

UBS Investment Research

Panoramic Resources Limited

A solid quarter, but 1H loss flagged

■ Event: December quarterly production report

PAN reported group nickel output of 5.17kt for the December quarter, 18% above UBS-e and 17% higher q/q. Group payable cash costs of US\$5.68/lb were 14% lower q/q and 12% below UBS-e. The strong operating performance of Savannah continued with increased mill throughput and higher grade (1.74% Ni Vs. 1.42% UBS-e) driving higher nickel output and lower costs. Operations at Lanfranchi returned to normal following the re-commissioning of the paste plant. The strong operating performance is expected to continue with FY12 production guidance increased to 18.5-19kt (from 17.5-18.5kt) nickel-in-concentrate/ore.

■ Impact: Unaudited after tax loss of \$3m-\$4m is now expected

Reconciling the quarterly result, aligning FY12 production with new guidance and updating our commodity price and currency assumptions would have seen minor changes to our earnings estimates. However, as a result of lower realised A\$ nickel prices (after hedging), higher D&A at Lanfranchi and lower sales, the Company expects to report an after tax loss of between \$3m-\$4m for 1H FY12.

■ Action: Maintain Buy – strong production continuing, costs falling

Although the unaudited 1H loss comes as a surprise, the recent strong operating performance at Savannah combined with the return to normal operations at Lanfranchi are encouraging and support our view the Company will return to profitability in FY13.

■ Valuation: \$2.50/sh (DCF, 10% discount rate)

Our valuation has been reduced by 5% to \$2.52/sh. Our price target, derived from 1x P/NPV, is 7% lower at \$2.50/sh.

Highlights (A\$m)	06/10	06/11	06/12E	06/13E	06/14E
Revenues	283	243	249	256	268
EBIT (UBS)	75	32	(10)	18	30
Net Income (UBS)	56	26	(3)	17	28
EPS (UBS, A\$)	0.26	0.13	(0.02)	0.08	0.13
Net DPS (UBS, A\$)	0.16	0.06	0.00	0.03	0.06

Profitability & Valuation	5-yr hist av.	06/11	06/12E	06/13E	06/14E
EBIT margin %	22.2	13.0	-4.1	6.9	11.0
ROIC (EBIT) %	38.9	13.7	(4.9)	9.3	18.5
EV/EBITDA (core) x	4.2	5.0	4.3	2.2	1.2
PE (UBS) x	21.3	18.5	NM	16.2	10.1
Net dividend yield %	3.7	2.6	0.0	2.2	4.5

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\$1.34 on 30 Jan 2012 23:37 EST

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Global Equity Research

Australia

Mining

12-month rating **Buy**
Unchanged

12m price target **A\$2.50/US\$2.64**
Prior: A\$2.70/US\$2.85

Price **A\$1.34/US\$1.41**

RIC: PAN.AX BBG: PAN AU

31 January 2012

Trading data (local/US\$)

52-wk range	A\$2.49-1.11/US\$2.53-1.06
Market cap.	A\$0.28bn/US\$0.29bn
Shares o/s	207m (ORD)
Free float	78%
Avg. daily volume ('000)	683
Avg. daily value (m)	A\$0.9

Balance sheet data 06/12E

Shareholders' equity	A\$0.30bn
P/BV (UBS)	0.9x
Net Cash (debt)	A\$0.09bn

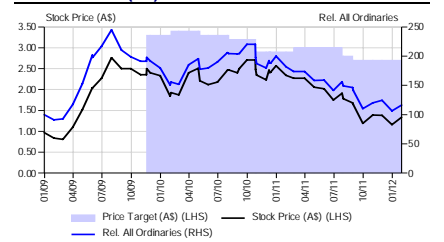
Forecast returns

Forecast price appreciation	+87.3%
Forecast dividend yield	0.7%
Forecast stock return	+88.0%
Market return assumption	8.6%
Forecast excess return	+79.4%

EPS (UBS, A\$)

	06/12E		Cons.	06/11 Actual
	From	To		
H1E	0.03	(0.02)	-	0.08
H2E	0.04	0.00	-	0.04
06/12E	0.07	(0.02)	0.11	
06/13E	0.09	0.08	0.12	

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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December quarter production report

PAN reported group nickel output of 5.17kt for the December quarter, 18% above UBS-e and 17% higher q/q. Group payable cash costs of US\$5.68/lb were 14% lower q/q and 12% below UBS-e.

Table 1: Quarterly production summary

	Dec-10	Mar-11	Jun-11	Sep-11	Dec-11	q/q %	y/y %	Q2 12E	% Var	
Savannah										
Ore mined	kt	144.5	143.2	150.6	168.1	173.6	3%	20%	155.0	12%
Ore treated	kt	138.7	142.2	160.5	157.5	177.2	12%	28%	155.0	14%
Grade	%	1.2%	1.4%	1.38%	1.51%	1.74%	15%	49%	1.42%	23%
Nickel-in-conc	kt	1.39	1.75	1.89	2.05	2.65	29%	91%	1.87	42%
Copper-in-conc	kt	0.80	0.88	1.00	1.15	1.50	30%	89%	0.99	51%
Payable cash cost	US\$/lb	7.51	6.16	6.75	5.87	4.90	-17%	-35%	6.92	-29%
Lanfranchi										
Ore mined	kt	105.4	96.3	112.8	100.7	108.1	7%	3%	102.5	5%
Ore treated	kt	98.8	100.3	112.0	101.7	110.1	8%	11%	102.5	7%
Grade	%	2.5%	2.5%	2.4%	2.4%	2.4%	-1%	-6%	2.45%	-4%
Nickel-in-ore	kt	2.65	2.42	2.76	2.39	2.52	6%	-5%	2.51	0%
Copper-in-ore	kt	0.20	0.23	0.22	0.18	0.26	42%	28%	0.21	27%
Payable cash cost	US\$/lb	6.02	5.78	6.54	7.42	6.64	-11%	10%	6.10	9%
	Dec-10	Mar-11				q/q %	y/y %	Q2 12E	% Var	
Group										
Ore mined	kt	249.90	239.50	263.4	268.9	281.7	5%	13%	257.5	9%
Ore treated	kt	237.50	242.50	272.5	259.2	287.3	11%	21%	257.5	12%
Grade	%	1.70%	1.74%	1.9%	1.8%	2.0%	8%	16%	1.83%	8%
Nickel-in-conc/ore	kt	3.70	4.08	4.65	4.44	5.17	17%	40%	4.38	18%
Copper-in-conc/ore	kt	0.80	0.88	1.23	1.34	1.76	32%	120%	1.20	47%
Payable cash cost	US\$/lb	6.58	5.95	6.63	6.63	5.68	-14%	-14%	6.47	-12%

Source: UBS-e, Company reports

The strong operating performance of Savannah continued, with increased mill throughput and higher grade (1.74% Ni Vs. 1.42% UBS-e) driving higher nickel output and lower costs. The strong production result resulted in higher stockpiles of concentrate at the port of Wyndham. The end of the quarter there was 7.75kt of concentrate (containing ~580kt Ni) remaining to be shipped. The majority of this was shipped in January. Construction of the concentrate shed at Wyndham was completed in January.

Operations at Lanfranchi returned to normal following the re-commissioning of the paste plant in late September. This enabled all areas of the mine to operate at forecast levels in the December quarter.

Guidance

PAN has increased FY12 production guidance from 17.5-18.5kt nickel-in-concentrate/ore to 18.5-19.0kt nickel-in-concentrate/ore. UBS-e currently assume 19kt of nickel-in-concentrate/ore (9.06kt Ni-in-con from Savannah & 9.95kt Ni-in-ore from Lanfranchi).

Summary of changes

Reconciling the quarterly production result and aligning output with new guidance has resulted in a lift to our forecast nickel output and 2% lower costs in FY12. We have also updated our commodity price and currency assumptions (see UBS Global I/O: *“Pain before gain”*).

However, the Company has flagged that is now expects to report an after tax loss of between \$3m-\$4m for 1H FY12. This is due to a number of factors, including:

- lower realised A\$ nickel prices (A\$18,300/t after hedging)
- \$4m negative quotational pricing adjustment on Lanfranchi ore deliveries
- Higher D&A (up 14% on pcp) due to the commencement of mining of the Schmitz orebody at Lanfranchi
- Build up of unsold concentrate stockpiles at the port (~580t contained Ni). This inventory has been valued by the company at cost, with the sales margin booked in 2H FY12.

Reconciling our model for these changes has resulted in significant reductions in our FY12E earnings, as highlighted in Table 2 below.

Table 2: Summary of changes

Jun y/e		FY12			FY13			FY14		
		new	old	%	new	old	%	new	old	%
Revenue	A\$m	255	252	1%	263	265	-1%	278	279	0%
EBITDA (underlying)	A\$m	42	61	-30%	65	68	-4%	76	77	-1%
EBIT (underlying)	A\$m	-10	13	-176%	18	20	-13%	30	31	-3%
NPAT (underlying)	A\$m	-3	12	-129%	17	20	-12%	28	29	-4%
EPS (reported)	A¢/sh	-1.6	5.6	-129%	8.3	9.5	-12%	13.3	13.9	-4%
DPS	A¢/sh	-1	3	-133%	3	4	-25%	6	6	0%
Ni Price	US\$/lb	8.58	9.15	-6%	9.3	9.3	-1%	9.4	9.4	0%
Ni-in-con production										
Savannah	kt	9.1	7.7	18%	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	17.9	16.4	9%	16.8	16.8	0%	16.5	16.5	0%
Cash costs										
Savannah	US\$/lb	6.24	6.57	-5%	5.91	5.95	-1%	5.60	5.63	-1%
Lanfranchi	US\$/lb	6.65	6.39	4%	6.27	6.12	2%	6.08	5.93	3%
Group	US\$/lb	6.35	6.47	-2%	6.10	6.04	1%	5.87	5.80	1%
NPV	A\$/share	\$ 2.52	\$2.66	-5%						
Price Target	A\$/share	\$ 2.50	\$2.70	-7%						

Source: Company reports, UBS estimates

Our valuation has been reduced by 5% to \$2.52/sh. Our price target, derived from 1x P/NPV, is 7% lower at \$2.50/sh.

Investment thesis

Although the unaudited 1H loss comes as a surprise, the recent strong operating performance at Savannah combined with the return to normal operations at Lanfranchi are encouraging and support our view the Company will return to profitability in FY13.

In addition, new drilling results from Gidgee are encouraging and support our view that Gidgee offers investors diversification through exposure to the gold space.

Panoramic Resources (PAN.AX)

 Analyst/s: Jo Battershill, Brett McKay, Glyn Lawcock
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31-Jan-12

MARKET INFORMATION

Rating:	Buy
Price (as of 31-Jan-12):	1.32
Price Target (12 months):	2.50
Issued Capital:	207.1
Market Capitalisation:	276.4
Avg. daily turnover (US\$m)	0.9
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 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	(5.4)	17.3	27.9
Net profit [adjusted] (\$m)	26.2	(3.4)	17.3	27.9
EPS [reported] (\$)	0.11	(0.03)	0.08	0.13
EPS [adjusted, diluted] (\$)	0.13	(0.02)	0.08	0.13
EPS Growth (%)	(52.7)	NM	NM	60.6
PER [adjusted] (x)	10.5	<0.0	16.0	10.0
Dividend (\$)	0.1	0.0	0.0	0.1
Payout ratio (%)	55.5	0.0	35.8	44.6
Dividend Yield (%)	4.5	0.0	2.3	4.5
FCF Yield (%)	6.6	8.0	19.2	25.9
Franking (%)	100%	100%	100%	100%
Shares [period-average, diluted] (m)	209.2	210.1	210.1	210.1

OPERATIONAL ASSUMPTIONS

	1H11	2H11	2011	2012E	2013E	2014E
Commodity prices						
Ni price (US\$/lb)	10.18	11.60	10.89	8.58	9.25	9.35
Cu price (US\$/lb)	3.62	4.26	3.94	3.72	3.38	2.93
Co price (US\$/lb)	19.40	19.08	19.24	16.04	16.00	16.00
A\$:US\$	0.95	1.03	0.99	1.02	0.99	0.93
Production - payable Nickel						
Savannah (Mlbs)	3.3	3.6	6.9	9.1	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	6.24	5.91	5.60
Lanfranchi (US\$/lb)			6.04	6.65	6.27	6.08

VALUATION

Valuation per share [NAV @ 10%] (\$)	2.58
Share Price Target [12 months] (\$)	2.50
Price/NAV [10% disc rate] (x)	0.51

Operating Assets [DH10]

	A\$m	¢
Savannah	203	99
Lanfranchi	226	110

Gross Assets

	A\$m	¢
Investments	7	3
Exploration	66	32
Hedging	11	5
Net Cash	82	40
Corporate costs	(65)	(32)

Net Asset Value @ 10% discount rate

	A\$m	¢
	529	258

ENTERPRISE VALUE

(A\$m)	2011	2012E	2013E	2014E
Enterprise Value	249	245	204	153
EV/EBITDA (x)	3.2	5.8	3.1	2.0
EV/Operating Free Cash Flow (x)	4.5	15.8	4.2	2.4

EPS SENSITIVITIES

Commodity	Base Change	2012E	2013E	2014E
Nickel	10%			
Copper	10%			
Currency	5¢			

CASH FLOW

(A\$m)	2011	2012E	2013E	2014E
Operating income [EBIT, UBS]	32	(10)	18	30
Depreciation & Amortisation	46	53	48	47
Net change in working capital	14	0	0	0
Other (operating)	(29)	0	0	0
Pre-tax op cash flow	62	42	65	76
Interest (paid) / received	5	6	7	10
Tax paid	(21)	1	(7)	(12)
Other	0	0	0	0
Operating cash flow	46	49	65	75
Capital expenditure	(28)	(27)	(12)	(3)
Free cash flow	18	22	53	72
Net (acquisitions) / disposals	1	(4)	0	0
Dividends paid (Common)	(22)	(4)	(2)	(10)
Shares issued/(repurchased)	3	0	0	0

DIVISIONAL BREAKDOWN [EBIT]

(A\$m)	1H11	2H11	2011	2012E	2013E	2014E
Savannah	8.8	15.0	23.8	0.8	9.0	13.9
Lanfranchi	20.5	23.9	44.4	3.8	21.1	32.6

PROFIT & LOSS

(A\$m)	1H11	2H11	2011	2012E	2013E	2014E
Sales Revenue	126	118	243	249	256	268
Operating Cash Profit	52	55	107	63	89	106
Depn & Amortisation	(22)	(24)	(46)	(53)	(48)	(47)
Operating Profit	30	31	61	10	42	59
Others	(1)	(14)	(15)	(8)	(11)	(16)
SGA	(5)	(9)	(14)	(12)	(13)	(13)
EBIT	24	8	32	(10)	18	30
Net interest	3	2	5	6	7	10
Profit before tax	27	4	31	(4)	25	40
Tax expense	(9)	1	(8)	1	(7)	(12)
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	(5)	17	28
Abnormal Gain/(Loss) after Tax	0	0	0	(2)	0	0
Net Profit [adjusted]	18	5	22	(3)	17	28
EBITDA margin (%)			31.9	17.1	25.6	28.5
Net Interest Cover [EBIT] (x)			6.7	(1.7)	2.5	2.9
Tax Rate (%)			28%	NM	30%	30%
EBIT/Total Assets (%)			7.7	(2.5)	4.2	6.8
NPAT/Equity (%)			7.4	(1.1)	5.6	8.5

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	110	84	50
Capital Employed	214	202	176	142
Net Cash / (Debt)	89	93	135	186
Total Equity [incl. minorities]	303	296	311	328
Minorities	0	0	0	0
Net Debt / Equity (%)	(29.5)	(31.6)	(43.3)	(56.6)
Book Value per Share(\$)	1.48	1.43	1.50	1.59

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.

Source: Company reports, UBS-e

■ Panoramic Resources Limited

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.

■ 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.

■ Analyst Certification

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UBS Investment Research: Global Equity Rating Allocations

UBS 12-Month Rating	Rating Category	Coverage ¹	IB Services ²
Buy	Buy	57%	36%
Neutral	Hold/Neutral	37%	35%
Sell	Sell	7%	17%
UBS Short-Term Rating	Rating Category	Coverage ³	IB Services ⁴
Buy	Buy	less than 1%	0%
Sell	Sell	less than 1%	12%

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 31 December 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

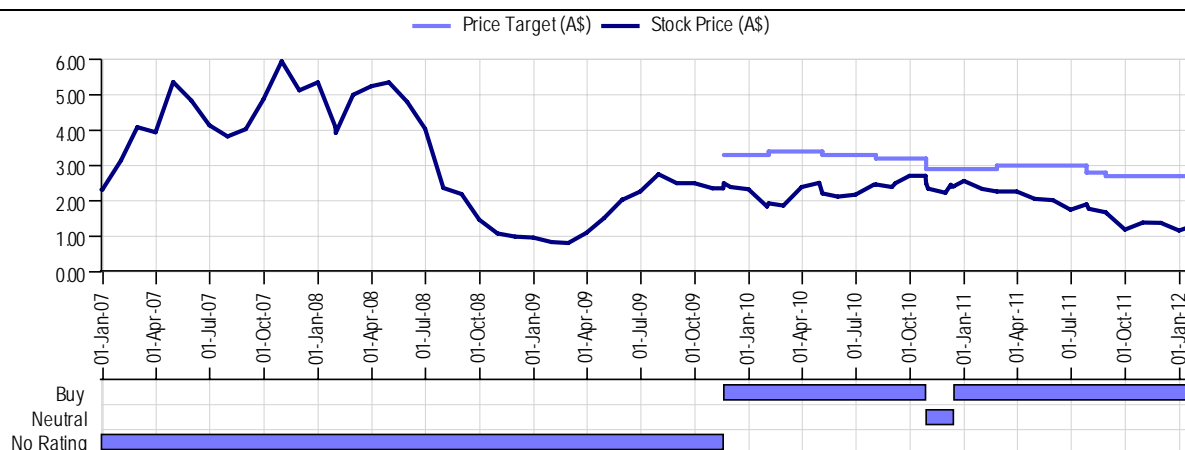
Company Name	Reuters	12-mo rating	Short-term rating	Price	Price date
Panoramic Resources Limited	PAN.AX	Buy	N/A	A\$1.34	30 Jan 2012

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 30 Jan 2012

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