



COMPANY UPDATE | COMMENT

OCTOBER 21, 2011

**Panoramic Resources Limited (ASX: PAN)**  
**Compelling Value: Share Price Implies US\$6.45/lb Ni**

**Outperform**  
**Average Risk**

|                  |       |                         |      |
|------------------|-------|-------------------------|------|
| Price:           | 1.27  | Price Target:           | 2.50 |
| Shares O/S (MM): | 206.5 | Implied All-In Return:  | 102% |
| Dividend:        | 0.06  | Market Cap (MM):        | 262  |
| NAVPS:           | 2.45  | Yield:                  | 4.7% |
| BVPS:            | 1.44  | P/NAVPS:                | 0.5x |
| ROE:             | 9.0%  | P/BVPS:                 | 0.9x |
| Float (MM):      | 206.5 | Enterprise Val. (MM):   | 192  |
| Debt to Cap:     | 0%    | Avg. Daily Volume (MM): | 1.09 |

Share price as at close on the ASX on 21 October 2011.

**Event**

An in-line Sept Q of 4.4kt contained Ni at a cash cost of A\$6.32/lb. Maintaining Outperform and A\$2.50 price target.

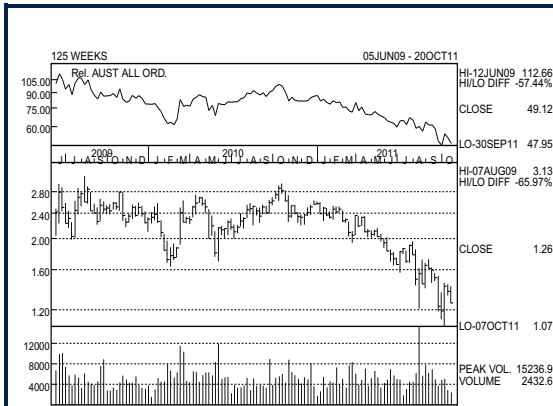
**Investment Opinion**

Panoramic delivered another characteristically solid operational quarter, meeting our forecasts on both production and costs. It has been a very tough year for nickel stocks, and like many of its peers, Panoramic has been sold down ~50% YTD due to a weakening nickel price and broader macro concerns. But we believe Panoramic's ongoing operational excellence, combined with its prudent financial management, put the company in good stead to weather the storm and to rally strongly when the tide begins to turn.

- **Prudent Financial Management:** Panoramic has hedged 34% of its FY12 Ni production at US\$11.62/lb, which, based on the spot nickel price of US\$8.20/lb, means the company's current realised price is ~US\$9.36/lb, and its cash margin is ~US\$3/lb. Panoramic also has a healthy balance sheet with A\$70m in cash and no debt. At end September, the company's hedgebook was A\$26m in-the-money.
- **Compelling Value:** At our relatively conservative nickel prices, Panoramic is trading on attractive multiples of 3.2x FY12E cash flow and 0.52x P/NAV. Even putting flat US\$8.00/lb nickel through our model for the life of mine, PAN is still trading on compelling multiples of 3.6x FY12E cash flow and 0.67x P/NAV. At flat US\$8.00/lb Ni, our NAV falls to A\$1.90 but is still a 50% premium to the current share price! Or, making the case another way, to get our NAV to equal the current share price we would need to run a flat nickel price of just US\$6.45/lb.
- **Sept Q:** Production of 4.4kt of contained Ni was exactly in line with our 4.4kt forecast, and cash costs of US\$6.32/lb were 4% higher than our forecast and a touch higher than A\$6.25/lb in the June Q. Panoramic remains on target to meet its FY12 production guidance of 16.5–17.5kt of contained Ni.
- **Impact:** Our forecasts are essentially unchanged, with a 4% reduction in FY12E earnings and a 2% reduction in NAV to A\$2.45.
- **Valuation:** We maintain our Outperform rating and A\$2.50 price target on an unchanged ~1.0x NAV, in line with nickel peers and in our view appropriate at this point in the cycle. Maintaining Average risk qualifier.

Priced as of prior trading day's market close, EST (unless otherwise noted).

For Required Non-U.S. Analyst and Conflicts Disclosures, see page 4.



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| FY Jun       | 2010A | 2011A | 2012E | 2013E |
|--------------|-------|-------|-------|-------|
| Adj EPS - FD | 0.27  | 0.12  | 0.14  | 0.13  |
| Div. Yield   | 13.4% | 4.7%  | 6.3%  | 6.3%  |
| P/AEPS       | 4.7x  | 10.6x | 9.1x  | 9.8x  |
| CFPS - FD    | 0.70  | 0.25  | 0.40  | 0.39  |
| P/CFPS       | 1.8x  | 5.1x  | 3.2x  | 3.3x  |
| DPS          | 0.17  | 0.06  | 0.08  | 0.08  |
| Prod.        | 16    | 16    | 16    | 17    |

All values in AUD unless otherwise noted.

Exhibit 1: Panoramic Forecast Financial & Operating Summary

| Panoramic Resources |                      |      |                   |       |                 |                       |
|---------------------|----------------------|------|-------------------|-------|-----------------|-----------------------|
| ASX: PAN            | Share Price: (A\$ps) | 1.27 | Year end:         | Jun   | Stock Rating:   | Outperform            |
|                     | Mkt Cap: (A\$MM)     | 262  | Issued shares (m) | 206.5 | Risk Qualifier: | Average               |
|                     |                      |      |                   |       |                 | Price Target: A\$2.50 |
|                     |                      |      |                   |       |                 | NAV: A\$2.45          |

| ASSUMPTIONS   |          | FY10  | FY11  | FY12e | FY13e | FY14e |
|---------------|----------|-------|-------|-------|-------|-------|
| Exchange Rate | A\$/US\$ | 0.88  | 0.99  | 1.01  | 0.98  | 0.94  |
| Nickel Price  | US\$/lb  | 8.80  | 10.88 | 9.20  | 8.75  | 9.50  |
| Cobalt Price  | US\$/lb  | 20.79 | 19.80 | 16.24 | 15.06 | 12.75 |
| Copper Price  | US\$/lb  | 3.04  | 3.93  | 3.94  | 3.88  | 4.13  |

| RATIO ANALYSIS                   |       | FY10   | FY11  | FY12e | FY13e | FY14e |
|----------------------------------|-------|--------|-------|-------|-------|-------|
| Diluted share capital            | m     | 210.0  | 211.2 | 211.2 | 211.2 | 211.2 |
| EPS (diluted and pre sig. items) | A¢    | 26.9   | 12.4  | 13.7  | 13.0  | 23.3  |
| P/E                              | x     | 4.7x   | 10.2x | 9.2x  | 9.8x  | 5.4x  |
| CFPS                             | A¢    | 70.1   | 24.7  | 39.9  | 38.6  | 50.4  |
| P/CF                             | x     | 1.8x   | 5.1x  | 3.2x  | 3.3x  | 2.5x  |
| DPS                              | A¢    | 16.5   | 6.0   | 8.0   | 8.0   | 8.0   |
| Dividend payout ratio            | %     | 61%    | 48%   | 58%   | 62%   | 34%   |
| Dividend yield                   | %     | 13.0%  | 4.7%  | 6.3%  | 6.3%  | 6.3%  |
| Franking level                   | %     | 94%    | 100%  | 100%  | 100%  | 100%  |
| Book value per share             |       | 1.39   | 1.44  | 1.50  | 1.55  | 1.71  |
| P/Book value                     | x     | 0.9x   | 0.9x  | 0.8x  | 0.8x  | 0.7x  |
| R.O.E. (pre sig items)           | %     | 19%    | 9%    | 9%    | 8%    | 14%   |
| R.O.A. (pre sig items)           | %     | 18%    | 8%    | 8%    | 8%    | 13%   |
| Interest Cover                   | x     | -20.7x | -6.7x | -8.7x | -6.3x | -8.7x |
| EBITDA per share                 | A\$ps | 0.60   | 0.37  | 0.38  | 0.37  | 0.51  |
| EV/EBITDA                        | x     | 1.5x   | 2.5x  | 2.4x  | 2.5x  | 1.8x  |

| EARNINGS                       |      | FY10       | FY11       | FY12e      | FY13e      | FY14e      |
|--------------------------------|------|------------|------------|------------|------------|------------|
| Sales Revenue                  | A\$m | 283        | 243        | 266        | 268        | 301        |
| Other Revenue                  | "    | 0          | 4          | 0          | 0          | 0          |
| <b>Total Revenue</b>           | "    | <b>284</b> | <b>248</b> | <b>266</b> | <b>268</b> | <b>301</b> |
| Operating costs                | "    | (139)      | (149)      | (170)      | (174)      | (178)      |
| <b>Operational EBITDA</b>      | "    | <b>144</b> | <b>99</b>  | <b>96</b>  | <b>94</b>  | <b>123</b> |
| Exploration Expense/Write-offs | "    | (7)        | (6)        | (8)        | (7)        | (7)        |
| Corporate & Other Costs        | "    | (10)       | (15)       | (9)        | (9)        | (9)        |
| <b>EBITDA</b>                  | "    | <b>127</b> | <b>77</b>  | <b>80</b>  | <b>78</b>  | <b>107</b> |
| D&A                            | "    | (53)       | (46)       | (44)       | (44)       | (44)       |
| <b>EBIT</b>                    | "    | <b>74</b>  | <b>32</b>  | <b>36</b>  | <b>34</b>  | <b>63</b>  |
| Net Interest                   | "    | 4          | 5          | 4          | 5          | 7          |
| <b>Profit Before Tax</b>       | "    | <b>78</b>  | <b>36</b>  | <b>40</b>  | <b>39</b>  | <b>70</b>  |
| Tax Expense                    | "    | (22)       | (10)       | (11)       | (12)       | (21)       |
| Minorities                     | "    | 0          | 0          | 0          | 0          | 0          |
| <b>Underlying NPAT</b>         | "    | <b>56</b>  | <b>26</b>  | <b>29</b>  | <b>27</b>  | <b>49</b>  |
| Significant Items (post tax)   | "    | 0          | (4)        | 0          | 0          | 0          |
| <b>Reported NPAT</b>           | "    | <b>56</b>  | <b>22</b>  | <b>29</b>  | <b>27</b>  | <b>49</b>  |

| CASHFLOW                      |      | FY10         | FY11        | FY12e       | FY13e       | FY14e       |
|-------------------------------|------|--------------|-------------|-------------|-------------|-------------|
| <b>Operational Cash Flow</b>  | A\$m | <b>139</b>   | <b>68</b>   | <b>88</b>   | <b>85</b>   | <b>114</b>  |
| Net Interest                  | "    | 4            | 5           | 4           | 5           | 7           |
| Tax Paid and Other            | "    | 4            | (21)        | (7)         | (9)         | (15)        |
| <b>Net Operating Cashflow</b> | "    | <b>147</b>   | <b>52</b>   | <b>84</b>   | <b>81</b>   | <b>106</b>  |
| Exploration                   | "    | (9)          | (10)        | (13)        | (12)        | (12)        |
| Capital Expenditure           | "    | (33)         | (55)        | (21)        | (16)        | (13)        |
| Investments                   | "    | (7)          | (20)        | 0           | 0           | 0           |
| Sale of PPE and Other         | "    | (69)         | 97          | 0           | 0           | 0           |
| <b>Net Investing Cashflow</b> | "    | <b>(118)</b> | <b>11</b>   | <b>(34)</b> | <b>(28)</b> | <b>(25)</b> |
| Dividends Paid                | "    | (25)         | (22)        | (12)        | (17)        | (17)        |
| Debt                          | "    | (5)          | (3)         | 0           | 0           | 0           |
| Equity Issuance               | "    | 1            | 3           | 0           | 0           | 0           |
| Other                         | "    | 0            | 0           | 0           | 0           | 0           |
| <b>Net Financing Cashflow</b> | "    | <b>(29)</b>  | <b>(22)</b> | <b>(12)</b> | <b>(17)</b> | <b>(17)</b> |
| <b>Net change in cash</b>     | "    | <b>(0)</b>   | <b>41</b>   | <b>37</b>   | <b>37</b>   | <b>65</b>   |

| BALANCE SHEET                    |      | FY10       | FY11       | FY12e      | FY13e      | FY14e      |
|----------------------------------|------|------------|------------|------------|------------|------------|
| Cash & Equivalents               | A\$m | 137        | 91         | 128        | 166        | 230        |
| PP&E & Mine Development          | "    | 206        | 237        | 214        | 186        | 156        |
| Exploration                      | "    | 14         | 14         | 20         | 24         | 29         |
| <b>Total Assets</b>              | "    | <b>417</b> | <b>409</b> | <b>429</b> | <b>443</b> | <b>482</b> |
| Debt                             | "    | 5          | 1          | 5          | 5          | 5          |
| <b>Total Liabilities</b>         | "    | <b>126</b> | <b>106</b> | <b>112</b> | <b>115</b> | <b>122</b> |
| <b>Total Net Assets / Equity</b> | "    | <b>291</b> | <b>303</b> | <b>316</b> | <b>327</b> | <b>360</b> |
| Net Debt / (Cash)                | "    | (133)      | (89)       | (124)      | (161)      | (226)      |
| Gearing (net debt/(nd + equity)) | %    | (84%)      | (42%)      | (64%)      | (97%)      | (167%)     |
| Gearing (net debt/equity)        | %    | (46%)      | (30%)      | (39%)      | (49%)      | (63%)      |

| ATTRIBUTABLE MINE STATS           |           | FY10         | FY11         | FY12e        | FY13e        | FY14e        |
|-----------------------------------|-----------|--------------|--------------|--------------|--------------|--------------|
| <b>Nickel Production (equity)</b> |           |              |              |              |              |              |
| Savannah                          | kt        | 7.27         | 6.92         | 7.82         | 8.37         | 8.37         |
| Lanfranchi                        | kt        | 8.80         | 8.91         | 8.70         | 8.80         | 8.80         |
| <b>Nickel in Concentrate</b>      | <b>kt</b> | <b>16.08</b> | <b>15.83</b> | <b>16.52</b> | <b>17.17</b> | <b>17.17</b> |
| <b>Payable Nickel Production</b>  | <b>kt</b> | <b>10.36</b> | <b>10.20</b> | <b>10.65</b> | <b>11.07</b> | <b>11.07</b> |

|  |                |             |              |             |             |             |
|--|----------------|-------------|--------------|-------------|-------------|-------------|
| Payable Nickel Sales Hedged            | %              | 25%         | 27%          | 25%         | 6%          | 0%          |
| <b>Avg Cash Nickel Price Realised</b>  | <b>US\$/lb</b> | <b>9.57</b> | <b>10.11</b> | <b>9.83</b> | <b>8.95</b> | <b>9.50</b> |
| <b>Net Cash Costs (per payable lb)</b> | <b>US\$/lb</b> | <b>4.83</b> | <b>6.18</b>  | <b>6.26</b> | <b>6.04</b> | <b>5.90</b> |
| Cash Margin                            | US\$/lb        | 4.74        | 3.93         | 3.57        | 2.92        | 3.60        |

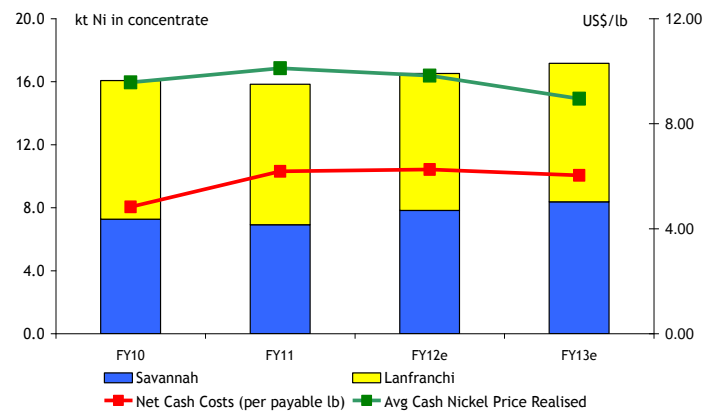
| Operational EBIT Contribution (pre hedging) |      | FY10 | FY11 | FY12e | FY13e | FY14e |
|---|------|------|------|-------|-------|-------|
| Savannah                                    | A\$m | 24   | 27   | 20    | 22    | 40    |
| Lanfranchi                                  | A\$m | 39   | 52   | 18    | 23    | 39    |

| RESERVES AND RESOURCES (ATTRIBUTABLE) |            |              |              |               |      |
|---------------------------------------|------------|--------------|--------------|---------------|------|
| <b>P+P Reserves</b>                   | mt         | % Ni         | Ni (kt)      |               |      |
| Savannah - Upper Zone                 | 2.2        | 1.26%        | 27.2         |               |      |
| Savannah - Lower Zone                 | 3.7        | 1.17%        | 43.2         |               |      |
| Copernicus satellite (60%)            | 0.4        | 1.03%        | 3.8          |               |      |
| Lanfranchi                            | 2.7        | 2.62%        | 69.9         |               |      |
| <b>Total P+P Reserves (kt)</b>        | <b>8.9</b> | <b>1.62%</b> | <b>144.1</b> |               |      |
|                                       |            |              |              | EV / Reserves |      |
|                                       |            |              |              | A\$/000/t     | 1.33 |
|                                       |            |              |              | US\$/000/t    | 1.17 |

| M+I Reserves                   |            |              |              |               |      |
|--------------------------------|------------|--------------|--------------|---------------|------|
| <b>M+I Reserves</b>            | mt         | % Ni         | Ni (kt)      |               |      |
| Savannah                       | 6.0        | 1.55%        | 92.6         |               |      |
| Copernicus satellite (60%)     | 0.8        | 1.23%        | 9.7          |               |      |
| Lanfranchi                     | 2.8        | 3.31%        | 92.3         |               |      |
| <b>Total M+I Reserves (kt)</b> | <b>9.6</b> | <b>2.04%</b> | <b>194.7</b> |               |      |
|                                |            |              |              | EV / Reserves |      |
|                                |            |              |              | A\$/000/t     | 0.99 |
|                                |            |              |              | US\$/000/t    | 0.87 |

| EARNINGS SENSITIVITIES        |      | FY12e | FY13e | FY12e | FY13e |
|-------------------------------|------|-------|-------|-------|-------|
|                               |      | A\$m  |       | %     |       |
| <b>Nickel Price (US\$/lb)</b> | +10% | 11.8  | 15.5  | 38%   | 51%   |
| <b>A\$/US\$ (USc)</b>         | +10% | 20.6  | 20.8  | 67%   | 68%   |

ATTRIBUTABLE NICKEL PRODUCTION AND COST PROFILE



| EQUITY DCF VALUATION                     |      | A\$m       | A\$ps        |
|--|------|------------|--------------|
| <b>Projects</b>                          |      |            |              |
| Savannah                                 |      | 199        | 0.97         |
| Lanfranchi                               |      | 152        | 0.74         |
| Projects, Exploration & Investments      |      | 69         | 0.34         |
| Hedging                                  |      | 26         | 0.13         |
| Corporate                                | (15) | -0.07      |              |
| Cash                                     | 70   | 0.34       |              |
| Debt                                     | 0    | 0.00       | P / NPV      |
| <b>Net Equity Value (@ 8% real d.r.)</b> |      | <b>502</b> | <b>2.45</b>  |
|  |      |            | <b>0.52x</b> |

Source: Company Reports and RBC Capital Markets estimates



## Valuation

We maintain our Outperform rating and A\$2.50 price target on an unchanged ~1.0x NAV, in line with nickel peers and in our view appropriate at this point in the cycle. Maintaining Average risk qualifier.

## Price Target Impediment

Potential impediments to our price target include: (1) nickel price risk – a weakening in nickel prices would adversely affect earnings; (2) currency risk – a strengthening of the A\$/US\$ rate would adversely affect earnings; (3) development risk – there are risks in the development of new and existing orebodies; and (4) operating cost risk – increases in operating inputs would adversely affect earnings.

## Company Description

Panoramic wholly owns and operates two nickel mines in Western Australia and produced 17.4kt attributable nickel-in-concentrate last year. The **Savannah** underground mine in the Kimberley region produces ~7.5kt pa nickel-in-concentrate. It is a nickel-copper-cobalt ore-body with significant by-product credits and solid extension potential at depth and nickel concentrate is sold to Chinese nickel producer Jinchuan until 2020. The **Lanfranchi** underground mine, near Kambalda, produces ~10–12kt pa nickel-in-concentrate, and ore is sold directly to BHP Billiton, inclusive of a toll treatment arrangement at its nearby Kambalda nickel concentrator.

Panoramic's attributable nickel production guidance is 18–19kt Ni in FY11, with the split being Ni in ore for Lanfranchi and Ni in conc. at Savannah. Exploration budget is A\$12m in FY11, the biggest ever, and has spread to Alaska and Sweden, etc. Strong exploration potential remains at Lanfranchi and in the Tramways tenements and at depth and in satellite ore-bodies at Savannah.

## Required Disclosures

### Non-U.S. Analyst Disclosure

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An analyst involved in the preparation of this report has visited certain material operations of Panoramic Resources Limited.

The author is employed by Royal Bank of Canada - Sydney Branch, a securities broker-dealer with principal offices located in Sydney, Australia.

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An analyst's 'sector' is the universe of companies for which the analyst provides research coverage. Accordingly, the rating assigned to a particular stock represents solely the analyst's view of how that stock will perform over the next 12 months relative to the analyst's sector average.

#### Ratings

**Top Pick (TP):** Represents best in Outperform category; analyst's best ideas; expected to significantly outperform the sector over 12 months; provides best risk-reward ratio; approximately 10% of analyst's recommendations.

**Outperform (O):** Expected to materially outperform sector average over 12 months.

**Sector Perform (SP):** Returns expected to be in line with sector average over 12 months.

**Underperform (U):** Returns expected to be materially below sector average over 12 months.

#### Risk Qualifiers (any of the following criteria may be present):

**Average Risk (Avg):** Volatility and risk expected to be comparable to sector; average revenue and earnings predictability; no significant cash flow/financing concerns over coming 12-24 months; fairly liquid.

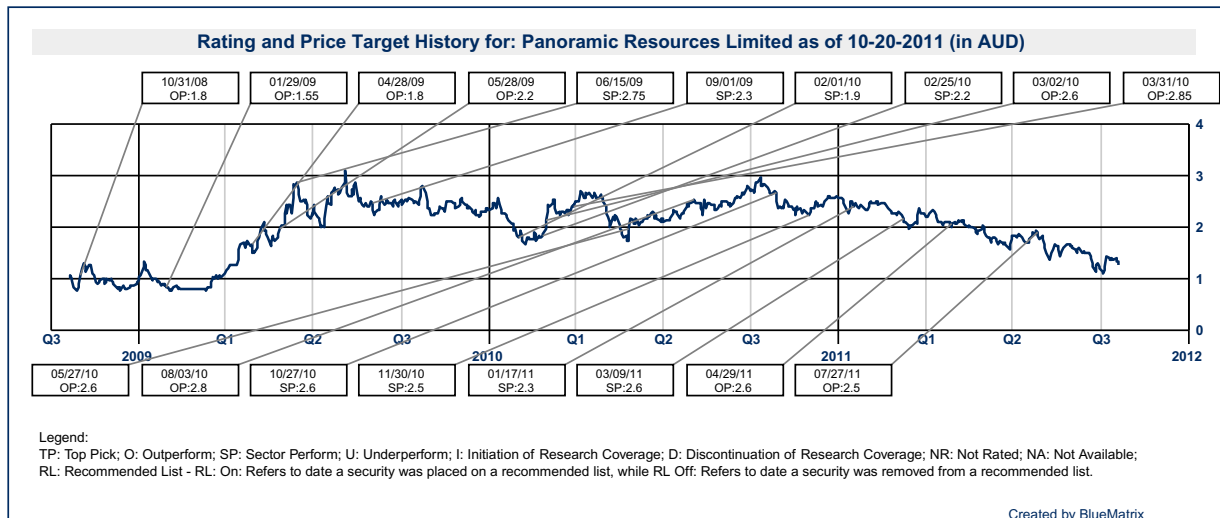
**Above Average Risk (AA):** Volatility and risk expected to be above sector; below average revenue and earnings predictability; may not be suitable for a significant class of individual equity investors; may have negative cash flow; low market cap or float.

**Speculative (Spec):** Risk consistent with venture capital; low public float; potential balance sheet concerns; risk of being delisted.

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| Distribution of Ratings<br>RBC Capital Markets, Equity Research |       |         |  |         |
|---|-------|---------|--|---------|
| Rating  | Count | Percent | Investment Banking<br>Serv./Past 12 Mos. |         |
|   |       |         | Count                                    | Percent |
| BUY[TP/O]   | 775   | 53.10   | 238                                      | 30.71   |
| HOLD[SP]  | 624   | 42.80   | 141                                      | 22.60   |
| SELL[U]   | 60    | 4.10    | 9  | 15.00   |



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