

COMPANY UPDATE | COMMENT

AUGUST 21, 2007

**Mincor Resources NL (ASX: MCR)**  
**Three-fold Profit Increase Drives 11% Rally**

**Outperform**  
**Above Average Risk**

Price:	3.29	Price Target:	5.00
Shares O/S (MM):	197.5	Implied All-In Return:	55.6%
Dividend:	0.12	Market Cap (MM):	650
NAVPS:	2.85	Yield:	3.6%
BVPS:	1.19	P/NAVPS:	1.2x
ROE:	57.0%	P/BVPS:	2.8x
Float (MM):	197.5	Enterprise Val. (\$MM):	490.3
Debt to Cap:	0.0%	Avg. Daily Volume (MM):	1.38

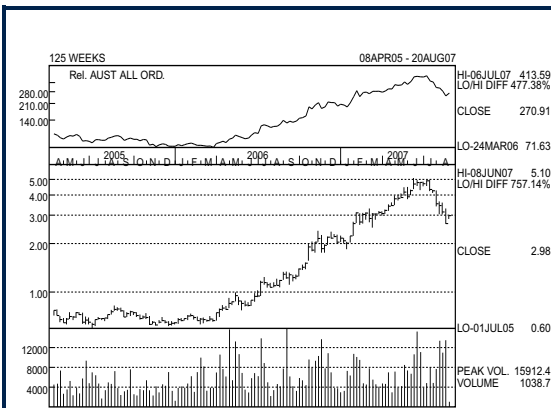
Closing share price is of August 21, 2007.

**Event**

A strong A\$101m profit, cash-rich and 35% production growth underway

**Investment Opinion**

- Mincor reported net profit of A\$101m , slightly above our forecast of A\$97m and the dividend of 6 cents was as forecast by us. The result was the fifth increased profit in a row, up strongly from A\$29.3m in FY06 and the full year FY07 dividend of A12¢ was up significantly from 5¢ in FY06.
- Cash on hand was A\$170m at 30 June 07 but after payment for the GMM acquisition in July 07 was A\$77m. The company is basically debt free and even at US\$12/lb nickel generates solid cash flow. Tax provisioning shows A\$33m payable by year-end.
- Growth - Otter Juan has been purchased as at July 07, Carnilya Hill is due to commence production in the 2H FY08 and a major new discovery has been made at Mariners Mine. The Durkin and McMahons mines now closed and near Otter Juan are being assessed to be brought back into production and are in feasibility study. Guidance is for 16-17kt nickel in FY08, up from 13kt last year.
- At ~US\$16/lb nickel and 0.85 A\$/US\$ exchange rate in FY08, we forecast Mincor will earn A\$134m or 68cents, a PE of 5x. At current US\$11.75/lb nickel and 0.80 exchange rate, we forecast earnings of A\$80m or 41cents, 8x PE. The nickel price has more than halved from its peak in May 07 of ~US\$24.50/lb and we believe that the stainless destocking and overhang may take til the 4Q 07 to resolve. We expect nickel to rebound then.
- **Valuation: Our price target of A\$5.00 is unchanged** and is based on an average of 7x P/E multiple and 6x P/CF multiple using FY08 & FY09. The stock rallied 11% on today's result endorsing its quality and outlook. We rate the shares Outperform, Above Average risk. Our target price of A\$5.00 implies an all-in return of over 50%.



**Royal Bank of Canada - Sydney Branch**

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FY Jun	2006A	2007A	2008E	2009E
EPS (Op) - FD	0.15	0.52	0.68	0.79
Prev.		0.50	0.66	0.78
P/E	21.9x	6.3x	4.8x	4.2x
CFPS - FD	0.28	0.69	0.87	0.97
Prev.		0.66	0.85	0.96
P/CFPS	11.7x	4.8x	3.8x	3.4x
<b>EPS (Op) - FD</b>		<b>H1</b>		<b>H2</b>
2006		0.05A		0.10A
2007		0.21A		0.33A
Prev.				0.29E
2008		0.33E		0.35E
Prev.		0.32E		0.34E
2009		0.45E		0.34E
Prev.		0.44E		
2006		0.12A		0.16A
2007		0.27A		0.42A
Prev.		0.30A		0.36E
2008		0.42E		0.45E
Prev.		0.41E		0.44E
2009		0.54E		0.43E
Prev.		0.53E		

June Year-end  
 All values in AUD unless otherwise noted.

## FY07 Profit of A\$101m, up 246% was “outstanding”

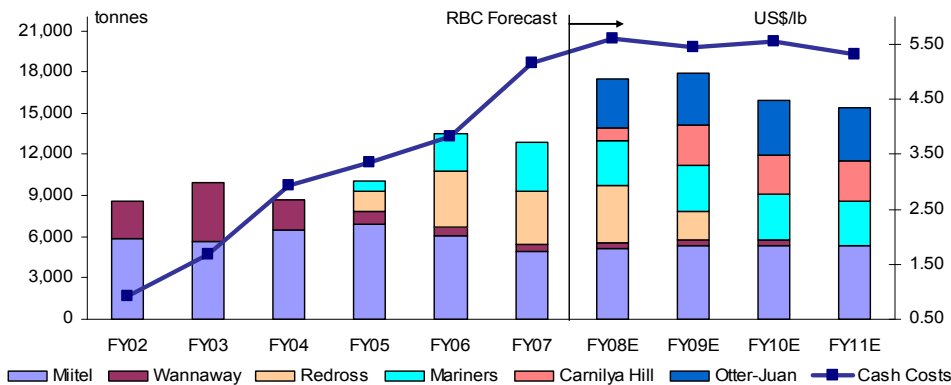
Mincor reported a A\$101m net profit, slightly above our forecast of A\$97m and the dividend of 6 cents was as forecast by us. The result was the fifth increased profit in a row, up strongly from A\$29.3m in FY06 and the full year FY07 dividend of A12¢ was up significantly from 5¢ in FY06.

- **A fifth straight record net profit** of A\$101m, up 246% from the A\$29m in FY06 was described by the CEO, David Moore as “outstanding”. The result was very clean.
- Mincor has rewarded shareholders with a big lift in **dividends** – the final dps of a fully franked A6¢ made 12¢ for FY07 and up from 5¢ in FY06. Mincor is trading on a yield of about 4%.
- The result included **exploration** expense of A\$10.3m and royalties totaling a “hefty” A\$26m which rise with the spot nickel price. Royalties added A\$0.83/lb to cash costs in FY07 compared to the previous year.
- **Sales** were 12.9kt nickel in concentrates at an average price (net of hedging) of A\$17.28/lb (A\$8.69/lb in FY06) payable nickel. Average cash costs were A\$6.59/lb (A\$5.11/lb in FY06) and thus the cash margin was A\$10.69/lb (A\$3.58/lb in FY06) of payable nickel sold.
- **Return of equity** rose to 57% from 27% the previous year and EBITDA rose from A\$71m to A\$176m.
- **Cash on hand** was A\$170m at 30 June 07 but after payment for the GMM acquisition in July 07 was A\$77m. The company is basically debt free.
- **Guidance for FY08** previously announced is 16-17kt of nickel in concentrates. RBC forecasts about the mid point of guidance. No financial guidance provided.
- **Sales Revenue & Provisional Pricing** – the nickel price received by Mincor in any month is based on the average LME spot price during the third month of delivery. Thus for the June 07 accounts, the realised price for April, May and June must be provisionally priced. Normally Mincor assume a 10% discount to the LME – this time they added a further 10%

The company noted earlier in the year that some A\$13m of additional revenue was recognised for the March Q based on final settlement of outstanding shipments. For the June Q, outstanding sales were priced at a 20% discount to spot rather than 10% normally used and we estimate that a negative adjustment of less than A\$10m has been applied so far.

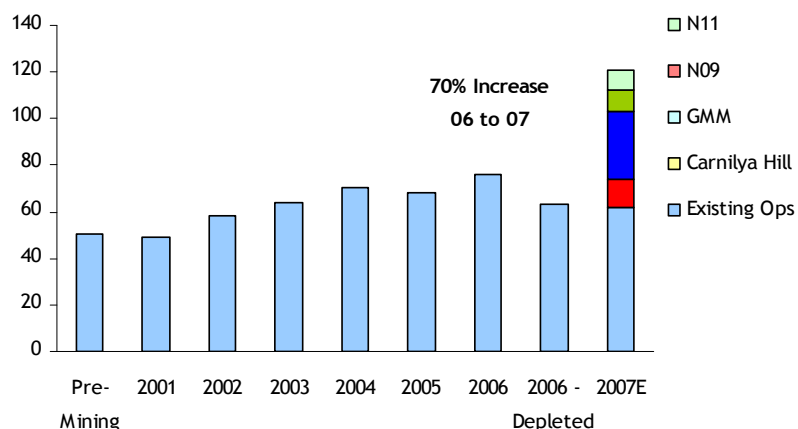
- **Growth** – Otter Juan has been purchased as at July 07, Carnilya Hill is due to commence production in the 2H FY08 and a major new discovery has been made at Mariners Mine. The Durkin and McMahons mines now closed and near Otter Juan are being assessed to be brought back into production and are in feasibility study.

Exhibit 1: Historical and Forecast Nickel in Concentrate Production



Source: Company reports and RBC Capital Markets estimates

Exhibit 2: Mincor Resource Increase to June 2007E



Source: Company reports and RBC Capital Markets estimates

## Earnings Revisions

Our forecast earnings for FY08 of A\$134m or 68cents assumes an average spot nickel price of US\$16.35/lb and an exchange rate of 0.85 – a PER of 5x. If we assume spot nickel of US\$11.75/lb and spot A\$/US\$ of 0.80 throughout FY08, Mincor is forecast to earn a profit of A\$80m or 41cents per share placing it on 8x PER. This range demonstrates the robustness of its earnings even in a weaker nickel price for several months.

The NPV eases by 3% to A\$2.85 per share.

Exhibit 3: Earnings Revisions for Mincor Resources

Fiscal 2008		Revised	Previous	% Change
NPAT	A\$m	133.6	135.6	(1%)
EPS	¢	68.3	68.8	(1%)
DPS	¢	18.0	18.0	0%
Gross Cashflow	A\$m	171.5	171.9	(0%)
Cashflow/share	¢	86.8	87.3	(1%)
Nickel Production	kt	17.5	17.3	1%
Cash Costs	US\$/lb	5.61	5.54	1%
Realised Nickel Price	US\$/lb	14.16	14.08	1%
<b>Valuation (A\$/sh)</b>		<b>2.85</b>	<b>2.95</b>	<b>(3%)</b>

Source: RBC Capital Markets estimates

Exhibit 4: Mincor Resources Forecast Financial & Operating Summary

Mincor Resources																																																																																		
<b>ASX: MCR</b>	Share Price: (A\$)	<b>3.29</b>	Total Return		53%	Stock Rating:	<b>Outperform</b>	Price Target:		<b>A\$5.00</b>																																																																								
Issued Shares (m)	Mkt Cap: (A\$MM)	<b>659.8</b>				Risk Qualifier:	<b>Above Average</b>	NAV:		<b>A\$2.85</b>																																																																								
Fiscal Year Ended June																																																																																		
<b>ASSUMPTIONS</b>																																																																																		
Exchange Rate	A\$/US\$	FY06 0.75	FY07 0.79	FY08E 0.85	FY09E 0.81	FY10E 0.78	<b>ATTRIBUTABLE MINE STATS</b>																																																																											
Spot Nickel Price	US\$/lb	7.05	17.37	16.35	14.33	12.50	<b>Nickel Production (100% ownership)</b>																																																																											
Spot Nickel Price	A\$/lb	9.44	21.97	19.18	17.69	15.95	Miitel	tonnes	6,101	4,901	5,083	5,304	5,348																																																																					
<b>Realised Nickel Price</b>	<b>US\$/lb</b>	<b>6.43</b>	<b>14.28</b>	<b>14.16</b>	<b>14.19</b>	<b>12.50</b>	Wannaway	tonnes	641	519	460	460	460																																																																					
Realised Nickel Price	A\$/lb	8.84	18.12	16.65	17.53	15.95	Redross	tonnes	3,999	3,891	4,241	2,121	0																																																																					
Cobalt Price	US\$/lb	14.91	23.39	21.50	17.50	12.50	Mariners	tonnes	2,754	3,616	3,174	3,374	3,257																																																																					
<b>Realised Cobalt Price</b>	<b>US\$/lb</b>	<b>14.91</b>	<b>23.39</b>	<b>21.50</b>	<b>17.50</b>	<b>12.50</b>	Carmilya Hill (70% interest)	tonnes			946	2,923	2,873																																																																					
Realised Cobalt Price	A\$/lb	19.94	29.64	25.26	21.57	15.95	Otter-Juan	tonnes			3,578	3,780	4,032																																																																					
Hedged % of Sales	%		36%	21%	14%	0%	<b>TOTAL</b>	tonnes	<b>13,496</b>	<b>12,927</b>	<b>17,481</b>	<b>17,962</b>	<b>15,970</b>																																																																					
Hedged Price	US\$/lb		6.58	8.33	10.41		<b>Cash Costs (including Credits):</b>																																																																											
<b>RATIO ANALYSIS</b>																																																																																		
Shares outstanding	MM	FY06 195	FY07 195	FY08E 196	FY09E 196	FY10E 196	Miitel	A\$/lb	4.26	6.77	7.15	7.15	7.25																																																																					
<b>Reported Net profit</b>	<b>A\$MM</b>	<b>29.3</b>	<b>101</b>	<b>134</b>	<b>155</b>	<b>109</b>	Wannaway	A\$/lb	6.83	9.64	8.62	8.89	9.09																																																																					
Significant Items	A\$MM	5	0	0	0	0	Redross	A\$/lb	4.68	5.24	5.25	5.40	0.00																																																																					
Profit excl. one-offs	A\$MM	24	101	134	155	109	Mariners	A\$/lb	7.23	7.35	7.47	7.28	7.64																																																																					
EPS	A¢	15.0	51.9	68.3	79.4	55.6	Carmilya Hill	A\$/lb			5.31	5.72	5.84																																																																					
<b>P/E</b>	<b>x</b>	<b>21.9x</b>	<b>6.3x</b>	<b>4.8x</b>	<b>4.1x</b>	<b>5.9x</b>	Otter-Juan	A\$/lb			6.71	6.94	7.17																																																																					
CFPS	A¢	27.7	69.0	86.8	96.6	72.0	Average Cash Costs	A\$/lb	5.11	6.59	6.60	6.74	7.11																																																																					
P/CF	x	11.9x	4.8x	3.8x	3.4x	4.6x	<b>Average Cash Costs</b>	<b>US\$/lb</b>	<b>3.82</b>	<b>5.18</b>	<b>5.61</b>	<b>5.46</b>	<b>5.55</b>																																																																					
Dividend per share	A¢	5.0	12.0	18.0	20.0	15.0	Cash Margin	A\$/lb	3.73	11.54	10.61	10.79	8.84																																																																					
<b>Dividend yield</b>	<b>%</b>	<b>1.5%</b>	<b>3.6%</b>	<b>5.4%</b>	<b>6.0%</b>	<b>4.5%</b>	Cash Margin	US\$/lb	2.79	9.07	8.55	8.74	6.90																																																																					
Franking Level	%	100%	100%	100%	100%	100%	<b>Reserves &amp; Resources - Contained Nickel</b>																																																																											
Payout Ratio	%	33%	23%	26%	25%	27%	Reserves Ni	%Ni	Rscs Ni*	%Ni																																																																								
Effective Tax Rate	%	28%	30%	33%	33%	33%	South Miitel				14.8	2.6	29.8	3.8																																																																				
Book value per share	A\$	0.36	0.76	1.19	1.72	2.01	Wannaway				9.8	2.6	11.26	3.8																																																																				
P/Book value	x	9.1x	4.3x	2.8x	1.9x	1.6x	Mariners				1.0	2.7	4.4	3.2																																																																				
R.O.E	%	41%	67%	57%	46%	27%	Redross				8.3	3.0	12.5	4.2																																																																				
R.O.A	%	18%	33%	34%	31%	20%	Mariners				10.9	2.7	15.7	4.5																																																																				
EBITDA	A\$MM	71	176	230	257	181	Carmilya Hill				14.0	2.9	16.1	4.6																																																																				
EBITDA per share	A\$	0.36	0.90	1.17	1.31	0.93	McMahon/Durkin				0.0	0.0	28.8	4.3																																																																				
EV/EBITDA	x	8.7	2.8	2.1	1.6	1.9	<b>Reserves - Contained Nickel</b>				<b>58.7</b>	<b>2.7</b>	<b>118.6</b>	<b>4.1</b>																																																																				
EV/EBIT	x	15.2	3.5	2.6	1.8	2.4	Reserves - Contained Nickel				129		261																																																																					
<b>PROFIT &amp; LOSS</b>																																																																																		
Revenue	A\$MM	FY06 175	FY07 330	FY08E 417	FY09E 450	FY10E 365	Enterprise Value/tonne Reserve				11,089		5,490																																																																					
Operating costs	"	(96)	(124)	(166)	(171)	(161)	Enterprise Value/tonne Reserve				8,649		4,282																																																																					
<b>Mine Operating Profit</b>	<b>"</b>	<b>79</b>	<b>206</b>	<b>251</b>	<b>279</b>	<b>204</b>	<b>EARNINGS SENSITIVITY</b>																																																																											
Exploration Expense	"	(5)	(10)	(12)	(12)	(12)	Nickel Price US\$/oz	+10%	12	23%																																																																								
DD&A	"	(30)	(35)	(38)	(35)	(34)	-10%	(11)	-21%																																																																									
Corporate & Other Costs	"	(4)	(20)	(10)	(10)	(11)	Exchange Rate	+10%	(10)	-20%																																																																								
<b>Operating Income (EBIT)</b>	<b>A\$MM</b>	<b>41</b>	<b>141</b>	<b>192</b>	<b>222</b>	<b>148</b>	-10%	13	26%																																																																									
Net Interest	"	(0.0)	4	8	10	15	<b>NICKEL PRODUCTION PROFILE - 100%</b>																																																																											
Pre Tax Profit	"	41	145	199	232	162																																																																												
Tax Expense	"	(11)	(44)	(66)	(76)	(54)																																																																												
<b>Net profit - as reported</b>	<b>A\$MM</b>	<b>29.3</b>	<b>101</b>	<b>134</b>	<b>155</b>	<b>109</b>	<b>REALISED NICKEL PRICE VS CASH COST</b>																																																																											
Significant Items after tax	"	5	0	0	0	0																																																																												
<b>Net Profit excl one-offs</b>	<b>A\$MM</b>	<b>24.4</b>	<b>101</b>	<b>134</b>	<b>155</b>	<b>109</b>	<table border="1"> <thead> <tr> <th>Projects</th> <th>% Ownership</th> <th>A\$MM</th> <th>A\$/Shr</th> <th>%</th> </tr> </thead> <tbody> <tr> <td>Miitel</td> <td>100%</td> <td>115</td> <td>0.58</td> <td>30%</td> </tr> <tr> <td>Wannaway</td> <td>100%</td> <td>8</td> <td>0.04</td> <td>2%</td> </tr> <tr> <td>Redross</td> <td>100%</td> <td>62</td> <td>0.31</td> <td>16%</td> </tr> <tr> <td>Mariners</td> <td>100%</td> <td>77</td> <td>0.39</td> <td>20%</td> </tr> <tr> <td>Carmilya Hill</td> <td>70%</td> <td>44</td> <td>0.22</td> <td>11%</td> </tr> <tr> <td>Otter-Juan</td> <td>100%</td> <td>80</td> <td>0.41</td> <td>21%</td> </tr> <tr> <td><b>Total Operating Assets</b></td> <td></td> <td><b>386</b></td> <td><b>1.95</b></td> <td></td> </tr> <tr> <td>Exploration &amp; Other</td> <td></td> <td>110</td> <td>0.56</td> <td></td> </tr> <tr> <td>Debt</td> <td></td> <td>(3)</td> <td>(0.02)</td> <td></td> </tr> <tr> <td>Cash</td> <td></td> <td>113</td> <td>0.57</td> <td></td> </tr> <tr> <td>Corporate</td> <td></td> <td>(42)</td> <td>(0.21)</td> <td></td> </tr> <tr> <td><b>Net Asset Value - \$A</b></td> <td></td> <td><b>562</b></td> <td><b>2.85</b></td> <td><b>116%</b></td> </tr> </tbody> </table>											Projects	% Ownership	A\$MM	A\$/Shr	%	Miitel	100%	115	0.58	30%	Wannaway	100%	8	0.04	2%	Redross	100%	62	0.31	16%	Mariners	100%	77	0.39	20%	Carmilya Hill	70%	44	0.22	11%	Otter-Juan	100%	80	0.41	21%	<b>Total Operating Assets</b>		<b>386</b>	<b>1.95</b>		Exploration & Other		110	0.56		Debt		(3)	(0.02)		Cash		113	0.57		Corporate		(42)	(0.21)		<b>Net Asset Value - \$A</b>		<b>562</b>	<b>2.85</b>	<b>116%</b>
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Wannaway	100%	8	0.04	2%																																																																														
Redross	100%	62	0.31	16%																																																																														
Mariners	100%	77	0.39	20%																																																																														
Carmilya Hill	70%	44	0.22	11%																																																																														
Otter-Juan	100%	80	0.41	21%																																																																														
<b>Total Operating Assets</b>		<b>386</b>	<b>1.95</b>																																																																															
Exploration & Other		110	0.56																																																																															
Debt		(3)	(0.02)																																																																															
Cash		113	0.57																																																																															
Corporate		(42)	(0.21)																																																																															
<b>Net Asset Value - \$A</b>		<b>562</b>	<b>2.85</b>	<b>116%</b>																																																																														
<b>CASH FLOWS</b>																																																																																		
Operating Cash Flow	A\$MM	FY06 52	FY07 201	FY08E 230	FY09E 257	FY10E 181	<b>BALANCE SHEET</b>																																																																											
Net Interest	"	0	0	8	10	15	Cash & equivalents	A\$MM	FY06A 45	FY07 170	FY08E 173	FY09E 261	FY10E 314																																																																					
Tax Paid	"	0	(8)	(66)	(76)	(54)	Other current assets	"	55	77	77	77	77																																																																					
<b>Retained Op. Cash Flow</b>	<b>A\$MM</b>	<b>52</b>	<b>192</b>	<b>172</b>	<b>191</b>	<b>142</b>	PP&E & Other Mining Assets	"	63	58	139	155	160																																																																					
Exploration	"	(4)	(9)	(16)	(16)	(16)	Other Non Current Assets	"	1	7	7	7	7																																																																					
Capital Expenditure	"	(28)	(29)	(58)	(48)	(35)	<b>Total assets</b>	A\$MM	<b>165</b>	<b>311</b>	<b>395</b>	<b>499</b>	<b>557</b>																																																																					
Loan Repayments	"	(1)	0	0	0	0	Total liabilities	"	94	161	161	161	161																																																																					
<b>Funding Surplus/(Deficit)</b>	<b>A\$MM</b>	<b>19</b>	<b>154</b>	<b>98</b>	<b>127</b>	<b>92</b>	<b>Total Net Assets</b>	A\$MM	<b>71</b>	<b>150</b>	<b>235</b>	<b>339</b>	<b>397</b>																																																																					
Dividends Paid	"	(8)	(18)	(27)	(39)	(39)	Total Debt	"	4	3	3	3	3																																																																					
Borrowings	"	0	0	0	0	0	Net Debt (Cash)	A\$MM	(41)	(166)	(169)	(257)	(310)																																																																					
Equity Issues	"	0	2	0	0	0	Gearing (net debt : nd+ equity)	%	-134%	1044%	-260%	-316%	-360%																																																																					
Other	"	16	(14)	(67)	0	0	Gearing (net debt:equity)	%	-57%	-111%	-72%	-76%	-78%																																																																					
<b>Total Funds Provided</b>	<b>A\$MM</b>	<b>8</b>	<b>(30)</b>	<b>(94)</b>	<b>(39)</b>	<b>(39)</b>																																																																												
<b>Net change in cash</b>	<b>"</b>	<b>27</b>	<b>124</b>	<b>3</b>	<b>88</b>	<b>53</b>																																																																												
Cash at start of year	"	18	45	170	173	261																																																																												
<b>Cash at end of year</b>	<b>A\$MM</b>	<b>45</b>	<b>170</b>	<b>173</b>	<b>261</b>	<b>314</b>																																																																												
Net Op. CFPS	A\$	0.27	1.03	1.17	1.31	0.93																																																																												

Source: Company Reports and RBC Capital Markets estimates

## Valuation

Valuation: Our price target of A\$5.00 is unchanged and is based on an average of 7x P/E multiple and 6x P/CF multiple using FY08 & FY09. The stock rallied 11% on today's result endorsing its quality and outlook. We rate the shares Outperform, Above Average risk. Our target price of A\$5.00 implies an all-in return of over 50%.

## 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 ~65% profit sharing agreement and so 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 to high 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 programme. Mines were first purchased in 2001 for A\$54m and production began in 2002. Beginning April 2006, Mincor earned 70% of Carnilya Hill, which is expected to be in production by year end 2007. It paid A\$2m to farm into RAV 8 by spending A\$5m over 3 years for 80%. In May 2006 it paid A\$68.5m cash to private group GMM for the 3.6ktpa Otter-Juna mine and former mines McMahon & Durkin which have 29kt nickel resources .

**Required Disclosures**

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**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.

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**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.

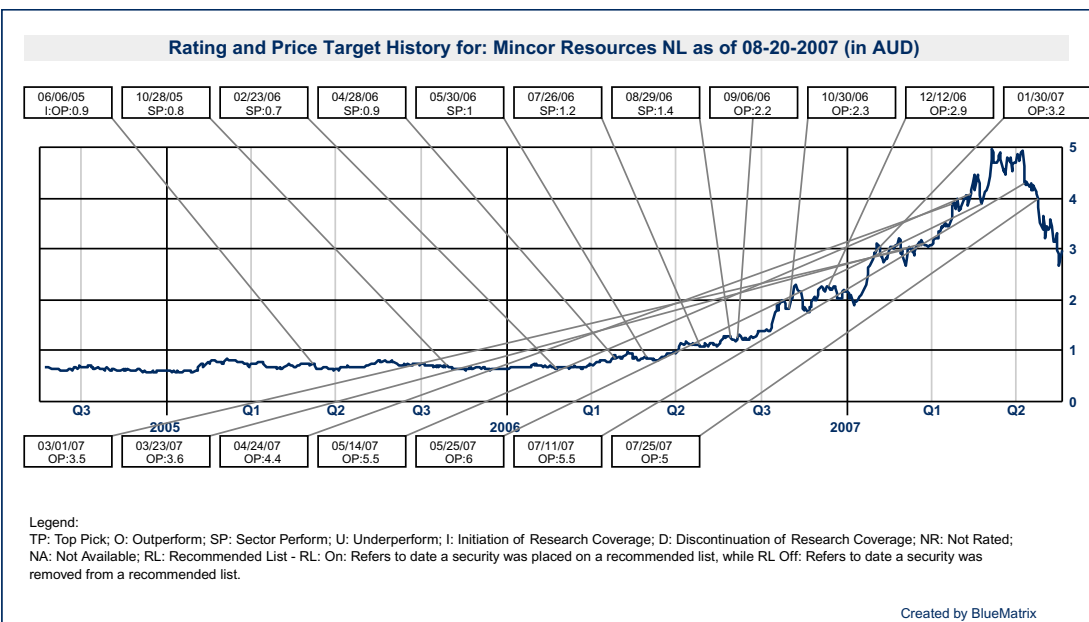
**Above Average Risk (AA):** Volatility and risk expected to be above sector; below average revenue and earnings predictability; may not be suitable for a significant class of individual equity investors; may have negative cash flow; low market cap or float.

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

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Rating	Count	Percent	Investment Banking Serv./Past 12 Mos.	
			Count	Percent
BUY[TP/O]	441	43.32	183	41.50
HOLD[SP]	489	48.04	151	30.88
SELL[U]	88	8.64	21	23.86



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