Mincor Resources NL

PATERSONS
THE AUSTRALIAN STOCKBROKER

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Kambalda nickel – Mincor's time to shine

Investment Highlights

- With the nickel price breaking through US$45,000/t we remain bullish on both MCR and SMY. However with SMY's resource released for its large Deacon orebody, it is MCR's time to shine. With the Carnilya Hill resource about to be released, continued drilling at Mariners '09 and the drill rigs moving to McMahon and Durkin, we are more positive on the near term news-flow from MCR. These growth opportunities underpinned by consistent production of 13,500t of contained nickel for FY07, make MCR comparatively cheap to SMY. We retain our BUY recommendation.

- **Nickel:** Patersons preferred exposure to the nickel price remains through **nickel sulphide miners**, preferably those **in production** and with near term production **expansion capacity**.

- **Earnings:** MCR is on 5.2 times FY07 and 3.7 times FY08 earnings while SMY is on 7.0 and 4.1 respectively.

- **EV/Reserves & EV/Resources:** MCR and SMY are trading on similar Enterprise Value per reserve and resource metrics. We believe MCR deserves a premium given the grade differential (3.29% vs 1.9%) and the new projects in the pipeline.

- **Performance:** Having tracked each other closely throughout CY06, MCR and SMY share prices posted gains of 235% and 239% respectively for '06. However in '07, SMY has posted a 76% gain while MCR has underperformed relative to SMY posting only a 32% gain. MCR is trading at a 35% discount to our price target and with spot nickel at US$47,720/t and an average head grade of 2.5%, each tonne of ore trucked to the concentrator has a contained value of US$1,193/t or 57g/t gold equivalent. MCR has a higher head grade, translating to higher margins and a consistent performance record translating to an overall lower risk profile.

Company	
Stock code:	**MCR**
Share price:	**$2.88**
Recommendation:	**BUY**

$3.68 **$4.50**

S&P/ASX 300 = 5753

Analyst	
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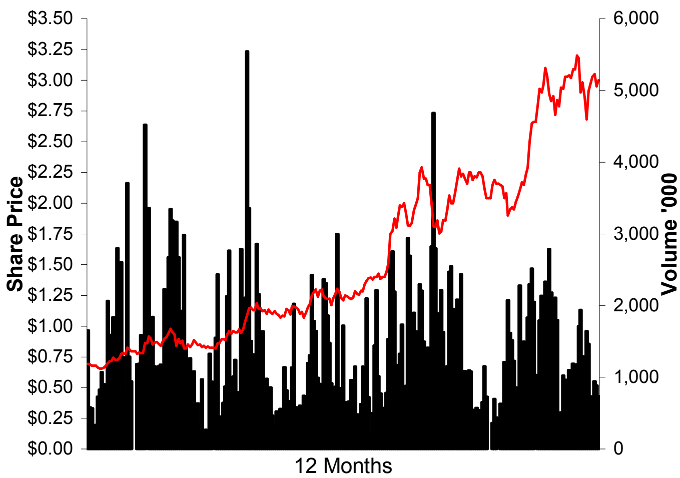
Company Statistics & Performance

Shares on Issue	196.8m	**Daily Vol.**	1,323,000
Market Cap.	$566.8m	**Debt**	$4.3m
52 Week Range	$0.66 - $3.20	**Cash est.**	$87.4m



Investment Summary

Year End June 30	2006A	2007F	2008F	2009F
Reported Earnings				
Net Profit ($m)	30.2	109.7	154.3	158.8
EPS (cents)	15.3	55.8	78.4	80.7
EPS growth (%)		263.9	40.6	2.9
PER (x)	18.8	5.2	3.7	3.6
EBITDA				
EBITDA ($m)	71.4	188.5	255.2	259.9
EV/EBITDA (x)	7.3	2.4	1.3	0.7
Cashflow Multiples				
Gross Cashflow ($m)	74.3	147.8	187.7	190.6
GCFPS (cents)	38.2	75.6	96.0	97.4
PGCF (x)	7.5	3.8	3.0	3.0
Free Cashflow ($m)	35.2	88.8	160.0	169.7
FCFPS (cents)	18.1	45.4	81.8	86.8
PFCF (x)	15.9	6.3	3.5	3.3
Dividend				
Dividend (cents)	5.0	16.0	20.0	20.0
Yield (%)	1.7	5.6	6.9	6.9
Franking (%)	100	100	100	100

Comparison of MCR and SMY

- MCR has significant additions to its resource base in the pipeline. Firstly an initial resource from Carnilya Hill then the '09 orebody discovered at Mariners and significant additions from the recently acquired Kambalda assets are expected later. These increases in resources and mine-life will make MCR cheaper relative to SMY.

- SMY has outperformed MCR in recent weeks in the lead up to the initial Deacon resource (which was very significant given its size). Given the recent performance of SMY we believe that MCR has become relatively cheap and is about to play catch up.

- MCR is on 5.2 times FY07 and 3.7 times FY08 earnings while SMY is on 7.3 and 4.3 respectively. Additionally MCR has a higher head grade (higher margin, lower risk profile) and a more mature performance record.

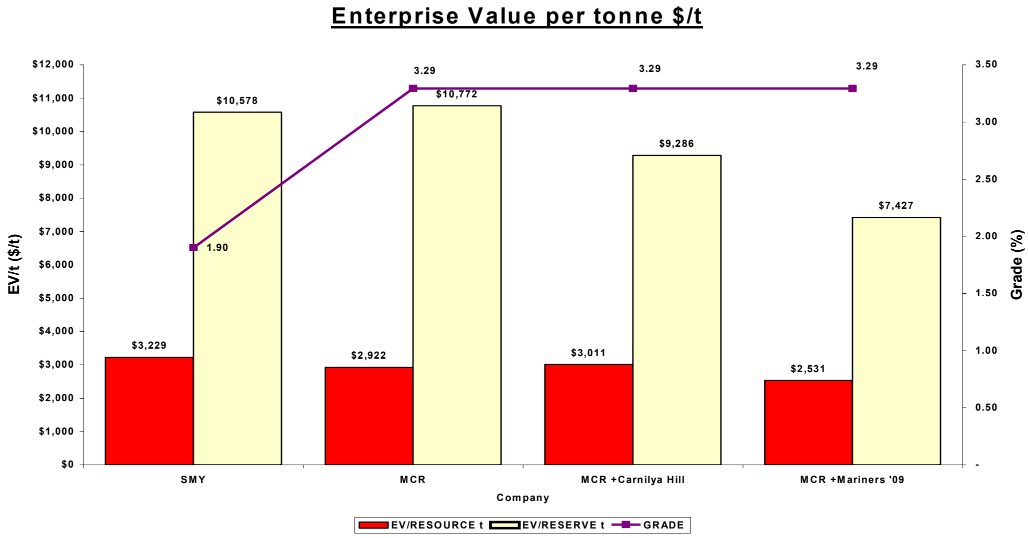
- MCR has two resource additions coming and is about to start drilling its Kambalda ground.

    - **Carnilya Hill JV:** Resource due at the end of March 2007. MCR has stated a target of 15kt of contained nickel (70% attributable to MCR) to commence the feasibility study. We believe there is significant upside to this however with exploration rigs at a premium, MCR is prioritising drill rigs (having proven enough to commence mining at Carnilya Hill) and is sending rigs to other prospective targets (higher grade) at McMahon and Durkin.

    - **Mariners '09:** With the resource due mid-2007 and given MCR's history of not only reserve/resource replacement but also growth we have assumed 15kt.

- Taking current market capitalisation, cash, debt, current resources and reserves for the two companies we have calculated the Enterprise Value (Market Capitalisation – Cash + Debt) per resource tonne and reserve tonne. While operating on comparable metrics currently, we believe now that the Deacon resource has been released, MCR has superior resource extensions in the pipeline and medium term prospects from the recently acquired Kambalda ground and the Rav 8 JV.

Figure 1: Comparison of MCR and SMY on Enterprise Value to resource t and reserve t metrics



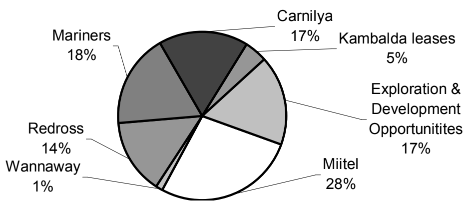
Source: Patersons Estimate

Mincor Resources NL **$2.88** **Year End June 30**

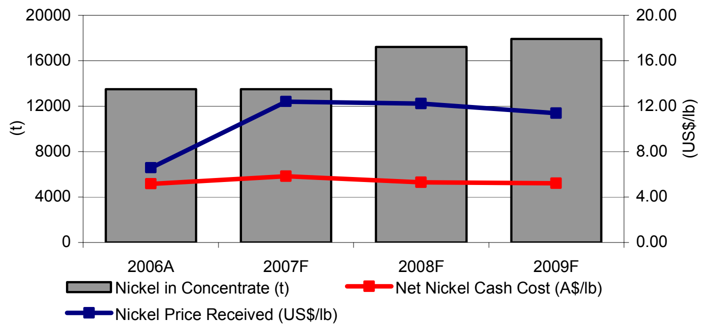
Valuation	A$m	A$/sh
Miitel	179	0.89
Wannaway	9	0.05
Redross	95	0.47
Mariners	120	0.59
Carnilya	112	0.56
Kambalda leases	30	0.15
Forward Sales	(56)	(0.28)
Corporate	(57)	(0.29)
Exploration & Development Opportunitites	113	0.56
Unpaid Capital	7	0.03
Cash	87	0.43
Debt	(4)	(0.02)
Total @ 8% discount rate	**634**	**3.15**
Price Target (30% Premium to NPV)	**825**	**4.09**

Sensitivity Price Target	+10%	0	-10%
Nickel Price	$4.57	$4.09	$3.60
A$: $US	$3.55	$4.09	$4.74

Valuation Summary of Operating Assets



Nickel Production Summary



Reserves & Resources

Reserves	Mt	Ni %	Ni kt
Miitel (incl. Nth Miitel)	0.58	2.6	15.0
South Miitel	0.38	2.6	9.8
Wannaway	0.04	2.7	1.0
Redross	0.27	3.0	8.2
Mariners	0.41	2.7	11.0
Total	**1.67**	**2.69**	**44.9**

Resources	Mt	Ni %	Ni kt
Miitel (incl. Nth Miitel)	0.80	3.8	30.2
South Miitel	0.30	3.8	11.3
Wannaway	0.14	3.2	4.5
Redross	0.30	4.2	12.5
Mariners	0.35	4.5	15.6
North Dordie	0.14	1.5	2.1
McMahon North	0.31	3.3	10.3
Ken North	0.08	6.6	5.3
Durkin Deeps	0.28	4.6	13.1
Total	**2.69**	**3.89**	**104.9**

Directors

Name	Position
David Humann	Non Executive Chairman
David Moore	Managing Director
Jack Gardener	Non Executive Director
Ian Burston	Non Executive Director
Jim Reeve	Non Executive Director

Substantial Shareholders	Shares (m)	%
MIR Investment Management	12.99	6.60
Barclays GlobalInvestors	10.26	5.25

Commodity Assumptions	2006A	2007F	2008F	2009F
A$:US$	0.75	0.77	0.75	0.74
Copper (US$/lb)	2.29	2.95	2.45	2.24
Lead (US$/lb)	0.49	0.70	0.65	0.58
Zinc (US$/lb)	0.96	1.62	1.35	1.20
Nickel (US$/lb)	7.03	15.48	13.56	11.72
Gold (US$/oz)	526	643	702	730
Iron Ore Fines (US$/t)	41	48	51	50
Iron Ore Lumps (US$/t)	53	61	66	63

Production Summary	2006A	2007F	2008F	2009F
Nickel in Concentrate (t)	13496	13493	17220	17915
Copper in Concentrate (t)	1194	1307	1585	1531
Cobolt in Concentrate (t)	258	279	334	322
Per Pound of Payable Metal				
Net Nickel Cash Cost (A$/lb)	5.16	5.83	5.29	5.22
Nickel Total Cost (A$/lb)	6.68	7.48	6.69	6.49
Nickel Price Received (US$/lb)	6.57	12.42	12.24	11.38
Spot Nickel Price (US$/lb)	7.03	15.48	13.56	11.72
Average FX Reveived (US$/A$)	0.75	0.77	0.75	0.74

Profit & Loss (A$m)	2006A	2007F	2008F	2009F
Sales Revenue	**175.2**	**335.8**	**408.7**	**409.8**
Other Income	10.3	-0.6	7.7	14.2
Operating Costs	98.1	119.4	137.8	140.3
Exploration Exp.	5.0	11.0	6.9	7.1
Corporate/Admin	10.9	16.2	16.5	16.8
EBITDA	**71.4**	**188.5**	**255.2**	**259.9**
Depn & Amort	29.3	31.9	34.5	32.7
EBIT	**42.1**	**156.6**	**220.8**	**227.2**
Interest	0.7	0.4	0.3	0.3
Operating Profit	**41.4**	**156.2**	**220.4**	**226.9**
Tax expense	11.3	46.5	66.1	68.1
Abnormal Losses / Minorities	0.0	0.0	0.0	0.0
NPAT	**30.2**	**109.7**	**154.3**	**158.8**
Normalised NPAT	**29.0**	**109.4**	**154.3**	**158.8**

Cash Flow (A$m)	2006A	2007F	2008F	2009F
Adjusted Net Profit	30.2	109.7	154.3	158.8
+ Interest/Tax/Expl Exp	17.0	57.9	73.4	75.5
- Interest/Tax/Expl Inc	9.0	51.8	74.5	76.4
+ Depn/Amort	29.3	31.9	34.5	32.7
+/- Other	6.9	0.0	0.0	0.0
Operating Cashflow	**74.3**	**147.8**	**187.7**	**190.6**
- Capex (+asset sales)	28.4	59.4	27.7	20.9
- Working Capital Increase	10.7	(0.5)	0.0	0.0
Free Cashflow	**35.2**	**88.8**	**160.0**	**169.7**
- Dividends (ords & pref)	7.8	17.5	33.2	41.1
+ Equity raised	0.0	0.6	0.0	0.0
+ Debt drawdown (repaid)	(0.6)	(0.1)	0.0	0.0
Net Change in Cash	**26.8**	**71.9**	**126.8**	**128.6**
Cash at End Period	45.0	116.9	243.7	372.3
Net Cash/(LT Debt)	40.7	112.9	239.7	368.3

Balance Sheet (A$m)	2006A	2007F	2008F	2009F
Cash/Bullion	45.0	116.9	243.7	372.3
Total Assets	164.8	263.5	397.7	515.6
Total Debt	4.4	4.0	4.0	4.0
Total Liabilities	93.8	154.9	168.0	168.2
Shareholders Funds	71.1	182.7	303.8	421.5
Ratios				
Net Debt/Equity (%)	na	na	na	na
Interest Cover (x)	60.3	410.1	638.5	657.2
Return on Equity (%)	42.4	60.1	50.8	37.7

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