

UBS Investment Research

Panoramic Resources Limited

Savannah carries Lanfranchi

■ Event: September quarterly production report

PAN reported group nickel output of 4.44kt for the September quarter, in-line with UBS-e, but 4% lower q/q. Group payable cash costs of US\$6.63/lb were flat q/q and 4% higher than UBS-e. Higher production from Savannah covered weak output at Lanfranchi where capital works on the paste plant suspended underground paste filling and interrupted stoping activities. Mining restarted in September. Subsequent to the end of the quarter, BHP advised they would accept a maximum of 470kt of Lanfranchi ore in FY12, up from 350kt.

■ Impact: Minor impact from quarterly, larger moves from price/FX update

Reconciling the quarterly result would result in slight earnings downgrade with higher costs pushed through our model. However, we have also updated our commodity price and currency forecasts, including moving our A\$ assumption back to 1.00 (see UBS Global I/O: "Signalling improvement"). The net impact has lowered FY12e earnings by 27%, however the lower currency lifts FY13e and FY14e earnings by 42% and 18% respectively.

■ Action: Maintain Buy – most undervalued stock in our nickel sector

We maintain our Buy rating based on valuation. However, we recognise risks to this call given our continued belief the Ni price will remain under pressure in the current global macroeconomic environment. Potential increased supply from lateritic mines will also continue to weigh on the market.

■ Valuation: \$2.67/sh (DCF, 10% discount rate)

Our valuation and price target remain unchanged.

Highlights (A\$m)	06/10	06/11	06/12E	06/13E	06/14E
Revenues	283	243	250	257	267
EBIT (UBS)	75	32	17	20	31
Net Income (UBS)	56	26	17	20	29
EPS (UBS, A\$)	0.26	0.13	0.08	0.10	0.14
Net DPS (UBS, A\$)	0.16	0.06	0.04	0.05	0.06

Profitability & Valuation	5-yr hist av.	06/11	06/12E	06/13E	06/14E
EBIT margin %	22.2	13.0	7.0	7.9	11.4
ROIC (EBIT) %	38.9	13.7	8.4	10.8	19.5
EV/EBITDA (core) x	4.2	5.0	2.3	1.6	0.8
PE (UBS) x	21.3	18.5	15.7	13.2	9.0
Net dividend yield %	3.7	2.6	3.2	4.0	4.8

Source: Company accounts, Thomson Reuters, UBS estimates. (UBS) valuations are stated before goodwill, exceptional and other special items. Valuations: based on an average share price that year, (E): based on a share price of A\$1.26 on 20 Oct 2011 23:51 EST

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Global Equity Research

Australia

Mining

12-month rating **Buy**
Unchanged

12m price target **A\$2.70/US\$2.76**
Unchanged

Price **A\$1.26/US\$1.29**

RIC: PAN.AX BBG: PAN AU

21 October 2011

Trading data (local/US\$)

52-wk range	A\$2.69-1.11/US\$2.65-1.06
Market cap.	A\$0.26bn/US\$0.27bn
Shares o/s	207m (ORD)
Free float	78%
Avg. daily volume ('000)	1,200
Avg. daily value (m)	A\$1.8

Balance sheet data 06/12E

Shareholders' equity	A\$0.31bn
P/BV (UBS)	0.8x
Net Cash (debt)	A\$0.11bn

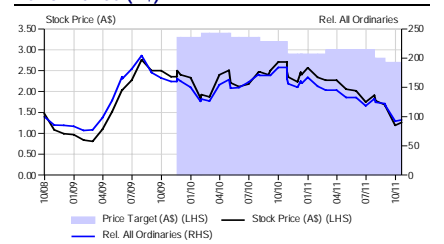
Forecast returns

Forecast price appreciation	+114.3%
Forecast dividend yield	3.2%
Forecast stock return	+117.5%
Market return assumption	9.0%
Forecast excess return	+108.5%

EPS (UBS, A\$)

	06/12E		Cons.	06/11 Actual
	From	To		
H1E	0.07	0.04	-	0.08
H2E	0.04	0.04	-	0.04
06/12E	0.11	0.08	0.17	
06/13E	0.07	0.10	0.18	

Performance (A\$)



Source: UBS

www.ubs.com/investmentresearch

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Table 1: Summary of changes

Jun y/e		FY12			FY13			FY14		
		new	old	%	new	old	%	new	old	%
Revenue	A\$m	257	265	-3%	266	256	4%	279	270	3%
EBITDA (underlying)	A\$m	65	73	-11%	68	59	14%	77	71	9%
EBIT (underlying)	A\$m	17	26	-34%	20	12	74%	31	24	26%
NPAT (underlying)	A\$m	17	23	-27%	20	14	42%	29	25	18%
EPS (reported)	A¢/sh	8	11	-27%	10	7	42%	14	12	18%
DPS	A¢/sh	4	5	-20%	5	3	67%	6	5	20%
Ni Price	US\$/lb	9.3	10.1	-8%	9.3	9.4	-1%	9.4	9.4	0%
Ni-in-con production										
Savannah	kt	7.7	7.5	2%	7.5	7.5	0%	7.3	7.3	0%
Lanfranchi	kt	8.8	8.8	-1%	9.2	9.2	0%	9.2	9.2	0%
Group	kt	16.4	16.3	1%	16.8	16.8	0%	16.5	16.5	0%
Cash costs										
Savannah	US\$/lb	6.56	6.68	-2%	5.95	5.97	0%	5.63	5.54	2%
Lanfranchi	US\$/lb	6.37	6.18	3%	6.12	6.26	-2%	5.93	5.99	-1%
Group	US\$/lb	6.46	6.41	1%	6.04	6.13	-1%	5.80	5.79	0%
NPV	A\$/share	\$ 2.67	\$2.68	0%						
Price Target	A\$/share	\$ 2.70	\$2.70	0%						

Source: Company reports, UBS-e

Panoramic Resources (PAN.AX)

Analyst/s: Jo Battershill, Brett McKay, Glyn Lawcock
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21-Oct-11

MARKET INFORMATION

Rating:	Buy
Price (as of 21-Oct-11):	1.27
Price Target (12 months):	2.70
Issued Capital:	207.1
Market Capitalisation:	260.9
Avg. daily turnover (US\$m)	1.9
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	16.9	20.0	29.3
Net profit [adjusted] (\$m)	26.2	16.9	20.0	29.3
EPS [reported] (\$)	0.11	0.08	0.10	0.14
EPS [adjusted, diluted] (\$)	0.13	0.08	0.10	0.14
EPS Growth (%)	(52.7)	(35.9)	18.5	46.5
PER [adjusted] (x)	10.1	15.8	13.3	9.1
Dividend (\$)	0.1	0.0	0.1	0.1
Payout ratio (%)	55.5	49.1	51.8	42.4
Dividend Yield (%)	4.7	3.1	3.9	4.7
FCF Yield (%)	6.8	15.3	20.9	27.4
Franking (%)	100%	100%	100%	100%
Shares [period-average, diluted] (m)	209.2	210.1	210.1	210.1

VALUATION

Valuation per share [NAV @ 10%] (\$)	2.74
Share Price Target [12 months] (\$)	2.70
Price/NAV [10% disc rate] (x)	0.46

Operating Assets [DH10]

	A\$m	¢
Savannah	198	97
Lanfranchi	235	114

Gross Assets

	A\$m	¢
Investments	9	4
Exploration	66	32
Hedging	17	8
Net Cash	102	50
Corporate costs	(65)	(32)

Net Asset Value @ 10% discount rate

	A\$m	¢
	562	274

ENTERPRISE VALUE

(A\$m)	2011	2012E	2013E	2014E
Enterprise Value	249	227	189	139
EV/EBITDA (x)	3.2	3.5	2.8	1.8
EV/Operating Free Cash Flow (x)	4.5	6.3	3.8	2.1

EPS SENSITIVITIES

Commodity	Base Change	2012E	2013E	2014E
Nickel	10%	66%	162%	89%
Copper	10%	57%	87%	-5%
Currency	5¢	48%	25%	-58%

CASH FLOW

(A\$m)	2011	2012E	2013E	2014E
Operating income [EBIT, UBS]	32	17	20	31
Depreciation & Amortisation	46	48	48	47
Net change in working capital	14	0	0	0
Other (operating)	(29)	0	0	0
Pre-tax op cash flow	62	65	68	77
Interest (paid) / received	5	7	8	11
Tax paid	(21)	(7)	(9)	(13)
Other	0	0	0	0
Operating cash flow	46	64	68	76
Capital expenditure	(28)	(24)	(12)	(3)
Free cash flow	18	41	56	73
Net (acquisitions) / disposals	1	0	0	0
Dividends paid (Common)	(22)	(8)	(8)	(12)
Shares issued/(repurchased)	3	0	0	0

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.

OPERATIONAL ASSUMPTIONS

	1H11	2H11	2011	2012E	2013E	2014E
Commodity prices						
Ni price (US\$/lb)	10.18	11.60	10.89	9.34	9.33	9.35
Cu price (US\$/lb)	3.62	4.26	3.94	3.59	3.38	2.93
Co price (US\$/lb)	19.40	19.08	19.24	16.27	16.00	16.00
A\$:US\$	0.95	1.03	0.99	1.01	0.99	0.93
Production - payable Nickel						
Savannah (Mlbs)	3.3	3.6	6.9	7.7	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	6.56	5.95	5.63
Lanfranchi (US\$/lb)			6.04	6.37	6.12	5.93

DIVISIONAL BREAKDOWN [EBIT]

(A\$m)	1H11	2H11	2011	2012E	2013E	2014E
Savannah	8.8	15.0	23.8	3.1	8.8	13.0
Lanfranchi	20.5	23.9	44.4	16.9	24.1	34.6

PROFIT & LOSS

(A\$m)	1H11	2H11	2011	2012E	2013E	2014E
Sales Revenue	126	118	243	250	257	267
Operating Cash Profit	52	55	107	79	92	107
Depn & Amortisation	(22)	(24)	(46)	(48)	(48)	(47)
Operating Profit	30	31	61	31	44	60
Others	(1)	(14)	(15)	(2)	(12)	(16)
SGA	(5)	(9)	(14)	(12)	(13)	(13)
EBIT	24	8	32	17	20	31
Net interest	3	2	5	7	8	11
Profit before tax	27	4	31	24	29	42
Tax expense	(9)	1	(8)	(7)	(9)	(13)
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	17	20	29
Abnormal Gain/(Loss) after Tax	0	0	0	0	0	0
Net Profit [adjusted]	18	5	22	17	20	29
EBITDA margin (%)			31.9	26.0	26.4	29.0
Net Interest Cover [EBIT] (x)			6.7	2.6	2.4	2.7
Tax Rate (%)			28%	30%	30%	30%
EBIT/Total Assets (%)			7.7	4.2	4.7	6.9
NPAT/Equity (%)			7.4	5.4	6.2	8.6

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	107	82	48
Capital Employed	214	200	174	140
Net Cash / (Debt)	89	112	149	200
Total Equity [incl. minorities]	303	312	323	340
Minorities	0	0	0	0
Net Debt / Equity (%)	(29.5)	(35.9)	(46.2)	(58.8)
Book Value per Share(\$)	1.48	1.51	1.56	1.64

Source: Company reports, UBS-e

■ 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.

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UBS 12-Month Rating	Rating Category	Coverage ¹	IB Services ²
Buy	Buy	59%	35%
Neutral	Hold/Neutral	35%	33%
Sell	Sell	6%	14%
UBS Short-Term Rating	Rating Category	Coverage ³	IB Services ⁴
Buy	Buy	less than 1%	0%
Sell	Sell	less than 1%	20%

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 September 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.

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

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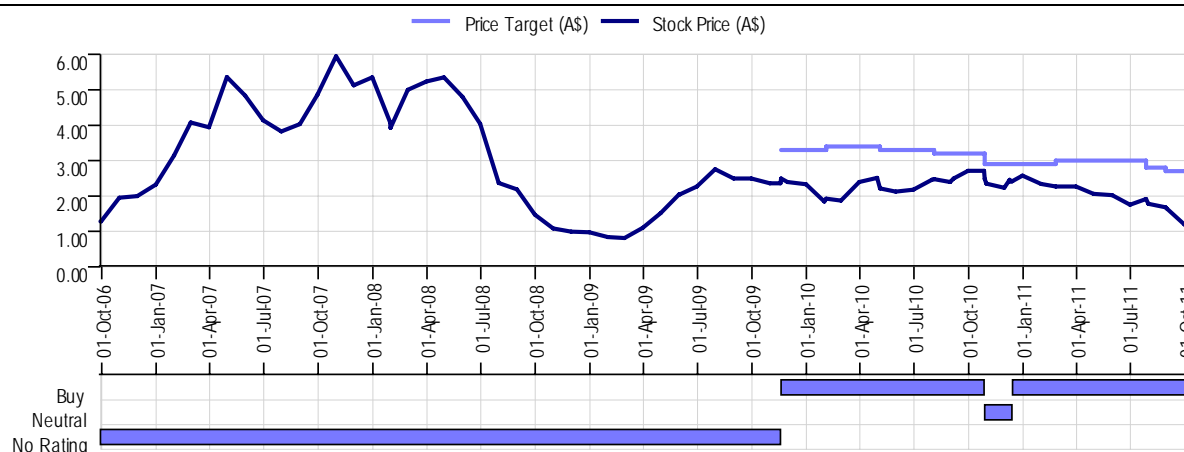
Company Name	Reuters	12-mo rating	Short-term rating	Price	Price date
Panoramic Resources Limited	PAN.AX	Buy	N/A	A\$1.26	20 Oct 2011

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

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 20 Oct 2011

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