Company

Global Markets Research

Deutsche Bank

29 August 2011

Panoramic Resources

Reuters: **PAN.AX** Bloomberg: **PAN AU** Exchange: **ASX** Ticker: **PAN**

Seeking growth catalyst

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Valuation undemanding despite lower NPAT but still seeking a catalyst
PAN has reported a FY11 NPAT of $22.3m (DBe $31.1m) including a $5.5m impairment on equity investments. Sales ($249.6m) were down 13% yoy on lower production, strengthening A$, $13.8m of realised hedging losses (FY10 +$40m), ~$6m of quotational period adjustments and ~$5m lower payability on Lanfranchi ore deliveries. Based on DBe nickel price forecasts (FY12 US$12.31/lb & FY13 US$12.70/lb vs spot at US$9.80/lb) PAN remains undemanding on valuation however we await a catalyst. HOLD PT $1.95/sh.

FY12E production 17.5-18.5kt nickel (DBe 17.4kt @US$6.30/lb)
PAN's run rate is now ~18ktpa with 8ktpa from Savannah and ~10ktpa from Lanfranchi. While margins have reduced recently on the back of lower nickel prices and higher A$ cost inputs higher grades at both Savannah and Lanfranchi (Deacon) should prevent further increases during FY12 (DBe US$6.29/lb) provided production rates are maintained. Despite our earnings downgrades (higher costs and D&A) PAN remains undemanding on our forecasts trading on multiples of 7.0x FY12 and 5.4x FY13 however without more corporate action, a new discovery or positive developments from Gidgee it remains ex-growth.

Catalysts? Near mine exploration, developments at Gidgee, nickel price
Aside from improved production, catalysts for PAN appear most likely to come from further corporate action or its $14m exploration program (4 rigs are currently active at Lanfranchi) or a potential nickel price spike. At Gidgee PAN is reviewing data before re-running pit shapes at higher gold prices and planning drill holes.

PT A$1.95/sh in line with DCF valuation retain HOLD
Our $1.95/sh PT is broadly based on our $1.95/sh DCF using our long term nickel price of US$7.71/lb, and AUDUSD of 0.78. We discount the life of mine cash flow from operations using a real discount rate of 10%, consistent across the mining companies in our coverage universe. Downside risks include lower grades and/or higher mining and development costs at both the Lanfranchi and Savannah operations. Upside risks surround higher prices and or new discoveries. Macro risks include movements in the nickel, copper, and AUDUSD.

Forecasts and ratios

Year End Jun 30	2010A	2011A	**2012E**	2013E	2014E
Sales (AUDm)	283	243	**315**	340	350
EBITDA (AUDm)	127	72	**109**	129	130
Net Profit (AUDm)	56	22	**50**	64	66
EPS (AUD)	0.27	0.11	**0.24**	0.31	0.32
% Change	0.0%	-24.5%	**-19.7%**	-19.8%	-17.9%
EPS Growth (%)	132.6	-60.7	**123.7**	28.4	3.6
PER (x)	8.5	21.5	**7.0**	5.4	5.2
EV/EBITDA (x)	3.0	5.1	**2.2**	1.5	1.1
DPS (net) (AUD)	0.16	0.06	**0.10**	0.10	0.10

Source: Deutsche Bank estimates, company data

[1] Pre-exceptionals/extraordinaries
[2] Multiples and yields calculations use average historical prices for past years and spot prices for current and future years

Results

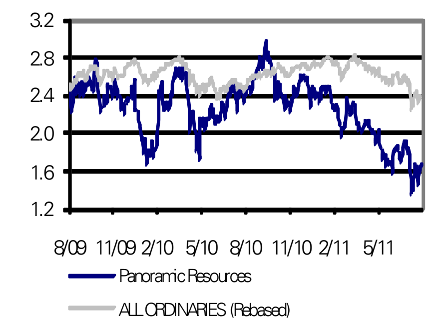
Hold

Price at 29 Aug 2011	**1.68**
Price target - 12mth	**1.95**
52 week range (AUD)	**2.96 - 1.35**
ALL ORDINARIES	**4,271**

Key changes

Price target	2.00 to 1.95 ↓	**-2.5%**
Sales (FYE)	315 to 315 ↑	**0.0%**
EBIT margin (FYE)	25.2 to 21.7 ↓	**-14.0%**
Net profit (FYE)	61.2 to 49.9 ↓	**-18.5%**

Price/price relative



Performance (%)	1m	3m	12m
Absolute	*-5.6*	*-13.4*	*-28.5*
ALL ORDINARIES	*-5.1*	*-10.3*	*-3.0*

Stock data

Market cap (AUDm)	**348**
Market cap (USDm)	**366**
Shares outstanding (m)	**207.1**
Daily volume (USDm)	**3.05**
Free float	**100.00**

Key indicators (FY1)

ROE (%)	**14.9**
ROA (%)	**20.8**
Net debt/equity (%)	**-37.0**
Book value/share (AUD)	**1.62**
Price/book (x)	**1.0**
Net interest cover (x)	**-23.7**
EBIT margin (%)	**21.7**

Deutsche Bank AG/Sydney

Model updated:29 August 2011

Running the numbers

Australasia

Australia

M&M - Other Metals

Panoramic Resources

Reuters: PAN.AX Bloomberg: PAN AU

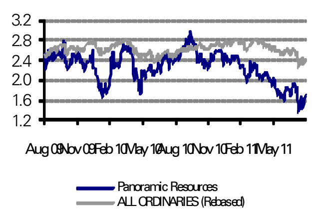
Hold

Price (29 Aug 11)	AUD 1.68
Target price	AUD 1.95
52-week Range	AUD 1.35 - 2.96
Market Cap (m)	AUDm 348 USDm 366

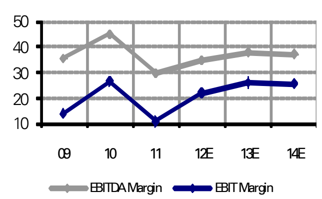
Company Profile

Panoramic Resources Limited operates the Savannah nickel project in the Kimberly and the Lanfranchi nickel project south of Kambalda. The company also owns the Gidgee Gold Project in Western Australia with exploration and evaluation continuing over the coming years.

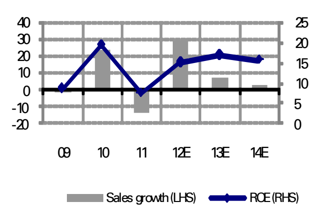
Price Performance



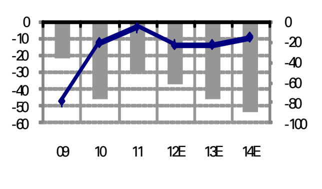
Margin Trends



Growth & Profitability



Solvency



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Fiscal year end 30-Jun	2009	2010	2011	2012E	2013E	2014E
Financial Summary						
DB EPS (AUD)	0.12	0.27	0.11	0.24	0.31	0.32
Reported EPS (AUD)	0.03	0.27	0.11	0.24	0.31	0.32
DPS (AUD)	0.06	0.17	0.06	0.10	0.10	0.10
BVPS (AUD)	1.40	1.42	1.46	1.62	1.83	2.05
Valuation Metrics						
Price/Sales (x)	1.4	1.7	2.0	1.1	1.0	1.0
P/E (DB) (x)	13.0	8.5	21.5	7.0	5.4	5.2
P/E (Reported) (x)	55.7	8.5	21.5	7.0	5.4	5.2
P/BV (x)	1.6	1.5	1.2	1.0	0.9	0.8
FCF yield (%)	5.7	27.8	25.4	28.6	27.9	27.1
Dividend yield (%)	3.9	7.1	2.6	6.0	6.0	6.0
EV/Sales	1.0	1.3	1.5	0.8	0.6	0.4
EV/EBITDA	2.9	3.0	5.1	2.2	1.5	1.1
EV/EBIT	7.4	5.1	14.1	3.5	2.3	1.7
Income Statement (AUDm)						
Sales	229	283	243	315	340	350
EBITDA	81	127	72	109	129	130
EBIT	31	75	26	68	88	89
Pre-tax profit	5	78	31	71	91	95
Net income	**6**	**56**	**22**	**50**	**64**	**66**
Cash Flow (AUDm)						
Cash flow from operations	**34**	**140**	**52**	**104**	**111**	**109**
Net Capex	-16	-7	70	-4	-14	-14
Free cash flow	**18**	**133**	**122**	**99**	**97**	**94**
Equity raised/(bought back)	0	1	3	0	0	0
Dividends paid	-12	-25	-22	-18	-21	-21
Net inc/(dec) in borrowings	-5	-5	-3	0	0	0
Other investing/financing cash flows	-60	-102	-48	-32	-10	-10
Net cash flow	**-61**	**0**	**41**	**33**	**50**	**52**
Change in working capital	*0*	*0*	*0*	*0*	*0*	*0*
Balance Sheet (AUDm)						
Cash and cash equivalents	67	137	92	125	176	227
Property, plant & equipment	59	52	66	54	52	49
Goodwill	0	0	0	0	0	0
Other assets	254	227	251	274	276	273
Total assets	**380**	**417**	**409**	**453**	**503**	**549**
Debt	7	5	1	1	1	1
Other liabilities	87	121	104	117	123	124
Total liabilities	**94**	**126**	**106**	**118**	**124**	**125**
Total shareholders' equity	**286**	**291**	**303**	**335**	**379**	**424**
Net debt	*-61*	*-133*	*-90*	*-124*	*-175*	*-226*
Key Company Metrics						
Sales growth (%)	-1.6	23.9	-14.1	29.5	7.9	2.7
DB EPS growth (%)	-57.9	132.6	-60.7	123.7	28.4	3.6
Payout ratio (%)	217.1	60.3	55.7	41.5	32.3	31.2
EBITDA Margin (%)	35.3	44.9	29.5	34.6	37.8	37.2
EBIT Margin (%)	13.7	26.4	10.7	21.7	25.7	25.4
ROE (%)	8.4	19.3	7.4	14.9	16.9	15.6
Net debt/equity (%)	-21.2	-45.6	-29.8	-37.0	-46.1	-53.3
Net interest cover (x)	-79.2	-20.8	-5.5	-23.7	-22.3	-15.0
DuPont Analysis						
EBIT margin (%)	13.7	26.4	10.7	21.7	25.7	25.4
x Asset turnover (x)	0.6	0.7	0.6	0.7	0.7	0.6
x Financial cost ratio (x)	1.0	1.0	1.2	1.0	1.0	1.1
x Tax and other effects (x)	0.2	0.7	0.7	0.7	0.7	0.7
= ROA (post tax) (%)	**1.5**	**13.5**	**5.5**	**11.0**	**12.7**	**12.1**
x Financial leverage (x)	1.3	1.4	1.3	1.2	1.2	1.1
= ROE (%)	**2.0**	**19.3**	**7.2**	**13.5**	**14.8**	**13.5**
annual growth (%)	*-91.5*	*885.0*	*-62.6*	*86.7*	*10.1*	*-8.8*
x NTA/share (avg) (x)	1.4	1.4	1.5	1.8	2.1	2.4
= Reported EPS	**0.03**	**0.27**	**0.11**	**0.24**	**0.31**	**0.32**
annual growth (%)	*-90.2*	*895.5*	*-60.7*	*123.7*	*28.4*	*3.6*

Source: Company data, Deutsche Bank estimates

Figure 1:Operational and financial summary

PANORAMIC OPERATIONAL AND FINANCIAL SUMMARY DATA

		2009A	2010A	2011A	2012F	2013F	2014F	2015F	2016F	2017F	2018F
COMMODITY & CURRENCY											
Nickel	US$/lb	6.03	8.82	10.89	12.31	12.70	11.80	9.53	7.71	7.71	7.71
Nickel	**A$/lb**	**8.08**	**9.99**	**11.04**	**11.82**	**12.67**	**12.98**	**11.78**	**9.89**	**9.89**	**9.89**
Copper	US$/lb	2.23	3.04	3.94	4.81	4.48	3.97	2.95	2.27	2.27	2.27
Cobalt	US$/lb	21.86	20.52	18.56	17.50	15.00	15.00	14.00	13.00	13.00	13.00
AUDUSD		0.75	0.88	0.99	1.04	1.00	0.91	0.81	0.78	0.78	0.78
PRODUCTION											
Savannah											
Ore mined & processed	kt	679	674	601	690	690	690	680	680	680	680
Ni grade	%	1.35%	1.25%	1.34%	1.24%	1.24%	1.24%	1.24%	1.24%	1.24%	1.24%
Cu grade	%	0.7%	0.6%	0.6%	0.6%	0.6%	0.6%	0.6%	0.6%	0.6%	0.6%
Co grade	%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%
Ni recovery	%	88.2%	86.3%	85.6%	86.0%	86.0%	86.0%	86.0%	86.0%	86.0%	86.0%
Cu recovery	%	96.2%	96.2%	95.7%	96.0%	96.0%	96.0%	96.0%	96.0%	96.0%	96.0%
Co recovery	%	90.7%	90.1%	88.6%	90.0%	90.0%	90.0%	90.0%	90.0%	90.0%	90.0%
Nickel (in conc.)	kt	8.1	7.3	6.9	7.4	7.4	7.4	7.3	7.3	7.3	7.3
Copper (in conc.)	kt	4.2	4.0	3.7	4.2	4.2	4.2	4.1	4.1	4.1	4.1
Cobalt (in conc.)	kt	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4
Lanfranchi											
Ore mined	kt	406	399	412	410	410	410	400	380	380	0
Ni grade	%	2.65%	2.55%	2.45%	2.45%	2.45%	2.45%	2.45%	2.45%	2.45%	0.00%
Nickel (in feed)	kt	10.7	10.1	10.1	10.0	10.0	10.0	9.8	9.3	9.3	-
Total Ni in conc.	**kt**	**18.7**	**17.4**	**17.0**	**17.4**	**17.4**	**17.4**	**17.1**	**16.6**	**16.6**	**7.3**
CASH COST											
Savannah											
C1 - pre metal credits	US$/lb	4.95	5.85	7.86	8.53	8.09	7.80	7.21	7.09	7.26	7.48
C1 - net metal credits	US$/lb	3.15	3.67	5.42	6.24	6.07	5.96	5.74	5.88	6.05	6.27
Lanfranchi											
C1 - pre metal credits	US$/lb	3.92	4.91	5.79	6.69	6.77	6.42	5.80	5.71	5.78	-
C1 - net metal credits	US$/lb	3.90	4.87	5.71	6.34	6.48	6.17	5.64	5.60	5.67	-
Average cash cost	**US$/lb**	**3.49**	**4.23**	**5.56**	**6.29**	**6.26**	**6.05**	**5.70**	**5.76**	**5.88**	**6.27**
CAPEX											
Savannah											
Development	A$m	10.0	10.0	24.0	20.0	5.0	5.0	5.0	3.0	3.0	3.0
Sustaining	A$m	1.4	1.3	1.2	2.8	2.8	2.8	2.7	2.7	2.7	2.7
Lanfranchi											
Development	A$m	10.0	10.0	6.0	8.0	5.0	5.0	5.0	3.0	-	-
Sustaining	A$m	0.8	0.8	1.4	1.4	1.4	1.4	1.4	1.3	1.3	-
Total exploration expense	A$m	3.1	1.7	10.4	16.0	16.0	12.0	12.0	12.0	12.0	12.0
SALES REVENUE BY ASSET											
Savannah											
Nickel	A$m	99	108	116	132	142	145	129	109	109	109
Copper	A$m	13	15	16	21	21	20	16	13	13	13
Cobalt	A$m	13	10	8	8	7	8	8	8	8	8
Lanfranchi											
Nickel	A$m	149	206	145	153	165	169	149	119	119	-
OPERATING PROFIT BY ASSET											
Savannah	A$m	48.1	68.3	13.1	36.7	51.4	50.9	44.0	18.9	16.5	13.4
Lanfranchi	A$m	14.4	42.7	52.9	50.1	56.1	55.9	44.8	18.3	17.1	-

RESOURCES & RESERVES

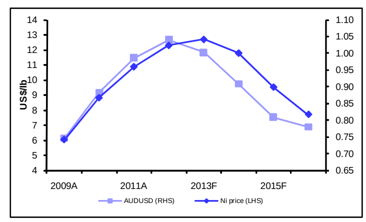
	Mt	%Ni	kt Ni	%Cu	kt Cu	%Co	kt Co
Savannah							
Resources	5.4	1.54%	83.1	0.78%	42.0	0.08%	4.3
Reserves	5.3	1.20%	63.5	0.63%	33.4	0.01%	3.2
Copernicus							
Resources	0.5	1.23%	6.0	0.82%	4.0	0.04%	0.2
Reserves	0.2	1.03%	2.3	0.63%	1.4	0.04%	0.1
Lanfranchi (other)							
Resources	8.0	1.86%	148.5				
Reserves	2.2	2.45%	55.0				

NPV (HJ12)

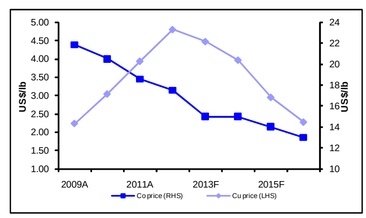
	A$m	A$ps	(%)
Savannah	138	0.67	50%
Lanfranchi	148	0.71	53%
Copernicus	10	0.05	4%
Gidgee	16	0.07	6%
Exploration	30	0.14	11%
Investments	8	0.04	3%
Corporate	(70)	(0.34)	-25%
Gross Asset Value	**279**	**1.35**	100%
Net debt	(124)	(0.60)	
Valuation	**403**	**1.95**	

*NPV discounting rate: 10.0%

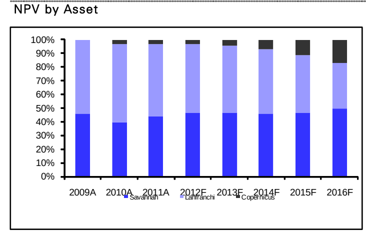
Nickel Price & AUDUSD



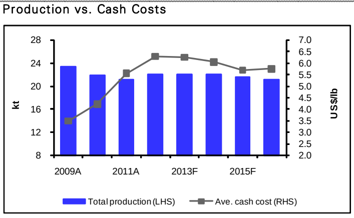
Copper Price & Cobalt Price



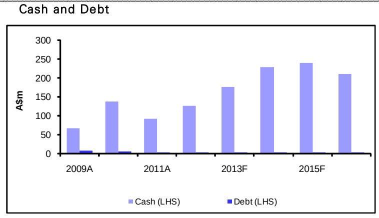
NPV by Asset



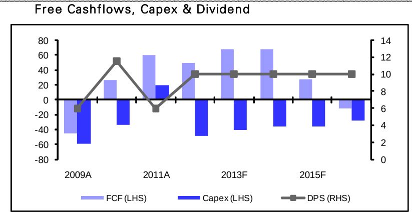
Production vs. Cash Costs



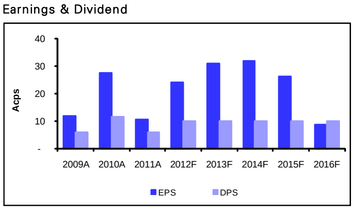
Cash and Debt



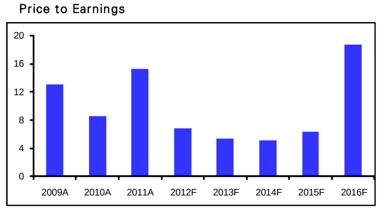
Free Cashflows, Capex & Dividend



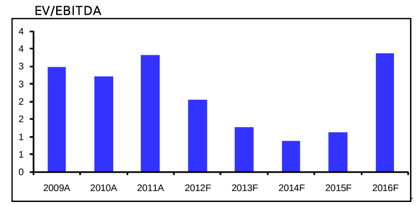
Earnings & Dividend



Price to Earnings



EV/EBITDA



Source: Deustche, company data

Investment thesis

Outlook

PAN is one of Australia's largest nickel producers; however, it has high costs. Group production has steadily increased from ~10kt in FY2005 to 18.8kt (100% basis) in FY2009 before steadying to 17.0kt in FY10 and FY11. Increases were mainly due to the discovery and first production from the large (72kt Ni) Deacon orebody at Lanfranchi. We forecast FY12 group production of 17.4kt. PAN has total reserves supporting 17-18kt of nickel production for at least 8 years (Savannah 9 years, Lanfranchi 7 years). The balance sheet is strong with no debt. However, the stock is trading in line with our PT and we rate PAN a HOLD.

Valuation

Our price target is set broadly in line with our DCF valuation. Our DCF assumes a long-term nickel price of US$7.71/lb, and AUD/USD of 0.78. We discount the life of mine cash flow from PAN's operations using a real discount rate of 10%, consistent across the mining companies in our coverage universe.

Risks

Downside risks include potential weakness in the nickel price plus lower grades and/or higher mining and development costs at both the Lanfranchi and Savannah operations. Upside risks centre around operational outperformance, i.e. higher tonnes and grades. Macro risks include movements in the nickel, copper, and AUD/USD.

Appendix 1

Important Disclosures

Additional information available upon request

Disclosure checklist			
Company	**Ticker**	**Recent price***	**Disclosure**
Panoramic Resources	PAN.AX	1.68 (AUD) 29 Aug 11	NA

*Prices are sourced from local exchanges via Reuters, Bloomberg and other vendors. Data is sourced from Deutsche Bank and subject companies.

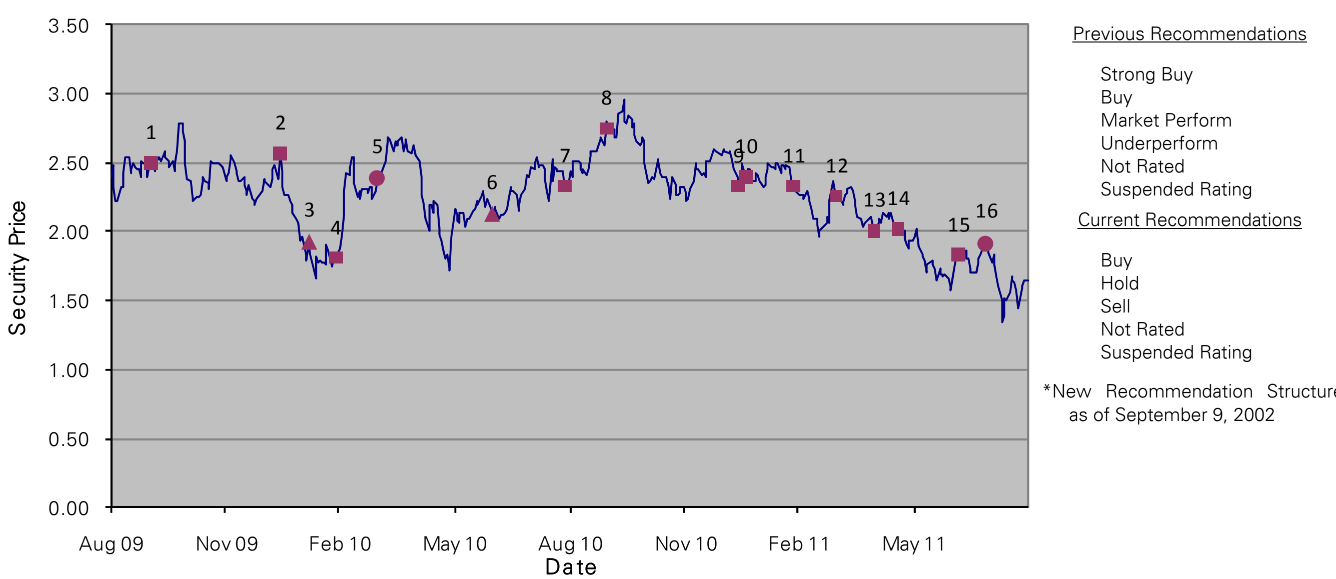
For disclosures pertaining to recommendations or estimates made on securities other than the primary subject of this research, please see the most recently published company report or visit our global disclosure look-up page on our website at http://gm.db.com/ger/disclosure/Disclosure.eqsr?ricCode=PAN.AX.

Analyst Certification

The views expressed in this report accurately reflect the personal views of the undersigned lead analyst(s) about the subject issuer and the securities of the issuer. In addition, the undersigned lead analyst(s) has not and will not receive any compensation for providing a specific recommendation or view in this report. Levi Spry

Historical recommendations and target price: Panoramic Resources (PAN.AX)

(as of 8/29/2011)



1.	1/10/2009:	Hold, Target Price Change AUD2.45	9.	11/1/2011:	Buy, Target Price Change AUD3.30
2.	12/1/2010:	Hold, Target Price Change AUD2.60	10.	17/1/2011:	Buy, Target Price Change AUD3.28
3.	4/2/2010:	Upgrade to Buy, Target Price Change AUD2.70	11.	24/2/2011:	Buy, Target Price Change AUD3.00
4.	25/2/2010:	Buy, Target Price Change AUD2.50	12.	30/3/2011:	Buy, Target Price Change AUD2.52
5.	30/3/2010:	Downgrade to Hold, Target Price Change AUD2.35	13.	29/4/2011:	Buy, Target Price Change AUD2.46
6.	29/6/2010:	Upgrade to Buy, Target Price Change AUD2.75	14.	18/5/2011:	Buy, Target Price Change AUD2.22
7.	26/8/2010:	Buy, Target Price Change AUD2.85	15.	5/7/2011:	Buy, Target Price Change AUD2.12
8.	28/9/2010:	Buy, Target Price Change AUD2.94	16.	27/7/2011:	Downgrade to Hold, Target Price Change AUD2.00

Equity rating key

Buy: Based on a current 12- month view of total share-holder return (TSR = percentage change in share price from current price to projected target price plus pro-jected dividend yield) , we recommend that investors buy the stock.

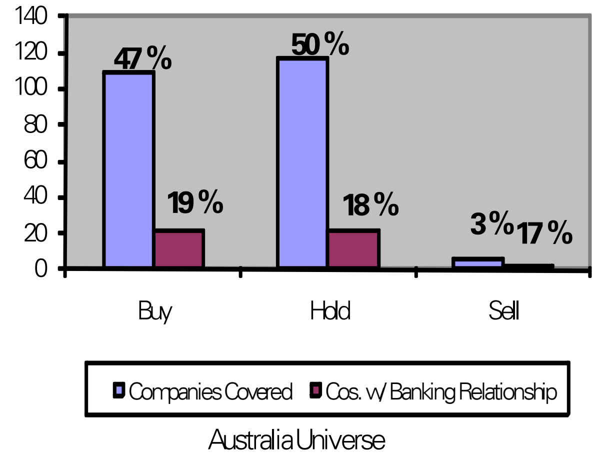
Sell: Based on a current 12-month view of total share-holder return, we recommend that investors sell the stock

Hold: We take a neutral view on the stock 12-months out and, based on this time horizon, do not recommend either a Buy or Sell.

Notes:

1. Newly issued research recommendations and target prices always supersede previously published research.
2. Ratings definitions prior to 27 January, 2007 were:
   Buy: Expected total return (including dividends) of 10% or more over a 12-month period
   Hold: Expected total return (including dividends) between -10% and 10% over a 12-month period
   Sell: Expected total return (including dividends) of -10% or worse over a 12-month period

Equity rating dispersion and banking relationships



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1. Important Additional Conflict Disclosures

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2. Short-Term Trade Ideas

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