11	06/12E	06/13E	06/14E
Revenues	283	243	258	247	258
EBIT (UBS)	75	32	26	12	24
Net Income (UBS)	56	26	23	14	25
EPS (UBS, A\$)	0.26	0.13	0.11	0.07	0.12
Net DPS (UBS, A\$)	0.16	0.06	0.05	0.03	0.05

Profitability & Valuation	5-yr hist av.	06/11	06/12E	06/13E	06/14E
EBIT margin %	22.2	13.0	10.2	4.7	9.4
ROIC (EBIT) %	38.9	13.7	12.7	6.2	15.3
EV/EBITDA (core) x	4.2	5.0	3.1	3.2	2.0
PE (UBS) x	21.3	18.5	15.0	24.6	14.0
Net dividend yield %	3.7	2.6	3.0	1.8	3.0

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\$1.65 on 26 Aug 2011 23:38 EST

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Global Equity Research

Australia

Mining

12-month rating **Buy**
Unchanged

12m price target **A\$2.70/US\$2.84**
Prior: A\$2.80/US\$2.94

Price **A\$1.65/US\$1.73**

RIC: PAN.AX BBG: PAN AU

29 August 2011

Trading data (local/US\$)

52-wk range	A\$2.96-1.35/US\$2.91-1.38
Market cap.	A\$0.34bn/US\$0.36bn
Shares o/s	205m (ORD)
Free float	78%
Avg. daily volume ('000)	1,178
Avg. daily value (m)	A\$2.0

Balance sheet data 06/12E

Shareholders' equity	A\$0.32bn
P/BV (UBS)	1.1x
Net Cash (debt)	A\$0.12bn

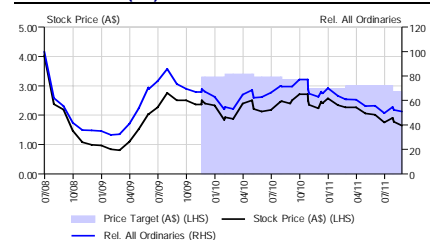
Forecast returns

Forecast price appreciation	+63.6%
Forecast dividend yield	1.8%
Forecast stock return	+65.4%
Market return assumption	8.8%
Forecast excess return	+56.6%

EPS (UBS, A\$)

	06/12E		Cons.	06/11
	From	To		Actual
H1E	0.06	0.07	-	0.08
H2E	0.04	0.04	-	0.04
06/12E	0.10	0.11	0.24	
06/13E	0.06	0.07	0.26	

Performance (A\$)



Source: UBS

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Table 1: Summary of changes

Jun y/e		FY11			FY12			FY13		
		new	old	%	new	old	%	new	old	%
Revenue	A\$m	250	282	-12%	265	265	0%	256	249	3%
EBITDA (underlying)	A\$m	78	88	-11%	73	69	6%	59	57	5%
EBIT (underlying)	A\$m	32	42	-25%	26	22	20%	12	10	14%
NPAT (underlying)	A\$m	26	33	-20%	23	21	13%	14	14	2%
EPS (reported)	A¢/sh	10.8	15.3	-29%	11.0	9.6	15%	6.7	6.5	3%
DPS	A¢/sh	6	7	-14%	5	5	0%	3	3	0%
Ni Price	US\$/lb	10.9	10.9	0%	10.1	10.1	0%	9.4	9.4	0%
Ni-in-con production										
Savannah	kt	6.9	6.9	0%	7.5	7.5	0%	7.5	7.5	0%
Lanfranchi	kt	9.0	9.0	0%	8.8	8.8	0%	9.2	8.6	8%
Group	kt	15.9	15.9	0%	16.3	16.3	0%	16.8	16.1	4%
Cash costs										
Savannah	US\$/lb	6.41	6.41	0%	6.68	6.30	6%	5.97	5.66	5%
Lanfranchi	US\$/lb	6.04	6.04	0%	6.18	5.94	4%	6.26	6.07	3%
Group	US\$/lb	6.20	6.20	0%	6.41	6.11	5%	6.13	5.88	4%
NPV	A\$/share	\$ 2.68	\$2.78	-4%						
Price Target	A\$/share	\$ 2.70	\$2.80	-4%						

Source: Company reports, UBS-e

Panoramic Resources (PAN.AX)

Analyst/s: Jo Battershill, Brett McKay, Glyn Lawcock
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29-Aug-11

MARKET INFORMATION

Rating:	Buy
Price (as of 29-Aug-11):	1.68
Price Target (12 months):	2.70
Issued Capital:	207.1
Market Capitalisation:	338.7
Avg. daily turnover (US\$m)	2.1
Year end:	Jun 2012
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)	2011	2012E	2013E	2014E
Net profit [reported] (\$m)	22.3	23.2	14.1	24.8
Net profit [adjusted] (\$m)	26.2	23.2	14.1	24.8
EPS [reported] (\$)	0.11	0.11	0.07	0.12
EPS [adjusted, diluted] (\$)	0.13	0.11	0.07	0.12
EPS Growth (%)	(52.7)	(12.0)	(39.3)	76.3
PER [adjusted] (x)	13.4	15.2	25.1	14.2
Dividend (\$)	0.1	0.1	0.0	0.1
Payout ratio (%)	55.5	44.7	44.2	41.8
Dividend Yield (%)	3.6	3.0	1.8	3.0
FCF Yield (%)	5.2	13.0	14.1	19.4
Franking (%)	100%	100%	100%	100%
Shares [period-average, diluted] (m)	209.2	210.1	210.1	210.1

VALUATION

Valuation per share [NAV @ 10%] (\$)	2.75
Share Price Target [12 months] (\$)	2.70
Price/NAV [10% disc rate] (x)	0.61

Operating Assets [DH10]

	A\$m	¢
Savannah	207	101
Lanfranchi	229	111

Gross Assets

	A\$m	¢
Investments	9	4
Exploration	66	32
Hedging	12	6
Net Cash	107	52
Corporate costs	(65)	(32)

Net Asset Value @ 10% discount rate

	A\$m	¢
	564	275

ENTERPRISE VALUE

(A\$m)	2011	2012E	2013E	2014E
Enterprise Value	249	224	190	140
EV/EBITDA (x)	3.2	3.1	3.2	2.0
EV/Operating Free Cash Flow (x)	4.5	5.4	4.3	2.3

EPS SENSITIVITIES

Commodity	Base Change	2012E	2013E	2014E
Nickel	10%	66%	91%	169%
Copper	10%	57%	36%	34%
Currency	5¢	48%	-9%	-40%

CASH FLOW

(A\$m)	2011	2012E	2013E	2014E
Operating income [EBIT, UBS]	32	26	12	24
Depreciation & Amortisation	46	47	48	47
Net change in working capital	14	0	0	0
Other (operating)	(29)	0	0	0
Pre-tax op cash flow	62	73	59	71
Interest (paid) / received	5	7	8	11
Tax paid	(21)	(10)	(6)	(11)
Other	0	0	0	0
Operating cash flow	46	70	62	72
Capital expenditure	(28)	(24)	(12)	(3)
Free cash flow	18	46	50	69
Net (acquisitions) / disposals	1	0	0	0
Dividends paid (Common)	(22)	(10)	(6)	(8)
Shares issued/(repurchased)	3	0	0	0

OPERATIONAL ASSUMPTIONS

	1H11	2H11	2011	2012E	2013E	2014E
Commodity prices						
Ni price (US\$/lb)	10.18	11.60	10.89	10.14	9.40	9.35
Cu price (US\$/lb)	3.62	4.26	3.94	3.94	3.40	2.93
Co price (US\$/lb)	19.40	19.08	19.24	17.00	16.00	16.00
A\$:US\$	0.95	1.03	0.99	1.05	1.04	0.96
Production - payable Nickel						
Savannah (Mlbs)	3.3	3.6	6.9	7.5	7.5	7.3
Lanfranchi (Mlbs)	4.3	4.7	9.0	8.8	9.2	9.2
Cash costs						
Savannah (US\$/lb)			6.41	6.68	5.97	5.54
Lanfranchi (US\$/lb)			6.04	6.18	6.26	5.99

DIVISIONAL BREAKDOWN [EBIT]

(A\$m)	1H11	2H11	2011	2012E	2013E	2014E
Savannah	8.8	15.0	23.8	8.8	7.1	12.0
Lanfranchi	20.5	23.9	44.4	25.0	17.4	29.3

PROFIT & LOSS

(A\$m)	1H11	2H11	2011	2012E	2013E	2014E
Sales Revenue	126	118	243	258	247	258
Operating Cash Profit	52	55	107	86	78	94
Depn & Amortisation	(22)	(24)	(46)	(47)	(48)	(47)
Operating Profit	30	31	61	40	30	47
Others	(1)	(14)	(15)	(1)	(6)	(10)
SGA	(5)	(9)	(14)	(12)	(13)	(13)
EBIT	24	8	32	26	12	24
Net interest	3	2	5	7	8	11
Profit before tax	27	4	31	33	20	35
Tax expense	(9)	1	(8)	(10)	(6)	(11)
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	5	22	23	14	25
Abnormal Gain/(Loss) after Tax	0	0	0	0	0	0
Net Profit [adjusted]	18	5	22	23	14	25
EBITDA margin (%)			31.9	28.3	24.0	27.5
Net Interest Cover [EBIT] (x)			6.7	3.9	1.4	2.2
Tax Rate (%)			28%	30%	30%	30%
EBIT/Total Assets (%)			7.7	6.2	2.7	5.4
NPAT/Equity (%)			7.4	7.3	4.3	7.3

BALANCE SHEET [Selected Items]

(A\$m)	2011	2012E	2013E	2014E
Net Working capital	26	26	26	26
Fixed Assets	66	66	66	66
Net Other	121	108	83	49
Capital Employed	214	201	175	141
Net Cash / (Debt)	89	115	149	199
Total Equity [incl. minorities]	303	316	324	340
Minorities	0	0	0	0
Net Debt / Equity (%)	(29.5)	(36.4)	(45.9)	(58.5)
Book Value per Share(\$)	1.48	1.53	1.56	1.64

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

Source: Company reports, UBS-e

■ Panoramic Resources Limited

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■ 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.

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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.

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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).

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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\$1.65	26 Aug 2011

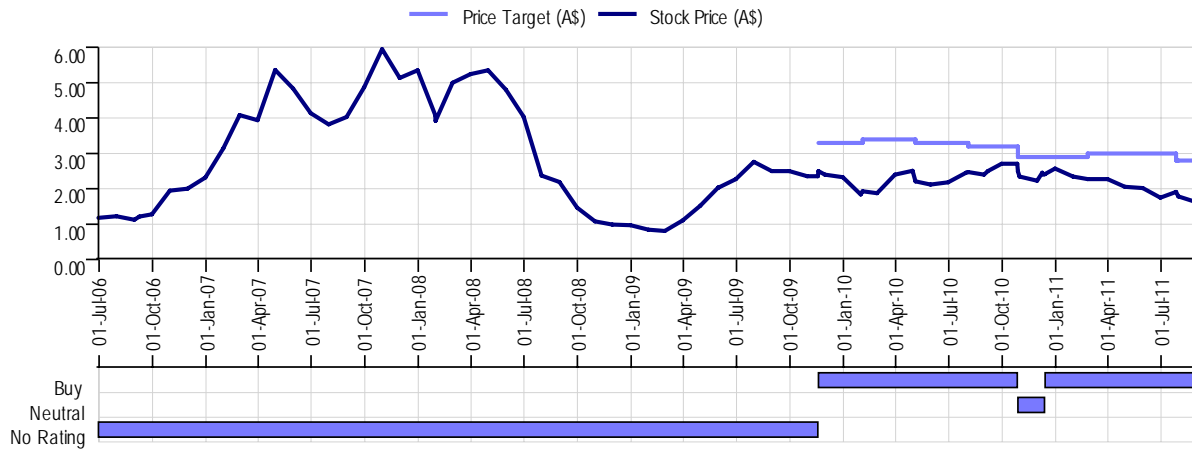
Source: UBS. All prices as of local market close.

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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 Aug 2011

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