



The Global Metals & Mining Specialist

## AUSTRALIA

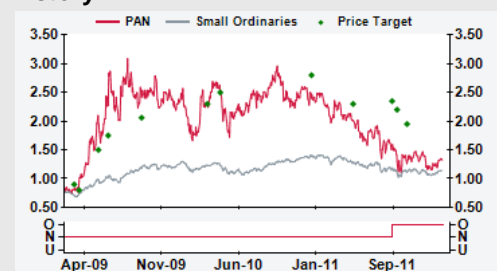
PAN AU **Outperform**  
Close Price\* 31 Jan 12 **A\$1.32**

<b>Volatility index</b>		<b>High</b>
<b>12-month target</b>	<b>A\$</b>	<b>1.95</b>
<b>12-month TSR</b>	<b>%</b>	<b>+52.8</b>
<b>Valuation</b>	<b>A\$</b>	<b>2.13</b>
- DCF (WACC 10.0%, beta 1.4, ERP 5.0%, RFR 6.5%)		
<b>GICS sector</b>		<b>Materials</b>
<b>Market cap</b>	<b>A\$m</b>	<b>273</b>
<b>30-day avg turnover</b>	<b>A\$m</b>	<b>0.6</b>
<b>Number shares on issue</b>	<b>m</b>	<b>207.1</b>

### Investment fundamentals

Year end 30 Jun		2011A	2012E	2013E	2014E
Revenue	m	249.6	279.1	323.8	297.4
EBIT	m	37.7	8.7	47.7	30.6
Reported profit	m	22.3	9.9	41.1	29.9
Adjusted profit	m	27.8	9.9	41.1	29.9
Gross cashflow	m	80.0	55.1	87.5	77.7
CFPS	¢	37.9	26.1	41.5	36.8
CFPS growth	%	-30.7	-31.0	58.7	-11.2
PGCFPS	x	3.5	5.0	3.2	3.6
PGCFPS rel	x	0.35	0.62	0.48	0.57
EPS adj	¢	13.2	4.7	19.5	14.2
EPS adj growth	%	-49.7	-64.6	316.5	-27.1
PER adj	x	10.0	28.2	6.8	9.3
PER rel	x	0.58	2.19	0.71	1.04
Total DPS	¢	6.0	4.4	7.8	5.7
Total div yield	%	4.5	3.4	5.9	4.3
Franking	%	100	100	100	100
ROA	%	9.1	2.1	11.1	6.7
ROE	%	9.4	3.2	12.9	8.8
EV/EBITDA	x	2.0	3.4	1.9	2.3
Net debt/equity	%	-29.8	-39.8	-52.2	-61.2
P/BV	x	0.9	0.9	0.8	0.8

### PAN AU vs Small Ordinaries, & rec history



Note: Recommendation timeline - if not a continuous line, then there was no Macquarie coverage at the time or there was an embargo period.

Source: FactSet, Macquarie Research, January 2012  
(all figures in AUD unless noted)

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1 February 2012  
Macquarie Securities (Australia) Limited

# Panoramic Resources

## Excellent quarter

### Event

- PAN reported December quarterly production results.

### Impact

- Output levels improve.** Group nickel production was up 17% qoq to 5.17kt (vs 3Q11: 4.44kt), with 2H11 performance of 9.61kt representing an annualised run-rate of 19.23ktpa. Production at the **Savannah** operation increased substantially during the December quarter, with Ni-in-conc. up 29% qoq to 2.65kt (vs 3Q11: 2.05kt) and Cu up 30% qoq to 1.50kt (vs 3Q11: 1.15kt). The **Lanfranchi** mine saw a 6% qoq increase in Ni-in-ore production to 2.52kt (September quarter: 2.39kt) due to higher stope availability after completion of capital works on the paste plant.
- Costs down.** PAN reported cash costs of US\$5.68/lb, down 14% from US\$6.63/lb in 3Q11. Management stated that this was largely driven by record output at Savannah, in addition to higher production following interruptions at Lanfranchi during the September quarter.
- Upgraded guidance, but 2H11 loss expected.** Company guidance for FY12 output increased by 4% to 18.5-19.0ktpa Ni-in-conc. The company has previously forecast 17.5-18.5ktpa Ni-in-conc. production for FY12, a rate last achieved in FY09. On the other hand, management indicated that an NLAT of -A\$3.0m for 2H11, due to lower \$A revenues and higher D+A, decreased Lanfranchi production last quarter, and Schmitz development costs. We have adjusted our model to reflect these changes.

### Earnings and target price revision

- PAN guided to a ~A\$3m loss in 2H11; as such, we have downgraded our FY12 EPS to A\$0.047 from A\$0.068. FY13 and FY14 EPS remain unchanged. We have rolled forward our DCF by one half and adjusted our hedging valuation, reducing our NPV to A\$2.13ps from A\$2.21ps. Retain price target of A\$1.95ps.

### Price catalyst

- 12-month price target: A\$1.95 based on a DCF methodology.
- Catalyst: Incremental improvements in production and costs in the current quarter. Definition of more above average grade Ni-S ore and/or economic orebodies adjacent to historic Gidgee pits and/or economic greenfields intersections further north in the medium term.

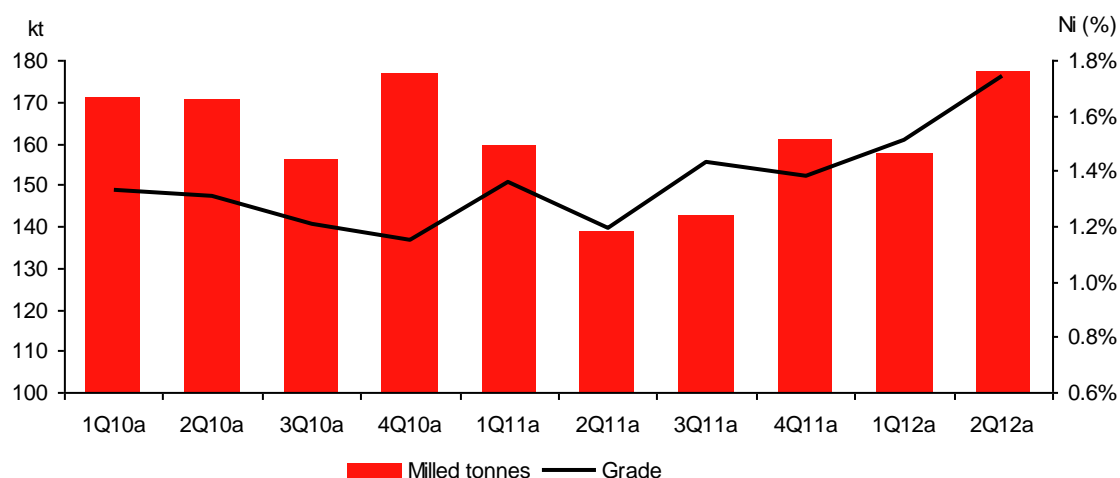
### Action and recommendation

- Outperform.** We believe PAN should be able to meet elevated production guidance of ~19.0kt Ni-in-conc. for FY12. PAN has a large lower grade Ni reserve. (~7.7mt @ 1.56% Ni for 120kt contained Ni); with higher Ni prices, the mining of lower grade ores will be economically attractive and production could increase. At current Ni prices however, significant rises in production at current operating margins will be largely dependent on the identification and exploitation of more higher grade ore resources.

## Quarterly review

- **Output levels improve.** Group nickel production was up 17% qoq to 5.17kt (vs 3Q11: 4.44kt), with 2H11 performance of 9.61kt representing an annualised run-rate of 19.23ktpa.
- Production at the **Savannah** operation increased substantially during the December quarter, with Ni-in-conc. up 29% qoq to 2.65kt (vs 3Q11: 2.05kt) and Cu up 30% qoq to 1.50kt (vs 3Q11: 1.15kt).
  - ⇒ In addition, total tonnes milled for the December quarter increased 12% qoq at 177kt, now approaching the processing plant's nameplate throughput capacity of ~180kt per quarter (or 750ktpa).

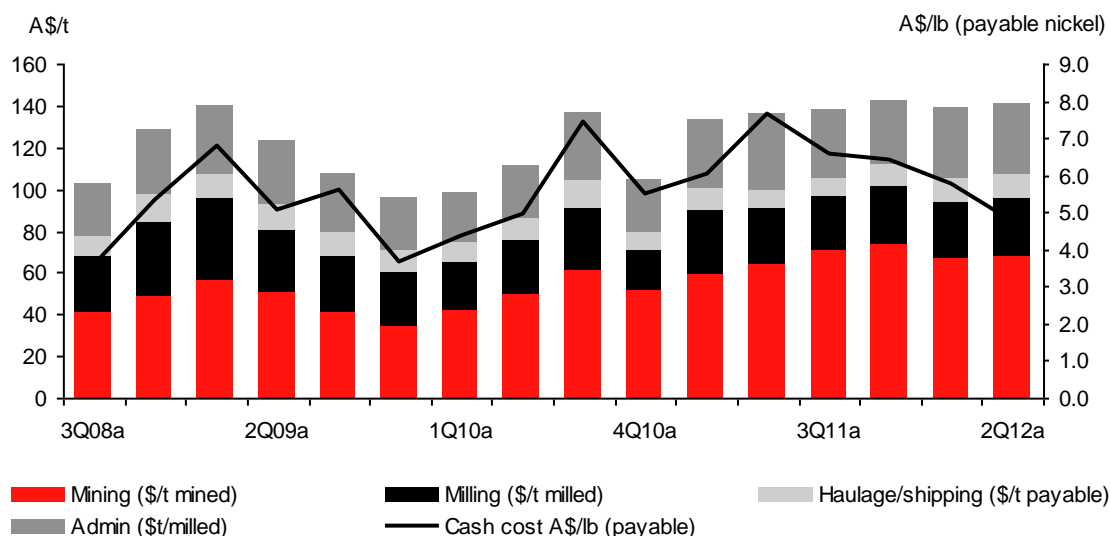
**Fig 1 Savannah – milling and grades**



Source: PAN, Macquarie Research, January 2012

- The **Lanfranchi** mine saw a 6% qoq increase in Ni-in-ore production to 2.52kt (September quarter: 2.39kt) due to higher stope availability after completion of capital works on the paste plant.
- PAN are currently drilling EM conductor HS692 to define a likely extension to the Deacon ore shoot. Following the disappointing results to define an extension of the high grade Helmut South ore shoot, PAN is likely to construct a new drill cuddy to improve the drill angle for future Deacon and Helmut South exploration.
- In January 2012, 6 holes intersected matrix and disseminated Ni-S ore at Schmitz / Skinner (Jury/ Metcalfe zone) of which 2 drill holes hit massive footwall Ni-S (best 5.77m @ 4.12% Ni). True widths likely to be quite a lot less due to the drill angle. Another new drill cuddy is required to improve the drill angle and better define this new orezone.
- **Costs stabilise.** PAN reported cash costs of US\$5.68/lb, down 14% from US\$6.63/lb in the September quarter. Management stated that this was largely driven by record output at Savannah, in addition to higher production following interruptions at Lanfranchi during the September quarter.
  - ⇒ Spot nickel price averaged ~US\$8.30/lb in the December quarter; PAN are focussed on cost management, which is critical to maintain margins in a soft nickel market. Group nickel grades improved to 2.00% from 1.82% in the September quarter.

Fig 2 Savannah – cost profile



Source: PAN, Macquarie Research, January 2012

- **Upgraded guidance, but 2H11 loss expected.** Company guidance for FY12 output increased by 4% to 18.5-19.0ktpa Ni.
  - ⇒ The company has previously forecast 17.5-18.5ktpa Ni in conc production for FY12, a rate last achieved in FY09. We had previously estimated FY12 output of 18.7kt; we now forecast 19.0kt, and believe that PAN should be able to maintain improved performance through the first half of 2012.
  - ⇒ On the other hand, management indicated that an NLAT of -A\$3.0m for 2H11, due to lower \$A revenues and higher D+A, decreased Lanfranchi production last quarter, and Schmitz development costs. We have adjusted our model to reflect these developments.
- **Cash and receivables down.** The company announced an end-December cash balance of A\$66m plus receivables of A\$24m, compared to A\$70m cash plus A\$38m receivables at 30 September.
  - ⇒ The decrease in cash was a result of the following outflows: A\$6m on capex at Wyndham port concentrate storage facility and Lanfranchi village; and negative A\$4m pricing adjustment on September quarter shipments.
  - ⇒ On the other hand, PAN's hedgebook has a value of A\$16m (3Q11: A\$26m).
  - ⇒ Free cash flow from operations was A\$13m (3Q11: A\$6m), while reported debt was steady at A\$4m.
- **Gidgee.** PAN has committed 45,000m of RC drilling plus a sizeable Aircore programme to defining ~1moz gold resource at Gidgee (based upon a targeted 100kozpa production from mid 2014). Around 300koz has been identified by previous explorers at Gidgee and requires confirmatory economic and technical studies.
- 44 RC holes for 7821m have been completed adjacent to historical pits (Howards, Swan Bitter, Swift and Heron South). Only Howards assays have been received to date (best: 21m @ 2.5g/t Au).
  - ⇒ Greenfield exploration has been focused on the Camel Bore to Cobia area in the north of the tenement package. During the September quarter 425 holes AirCore holes for 23 389 m resulted in 21 intersections >5 gram.metres (g/t Au x metre of intersection) and in the December quarter 222 AirCore holes for 18683m resulted in 40 intersections of > 5 gram.metres.
  - ⇒ PAN has a suite of quality brown- and greenfields exploration targets at Gidgee and we believe the company is likely to achieve its exploration targets in the medium term, however the 100kozpa production from mid-2014 is overly optimistic.

## Nickel market

- **Nickel outlook.** The recent hard rally in nickel prices is unlikely to be sustained as supply runs ahead of demand. Nickel prices have staged a strong rally over the past two months. After hitting a low of \$16,935/t (\$7.68/lb) on November 30, 2011, the LME cash price hit a recent high of \$21,670/t (\$9.83/lb) last Friday, a rise of 28% over that period.
  - ⇒ Our feeling is that the nickel price now looks to have neared a peak as Chinese import demand eases and the risks of a correction in the short run are growing, despite a non-Chinese demand recovery.
  - ⇒ What we think triggered the sharp price rally in December was the combination of unexpectedly strong buying of nickel from China, which was followed by a strong short covering rally by funds. This is similar to what happened in other base metals towards the end of the year.
  - ⇒ The Chinese buying reflected a combination of bargain-hunting by traders (who built 30kt plus of stocks off the market), a sharp fall in Chinese domestic nickel production due to prices falling below break-even levels of \$8-9/lb for many nickel pig iron producers and some restocking by Chinese stainless mills as production recovered from heavy 3Q11 cuts.
  - ⇒ Prices are now back above break-even levels of most if not all Chinese nickel pig iron producers, and a strong recovery in Chinese production appears likely. In addition, the speculative buyers may well turn into sellers again, especially if prices start to fall. Furthermore, non-Chinese nickel production is likely to be on an upward trend as new projects continue to increase production and producers put the disruptions of 2011 behind them.
- The one significant positive for the market is that stainless steel production appears to be rising strongly quarter on quarter in the US, Japan, Europe and China. We are forecasting a 6.3% qoq rise in global stainless output in 1Q12 and primary nickel purchases could rise by more as steel mills restock. This may well delay a correction but, only temporarily in our view.
  - ⇒ We think that the current supply demand balance can support nickel prices in the \$18-20,000/t range for this year (below this level and some Chinese nickel pig iron disappears quickly), but not sustainably above \$20,000/t.



## Important disclosures:

**Recommendation definitions****Macquarie - Australia/New Zealand**

Outperform – return >3% in excess of benchmark return  
 Neutral – return within 3% of benchmark return  
 Underperform – return >3% below benchmark return

Benchmark return is determined by long term nominal GDP growth plus 12 month forward market dividend yield

**Macquarie – Asia/Europe**

Outperform – expected return >+10%  
 Neutral – expected return from -10% to +10%  
 Underperform – expected return <-10%

**Macquarie First South - South Africa**

Outperform – expected return >+10%  
 Neutral – expected return from -10% to +10%  
 Underperform – expected return <-10%

**Macquarie - Canada**

Outperform – return >5% in excess of benchmark return  
 Neutral – return within 5% of benchmark return  
 Underperform – return >5% below benchmark return

**Macquarie - USA**

Outperform (Buy) – return >5% in excess of Russell 3000 index return  
 Neutral (Hold) – return within 5% of Russell 3000 index return  
 Underperform (Sell) – return >5% below Russell 3000 index return

**Volatility index definition\***

This is calculated from the volatility of historical price movements.

**Very high-highest risk** – Stock should be expected to move up or down 60–100% in a year – investors should be aware this stock is highly speculative.

**High** – stock should be expected to move up or down at least 40–60% in a year – investors should be aware this stock could be speculative.

**Medium** – stock should be expected to move up or down at least 30–40% in a year.

**Low-medium** – stock should be expected to move up or down at least 25–30% in a year.

**Low** – stock should be expected to move up or down at least 15–25% in a year.

\* Applicable to Australian/NZ/Canada stocks only

**Recommendations** – 12 months

**Note:** Quant recommendations may differ from Fundamental Analyst recommendations

**Financial definitions**

All "Adjusted" data items have had the following adjustments made:

Added back: goodwill amortisation, provision for catastrophe reserves, IFRS derivatives & hedging, IFRS impairments & IFRS interest expense  
 Excluded: non recurring items, asset revals, property revals, appraisal value uplift, preference dividends & minority interests

**EPS** = adjusted net profit / epowa\*

**ROA** = adjusted ebit / average total assets

**ROA Banks/Insurance** = adjusted net profit / average total assets

**ROE** = adjusted net profit / average shareholders funds

**Gross cashflow** = adjusted net profit + depreciation

\*equivalent fully paid ordinary weighted average number of shares

All Reported numbers for Australian/NZ listed stocks are modelled under IFRS (International Financial Reporting Standards).

**Recommendation proportions – For quarter ending 31 December 2011**

	AU/NZ	Asia	RSA	USA	CA	EUR	
Outperform	56.59%	65.60%	54.55%	44.53%	75.28%	49.46%	(for US coverage by MCUSA, 10.53% of stocks covered are investment banking clients)
Neutral	33.45%	20.55%	38.96%	50.20%	22.47%	32.36%	(for US coverage by MCUSA, 10.96% of stocks covered are investment banking clients)
Underperform	9.96%	13.85%	6.49%	5.27%	2.25%	18.18%	(for US coverage by MCUSA, 0.44% of stocks covered are investment banking clients)

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