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January 31, 2012

Stock Rating  
**Overweight**

Industry View  
**Attractive**

## Panoramic Resources

### 2Q FY12: Operationally positive. Non-cash to hit the bottom line.

**Quick Comment – Strong production sees lift to targets:** A record quarter from Savannah (+29% QoQ) and a recovery in output from Lanfranchi (+6% QoQ) has resulted in PAN increasing its FY12 nickel production target from 17.5-18.5kt to 18.5kt-19kt (MSe 18.3kt unchanged).

**Costs management sees unit costs decline:** Average payable nickel cash costs were 11% down QoQ, primarily due to the increase in output from Savannah and Lanfranchi. PAN continues to see cost pressures due to ongoing tightness in the Western Australian resource sector labour market and the strong AUD.

**Expecting a weak interim earnings result:** Relatively weak nickel markets and the negative translational impact of a strong AUD on USD pricing is expected to adversely affect interim earnings. This is in addition to a non-cash impact of increased depreciation and amortisation as PAN starts mining the new Schmitz orebody. These factors are expected to offset the strong production result and PAN anticipates an interim net loss of A\$3-\$4mn.

**Free cash flow positive:** PAN's operations produced A\$13mn in free cash flow (vs A\$6mn in the September 2011 quarter); however, we note capex outflows declined over the quarter, with ~A\$8mn spent on development and exploration versus ~A\$22mn in the September 2011 quarter. PAN ended 2Q FY12 with A\$66mn in cash (1Q FY12 A\$70mn).

**Hedge book in the money:** For the remainder of FY12, PAN has 1,350t Ni (~15% of 2H FY12 production) sold forwards at an average price of US\$11.55/lb (vs US\$9.66/lb current spot). These hedges, combined with FY13 forward sales and other derivatives, result in PAN's hedge book being valued at \$16mn.

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### Key Ratios and Statistics

Reuters: PAN.AX Bloomberg: PAN AU

#### Australia Metals & Mining

|                                 |              |
|---------------------------------|--------------|
| Shr price, close (Jan 31, 2012) | A\$1.32      |
| 52-Week Range                   | A\$2.53-1.07 |
| Sh out, dil, curr (mn)          | 207          |
| Mkt cap, curr (mn)              | A\$273       |
| EV, curr (mn)                   | A\$183       |
| Avg daily trading value (mn)    | A\$2         |

| Fiscal Year ending         | 06/11  | 06/12e | 06/13e | 06/14e |
|----------------------------|--------|--------|--------|--------|
| ModelWare EPS (A\$)        | 0.13   | 0.17   | 0.17   | 0.33   |
| Prior ModelWare EPS (A\$)  | -      | -      | -      | -      |
| Consensus EPS (A\$)§       | 0.19   | 0.11   | 0.12   | 0.22   |
| Revenue, net (A\$ mn)      | 243    | 279    | 303    | 343    |
| EBITDA (A\$ mn)            | 73     | 90     | 94     | 128    |
| ModelWare net inc (A\$ mn) | 26     | 35     | 35     | 69     |
| P/E                        | 13.8   | 7.7    | 7.8    | 3.9    |
| P/BV                       | 1.2    | 0.8    | 0.8    | 0.7    |
| RNOA (%)                   | 7.7    | 14.1   | 14.3   | 28.6   |
| ROE (%)                    | 9.0    | 11.6   | 10.7   | 20.0   |
| EV/EBITDA                  | 3.7    | 1.9    | 1.7    | 0.9    |
| Div yld (%)                | 3.4    | 5.8    | 5.8    | 11.4   |
| FCF yld ratio (%)          | (4.6)  | 8.9    | 10.9   | 23.9   |
| Leverage (EOP) (%)         | (29.5) | (31.1) | (33.6) | (40.6) |
| Div franking % (%)         | -      | -      | -      | -      |

Unless otherwise noted, all metrics are based on Morgan Stanley ModelWare framework (please see explanation later in this note).

§ = Consensus data is provided by Thomson Reuters Estimates.  
e = Morgan Stanley Research estimates

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(as of December 31, 2011)

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| Stock Rating Category    | Coverage Universe |            | Investment Banking Clients (IBC) |                |                      |
|--------------------------|-------------------|------------|----------------------------------|----------------|----------------------|
|                          | Count             | % of Total | Count                            | % of Total IBC | % of Rating Category |
| <b>Overweight/Buy</b>    | <b>1119</b>       | <b>39%</b> | <b>460</b>                       | <b>44%</b>     | <b>41%</b>           |
| <b>Equal-weight/Hold</b> | <b>1231</b>       | <b>43%</b> | <b>439</b>                       | <b>42%</b>     | <b>36%</b>           |
| <b>Not-Rated/Hold</b>    | <b>104</b>        | <b>4%</b>  | <b>23</b>                        | <b>2%</b>      | <b>22%</b>           |
| <b>Underweight/Sell</b>  | <b>427</b>        | <b>15%</b> | <b>117</b>                       | <b>11%</b>     | <b>27%</b>           |
| <b>Total</b>             | <b>2,881</b>      |            | <b>1039</b>                      |                |                      |

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**Overweight (O or Over)** - The stock's total return is expected to exceed the total return of the relevant country MSCI Index, on a risk-adjusted basis over the next 12-18 months.

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### Analyst Industry Views

**Attractive (A)**: The analyst expects the performance of his or her industry coverage universe over the next 12-18 months to be attractive vs. the relevant broad market benchmark, as indicated below.

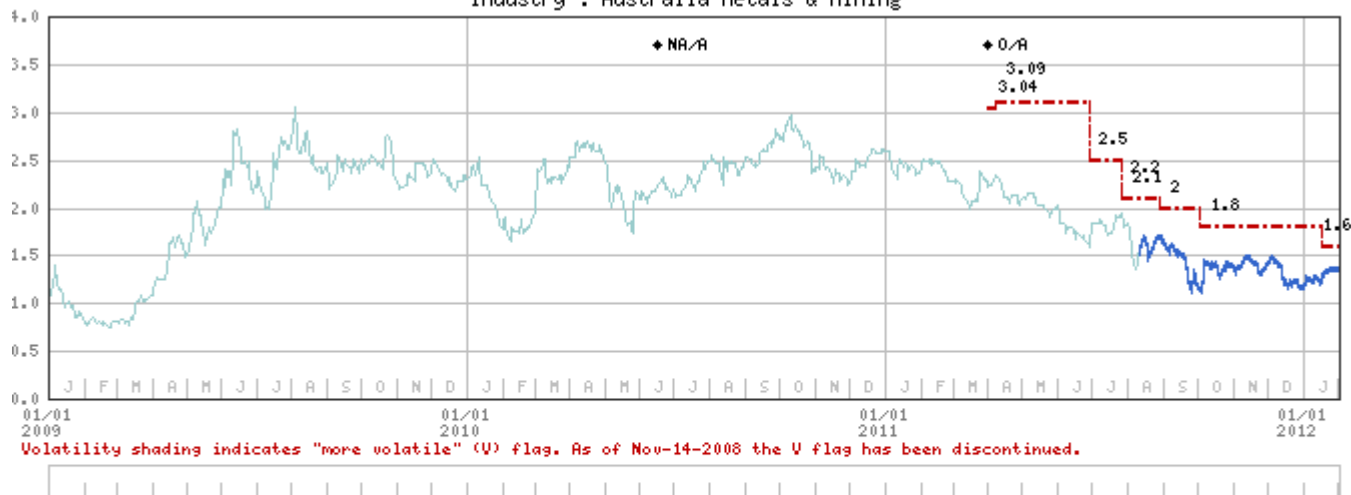
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### Stock Price, Price Target and Rating History (See Rating Definitions)

Panoramic Resources (PAN.AX) - As of 1/31/12 in AUD  
Industry : Australia Metals & Mining



Stock Rating History: 6/16/10 : NA/A; 4/1/11 : O/A

Price Target History: 4/1/11 : 3.04; 4/8/11 : 3.09; 6/28/11 : 2.5; 7/26/11 : 2.2; 7/27/11 : 2.1; 8/29/11 : 2; 10/3/11 : 1.8; 1/17/12 : 1.6

Source: Morgan Stanley Research Date Format: MM/DD/YY Price Target --- No Price Target Assigned (NA)  
 Stock Price (Not Covered by Current Analyst) --- Stock Price (Covered by Current Analyst) ---  
 Stock and Industry Ratings (abbreviations below) appear as ♦ Stock Rating/Industry View  
 Stock Ratings: Overweight (O) Equal-weight (E) Underweight (U) Not-Rated (NR) More Volatile (V) No Rating Available (NA)  
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**Industry Coverage: Australia Metals & Mining**

| Company (Ticker)                  | Rating (as of) | Price* (01/31/2012) |
|-----------------------------------|----------------|---------------------|
| <b>Brendan Fitzpatrick</b>        |                |                     |
| Alumina Limited (AWC.AX)          | E (01/17/2012) | A\$1.28             |
| BHP Billiton Limited (BHP.AX)     | O (10/27/2010) | A\$37.48            |
| Equatorial Resources Ltd (EQX.AX) | O (01/11/2012) | A\$2.34             |
| Fortescue Metals (FMG.AX)         | O (06/07/2011) | A\$5.05             |
| Gindalbie Metals Ltd (GBG.AX)     | O (01/11/2012) | A\$63               |
| Iluka Resources Ltd (ILU.AX)      | O (07/04/2011) | A\$18.32            |
| Ivanhoe Australia (IVA.AX)        | O (09/09/2010) | A\$1.89             |
| OZ Minerals (OZL.AX)              | O (12/06/2010) | A\$10.91            |
| PanAust Limited (PNA.AX)          | O (12/06/2010) | A\$3.51             |
| Panoramic Resources (PAN.AX)      | O (04/01/2011) | A\$1.32             |
| Rio Tinto Ltd (RIO.AX)            | O (10/27/2010) | A\$69.16            |
| Western Areas NL (WSA.AX)         | O (02/14/2011) | A\$5.52             |

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