

# UBS Investment Research

## Panoramic Resources Limited

### What could Gidgee be worth?

#### ■ Event: Taking a look at Gidgee valuation scenarios

In a move to diversify out of the pure nickel space, Panoramic Resources purchased the Gidgee Gold Project in WA for \$15.5m in January 2011. After spending several months collating and interpreting historical production and exploration data, PAN have more recently embarked on a major exploration campaign aimed at defining sufficient reserves to warrant re-starting gold production. With encouraging results to date, we consider three production scenarios: 50kozpa, 75kozpa and 100kozpa.

#### ■ Impact: Potential valuation range of A\$46-\$110m

Whilst we currently include the purchase price of Gidgee (A\$15.5m) in our valuation, we have roughly modelled 3 scenarios to determine what Gidgee could be worth if production was re-started. Assuming a 2013 start-up, 5.5 year life, capex between \$30-60m and cash costs in the US\$770-890/oz range, we estimate the potential NPV for a 50kozpa operation is \$46m, lifting to \$91m for 75kozpa and \$110m for 100kozpa. The project has the potential to contribute \$11-\$25m to annual profit. Further, we have marked-to-market Dec Q commodity prices and factored in the potential write-down of the MMW investment. FY12e earnings are 30% lower.

#### ■ Action: Maintain Buy – appears market implying zero value for Gidgee

With business-as-usual across the nickel operations, we believe Gidgee offers investors diversification through exposure to the gold space. Initial results from Gidgee appear encouraging with further developments to start unlocking value.

#### ■ Valuation: \$2.66/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	245	257	267
EBIT (UBS)	75	32	13	20	31
Net Income (UBS)	56	26	14	20	29
EPS (UBS, A\$)	0.26	0.13	0.07	0.09	0.14
Net DPS (UBS, A\$)	0.16	0.06	0.03	0.04	0.06

Profitability & Valuation	5-yr hist av.	06/11	06/12E	06/13E	06/14E
EBIT margin %	22.2	13.0	5.4	7.9	11.4
ROIC (EBIT) %	38.9	13.7	6.4	10.9	19.7
EV/EBITDA (core) x	4.2	5.0	2.9	2.1	1.1
PE (UBS) x	21.3	18.5	21.1	14.6	10.0
Net dividend yield %	3.7	2.6	2.2	2.9	4.3

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\$1.39 on 12 Dec 2011 23:37 EST

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## Global Equity Research

Australia

Mining

12-month rating **Buy**  
**Unchanged**

12m price target **A\$2.70/US\$2.74**  
**Unchanged**

Price **A\$1.39/US\$1.41**

RIC: PAN.AX BBG: PAN AU

13 December 2011

#### Trading data (local/US\$)

52-wk range	A\$2.60-1.11/US\$2.65-1.06
Market cap.	A\$0.29bn/US\$0.29bn
Shares o/s	207m (ORD)
Free float	78%
Avg. daily volume ('000)	867
Avg. daily value (m)	A\$1.2

#### Balance sheet data 06/12E

Shareholders' equity	A\$0.31bn
P/BV (UBS)	0.9x
Net Cash (debt)	A\$0.11bn

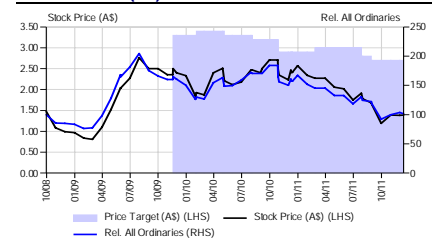
#### Forecast returns

Forecast price appreciation	+94.2%
Forecast dividend yield	2.9%
Forecast stock return	+97.1%
Market return assumption	8.5%
Forecast excess return	+88.6%

#### EPS (UBS, A\$)

	06/12E		06/11	
	From	To	Cons.	Actual
H1E	0.04	0.03	-	0.08
H2E	0.04	0.04	-	0.04
06/12E	0.08	0.07	0.13	
06/13E	0.10	0.09	0.15	

#### Performance (A\$)



Source: UBS

www.ubs.com/investmentresearch

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ANALYST CERTIFICATION AND REQUIRED DISCLOSURES BEGIN ON PAGE 6.

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## Gidgee Gold Project - summary

In a move to diversify away from being a pure nickel producer, PAN purchased the Gidgee Gold Project from Apex Minerals NL in January 2011 for A\$15.5m. Gidgee is located 640km NE of Perth and includes a 600ktpa processing facility (not in operation), a 150 person camp and 1,200km<sup>2</sup> tenement package containing resources of 310koz.

Hosted by the Gum Creek Greenstone Belt, Gidgee was mined almost continuously from 1987 to 2005 when the project was placed on care and maintenance. Approximately twenty open pits and two underground operations produced over 1Moz of gold. Numerous historical projects/deposits with high-grade mineralisation have not seen any significant exploration since 2005.

Over the past few months the Company has been assessing the numerous historical resources and areas of historical mineralisation across the Gidgee Project. This work includes the following:

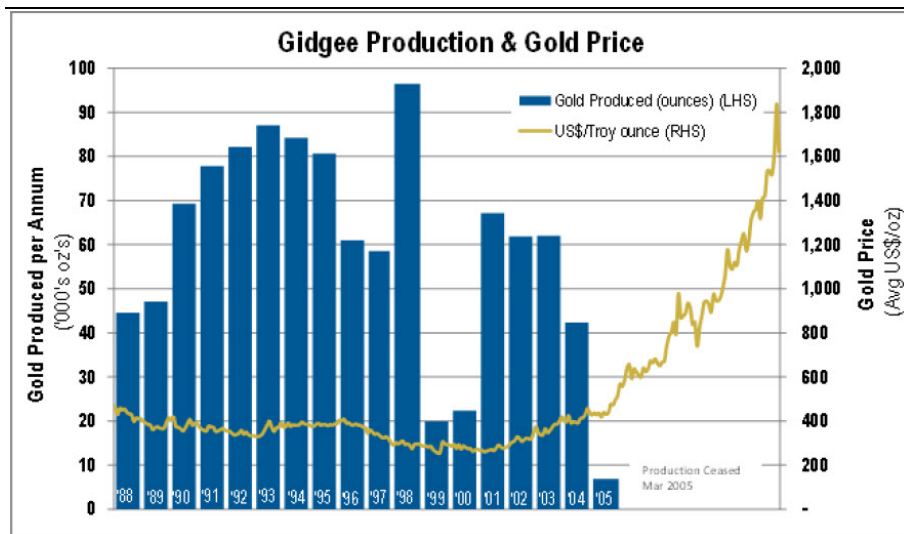
- verifying the historical drilling data;
- first pass geological interpretation;
- building preliminary resource models;
- multiple open pit optimisations at various gold prices (A\$1,200 – A\$1,800/oz);
- designing infill and resource verification drilling programs

The Company is currently considering re-development options, including the refurbishment of the 600ktpa CIP plant or building a new plant. The Company is targeting a 500koz reserve and building production up to 100kozpa within two years. Initial indications are that the existing 600ktpa plant can be re-commissioned at an estimated capital cost of circa \$20m.

Open pit optimisation using current gold prices (previously optimised at US\$500/oz) on 34 separate prospects has identified numerous targets that warrant drill testing. Drilling commenced in November 2011 and has focussed on the strike and depth extensions of known deposits and existing pits with a view of delineating sufficient reserves to warrant re-starting production within their two year timeframe. Initial results from the ~6000m of RC drilling completed to date on the Swan Bitter and Swift deposits have been encouraging and include:

- 20m @ 18.3g/t Au from 71m from Swift
- 14m @ 7.8g/t Au from 96m from Swift
- 14m @ 35.1g/t Au from 182m from Swan Bitter
- 12m @ 40.8g/t Au from 152m from Swan Bitter
- 15m @ 8.6g/t Au from 101m from Swift

Figure 1: Historic gold production and gold price performance



Source: Company reports

## Valuation scenarios

In an attempt to determine the valuation and earnings impact of the Gidgee re-development, we have considered three production scenarios and determined a rough NPV estimate for each. In the absence of project-specific development parameters determined in a feasibility study, we have made some broad assumptions based on similar operating assets in WA. Table 1 highlights the key parameters applied to each scenario where the primary driver of increased gold output is gold grade. Further, we have lifted the unit mining costs for the 100kozpa scenario as higher grade underground ore maybe required to achieve our assumed head grade. All scenarios assume first production at 300ktpa in 2013, ramping up to 600ktpa in 2014.

With a head grade of 3g/t Au and 92% recovery, the 600ktpa plant could produce 50kozpa. This scenario assumes \$20m capex for plant refurbishment, \$10m for mine development and \$10m is spent on exploration and resource drilling. With a 5.5 year mine life, the NPV is \$46m with the potential to add \$11m to PAN’s annual profit.

Keeping mine life and recoveries steady, the 75kozpa scenario requires a head grade of 4.3g/t Au, whereas 5.7g/t Au is needed to lift production to 100kozpa. Capex assumptions for the 100kozpa scenario include \$30m is spent on mine development, including accessing higher-grade ore from underground. The potential NPV of this upside case is \$110m. Based on the UBS price deck, the potential impact on PAN earnings is significant, contributing up to \$25m per annum to profit.

Table 1: Summary of valuation scenarios

		50kozpa	75kozpa	100kozpa
Grade	g/t	3.0	4.3	5.7
Cash costs	US\$/oz	889	806	857
Capex (incl \$10m expl)	US\$m	40	50	60
Mine life	years	5.5	5.5	5.5
Average EBITDA	US\$/year	22.9	38.7	46.6
Average NPAT	US\$/year	11.4	21.1	25.5
NPV	US\$m	46	91	110
IRR	%	46%	66%	69%

Source: UBS-e

Table 2: Summary of changes

Jun y/e		FY12			FY13			FY14		
		new	old	%	new	old	%	new	old	%
Revenue	A\$m	252	257	-2%	265	266	0%	279	279	0%
EBITDA (underlying)	A\$m	61	65	-7%	68	68	0%	77	77	0%
EBIT (underlying)	A\$m	13	17	-24%	20	20	0%	31	31	0%
NPAT (underlying)	A\$m	12	17	-30%	20	20	0%	29	29	0%
EPS (reported)	A¢/sh	5.6	8.0	-30%	9.5	9.5	0%	13.9	13.9	0%
DPS	A¢/sh	3	4	-25%	4	5	-20%	6	6	0%
Ni Price	US\$/lb	9.1	9.3	-2%	9.3	9.3	0%	9.4	9.4	0%
Ni-in-con production										
Savannah	kt	7.7	7.7	0%	7.5	7.5	0%	7.3	7.3	0%
Lanfranchi	kt	8.8	8.8	0%	9.2	9.2	0%	9.2	9.2	0%
Group	kt	16.4	16.4	0%	16.8	16.8	0%	16.5	16.5	0%
Cash costs										
Savannah	US\$/lb	6.57	6.56	0%	5.95	5.95	0%	5.63	5.63	0%
Lanfranchi	US\$/lb	6.39	6.37	0%	6.12	6.12	0%	5.93	5.93	0%
Group	US\$/lb	6.47	6.46	0%	6.04	6.04	0%	5.80	5.80	0%
NPV	A\$/share	\$ 2.66	\$2.67	0%						
Price Target	A\$/share	\$ 2.70	\$2.70	0%						

Source: UBS-e

# Panoramic Resources (PAN.AX)

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13-Dec-11

## MARKET INFORMATION

<b>Rating:</b>	<b>Buy</b>
Price (as of 13-Dec-11):	1.33
<b>Price Target (12 months):</b>	<b>2.70</b>
Issued Capital:	207.1
Market Capitalisation:	287.8
Avg. daily turnover (US\$m)	1.2
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 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. Production guidance for FY12 is 17.5-18.5kt nickel in concentrate/ore from the two operations. The company diversified into the gold sector with the acquisition of the Gidgee Gold Project in early 2011 for A\$15.5m. Gidgee hosts resources of 310koz and includes a 600ktpa mill that requires refurbishment. Development studies are underway with a target of 500koz reserve and production of ~100koz within two years.

## INVESTMENT SUMMARY

(A\$m)	2011	2012E	2013E	2014E
Net profit [reported] (\$m)	22.3	11.8	19.9	29.3
Net profit [adjusted] (\$m)	26.2	13.8	19.9	29.3
EPS [reported] (\$)	0.11	0.06	0.10	0.14
<b>EPS [adjusted, diluted] (\$)</b>	<b>0.13</b>	<b>0.07</b>	<b>0.09</b>	<b>0.14</b>
EPS Growth (%)	(52.7)	(47.4)	44.2	46.9
<b>PER [adjusted] (x)</b>	<b>10.6</b>	<b>20.2</b>	<b>14.0</b>	<b>9.5</b>
Dividend (\$)	0.1	0.0	0.0	0.1
Payout ratio (%)	55.5	52.5	41.5	42.4
<b>Dividend Yield (%)</b>	<b>4.5</b>	<b>2.3</b>	<b>3.0</b>	<b>4.5</b>
FCF Yield (%)	6.5	13.5	19.9	26.2
Franking (%)	100%	100%	100%	100%
Shares [period-average, diluted] (m)	209.2	210.1	210.1	210.1

## VALUATION

Valuation per share [NAV @ 10%] (\$)	2.73
Share Price Target [12 months] (\$)	2.70
Price/NAV [10% disc rate] (x)	0.49

## Operating Assets [DH10]

	A\$m	¢
Savannah	198	97
Lanfranchi	235	114

## Gross Assets

	A\$m	¢
Investments	9	4
Exploration	66	32
Hedging	18	9
Net Cash	99	48
Corporate costs	(65)	(32)

## Net Asset Value @ 10% discount rate

	A\$m	¢
	560	273

## ENTERPRISE VALUE

(A\$m)	2011	2012E	2013E	2014E
<b>Enterprise Value</b>	<b>249</b>	<b>228</b>	<b>190</b>	<b>138</b>
EV/EBITDA (x)	3.2	3.7	2.8	1.8
EV/Operating Free Cash Flow (x)	4.5	6.9	3.8	2.1

## EPS SENSITIVITIES

Commodity	Base Change	2012E	2013E	2014E
Nickel	10%	66%	273%	90%
Copper	10%	57%	166%	-5%
Currency	5¢	48%	78%	-58%

## CASH FLOW

(A\$m)	2011	2012E	2013E	2014E
Operating income [EBIT, UBS]	32	13	20	31
Depreciation & Amortisation	46	48	48	47
Net change in working capital	14	0	0	0
Other (operating)	(29)	0	0	0
<b>Pre-tax op cash flow</b>	<b>62</b>	<b>61</b>	<b>68</b>	<b>77</b>
Interest (paid) / received	5	7	8	11
Tax paid	(21)	(6)	(9)	(13)
Other	0	0	0	0
<b>Operating cash flow</b>	<b>46</b>	<b>61</b>	<b>68</b>	<b>76</b>
Capital expenditure	(28)	(24)	(12)	(3)
<b>Free cash flow</b>	<b>18</b>	<b>38</b>	<b>56</b>	<b>73</b>
Net (acquisitions) / disposals	1	0	0	0
Dividends paid (Common)	(22)	(6)	(8)	(10)
Shares issued/(repurchased)	3	0	0	0

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.

## OPERATIONAL ASSUMPTIONS

	1H11	2H11	2011	2012E	2013E	2014E
<b>Commodity prices</b>						
Ni price (US\$/lb)	10.18	11.60	10.89	9.15	9.33	9.35
Cu price (US\$/lb)	3.62	4.26	3.94	3.62	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	1.02	0.99	0.93
<b>Production - payable Nickel</b>						
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
<b>Cash costs</b>						
Savannah (US\$/lb)			6.41	6.57	5.95	5.63
Lanfranchi (US\$/lb)			6.04	6.39	6.12	5.93

## DIVISIONAL BREAKDOWN [EBIT]

(A\$m)	1H11	2H11	2011	2012E	2013E	2014E
Savannah	8.8	15.0	23.8	0.8	8.8	13.0
Lanfranchi	20.5	23.9	44.4	14.0	24.1	34.6

## PROFIT & LOSS

(A\$m)	1H11	2H11	2011	2012E	2013E	2014E
Sales Revenue	126	118	243	245	257	267
<b>Operating Cash Profit</b>	<b>52</b>	<b>55</b>	<b>107</b>	<b>73</b>	<b>92</b>	<b>107</b>
Depn & Amortisation	(22)	(24)	(46)	(48)	(48)	(47)
<b>Operating Profit</b>	<b>30</b>	<b>31</b>	<b>61</b>	<b>26</b>	<b>44</b>	<b>60</b>
Others	(1)	(14)	(15)	(0)	(12)	(16)
SGA	(5)	(9)	(14)	(12)	(13)	(13)
<b>EBIT</b>	<b>24</b>	<b>8</b>	<b>32</b>	<b>13</b>	<b>20</b>	<b>31</b>
Net interest	3	2	5	7	8	11
<b>Profit before tax</b>	<b>27</b>	<b>4</b>	<b>31</b>	<b>20</b>	<b>28</b>	<b>42</b>
Tax expense	(9)	1	(8)	(6)	(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
<b>Net Profit [reported]</b>	<b>18</b>	<b>5</b>	<b>22</b>	<b>12</b>	<b>20</b>	<b>29</b>
Abnormal Gain/(Loss) after Tax	0	0	0	(2)	0	0
<b>Net Profit [adjusted]</b>	<b>18</b>	<b>5</b>	<b>22</b>	<b>14</b>	<b>20</b>	<b>29</b>
EBITDA margin (%)			31.9	24.8	26.4	29.0
Net Interest Cover [EBIT] (x)			6.7	2.0	2.4	2.7
Tax Rate (%)			28%	30%	30%	30%
EBIT/Total Assets (%)			7.7	3.2	4.7	6.9
NPAT/Equity (%)			7.4	4.5	6.2	8.6

## BALANCE SHEET [Selected Items]

(A\$m)	2011	2012E	2013E	2014E
Net Working capital	26	26	26	26
Fixed Assets	66	64	64	64
Net Other	121	107	82	48
<b>Capital Employed</b>	<b>214</b>	<b>198</b>	<b>172</b>	<b>138</b>
Net Cash / (Debt)	89	111	148	201
<b>Total Equity [incl. minorities]</b>	<b>303</b>	<b>309</b>	<b>320</b>	<b>339</b>
Minorities	0	0	0	0
Net Debt / Equity (%)	(29.5)	(35.9)	(46.3)	(59.3)
Book Value per Share(\$)	1.48	1.49	1.55	1.64

Source: Company reports, UBS-e

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## ■ 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 Investment Research: Global Equity Rating Allocations

UBS 12-Month Rating	Rating Category	Coverage <sup>1</sup>	IB Services <sup>2</sup>
Buy	Buy	59%	35%
Neutral	Hold/Neutral	35%	33%
Sell	Sell	6%	14%
UBS Short-Term Rating	Rating Category	Coverage <sup>3</sup>	IB Services <sup>4</sup>
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.

**Short-Term Ratings** reflect the expected near-term (up to three months) performance of the stock and do not reflect any change in the fundamental view or investment case.

**Equity Price Targets** have an investment horizon of 12 months.

## EXCEPTIONS AND SPECIAL CASES

**UK and European Investment Fund ratings and definitions are:** Buy: Positive on factors such as structure, management, performance record, discount; Neutral: Neutral on factors such as structure, management, performance record, discount; Sell: Negative on factors such as structure, management, performance record, discount.

**Core Banding Exceptions (CBE):** Exceptions to the standard +/-6% bands may be granted by the Investment Review Committee (IRC). Factors considered by the IRC include the stock's volatility and the credit spread of the respective company's debt. As a result, stocks deemed to be very high or low risk may be subject to higher or lower bands as they relate to the rating. When such exceptions apply, they will be identified in the Company Disclosures table in the relevant research piece.

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

## Company Disclosures

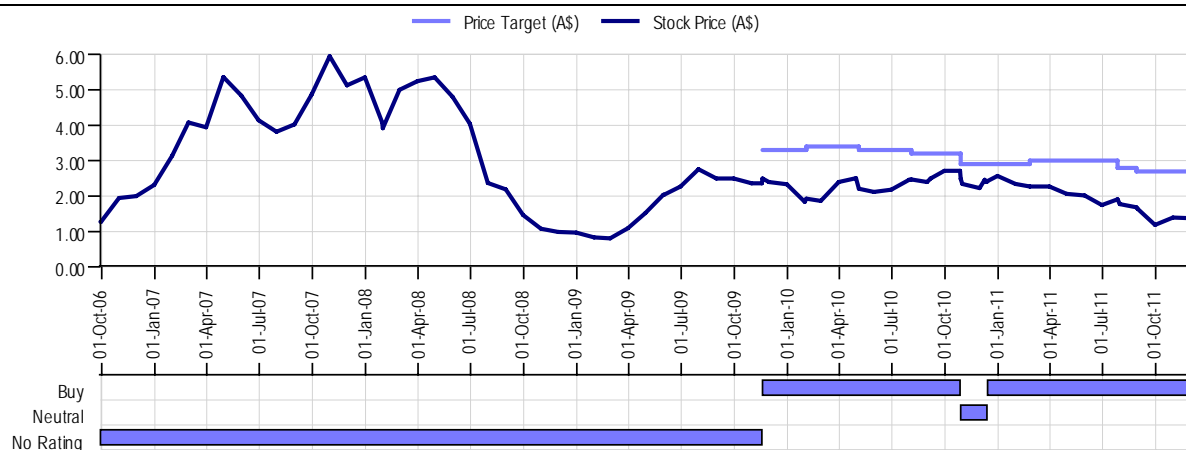
Company Name	Reuters	12-mo rating	Short-term rating	Price	Price date
Panoramic Resources Limited	PAN.AX	Buy	N/A	A\$1.39	12 Dec 2011

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 12 Dec 2011



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