

# Panoramic Resources Ltd

## (PAN \$2.01) Buy

### Comments

**Price Target: \$2.40/sh**

Operations continue to tick along generating solid free cashflow allowing the payment of fully franked dividends, increased exploration expenditure and acquisition. Exploration at Lanfranchi continues to provide encouragement, pointing towards increased mine life. PAN trades at 0.8x NAV, is on track for a strong 4th Q result and our Buy is maintained.

A modest increase in production from 4.04kt of Ni to 4.16kt resulted in a 10% fall in operating costs from A\$6.67/lb to A\$5.93/lb. Full yr production guidance has reduced from 18kt to 17.2kt which will require a strong 4th Q FY'11 of ~ 4.8kt compared to the average for the first three quarters of 4.12kt.

Grade at Savannah was up 22% on the pcp to 1.43% Ni as the mine was able to access higher grade stopes, following a return of the ventilation system to near full capacity.

Exploration highlights for the Qtrly include:

- Confirmation of Helmut Sth extension continues down plunge
- New channel discovery 50m east of Helmut Sth (6.5m @ 6.5% Ni, 8.8m @ 6.45 Ni)
- A 26% increase in Cruickshank resource to 33.5kt @ 1.27% Ni.

Mine planning studies are underway to convert the indication portion of the Cruickshank resource (28.7kt of Ni) to a maiden reserve and an initial resource from Helmut Sth is due in the June'Q.

In Jan PAN agreed to buy the Gidgee gold project from Apex Gold for \$15.5m. The purchase includes 1,200 sqkm of tenements, 310koz of gold resource, a 600kt processing plant and 150 person camp. Gidgee was mined almost continuously from 1987 to 2005 when the project was placed on care and maintenance. Approximately 20 open pits were mined and U/G mining beneath the Swan Bitter and Kingfisher pits.

PAN see real upside with no significant exploration done since 2005 and has an initial target to define a reserve of 3mt @ 5 g/t Au for 500koz. This would support the re-commissioning of the Gidgee plant with targeted production of 80-100koz pa. for 5yrs. Drilling is slated to start in the 2nd H CY'11 from targets currently being generated.

During the Q PAN liquidated its Ampella Mining investment selling its remaining 0.5m. It did not buy any further investments with its equity portfolio worth \$7.7m at Q end.

PAN continues to actively manage its hedge book; adding 1.2kt of Ni at US\$12.50/lb (July'11 – June '12), 675t of Ni forwards @ US\$12.00/lb for delivery July'12 to Mar'13 and purchased some Ni put options at US\$8.16/lb – funded by granting 600t of Ni call options at US\$13.16/lb.

Excluding the nickel puts and assuming the sold nickel call options are all exercised the company is ~ 32% hedged in FY'11 and 29% hedged in FY'12 and 6% hedged in FY'13.. The mark to market value of the book was –A\$5.0m versus –\$8.3m in the pcp.

### Investment Case

PAN continues to represent good value. It trades at a 20% discount to our valuation and FY'12 EV/EBITDA of <3x, undemanding for a company with a mine life of 8-10yrs.

We are neutral- mildly positive on the Gidgee acquisition, remembering this as a fairly tough asset when Abelle Mining operated it. However, we do acknowledge the gold price has doubled since these times and it's probably fair to say the previous owner's interest was distracted once it merged with Aurora. If the target of 0.5moz of reserves is met it will prove to be a terrific buy.

PAN has probably lacked a little bit of exploration sizzle over the past 12-18 months after the original Deacon discovery, so this new discovery at Lanfranchi has come at an opportune time. Initial results are good and being close to existing development, capex to access this potential new ore source will be low. In addition the Cruickshank resource should extend life.

PAN is close to the bottom of its 2 yrs trading range of \$1.80 - \$3.10/sh. It continues to be a well managed, dividend paying company with some good exploration upside.

#### Top 20 Shareholders

as at 3 May 2011

Shareholders	Shares (m)	(%)
1 JP Morgan Nominees Australia Ltd	45.41	21.93
2 HSBC Custody Nominees (Aus) Ltd	43.43	20.98
3 National Nominees Ltd	25.04	12.09
4 JP Morgan Nominees Australia Ltd	18.04	8.71
5 Citicorp Nominees Pty Ltd	7.76	3.75
6 AMP Life Ltd	7.76	3.49
7 Cogent Nominees Pty Ltd	3.74	1.80
8 RBC Dexia Investor Svcs Aus Nom Pty Ltd	2.27	1.10
9 Queensland Investment Corporation	1.49	0.72
10 Springway Investments Pty Ltd	1.46	0.70
11 Cogent Nominees Pty Ltd	1.35	0.65
12 UBS Wealth Mgt Aus Nominees Pty Ltd	1.07	0.52
13 Winton VAle Pty Ltd	0.99	0.48
14 Brispot Nominees Pty Ltd	0.96	0.47
15 Merrill Lynch (Australia) Nominees Pty Ltd	0.86	0.42
16 Citicorp Nominees Pty Ltd	0.85	0.41
17 Mr Peter John Harold + Ms Ariane Harold	0.65	0.31
18 CPU Share Plans Pty Ltd	0.51	0.25
19 Kimberley Sustainable Development Pty Ltd	0.45	0.22
20 HSBC Custody Nominees (Aus) Ltd	0.44	0.21
<b>TOTAL</b>	<b>164.53</b>	<b>79.21</b>

#### Market Statistics

<b>Share Price</b>	<b>\$2.01 A\$/sh</b>	<b>Directors</b>	
Issued Capital		C de Guingand	Chairman
FP Ord	206.5 m	P Harold	Mgr Dir
Opts (var)	3.0 m	J Rowe	Dir
<b>Total Dil. FPOrd</b>	<b>209.5 m</b>	C Langdon	Dir
		B Phillips	Dir
Market Capitalisation	\$417 m	<b>Shareholders</b>	
Enterprise Value	\$302 m	M&G	17%
Debt	\$- m	Blackrock	8%
Cash	\$115 m	AMP	6%
Hedging	1.5kt @ US\$24,350/t	EGG	6%
	1.25t @ US\$16,770/t		
	Bought puts US48m @ US\$1.017		

#### Share Price Performance



# Panoramic Resources Ltd

# EUROZ

SECURITIES LIMITED

Analyst ▶ Andrew Clayton

Ph: +61 8 9488 1427 E: aclayton@euroz.com.au

AUSTRALIAN RESEARCH

PANORAMIC RESOURCES LTD (PAN)		YEAR END 30 JUNE				
		A\$M	A\$/sh			
<b>ASSET VALUATION</b>						
Savannah Nickel		139	0.66			
Lanfranchi		202	0.97			
Hedging		(6)	(0.03)			
Corporate		(19)	(0.09)			
Exploration		50	0.24			
Debt		-	-			
Unpaid Capital		7	0.03			
Cash		115	0.55			
<b>Total @ 10% nom</b>		<b>504</b>	<b>2.40</b>			
<b>FORECAST PRODUCTION (A\$m) Jun H'11f 2011f 2012f 2013f 2014f</b>						
<b>Attributable production</b>						
Savannah Nickel (100%)	kt	3.6	7.0	7.1	7.1	7.1
Lanfranchi (100%)	kt	5.0	9.8	11.2	10.0	10.0
<b>Ni in con</b>	<b>kt</b>	<b>8.6</b>	<b>16.8</b>	<b>18.3</b>	<b>17.1</b>	<b>17.1</b>
Copper in con	kt	1.9	3.7	4.2	4.2	4.3
Cobalt in con	kt	0.2	0.4	0.4	0.4	0.4
<b>Operating cost per payable</b>						
	A\$/lb	<b>5.73</b>	<b>5.81</b>	<b>5.72</b>	<b>6.05</b>	<b>6.33</b>
FX Rate assumed	US\$:A\$1	1.02	0.98	1.03	0.98	0.93
Ni Price assumed	US\$/lb	12.00	11.08	10.50	10.00	9.50
Ni Price achieved	US\$/lb	10.89	10.34	10.60	10.01	9.49
Ni Price achieved	A\$/lb	10.68	10.51	10.34	10.26	10.26
<b>RATIO ANALYSIS (A\$m)</b>						
		<b>Jun H'11f</b>	<b>2011f</b>	<b>2012f</b>	<b>2013f</b>	<b>2014f</b>
CF (A\$m)		38	32	75	61	58
CF / Sh (Ac/sh)		18	15	36	29	28
CF Ratio (x)		-	13.3	5.6	6.8	7.1
Earnings (A\$m)		22	39	48	49	43
EPS (Ac/sh)		11	19	23	24	21
EPS Growth (%)		0%	-23%	21%	3%	-12%
Earnings Ratio (x)		-	10.7	8.8	8.5	9.7
E'prise Val. (A\$m)		300	300	253	220	190
EV : EBITDA (x)		-	2.9	2.4	2.5	2.3
EV : EBIT (x)		-	5.7	4.1	3.6	3.7
Net Debt / ND+Eq (%)		0%	na	na	na	na
Interest Cover (x)		-	na	na	na	na
EBIT Margin (%)		0%	20%	23%	24%	20%
ROE (%)		0%	13%	14%	13%	11%
ROA (%)		0%	13%	14%	13%	10%
Div. (Ac/sh)		5	9	10	10	10
Div. payout ratio		48%	48%	44%	43%	49%
Div. Yield		0%	4%	5%	5%	5%
Div. Franking		100	100	100	100	100
<b>RESOURCES AND RESERVES</b>						
		<b>Reserves</b>		<b>Resources</b>		
		<b>mt</b>	<b>Ni% (eq)</b>	<b>Ni eq.</b>	<b>mt</b>	<b>Ni% (eq)</b>
						<b>Ni cont.</b>
Savannah (100%)		6.2	1.9	74.2	6.87	1.55
Lanfranchi (100%)		2.50	2.4	71	6.9	2.4
<b>Total Attributable</b>				<b>145</b>		<b>268</b>
EV/lb						0.5

PROFIT AND LOSS (A\$m)	Jun H'11f	2011f	2012f	2013f	2014f
Ni Conc. Sales	133	249	247	232	232
By Product Revenue	12	23	25	25	25
Hedging Revenue	(12)	(17)	1	(0)	(0)
Revenue Adjustment	-	3	-	-	-
Interest Revenue	3	6	7	9	10
Other Revenue	-	5	-	-	-
<b>TOTAL REVENUE</b>	<b>136</b>	<b>270</b>	<b>279</b>	<b>266</b>	<b>267</b>
Operating Costs	76	151	162	161	167
Dep/Amort	19	41	41	28	31
O/H + Bus Dev	5	9	7	7	7
W/O & Provisions	4	10	0	0	0
EBITDA	52	104	104	89	83
EBIT	29	53	62	61	51
Interest Expense	0	1	0	0	0
Net Profit Before Tax	31	58	68	70	61
Tax	9	18	21	21	18
Minorities	-	-	-	-	-
<b>NET PROFIT</b>	<b>22</b>	<b>39</b>	<b>48</b>	<b>49</b>	<b>43</b>
Net Abnormal Gain/(Loss)	-	-	-	-	-
<b>NET PROFIT After Abn'l</b>	<b>22</b>	<b>39</b>	<b>48</b>	<b>49</b>	<b>43</b>
<b>CASH FLOW (A\$m)</b>					
Net Profit	22	39	48	49	43
+ Working Capital Adj.	-	(30)	-	-	-
+ Dep/Amort	19	41	41	28	31
+ Provisions	4	10	0	0	0
+ Tax Expense	9	18	21	21	18
- Tax Paid	9	27	21	21	18
<b>Operating Cashflow</b>	<b>45</b>	<b>52</b>	<b>89</b>	<b>77</b>	<b>74</b>
-Capex + Development	7	20	14	16	16
-Exploration	6	11	8	8	8
-Assets Purchased	15	21	-	-	-
+Asset Sales	-	2	-	-	-
<b>Investing Cashflow</b>	<b>(28)</b>	<b>(50)</b>	<b>(22)</b>	<b>(24)</b>	<b>(24)</b>
+Equity Issues	-	-	-	-	-
+Loan D'down/Receivable	-	3	-	-	-
-Loan Repayment	-	-	-	-	-
-Dividends	8	22	21	21	21
<b>Financing Cashflow</b>	<b>(8)</b>	<b>(19)</b>	<b>(21)</b>	<b>(21)</b>	<b>(21)</b>
<b>Period Sur (Def)</b>	<b>9</b>	<b>(17)</b>	<b>47</b>	<b>32</b>	<b>30</b>
<b>Cash Balance</b>	<b>120</b>	<b>120</b>	<b>166</b>	<b>198</b>	<b>228</b>
<b>BALANCE SHEET (A\$m)</b>					
	<b>Jun H'11f</b>	<b>2011f</b>	<b>2012f</b>	<b>2013f</b>	<b>2014f</b>
<b>Assets</b>					
Cash	120	120	166	198	228
Current Receivables	46	46	46	46	46
Other Current Assets	17	17	17	17	17
Non-Current Assets	233	233	227	224	218
<b>Total Assets</b>	<b>415</b>	<b>415</b>	<b>456</b>	<b>485</b>	<b>508</b>
<b>Liabilities</b>					
Borrowings	3	3	3	3	3
Current Accounts Payable	28	28	28	28	28
Other Liabilities	83	83	83	83	83
<b>Total Liabilities</b>	<b>114</b>	<b>114</b>	<b>114</b>	<b>114</b>	<b>114</b>
<b>Net Assets</b>	<b>301</b>	<b>301</b>	<b>342</b>	<b>371</b>	<b>394</b>
<b>DIVISIONAL EBIT (A\$m)</b>					
	<b>June H'11</b>	<b>2011f</b>	<b>2012f</b>	<b>2013f</b>	<b>2014f</b>
Sally Malay	24	41	29	30	21
Lanfranchi	29	52	45	39	38
Hedging	(12)	(17)	3	(0)	(0)
<b>Total Nickel</b>	<b>40</b>	<b>76</b>	<b>77</b>	<b>68</b>	<b>59</b>
Other (Corp+Expl'n)	12	24	15	7	7
<b>Total</b>	<b>29</b>	<b>53</b>	<b>62</b>	<b>61</b>	<b>51</b>

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