Panoramic Resources Limited (PAN)

FY11 results

30 August 2011

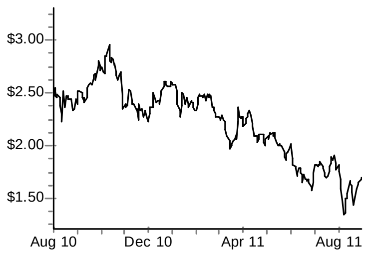
$1.71

BUY

Keith Williams
03 9640 3802
keith.williams@wilsonhtm.com.au

James Brennan-Chong
03 9640 3893
james.brennan-chong@wilsonhtm.com.au

Price Performance



Security/Capital Details

ASX Code	PAN
Market Cap	$359 M
Issued Shares (dil)	209.9 M
Avg Mth T'over	23.35 M
12 Mth High – Low	$2.96 - $1.35

Key Data/Ratios – FY 2012

EBITDA / Sales	63.5%
EBIT / Sales	44.5%
Debt / Equity	0.2%
Interest Cover	0.0 x
ROE	22.1%
EPS Growth	224.0%
DCF	$3.20
12 Mth Price Target	$3.32

Recommendation

Reported FY11 NPAT of $22.3m ($26.2m adjusted for an investment impairment) fell short of consensus estimates for $36.2m and our forecast of $38.7m. Quotational period losses, higher one-off costs associated with Gidgee and increased D&A contributed to the reduced profit. Hedging losses of $13.8m also weighed on the FY11 result compared to FY10. Low priced nickel hedges have been exhausted and when combined with a forecast 5.7% increase in FY12 production, higher earnings can be anticipated. We retain the BUY recommendation, valuation and target price are A$3.20/sh (-0.04) and $3.31/sh (+0.07) respectively.

Key Points

- Quotational period losses and higher one-off costs associated with the acquisition of Gidgee resulted in an adjusted NPAT of $26.2m falling short of consensus estimates ($36.2m) and our forecast of $38.7m. Higher D&A charges in the year $46m v $43m WHTMe further contributed to the lower than expected profit. The reported NPAT was $22.3m and included a one-off impairment of $5.5m to the Magma Metals Limited investment.
- FY11 corporate and marketing costs increased 25.9% on the pcp to $14.0m. The majority of the increase was related to legal and consulting fees associated with the Gidgee Gold Project. Corporate costs remain between $7-8mpa, with regular consulting fees of approximately $4mpa. PAN continues to see wage cost pressures. However, the magnitude remains less than pre-GFC levels.
- During the half, PAN switched from contract to in-house maintenance at Lanfranchi. This resulted in a 18.6% increase in reported full time staff to 389 personnel. Shifting to contract maintenance is likely to result in minor costs savings.
- PAN booked a hedging loss of $13.8m in FY11, incurred through nickel forwards priced @ US$7.63/lb. Moreover, reduced production in the June half resulted in a decrease in nickel delivered at the spot price. The hedging loss compared to a gain of $40m in FY10. PAN's current nickel forwards are priced between US$11.69-12.00/lb.
- PAN declared a final fully franked dividend of 2.0cps, bringing the total declared dividends for FY11 to 6.0cps, this payout ratio is 56%. The weak financial result in the June half implies a payout ratio of 87%.
- PAN continues to have a strong balance sheet, with cash and receivables at 30 June was $126.4m with no bank debt.
- Production guidance remains for 17.5-18.5kt of nickel contained dry tonnes.
- Recent drilling at the Deacon/Helmut South Extension has returned significant intersections, which could support a maiden resource extension. Two of three drill holes have tested 100-500m beneath the Deacon resource and have returned significant nickel mineralisation at the contact point between the ultramafics and the footwall, continuous with the existing Deacon resource above. The third hole is still in progress, testing beneath the two reported holes to a depth of approximately 450-500m down plunge from the Deacon resource. PAN is targeting a resource of 5-10kt Ni.

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 %
2011a	22.4	22.6	10.8	-56.0	15.9	19.4	8.8	6.3	3.7	100
2012e	73.2	73.2	34.9	224.0	4.9	54.3	3.2	17.0	9.9	100
2013e	89.8	89.8	42.8	22.7	4.0	62.2	2.8	23.0	13.5	100
2014e	115.2	115.2	54.9	28.3	3.1	65.5	2.6	15.0	8.8	100

FY11 results summary – A$m

	Actual	WHTMe
Income statement		
Revenue	249.6	227.2
EBITDA	82.8	94.7
NPAT (adj)	26.2	38.7
Balance sheet		
Liquid assets	126.4	126.0
Total asset	408.7	424.1
Total liabilities	105.6	113.2
Total equity	303.1	311.0
Cash flows		
Operating	40.7	53.3
Investing	22.7	18.7
Financing	-22.2	-20.7

Note: Adjusted NPAT excludes a $3.9m impairment to an equity investment..
Source: PAN, WHTM

Revision to valuation and target – A$/sh

	Valuation	Target
Previous	3.26	3.24
Revised	3.22	3.31
Change	*-1.2%*	*2.2%*

Source: Wilson HTM

Panoramic Resources Limited (PAN : $1.71)

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 & VALUATION FUNDAMENTALS

Yr Ending June	2010A	2011A	2012E	2013E	2014E
EPS Before Abs (c)	24.5	10.8	34.9	42.8	54.9
EPS Growth (%)	N/A	-56.0%	224.0%	22.7%	28.3%
PER (x)	**7.0**	**15.9**	**4.9**	**4.0**	**3.1**
CFPS (c)	64.9	19.4	54.3	62.2	65.5
P/CF (x)	**2.6**	**8.8**	**3.2**	**2.8**	**2.6**
EV/EBITDA (x)	2.5	3.6	1.4	0.7	0.1
DPS (c)	16.5	6.3	17.0	23.0	15.0
Yield (%)	9.7%	3.7%	9.9%	13.5%	8.8%
Franking (%)	100%	100%	100%	100%	100%

DCF VALUATION @

	10.5 %		10 %	
Yr Ending June	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	**-37.7**	**-0.18**	**-38.2**	**-0.18**
Hedge Book	**-4.4**	**-0.02**	**-4.4**	**-0.02**
Interests - Other Entities	**12.1**	**0.06**	**12.1**	**0.06**
Exploration/Dev Portfolio	**70.4**	**0.34**	**70.4**	**0.34**
Franking Credits	**80.3**	**0.38**	**81.4**	**0.39**
Cash	**126.4**	**0.60**	**126.4**	**0.60**
Interest Bearing Liabilities	**-0.8**	**0.00**	**-0.8**	**0.00**
Minorities	**0.0**	**0.00**	**0.0**	**0.00**
Additional Capital - Dilution	**3.9**	**0.02**	**3.9**	**0.02**
Total Valuation - Diluted	**670.8**	**3.20**	**676.3**	**3.22**

PROFITABILITY RATIOS

Yr Ending June	2010A	2011A	2012E	2013E	2014E
EBIT / Sales (%)	25.1%	11.5%	44.5%	50.2%	62.8%
ROA (%)	N/A	8.2%	32.1%	42.0%	57.8%
ROE (%)	N/A	7.6%	22.1%	23.5%	25.5%
ROFE (%)	N/A	12.2%	48.2%	65.1%	93.8%

INTERIMS ($m)

Half Yr	Dec 10	Jun 11	Dec 11	Jun 12	Dec 12
Yr Ending June	**1H A**	**2H A**	**1H E**	**2H E**	**1H E**
Sales Revenue	125.8	117.6	106.4	118.3	121.3
EBIT	18.7	9.3	41.3	58.6	59.6
Net Profit	**17.6**	**4.8**	**30.4**	**42.8**	**44.2**
EPS	6.6	4.1	14.5	20.4	21.1

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

BALANCE SHEET ($m)

Yr Ending June	2010A	2011A	2012E	2013E	2014E
Cash	49.8	91.9	156.8	240.7	345.7
Total Assets	416.8	408.7	460.7	509.2	597.2
Debt	4.7	0.8	0.8	0.8	0.8
Total Liabilities	125.7	105.6	103.6	101.6	99.7
Total Shareholders Equity	291.1	303.1	357.0	407.5	497.5
Total Funds Employed	246.1	212.1	201.1	167.7	152.6

LIQUIDITY & LEVERAGE RATIOS

Yr Ending June	2010A	2011A	2012E	2013E	2014E
Debt / Equity (%)	1.6%	0.3%	0.2%	0.2%	0.2%
Gearing (%) [1]	1.6%	0.3%	0.2%	0.2%	0.2%
Interest Cover (x)	4,183.8	-9.0	-21.5	-14.7	-12.5
Debt / CashFlow (x)	0.0	0.0	0.0	0.0	0.0
(Debt+CNotes)/ CashFlow	0.0	0.0	0.0	0.0	0.0

PROFIT & LOSS ($m)

Yr Ending June	2010A	2011A	2012E	2013E	2014E
Sales Revenue	283.4	243.4	224.7	239.2	239.2
EBITDA	123.8	74.2	142.6	162.8	174.4
Depn and Amortisation	52.7	46.2	42.7	42.7	24.2
EBIT	**71.1**	**28.0**	**99.9**	**120.1**	**150.2**
Net Interest Expense	0.0	-3.1	-4.6	-8.2	-12.0
Pre-tax Profit	**71.1**	**31.1**	**104.5**	**128.3**	**162.2**
Tax	19.9	8.5	31.4	38.5	47.0
Tax rate (%)	28.0%	27.3%	30.0%	30.0%	29.0%
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
Net Profit	**51.2**	**22.6**	**73.2**	**89.8**	**115.2**
Abnormals	5.0	-0.3	0.0	0.0	0.0
Reported Net Profit	56.2	22.4	73.2	89.8	115.2

CASHFLOW ($m)

Yr Ending June	2010A	2011A	2012E	2013E	2014E
Operating Cash Flow	135.8	40.7	113.9	130.5	137.5
Capital Expenditure	-8.1	-27.9	-18.7	-1.3	-1.3
Expln, Develop, Evaln	-26.9	-29.5	-7.0	-6.0	-6.0
Asset Sales/Acquisitions	-5.7	-7.8	-4.0	0.0	0.0
Other	-65.9	87.9	0.0	0.0	0.0
Investing Cash Flow	-106.6	22.7	-29.7	-7.3	-7.3
Share Issues/(Buybacks)	0.6	2.7	0.0	4.5	0.0
Debt Drawdown (Repay)	-5.4	-3.3	0.0	0.0	0.0
Dividends Paid	-24.6	-21.6	-19.2	-43.8	-25.2
Other Fin. Flows	0.0	0.0	0.0	0.0	0.0
Financing Cash Flow	-29.4	-22.2	-19.2	-39.3	-25.2
Cash Increase (Decrease)	-0.2	41.2	64.9	83.9	105.0

EARNINGS SENSITIVITIES - % CHANGE

Yr Ending June	2009A	2010A	2011E	2012E	2013E
+/- 1c Movement US$/A$	0.0	0.0	6.4	3.3	2.7
+/-10% Ni Price Change	0.0	0.0	48.3	18.0	20.4
+/-10% Change In Costs	0.0	0.0	46.7	13.9	11.1

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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Disclosure of Interest. Panoramic Resources Limited

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BRISBANE
Ph: 07 3212 1333
Fax: 07 3212 1399

SYDNEY
Ph: 02 8247 6600
Fax: 02 8247 6601

MELBOURNE
Ph: 03 9640 3888
Fax: 03 9640 3800

GOLD COAST
Ph: 07 5509 5500
Fax: 07 5509 5599

DALBY
Ph: 07 4660 8000
Fax: 07 4660 4169

HERVEY BAY
Ph: 07 4197 1600
Fax: 07 4197 1699

Our web site: www.wilsonhtm.com.au