



RATINGS REVISION | COMMENT

FEBRUARY 17, 2010

**Mincor Resources NL (ASX: MCR)**  
**Cashed Up Nickel Leverage**

**Sector Perform**

**Average Risk (prev: Above Average Risk)**

|                  |        |                         |       |
|------------------|--------|-------------------------|-------|
| Price:           | 1.56   | Price Target:           | 1.80  |
| Shares O/S (MM): | 199.0  | Implied All-In Return:  | 21%   |
| Dividend:        | 0.08   | Market Cap (MM):        | 310   |
| NAVPS:           | 1.83   | Yield:                  | 5.1%  |
| BVPS:            | 1.00   | P/NAVPS:                | 0.9x  |
| ROE:             | (8.0%) | P/BVPS:                 | 1.6x  |
| Float (MM):      | 199.0  | Enterprise Val. (\$MM): | 211.0 |
| Debt to Cap:     | 0%     | Avg. Daily Volume (MM): | 1.35  |

Share price as at 3:30pm on the ASX on 17 February 2010, AEST.

**Event**

A\$14m underlying profit and A3c dps for 1H FY10. Maintaining target of A\$1.80 and Sector Perform. Revising risk qualifier to Average from Above Average.

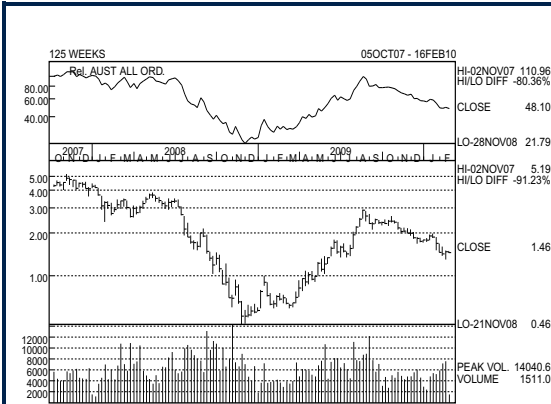
**Investment Opinion**

Mincor issued preliminary results for the 1H FY10 and hence the formal result was simply confirmation and contained no surprises. The major one-off of A\$14m MTM hedging loss resulted in a "comprehensive" income of A\$4.6m, which we treat as reported income. The A3c dividend was up from A2c in the pcp. The result included a positive A\$5.3m provisional price adjustment. Mincor offers strong leverage to a rising nickel price with 30% (A50c) cash backing. ASX nickels rallied 4-16% today, 17 Feb, and we see limited downside at the current nickel price.

- **Dividends:** We have made minimal earnings changes but have increased annual dividends from A6c to A8c, given the A\$99m cash in hand and +A\$80m in franking credits. We understand that dividends are stuck based on cash needs and earnings for the period.
- **Earnings Outlook:** Our current 2H estimate and FY11E are based on nickel at US\$7.00/lb vs. a year-to-date ~US\$8.30/lb and spot at US\$9.10/lb. Raising nickel to US\$8.00/lb in the 2H increases the full FY10E earnings to A\$24m. Similarly, FY11E increases from A\$4m at US\$7/lb nickel to A\$20m at US\$8/lb nickel. Consensus earnings are ~A\$21m for both years.
- **Cash flow and leverage:** Net cash inflow was strong at A\$24m after A\$15m capex and A\$2m exploration, as well as A\$8m for dividends. At US\$7/lb Ni, Mincor generates "surplus" cash of ~A\$9m pa in FY11 and FY12. **This rises to A\$50-60m at spot of US\$9/lb.** Mincor remains debt-free.
- **Exploration:** Mincor continued its aggressive 8-rig exploration programme, now forecast for A\$16m for FY10(A\$12m). Exploration has been highly successful with potentially three new ore bodies discovered over the past 12 months - South Miitel and N10 and N11 at Mariners.
- **Miitel restart:** The company awaits a "sustained" level for the Ni price before its flagship Miitel mine is restarted. Given the recent strength in Ni, we have brought forward the restart to 1 July this year, at 1.5kt pa, and ~A\$7/lb.
- **Valuation:** We maintain our A\$1.80 price target based on an unchanged 1.0x NAV multiple, in line with other producer valuations in this sector.

Priced as of prior trading day's market close, EST (unless otherwise noted).

For Required Non-U.S. Analyst and Conflicts Disclosures, see page 4.



**Royal Bank of Canada - Sydney Branch**

**Geoff Breen (Analyst)**  
 (+61) 2 9033-3022; geoff.breen@rbccm.com

**Stuart McIntyre (Associate)**  
 (+61) 2 9033-3066;  
 steuart.mcintyre@rbccm.com

| FY Jun            | 2009A  | 2010E | 2011E | 2012E |
|-------------------|--------|-------|-------|-------|
| EPS (Op) - FD     | (0.08) | 0.06  | 0.02  | 0.03  |
| Prev.             |        | 0.10  |       |       |
| P/E               | NM     | 26.0x | 78.0x | 52.0x |
| CFPS - FD         | 0.27   | 0.26  | 0.23  | 0.21  |
| Prev.             |        | 0.30  | 0.22  |       |
| P/CFPS            | 5.8x   | 6.0x  | 6.8x  | 7.4x  |
| Annual Div. - FD  | 0.06   | 0.08  | 0.08  | 0.08  |
| Prev.             |        | 0.06  | 0.06  |       |
| Payout Ratio - FD | -75%   | 133%  | 400%  | 267%  |
| Prod.             | 16     | 11    | 14    | 14    |
| Prev.             |        |       | 13    |       |

All values in AUD unless otherwise noted.

Exhibit 1: Mincor Production & Financial Forecasts

| Mincor Resources                 |                    |                  |             |             |                 | Stock Rating:                                      | Sector Perform                              | Price Target: | A\$1.80                 |               |               |               |               |
|----------------------------------|--------------------|------------------|-------------|-------------|-----------------|--|---|---------------|-------------------------|---------------|---------------|---------------|---------------|
| ASX: MCR                         | Share Price: (A\$) | 1.56             | Return      | 15%         | Risk Qualifier: | Average  | NAV:  | A\$1.83       |                         |               |               |               |               |
| Issued Shares (m)                | 199.0              | Mkt Cap: (A\$MM) | 310.5       |             |                 |  |   |               |                         |               |               |               |               |
| <b>Fiscal Year Ended June</b>    |                    |                  |             |             |                 |  |   |               |                         |               |               |               |               |
| <b>ASSUMPTIONS</b>               |                    |                  |             |             |                 | <b>ATTRIBUTABLE MINE STATS</b>                     |   |               |                         |               |               |               |               |
| Exchange Rate                    | A\$/US\$           | 0.90             | 0.75        | 0.87        | 0.86            | 0.83   | <b>Nickel Production (100% ownership)</b>   |               |                         |               |               |               |               |
| Spot Nickel Price                | US\$/lb            | 12.92            | 5.93        | 7.74        | 7.00            | 7.00   | 4,174                                       | 1,817         | 0                       | 1,496         | 1,564         |               |               |
| Spot Nickel Price                | A\$/lb             | 14.45            | 7.83        | 8.95        | 8.19            | 8.49   | Wannaway                                    | "             | 265                     | 25            | 0             | 0             |               |
| Realised Nickel Price            | US\$/lb            | 12.69            | 6.95        | 8.41        | 7.07            | 7.00   | Redross                                     | "             | 3,325                   | 1,550         | 0             | 0             |               |
| Realised Nickel Price            | A\$/lb             | 14.17            | 9.38        | 9.72        | 8.27            | 8.49   | Mariners                                    | "             | 3,445                   | 5,123         | 3,729         | 4,328         |               |
| Cobalt Price                     | US\$/lb            | 39.32            | 22.55       | 17.26       | 13.25           | 11.50  | Carnilya Hill (70%)                         | "             | 1,023                   | 2,128         | 2,613         | 3,343         |               |
| Realised Cobalt Price            | US\$/lb            | 39.32            | 22.55       | 17.26       | 13.25           | 11.50  | Otter-Juan                                  | "             | 4,417                   | 4,261         | 3,952         | 3,895         |               |
| Realised Cobalt Price            | A\$/lb             | 43.51            | 29.65       | 19.96       | 15.47           | 13.94  | McMahon + Coronet                           | "             | 864                     | 1,029         | 934           | 0             |               |
| Hedged Sales                     | tonnes             | 3,450            | 1,890       | 1,383       | 990             | 0  | <b>Total Nickel in Conc</b>                 | <b>tonnes</b> | <b>16,648</b>           | <b>15,768</b> | <b>11,322</b> | <b>13,996</b> | <b>14,147</b> |
| Hedged % of Sales                | %                  | 21%              | 12%         | 12%         | 7%              | 0%   | <b>Cash Costs (including Credits):</b>      |               |                         |               |               |               |               |
| Hedged Price                     | US\$/lb            | 12.41            | 10.78       | 10.17       | 8.15            |  | Midtel                                      | A\$/lb        | 8.37                    | 7.20          | 0.00          | 6.77          | 6.99          |
| <b>RATIO ANALYSIS</b>            |                    |                  |             |             |                 | <b>Reserves &amp; Resources - Contained Nickel</b> |   |               |                         |               |               |               |               |
| Shares outstanding               | MM                 | 196              | 197         | 199         | 199             | 199  | <i>* Reserves are inclusive of Reserves</i> |               |                         |               |               |               |               |
| Reported Net profit              | A\$MM              | 57               | (17)        | 12          | 5               | 6  | Reserves Ni                                 | %Ni           | <b>As at 30 June 09</b> |               |               |               |               |
| Significant Items                | A\$MM              | 0                | (14)        | (10)        | 0               | 0  | Wannaway                                    | 12.4          | 2.7                     | 29.1          | 3.6           |               |               |
| <b>Underlying Net Profit</b>     | <b>A\$MM</b>       | <b>57</b>        | <b>(2)</b>  | <b>21</b>   | <b>5</b>        | <b>6</b>   | Wannaway                                    | 1.1           | 2.9                     | 4.2           | 3.0           |               |               |
| EPS                              | A¢                 | 29.3             | (8.4)       | 6.0         | 2.3             | 3.1  | Redross                                     | 1.2           | 3.5                     | 7.5           | 3.2           |               |               |
| <b>P/E</b>                       | <b>x</b>           | <b>5.3x</b>      | <b>nm</b>   | <b>26x</b>  | <b>67x</b>      | <b>51x</b>   | Mariners                                    | 9.0           | 2.7                     | 27.2          | 3.9           |               |               |
| CFPS                             | A¢                 | 56.6             | 27.5        | 26.5        | 22.5            | 20.9   | Carnilya Hill                               | 4.1           | 3.2                     | 7.6           | 4.5           |               |               |
| P/CF                             | x                  | 2.8x             | 5.7x        | 5.9x        | 6.9x            | 7.5x   | Otter Juan                                  | 10.5          | 3.4                     | 21.7          | 3.7           |               |               |
| Dividend per share               | A¢                 | 12.0             | 6.0         | 8.0         | 8.0             | 8.0  | McMahon/Durkin/Gellatly/Stockwell/Cameron   | 7.1           | 2.4                     | 56.3          | 4.0           |               |               |
| <b>Dividend yield</b>            | <b>%</b>           | <b>7.7%</b>      | <b>3.8%</b> | <b>5.1%</b> | <b>5.1%</b>     | <b>5.1%</b>  | <b>Reserves - Contained Nickel (kt)</b>     | <b>45.4</b>   | <b>2.8</b>              | <b>153.7</b>  | <b>3.8</b>    |               |               |
| Franking Level                   | %                  | 100%             | 100%        | 100%        | 100%            | 100%   | Reserves - Contained Nickel (mlbs)          | 100           |                         | 339           |               |               |               |
| Payout Ratio                     | %                  | 41%              | -71%        | 134%        | 346%            | 261%   | Enterprise Value / tonne (A\$/t)            | 4,651         |                         | 1,374         |               |               |               |
| Effective Tax Rate               | %                  | 33%              | -37%        | 29%         | 30%             | 31%  | Enterprise Value / tonne (US\$/t)           | 4,046         |                         | 1,195         |               |               |               |
| Book value per share             | A\$                | 1.20             | 1.00        | 1.00        | 0.95            | 0.92   | <b>EARNINGS SENSITIVITY</b>                 |               |                         |               |               |               |               |
| P/Book value                     | x                  | 1.3x             | 1.6x        | 1.6x        | 1.6x            | 1.7x   | Nickel Price US\$/oz                        | +10%          | 29                      | 18%           |               |               |               |
| <b>R.O.E</b>                     | <b>%</b>           | <b>24%</b>       | <b>-8%</b>  | <b>6%</b>   | <b>2%</b>       | <b>3%</b>  | Exchange Rate                               | -10%          | (29)                    | -18%          |               |               |               |
| R.O.A                            | %                  | 17%              | -7%         | 5%          | 2%              | 2%   | +10%  | (26)          | -16%                    |               |               |               |               |
| EBITDA                           | A\$MM              | 134              | 48          | 55          | 43              | 40   | -10%  | 32            | 20%                     |               |               |               |               |
| EBITDA per share                 | A\$                | 0.68             | 0.24        | 0.27        | 0.22            | 0.20   | <b>NICKEL PRODUCTION PROFILE - 100%</b>     |               |                         |               |               |               |               |
| EV/EBITDA                        | x                  | 1.5              | 4.9         | 3.9         | 4.7             | 4.8  |   |               |                         |               |               |               |               |
| EV/EBIT                          | x                  | 2.6              | (8.0)       | 15          | 78.6            | 42.8   |   |               |                         |               |               |               |               |
| EBITDA Margin                    | %                  | 41%              | 25%         | 30%         | 23%             | 23%  | <b>SHARE VALUATION</b>                      |               |                         |               |               |               |               |
| <b>PROFIT &amp; LOSS</b>         |                    |                  |             |             |                 | <b>Projects</b>                                    |   |               |                         |               |               |               |               |
| Revenue                          | A\$MM              | 323              | 188         | 180         | 186             | 172  | Midtel                                      | 100%          | 29                      | 0.15          | 11%           |               |               |
| Operating costs                  | "                  | (170)            | (119)       | (80)        | (128)           | (116)  | Redross                                     | 100%          | 0                       | 0.00          | 0%            |               |               |
| <b>Mine Operating Profit</b>     | <b>"</b>           | <b>152</b>       | <b>70</b>   | <b>100</b>  | <b>58</b>       | <b>56</b>  | Mariners                                    | 100%          | 129                     | 0.65          | 50%           |               |               |
| Exploration Expense              | "                  | (13)             | (8)         | (7)         | (8)             | (9)  | Carnilya Hill                               | 100%          | 37                      | 0.18          | 14%           |               |               |
| DD&A                             | "                  | (55)             | (77)        | (41)        | (40)            | (36)   | Otter-Juan                                  | 100%          | 63                      | 0.32          | 25%           |               |               |
| Corporate & Other Costs          | "                  | (6)              | (14)        | (39)        | (7)             | (7)  | McMahon                                     | 100%          | 0                       | 0.00          | 0%            |               |               |
| <b>Operating Income (EBIT)</b>   | <b>A\$MM</b>       | <b>78</b>        | <b>(30)</b> | <b>14</b>   | <b>3</b>        | <b>5</b>   | <b>Total Operating Assets</b>               | <b>259</b>    | <b>1.30</b>             |               |               |               |               |
| Net Interest Income              | "                  | 7                | 3           | 3           | 4               | 4  | Exploration & Other                         | 50            | 0.25                    |               |               |               |               |
| Pre Tax Profit                   | "                  | 85               | (26)        | 17          | 7               | 9  | Debt  | 0             | (0.01)                  |               |               |               |               |
| Tax Expense                      | "                  | (28)             | 10          | (5)         | (2)             | (3)  | Cash  | 99            | 0.50                    |               |               |               |               |
| <b>Reported NPAT</b>             | <b>A\$MM</b>       | <b>57</b>        | <b>(17)</b> | <b>12</b>   | <b>5</b>        | <b>6</b>   | Corporate                                   | (44)          | (0.22)                  |               |               |               |               |
| Significant Items after tax      | "                  | 0                | (14)        | (10)        | 0               | 0  | <b>Net Asset Value - \$A</b>                | <b>364</b>    | <b>1.83</b>             | <b>85%</b>    |               |               |               |
| <b>Underlying Net Profit</b>     | <b>A\$MM</b>       | <b>57</b>        | <b>(2)</b>  | <b>21</b>   | <b>5</b>        | <b>6</b>   |   |               |                         |               |               |               |               |
| EPS                              | A¢                 | 29.3             | (8.4)       | 6.0         | 2.3             | 3.1  |   |               |                         |               |               |               |               |
| DPS                              | A¢                 | 12.0             | 6.0         | 8.0         | 8.0             | 8.0  |   |               |                         |               |               |               |               |
| <b>CASH FLOWS</b>                |                    |                  |             |             |                 |  |   |               |                         |               |               |               |               |
| Operating Cash Flow              | A\$MM              | 94               | 40          | 82          | 51              | 49   |   |               |                         |               |               |               |               |
| Net Interest                     | "                  | 0                | 0           | 2           | 4               | 4  |   |               |                         |               |               |               |               |
| Tax Paid                         | "                  | 0                | 0           | (3)         | 0               | 0  |   |               |                         |               |               |               |               |
| <b>Retained Op. Cash Flow</b>    | <b>A\$MM</b>       | <b>94</b>        | <b>40</b>   | <b>81</b>   | <b>55</b>       | <b>53</b>  |   |               |                         |               |               |               |               |
| Exploration                      | "                  | (35)             | (10)        | (16)        | (12)            | (12)   |   |               |                         |               |               |               |               |
| Capital Expenditure              | "                  | (37)             | (44)        | (24)        | (18)            | (15)   |   |               |                         |               |               |               |               |
| Loan Repayments                  | "                  | 0                | (1)         | 0           | 0               | 0  |   |               |                         |               |               |               |               |
| <b>Funding Surplus/(Deficit)</b> | <b>A\$MM</b>       | <b>21</b>        | <b>(14)</b> | <b>41</b>   | <b>26</b>       | <b>26</b>  |   |               |                         |               |               |               |               |
| Dividends Paid                   | "                  | (24)             | (16)        | (14)        | (16)            | (16)   |   |               |                         |               |               |               |               |
| Borrowings                       | "                  | 0                | 0           | 0           | 0               | 0  |   |               |                         |               |               |               |               |
| Equity Issues                    | "                  | 2                | 0           | 2           | 2               | 2  |   |               |                         |               |               |               |               |
| Other                            | "                  | (56)             | (7)         | (4)         | (3)             | (3)  |   |               |                         |               |               |               |               |
| <b>Total Funds Provided</b>      | <b>A\$MM</b>       | <b>(78)</b>      | <b>(22)</b> | <b>(16)</b> | <b>(17)</b>     | <b>(17)</b>  |   |               |                         |               |               |               |               |
| Net change in cash               | "                  | (57)             | (37)        | 25          | 8               | 9  |   |               |                         |               |               |               |               |
| Cash at start of year            | "                  | 170              | 112         | 76          | 101             | 109  |   |               |                         |               |               |               |               |
| <b>Cash at end of year</b>       | <b>A\$MM</b>       | <b>112</b>       | <b>76</b>   | <b>101</b>  | <b>109</b>      | <b>118</b>   |   |               |                         |               |               |               |               |
| Net Op. CFPS                     | A\$                | 0.48             | 0.20        | 0.41        | 0.26            | 0.25   |   |               |                         |               |               |               |               |
| <b>BALANCE SHEET</b>             |                    |                  |             |             |                 |  |   |               |                         |               |               |               |               |
| Cash & equivalents               | A\$MM              | 112              | 76          | 101         | 109             | 118  |   |               |                         |               |               |               |               |
| Other current assets             | "                  | 55               | 65          | 45          | 45              | 45   |   |               |                         |               |               |               |               |
| PP&E & Other Mining Assets       | "                  | 145              | 108         | 103         | 87              | 73   |   |               |                         |               |               |               |               |
| Other Non Current Assets         | "                  | 17               | 2           | 12          | 25              | 32   |   |               |                         |               |               |               |               |
| <b>Total assets</b>              | <b>A\$MM</b>       | <b>329</b>       | <b>251</b>  | <b>260</b>  | <b>266</b>      | <b>268</b>   |   |               |                         |               |               |               |               |
| Total liabilities                | "                  | 90               | 52          | 61          | 76              | 86   |   |               |                         |               |               |               |               |
| <b>Total Net Assets</b>          | <b>A\$MM</b>       | <b>238</b>       | <b>199</b>  | <b>199</b>  | <b>190</b>      | <b>182</b>   |   |               |                         |               |               |               |               |
| Total Debt                       | "                  | 2                | 1           | 1           | 1               | 1  |   |               |                         |               |               |               |               |
| Net Debt (Cash)                  | A\$MM              | (110)            | (74)        | (100)       | (108)           | (117)  |   |               |                         |               |               |               |               |
| Gearing (net debt : nd+ equity)  | %                  | -86%             | -59%        | -100%       | -132%           | -180%  |   |               |                         |               |               |               |               |
| Gearing (net debt:equity)        | %                  | -46%             | -37%        | -50%        | -57%            | -64%   |   |               |                         |               |               |               |               |

Source: Company Reports and RBC Capital Markets estimates



## Valuation

We maintain our A\$1.80 price target based on an unchanged 1.0x NAV multiple, in line with other producer valuations in this sector. We maintain our Sector Perform rating and revise our risk qualifier to Average from Above Average.

## Price Target Impediment

Earnings are most sensitive to the nickel price and the A\$/US\$ exchange rate. Ore is processed through BHP's Kambalda concentrator under a ~65% profit sharing agreement, so it is not susceptible to operating plant failures. The main operational risk is mining, but we do not believe head grade is high risk because of the district's long history of mining. However, a mine life based on reserves of only 4-5 years is a risk. Finally, a severe downturn in global economies, especially in China, would cause the nickel price to fall and hurt Mincor's earnings. Mines are moderate cost.

## Company Description

Mincor is a relatively small Australian nickel sulphide producer with four modest-sized, underground mines and sizable acreage around the Widgiemooltha Dome, south of Kambalda, Western Australia. It is the largest supplier of nickel ore to BHP Nickel West's concentrator at Kambalda and has an off-take agreement with the company. Mincor owns the Miitel, Redross, Mariners and Wannaway mines. It is debt-free and at June 2006 had resources of 2Mt grading 3.8% for 75.8kt of contained nickel metal, and reserves of 1.7Mt grading 2.7% for 44.7kt nickel. The company has a substantial exploration program. Mines were first purchased in 2001 for A\$54m and production began in 2002. In April 2006, Mincor increased its share of Carnilya Hill to 100%. It paid A\$2m to farm into RAV 8 by spending A\$5m over three years for 80%. In May 2006 it paid A\$68.5m cash to private group GMM for the 3.6ktpa Otter-Juan mine and former mines McMahon & Durkin, which have 29kt nickel resources.

## Required Disclosures

### Non-U.S. Analyst Disclosure

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### Explanation of RBC Capital Markets Equity Rating System

An analyst's 'sector' is the universe of companies for which the analyst provides research coverage. Accordingly, the rating assigned to a particular stock represents solely the analyst's view of how that stock will perform over the next 12 months relative to the analyst's sector average.

#### Ratings

**Top Pick (TP):** Represents best in Outperform category; analyst's best ideas; expected to significantly outperform the sector over 12 months; provides best risk-reward ratio; approximately 10% of analyst's recommendations.

**Outperform (O):** Expected to materially outperform sector average over 12 months.

**Sector Perform (SP):** Returns expected to be in line with sector average over 12 months.

**Underperform (U):** Returns expected to be materially below sector average over 12 months.

#### Risk Qualifiers (any of the following criteria may be present):

**Average Risk (Avg):** Volatility and risk expected to be comparable to sector; average revenue and earnings predictability; no significant cash flow/financing concerns over coming 12-24 months; fairly liquid.

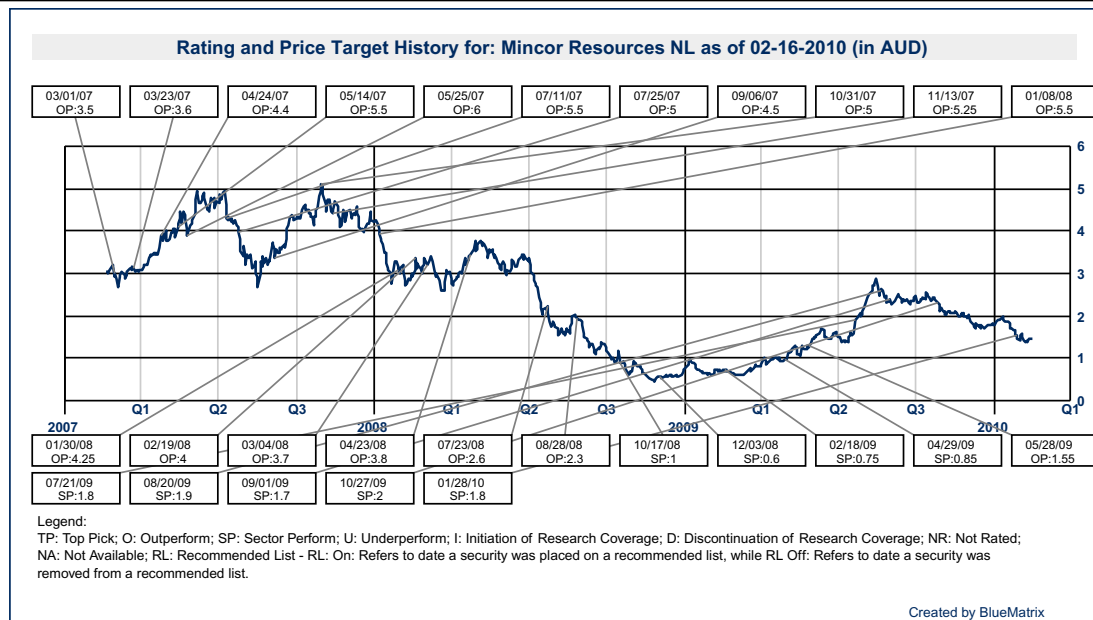
**Above Average Risk (AA):** Volatility and risk expected to be above sector; below average revenue and earnings predictability; may not be suitable for a significant class of individual equity investors; may have negative cash flow; low market cap or float.

**Speculative (Spec):** Risk consistent with venture capital; low public float; potential balance sheet concerns; risk of being delisted.

### Distribution of Ratings

For the purpose of ratings distributions, regulatory rules require member firms to assign ratings to one of three rating categories - Buy, Hold/Neutral, or Sell - regardless of a firm's own rating categories. Although RBC Capital Markets' ratings of Top Pick/Outperform, Sector Perform and Underperform most closely correspond to Buy, Hold/Neutral and Sell, respectively, the meanings are not the same because our ratings are determined on a relative basis (as described above).

| Distribution of Ratings<br>RBC Capital Markets, Equity Research |       |         |  |         |
|---|-------|---------|--|---------|
| Rating  | Count | Percent | Investment Banking<br>Serv./Past 12 Mos. |         |
|   |       |         | Count                                    | Percent |
| BUY[TP/O]   | 595   | 49.90   | 182                                      | 30.59   |
| HOLD[SP]  | 529   | 44.40   | 121                                      | 22.87   |
| SELL[U]   | 67    | 5.60    | 9  | 13.43   |



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