



PRICE TARGET REVISION | COMMENT

OCTOBER 27, 2009

**Mincor Resources NL (ASX: MCR)**  
Well Positioned as Cash Builds to A\$91m

**Sector Perform**  
**Above Average Risk**

Price:	2.32	Price Target:	2.00 ↑ 1.70
Shares O/S (MM):	199.0	Implied All-In Return:	(11%)
Dividend:	0.06	Market Cap (MM):	462
NAVPS:	2.03	Yield:	2.6%
BVPS:	1.00	P/NAVPS:	1.1x
ROE:	(8.0%)	P/BVPS:	2.3x
Float (MM):	199.0	Enterprise Val. (\$MM):	378.0
Debt to Cap:	0%	Avg. Daily Volume (MM):	1.35

HI-06JUL07 101.45  
HI/LO DIFF -81.56%  
CLOSE 63.99  
LO-28NOV08 18.71  
HI-02NOV07 5.19  
HI/LO DIFF -91.23%  
CLOSE 2.34  
LO-21NOV08 0.46  
PEAK VOL. 15271.6  
VOLUME 541.3

Priced at market close as on 27 October 2009 (Australian Eastern Standard time)

**Event**

20% lower nickel sales but cash rises to A\$91m and we raise our target to A\$2.00 (from A\$1.70); retain Sector Perform.

**Investment Opinion**

Mincor suffered one-off setbacks in the Sept Q resulting in nickel sales falling ~20% from 3.48kt to 2.79kt. Cash costs rose Q-on-Q by 23% from A\$4.45/lb to A\$5.49/lb. We believe guidance of 13-14kt nickel in ore (~11.7-12.6kt nickel in conc.) for FY10 is achievable.

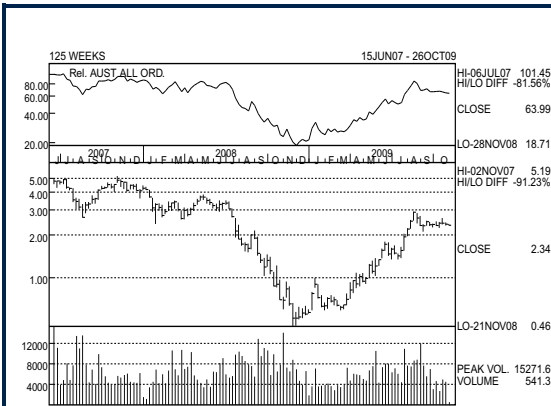
Exploration success offers the best share price upside near term and we believe that most base metal shares need a period to consolidate after strong performances.

**Sept Q.** A hanging wall failure and change of contractor at Mariners plus disruptions at Otter Juan were one-offs but impacted financials. The mines are back on track.

- **Exploration:** Exploration was reinitiated a while ago with a A\$12m budget this year and 7 rigs. Mincor has a proven record of discovery which is very likely to continue, in our view. The company is particularly excited about the Bluebush Line and the N10 resource has been delineated at Mariners.
- **Other:** BHP Billiton extended off-take agreements to 2016 and 2019 as expected. Nickel hedging was extended and is in-the-money at present. It represents some 16% of production on our forecasts through June 2011.
- **Outlook:** The outlook of modest reported earnings disguises the strength of Mincor's cashflow. Cash on hand rose from A\$76m to A\$91m aided by a positive PP adjustment of A\$5.3m.
- **Estimates:** We retain our forecast of steady 6c pa dividends even though at our relatively low nickel prices, we forecast losses for some periods. In our view, Mincor is all about cash flow and not reported earnings.
- **Valuation:** We raise our price target to A\$2.00 (A\$1.70) based on 1.0x P/NAV (previously 1.1x), mainly due to rolling forward our NPV to Dec 09, which goes to A\$2.03/share. The 1.0x multiple aligns with other producer valuations in this sector. We retain our Sector Perform and Above Average Risk rating.

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

For Required Non-U.S. Analyst and Conflicts Disclosures, see page 8.



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FY Jun	2008A	2009A	2010E	2011E
EPS (Op) - FD	0.29	(0.08)	0.02	(0.07)
Prev.			0.03	(0.08)
P/E	8.0x	NM	NM	NM
CFPS - FD	0.57	0.27	0.22	0.12
Prev.			0.24	
P/CFPS	4.1x	8.6x	10.5x	19.3x
Annual Div. - FD	0.12	0.06	0.06	0.06
Payout Ratio - FD	41%	-75%	300%	-86%
Prod.	17	16	12	13
Prev.			13	

All values in AUD unless otherwise noted.

## Sept Q: Building Cash but Two One-Offs Drop Production 20%

Mincor suffered a couple of one-off setbacks in the Sept Q which resulted in nickel in conc. sold falling ~20% from 3.48kt in the June Q to 2.79kt in the Sept Q. Cash costs rose as a result and were up 23% from A\$4.45/lb to A\$5.49/lb Q-on-Q. The company believes it will be back on track this Q to meet guidance of 13-14kt nickel in ore (~11.7-12.6kt nickel in conc.) for FY10. We endorse this target with production of 12.4kt nickel in conc. in FY10 at cash costs of slightly more than A\$5.00/lb.

The strong A\$ did not fully offset the 36% increase in the nickel price during the Sept Q as the domestic nickel price rose 16%. Mincor has A\$91m cash in hand and no debt, up A\$15m from A\$76m at 30 June 09. Positive provisional pricing settlements in the rising nickel price environment delivered a A\$5.3m gain. At this time, it appears that the Dec Q should add a similar amount. A key strength of Mincor is its operating flexibility and the Miitel mine sits idle but with ore ready to be hauled to surface. A start-up awaits a sustained high nickel price.

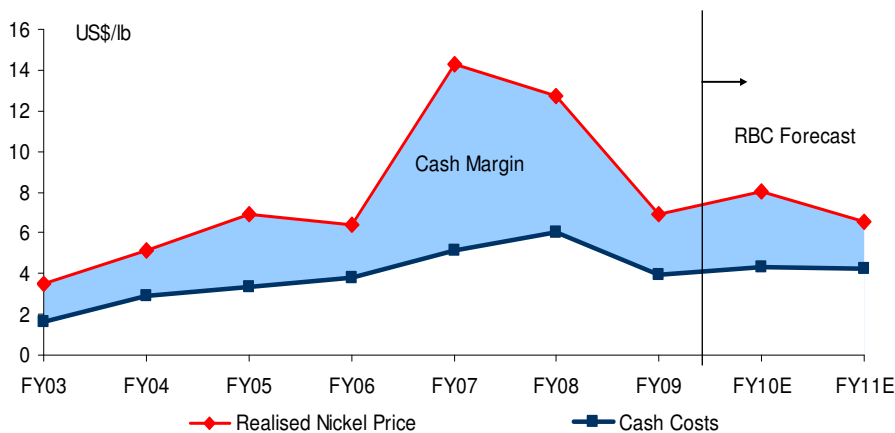
### Guidance for FY10 (previously released)

- 13-14kt of nickel in ore, capex at A\$19m, and A\$12m for exploration.
- A restart of Miitel would add an estimated 5-6kt of nickel in ore.

**We raise our target to A\$2.00 (A\$1.70) by applying a 1.0x P/NPV multiple (previously 1.1x) to align its multiple with other base metals companies and we retain our Sector Perform rating.**

The earnings outlook for Mincor is subdued on our nickel price forecast of US\$7.33/lb in FY10 and US\$6.50/lb in FY11. However, the cash flow as shown by the Sept Q result is very healthy and we show our projections in Exhibit 1 below.

### Exhibit 1: Mincor Cash Margins remain Healthy - FY03 though FY11E



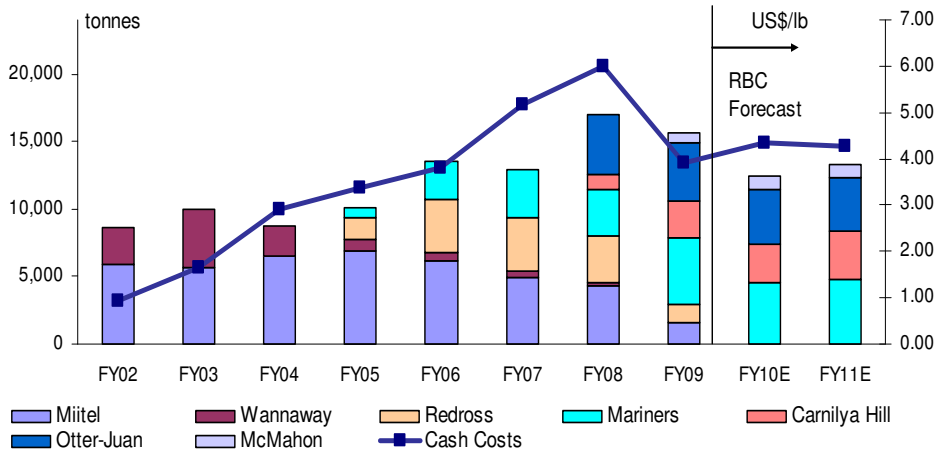
Source: Company, RBC Capital Markets estimates

### Features of the September Q:

- **A weaker Q production** of 2,790 tonnes nickel-in-concentrate (June Q 3,487 tonnes) due to one-offs at Mariners due to a hanging wall failure and change of mining contractor to Byrnegut and at Otter Juan due to a temporary drop in grade.
- **Cash costs** rose to A\$5.49/lb nickel (US\$4.94/lb at an exchange rate of 0.90), up 23% over the previous Q's A\$4.45/lb (US\$4.00/lb).
- Good exploration success at **Mariners** where an initial resource was only 4 months after discovery hole.
- **Bluebush** is a major, exciting exploration drive but is only getting underway and initial results are probably 3 months plus out, in our view. A new structure has been found at Otter Juan.
- **Provisional pricing** of a positive A\$5.3m included in revenue for settlements in the Sept Q. There is a 3-month delay in settlements plus one month longer for cash top up or repayment. Thus June month cash payments settle in the month of October.

- **Off-take Agreements:** The agreements with BHP Billiton to sell concentrates to them were extended by the buyer (BHP) and now generally extend a further nine years to 2019. Some expire in 2016. As all contracts are extended at BHP's option, this was expected by all parties.
- **Other:** Operating surplus was A\$19.5m compared to A\$23.3m in the June Q due to lower production.

Exhibit 2: Nickel in Concentrate Production - FY02 though FY11E



Source: Company, RBC Capital Markets estimates

- **Working capital** was A\$98m including cash of A\$91m. Mincor has no debt but has 498 tonnes of nickel hedged at not less than A\$20,000/tonne (A\$9.07/lb or US\$8.30/lb) to June 2011. Some hedging was added in the last Q and, in total, hedging represents 15% of the company's expected production. Interestingly, it is 16% of RBC's forecasts.
- **Sales revenue** fell from A\$46.7m in the June Q 09 to A\$42.7m in the Sept Q, excluding PP adjustment of A\$5.3m positive. Dividends of A\$8m (A4c) were paid in the Sept Q. Higher A\$ nickel offset by lower sales of metal.

Exhibit 3: Nickel Price: June 08 to present



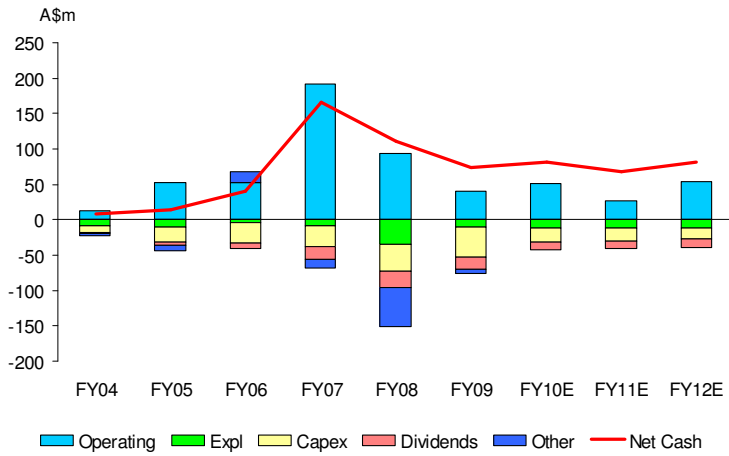
- Nickel averaged US\$8.00/lb in the Sept Q 09 and has averaged US\$8.38/lb so far this month.
- Half-on-half, nickel has averaged ~US\$7.00/lb in the 6 months to 30 Sept vs. under US\$5/lb in the previous 6 months to March 09.
- The sharp increase in the A\$ to >0.90 has stymied much of the rally in domestic terms.

Source: IRESS, RBC Capital Markets estimates

**Robust Cash Flow the Key**

In the next exhibit we demonstrate another way of showing the health of Mincor. Cash on hand through FY12E remains not less than its current level, on our forecasts, and the operating surplus remains robust, more than offsetting cash outlays.

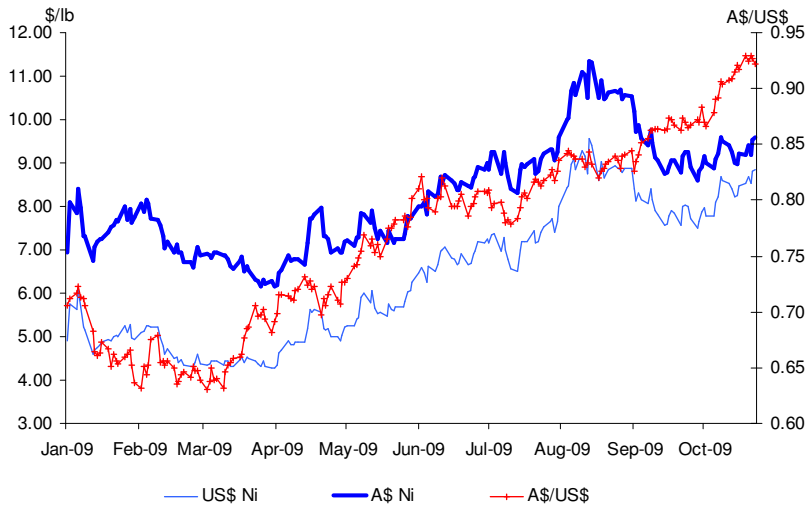
**Exhibit 4: Mincor Cash Flow Analysis**



Source: Company data, RBC Capital Markets estimates

The exhibit below shows the peak in A\$ nickel and subsequent easing in price due to the strong A\$/US\$.

**Exhibit 5: Nickel Price in A\$ & US\$ terms and A\$/US\$ exchange rate**



Source: IRESS

## Estimate Revisions

We have made several changes to our earnings outlook, mostly not as a result of the Sept Q.

- We added mine life to both Otter Juan (to 2015E) and Mariners (to 2017E) on the basis that stated mine life or reported reserves is not representative of the likely mine lives.
- We rolled our NPV forward to Dec 09 and this materially raised it as did the extensions. Our NPV rises 35% to A\$2.03/share.

Changes to our earnings estimates were not large in A\$m terms but small increments of A\$2-4m look large in percentage terms (up to 48%), as shown in the exhibit below.

## Exhibit 6: Mincor Resources Estimate Revisions

		Fiscal 2010E			Fiscal 2011E			Fiscal 2012E		
		Rev.	Prev.	%	Revised	Revised	%	Revised	Revised	%
Underlying Net Profit	A\$m	4.5	7.0	(36%)	(14.5)	(15.9)	(9%)	6.2	4.2	48%
EPS	¢	2.3	3.5	(36%)	(7.3)	(8.0)	(9%)	3.1	2.1	48%
DPS	¢	6.0	6.0	0%	6.0	6.0	0%	6.0	6.0	0%
Gross Cash flow	A\$m	44.7	47.5	(6%)	24.4	24.1	2%	41.7	42.6	(2%)
Cash flow/share	¢	22.5	23.8	(6%)	12.3	12.1	2%	20.9	21.4	(2%)
Nickel Production	kt	12.4	12.8	(3%)	13.3	13.3	0%	14.1	14.1	0%
Cash Costs	US\$/lb	4.34	4.27	2%	4.26	4.26	0%	4.65	4.65	0%
Realised Nickel Price	US\$/lb	8.04	7.93	1%	6.57	6.52	1%	6.75	6.75	0%
<b>Valuation (A\$/sh)</b>		<b>2.03</b>	<b>1.50</b>	<b>35%</b>						

Source: Company Reports and RBC Capital Markets estimates

Exhibit 7: Mincor Production & Financial Forecasts

Mincor Resources													
<b>ASX: MCR</b>	Share Price: (A\$)	<b>2.34</b>	Return		-15%	Stock Rating:	<b>Sector Perform</b>	Price Target:	<b>A\$2.00</b>				
Issued Shares (m)	Mkt Cap: (A\$MM)	<b>465.8</b>				Risk Qualifier:	<b>Above Average</b>	NAV:	<b>A\$2.03</b>				
<b>Fiscal Year Ended June</b>													
<b>ASSUMPTIONS</b>													
Exchange Rate	A\$/US\$	FY07 0.79	FY08 0.90	FY09 0.75	FY10E 0.83	FY11E 0.80	<b>ATTRIBUTABLE MINE STATS</b>						
Spot Nickel Price	US\$/lb	17.37	12.92	5.93	7.33	6.50	<b>Nickel Production (100% ownership)</b>						
Spot Nickel Price	A\$/lb	21.97	14.45	7.83	8.78	8.18	Midtel	tonnes	4,901	4,174	1,817	0	0
<b>Realised Nickel Price</b>	<b>US\$/lb</b>	<b>14.28</b>	<b>12.69</b>	<b>6.95</b>	<b>8.04</b>	<b>6.57</b>	Wannaway	"	519	265	25	0	0
Realised Nickel Price	A\$/lb	18.12	14.17	9.38	9.63	8.26	Redross	"	3,891	3,325	1,550	0	0
Cobalt Price	US\$/lb	23.39	39.32	22.55	16.51	13.25	Mariners	"	3,616	3,445	5,123	4,529	4,791
<b>Realised Cobalt Price</b>	<b>US\$/lb</b>	<b>23.39</b>	<b>39.32</b>	<b>22.55</b>	<b>16.51</b>	<b>13.25</b>	Carnilya Hill (70%)	"	"	1,023	2,128	2,854	3,634
Realised Cobalt Price	A\$/lb	29.64	43.51	29.65	19.82	16.63	Otter-Juan	"	"	4,417	4,261	4,115	3,895
Hedged Sales	tonnes	2,994	3,450	1,890	1,383	990	McMahon + Coronet	"	"	864	929	934	
Hedged % of Sales	%	23%	21%	12%	11%	7%	<b>Total Nickel in Conc</b>	<b>tonnes</b>	<b>12,927</b>	<b>16,648</b>	<b>15,768</b>	<b>12,426</b>	<b>13,254</b>
Hedged Price	US\$/lb	0.00	12.41	10.78	10.27	7.58	<b>Cash Costs (including Credits):</b>						
<b>RATIO ANALYSIS</b>													
Shares outstanding	MM	FY07 195	FY08 196	FY09 197	FY10E 199	FY11E 199	Midtel	A\$/lb	6.77	8.37	7.20	0.00	0.00
Reported Net profit	A\$MM	101	57	(17)	4	(14)	Wannaway	"	9.64	9.49			
Significant Items	A\$MM	0	0	(14)	0	0	Redross	"	5.24	6.43	7.65	0.00	0.00
<b>Underlying Net Profit</b>	<b>A\$MM</b>	<b>101</b>	<b>57</b>	<b>(2)</b>	<b>4</b>	<b>(14)</b>	Mariners	"	7.35	7.56	5.23	5.12	5.07
EPS	Ac	51.9	29.3	(8.4)	2.3	(7.3)	Carnilya Hill	"	"	3.94	4.47	5.22	5.47
<b>P/E</b>	<b>x</b>	<b>4.5x</b>	<b>8.0x</b>	<b>nm</b>	<b>nm</b>	<b>nm</b>	Otter-Juan	"	"	5.04	4.77	5.29	5.56
CFPS	Ac	68.5	56.6	27.5	22.5	12.3	McMahon	"	"	5.00	5.22	5.59	
P/CF	x	3.4x	4.1x	8.5x	10.4x	19.1x	Average Cash Costs	A\$/lb	6.59	6.71	5.37	5.21	5.36
Dividend per share	Ac	12.0	12.0	6.0	6.0	6.0	<b>Average Cash Costs</b>	<b>US\$/lb</b>	<b>5.18</b>	<b>6.02</b>	<b>4.05</b>	<b>4.34</b>	<b>4.26</b>
<b>Dividend yield</b>	<b>%</b>	<b>5.1%</b>	<b>5.1%</b>	<b>2.6%</b>	<b>2.6%</b>	<b>2.6%</b>	Cash Margin	A\$/lb	11.54	7.46	4.01	4.43	2.90
Franking level	%	100%	100%	100%	100%	100%	Cash Margin	US\$/lb	9.07	6.69	3.01	3.69	2.31
Payout Ratio	%	23%	41%	-71%	266%	-82%	<b>Reserves &amp; Resources - Contained Nickel</b>						
Effective Tax Rate	%	30%	33%	-37%	30%	30%	<i>* Resources are inclusive of Reserves</i>						
Book value per share	A\$	0.75	1.20	1.00	0.93	0.80	Reserves Ni	%Ni	12.4	2.7	29.1	3.6	
P/Book value	x	3.1x	2.0x	2.3x	2.5x	2.9x	Wannaway	%Ni	1.1	2.9	4.2	3.0	
<b>R.O.E</b>	<b>%</b>	<b>67%</b>	<b>24%</b>	<b>-8%</b>	<b>2%</b>	<b>-9%</b>	Redross	%Ni	1.2	3.5	7.5	3.2	
R.O.A	%	33%	17%	-7%	2%	-6%	Mariners	%Ni	9.0	2.7	27.2	3.9	
EBITDA	A\$MM	176	134	48	45	16	Carnilya Hill	%Ni	4.1	3.2	7.6	4.5	
EBITDA per share	A\$	0.90	0.68	0.24	0.22	0.08	Otter Juan	%Ni	10.5	3.4	21.7	3.7	
EV/EBITDA	x	1.7	2.7	8.2	8.6	24.4	McMahon/Durkin/Gellatly/Stockwell/Cameron	%Ni	7.1	2.4	56.3	4.0	
EV/EBIT	x	2.1	4.5	(13.2)	86	(17.6)	<b>Reserves - Contained Nickel (kt)</b>		<b>45.4</b>	<b>2.8</b>	<b>153.7</b>	<b>3.8</b>	
EBITDA Margin	%	53%	41%	25%	25%	10%	Reserves - Contained Nickel (mlbs)		100		339		
<b>PROFIT &amp; LOSS</b>													
Revenue	A\$MM	FY07 330	FY08 323	FY09 188	FY10E 176	FY11E 157	Enterprise Value / tonne (A\$/t)		8,413		2,485		
Operating costs	"	(124)	(170)	(119)	(117)	(126)	Enterprise Value / tonne (US\$/t)		7,319		2,162		
<b>Mine Operating Profit</b>	<b>"</b>	<b>206</b>	<b>152</b>	<b>70</b>	<b>59</b>	<b>31</b>	<b>EARNINGS SENSITIVITY</b>						
Exploration Expense	"	(10)	(13)	(8)	(8)	(8)	Nickel Price US\$/oz	+10%	29		18%		
DD&A	"	(35)	(55)	(77)	(40)	(39)	-10%	(29)		-18%			
Corporate & Other Costs	"	(20)	(6)	(14)	(6)	(7)	Exchange Rate	+10%	(26)		-16%		
<b>Operating Income (EBIT)</b>	<b>A\$MM</b>	<b>141</b>	<b>78</b>	<b>(30)</b>	<b>4</b>	<b>(23)</b>	-10%	32		20%			
Net Interest Income	"	4	7	3	2	2	<b>NICKEL PRODUCTION PROFILE - 100%</b>						
Pre Tax Profit	"	145	85	(26)	6	(21)							
Tax Expense	"	(44)	(28)	10	(2)	6							
<b>Net profit - as reported</b>	<b>A\$MM</b>	<b>101</b>	<b>57</b>	<b>(17)</b>	<b>4</b>	<b>(14)</b>	<b>SHARE VALUATION</b>						
Significant Items after tax	"	0	0	(14)	0	0	<b>Projects</b>						
<b>Underlying Net Profit</b>	<b>A\$MM</b>	<b>101</b>	<b>57</b>	<b>(2)</b>	<b>4</b>	<b>(14)</b>	<b>% Ownership</b>						
EPS	Ac	51.9	29.3	(8.4)	2.3	(7.3)	Midtel 100% A\$MM 28 A\$/Shr 0.14 % 9%						
DPS	Ac	12.0	12.0	6.0	6.0	6.0	Redross 100% A\$MM 0 A\$/Shr 0.00 % 0%						
<b>CASH FLOWS</b>													
<b>Operating Cash Flow</b>	<b>A\$MM</b>	<b>201</b>	<b>94</b>	<b>40</b>	<b>53</b>	<b>25</b>	Mariners 100% A\$MM 161 A\$/Shr 0.81 % 52%						
Net Interest	"	0	0	0	2	2	Carnilya Hill 100% A\$MM 45 A\$/Shr 0.23 % 15%						
Tax Paid	"	(8)	0	0	(4)	0	Otter-Juan 100% A\$MM 78 A\$/Shr 0.39 % 25%						
<b>Retained Op. Cash Flow</b>	<b>A\$MM</b>	<b>192</b>	<b>94</b>	<b>40</b>	<b>51</b>	<b>27</b>	McMahon 100% A\$MM 0 A\$/Shr 0.00 % 0%						
Exploration	"	(9)	(35)	(10)	(12)	(12)	<b>Total Operating Assets</b> 312 1.57						
<b>Capital Expenditure</b>	<b>"</b>	<b>(29)</b>	<b>(37)</b>	<b>(44)</b>	<b>(19)</b>	<b>(18)</b>	Exploration & Other 50 0.25						
Loan Repayments	"	0	0	(1)	0	0	Debt 0 (0.01)						
<b>Funding Surplus/(Deficit)</b>	<b>A\$MM</b>	<b>154</b>	<b>21</b>	<b>(14)</b>	<b>20</b>	<b>(3)</b>	Cash 84 0.42						
Dividends Paid	"	(18)	(24)	(16)	(12)	(12)	Corporate (40) (0.20)						
Borrowings	"	0	0	0	0	0	<b>Net Asset Value - \$A</b> 404 2.03 115%						
Equity Issues	"	2	2	0	0	0							
Other	"	(14)	(56)	(7)	(0)	(0)							
<b>Total Funds Provided</b>	<b>A\$MM</b>	<b>(30)</b>	<b>(78)</b>	<b>(22)</b>	<b>(12)</b>	<b>(12)</b>							
<b>Net change in cash</b>	<b>"</b>	<b>124</b>	<b>(57)</b>	<b>(37)</b>	<b>8</b>	<b>(15)</b>							
Cash at start of year	"	45	170	112	76	84							
<b>Cash at end of year</b>	<b>A\$MM</b>	<b>170</b>	<b>112</b>	<b>76</b>	<b>84</b>	<b>69</b>							
Net Op. CFPS	A\$	1.03	0.48	0.20	0.26	0.12							
<b>BALANCE SHEET</b>													
Cash & equivalents	A\$MM	FY07 170	FY08 112	FY09 76	FY10E 84	FY11E 69							
Other current assets	"	77	55	65	65	65							
PP&E & Other Mining Assets	"	58	145	108	91	73							
Other Non Current Assets	"	7	17	2	24	38							
<b>Total assets</b>	<b>A\$MM</b>	<b>311</b>	<b>329</b>	<b>251</b>	<b>264</b>	<b>245</b>							
Total liabilities	"	161	90	52	78	86							
<b>Total Net Assets</b>	<b>A\$MM</b>	<b>150</b>	<b>238</b>	<b>199</b>	<b>186</b>	<b>159</b>							
Total Debt	"	3	2	1	1	1							
Net Debt (Cash)	A\$MM	(166)	(110)	(74)	(82)	(68)							
Gearing (net debt : nd+ equity)	%	1044%	-86%	-59%	-79%	-73%							
Gearing (net debt:equity)	%	-111%	-46%	-37%	-44%	-42%							

Source: Company Reports and RBC Capital Markets estimates



## Valuation

We raise our price target to A\$2.00 (A\$1.70) based on 1.0x P/NAV (previously 1.1x). This multiple aligns with other producer valuations in this sector. We retain Sector Perform and our Above Average Risk rating.

## 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. Beginning April 2006, Mincor is increasing its share of Carnilya Hill to 100%, which is scheduled to be in production in January 2008. 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.

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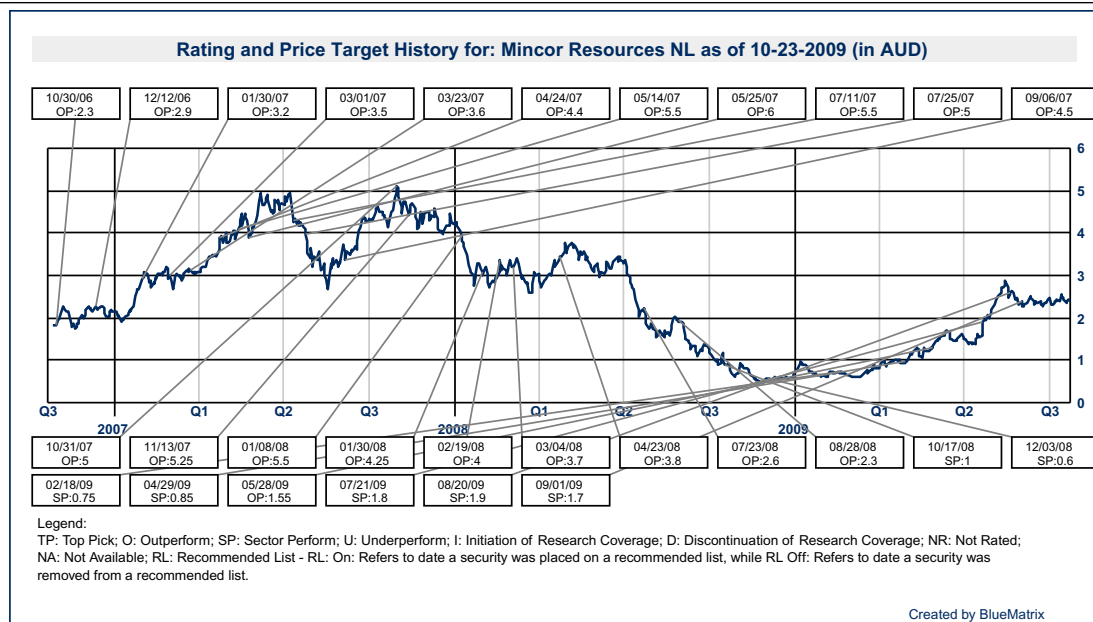
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