

Record production, belt tightened, ready for higher prices

Investment Highlights

- MCR has reported record production for the Dec Q. With costs to reduce from here as MCR focuses on its sustainable higher grade operations and unnecessary expenditure is now reigned in (its capex platform is established), MCR is poised to turn on more production when the nickel price is right. Our DCF is \$0.86/sh and we recommend a BUY on any strength in the nickel price.
- Record Q:** Production was 4,618t (+6% qoq) nickel in conc at costs of A\$5.61/lb payable (-3% qoq). Going forward we expect MCR's unit cost of production to fall further as production is solely sourced from its high grade operations (Mariners, Carnilya and Otter), industry pressures abate, and cost saving of a new mining contract at Mariners and transition to owner mining at Carnilya Hill. Savings could total 20%.
- Ready to turn the tap on:** MCR is best placed out of nickel miners in our space to quickly turn production back on if nickel were to stay above US\$6/lb (US\$13,000/t). With its Miitel operation on care and maintenance, 4.5ktpa of nickel could be added quickly with minimal capex and reduced unit costs with the help of the now hungry mining contractors. Slightly further out the Durkin orebody (and other low grade resources) represent further cheap nickel optionality.
- Nickel leverage:** Most nickel companies are finely poised (roughly breakeven) at Dec Q prices, with a further 20% fall in the A\$ nickel price ringing the death bell on many operations, while any sort of recovery sees them return to profitability. Based on Patersons' nickel price forecast (LME forward curve returning to US\$7/lb from FY12) our DCF is \$0.86/sh. If we run flat spot prices (US\$5.28/lb) our DCF is \$0.92/sh. While we are forecasting a small loss in FY09 (\$-1.6M) its leverage to even slightly higher prices is great with a 10% higher nickel price adding 33cps or 40%.
- Nickel - All producers doing it tough:** While we continually read of in excess of 50% of nickel production supposedly underwater at current prices, breaking news of Vale-Inco halting Voisey's Bay shipments reminds us we need more supply to be removed from the system. With the backdrop of BHP placing the US\$2.5bn Ravensthorpe on care and maintenance, we point to some looming hard decisions for Vale at its Goro and Onca Puma projects and the long term viability of laterites as a source of nickel. These are the 2 remaining significant new sources of nickel due to come on this year and postponement of these projects may give the nickel price just the lift its needs. A 3rd project possibly on the chopping block is Sherritt's US\$3.7bn Ambatovy project (60ktpa from 2010) in Madagascar.

29 January 2009

12mth Rating

		BUY
Price	A\$	0.61
Target Price	A\$	0.86
12m Total Return	%	44.6

RIC: **MCR.AX**

BBG: **MCR AU**

Shares o/s	m	198.9
Free Float	%	100.0
Market Cap.	A\$m	120.3
Net Debt (Cash)	A\$m	-71.7
Net Debt/Equity	%	na
3m Av. D. T'over	A\$m	0.87
52wk High/Low	A\$	3.79/0.46
2yr adj. beta		1.50

Valuation:

Methodology		DCF
Value per share	A\$	0.86

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Year End June 30

	2007A	2008A	2009F	2010F	2011F
Reported NPAT (\$m)	101.4	63.5	(1.6)	12.8	(5.3)
Recurrent NPAT (\$m)	101.4	63.5	(1.6)	12.8	(5.3)
Recurrent EPS (cents)	49.9	31.3	(0.8)	6.4	(2.7)
EPS Growth (%)	225.7	(37.2)	na	na	na
PER (x)	1.2	1.9	(77.1)	9.4	(22.5)
EBITDA (\$m)	180.5	147.6	39.3	40.2	16.6
EV/EBITDA (x)	(0.2)	0.1	1.1	0.7	1.8
Capex (\$m)	42.9	127.9	47.9	13.9	14.1
Free Cashflow	140.1	(34.7)	(17.5)	19.3	1.1
FCFPS (cents)	68.9	(17.1)	(8.8)	9.7	0.5
PFCF (x)	0.9	(3.5)	(6.9)	6.2	113.2
DPS (cents)	12.0	12.0	2.0	2.0	2.0
Yield (%)	19.8	19.8	3.3	3.3	3.3
Franking (%)	100.0	100.0	100.0	0.0	0.0

Share Price Performance



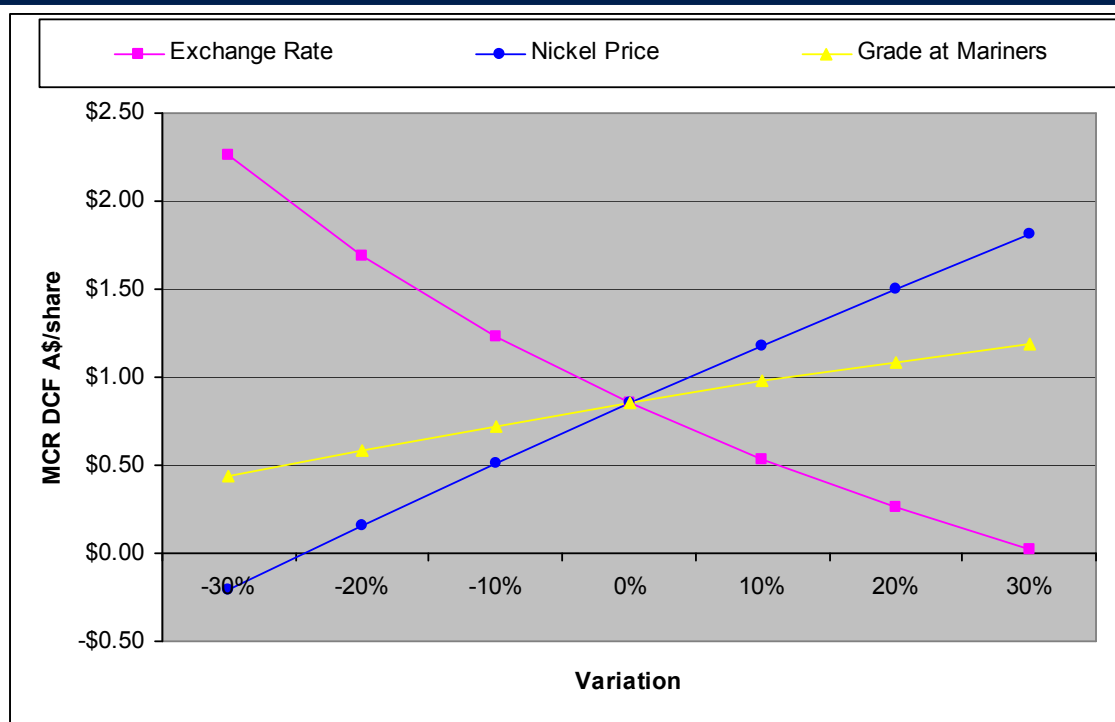
Performance %1mth 3mth 12mth

Absolute	11.5	-18.7	-17.4
Relative	17.6	-3.6	38.0

MCR sensitivity

- **Nickel Price:** Below US\$4/lb (US\$8,800/t) MCR, along with most of the nickel industry, will have some hard decisions to make. But our MCR price target increases by 40% for a 10% increase in our nickel forecast.
- **Exchange Rate:** Our MCR price target decreases by 44% for every 10% increase in our forex assumptions.
- **Mariners Grade:** With its large tonnages, the head grade at Mariners (esp. from the '09 orebody) has become an important driver for MCR. Our MCR price target increases by 16% for every 10% increase in head grade.

Figure 1: MCR DCF Sensitivity

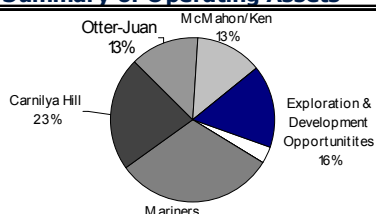


Source: PSL Estimates

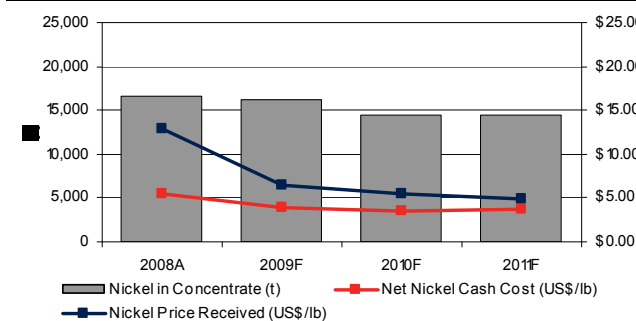
Mincor Resources NL		\$0.61	
Valuation	A\$m	A\$/sh	
Miitel	(3)	(0.02)	
Wannaway	0	0.00	
Redross	(1)	(0.00)	
Mariners	35	0.18	
Carnilya Hill	25	0.13	
Otter-Juan	15	0.08	
McMahon/Ken	15	0.07	
Durkin	(0)	(0.00)	
Bluebush line	5	0.03	
Forward Sales	24	0.12	
Corporate	(35)	(0.17)	
Exploration & Development Opportunities	18	0.09	
Unpaid Capital	0	0.00	
Cash	72	0.36	
Debt	0	0.00	
NPV	170	0.86	
@ 8% Discount Rate			
Price Target	170	0.86	
0% Premium to DCF			

Sensitivity Price Target	+10%	0%	-10%
Nickel Price	\$118	\$0.86	\$0.51
AS : \$US	\$0.53	\$0.86	\$123

Valuation Summary of Operating Assets



Nickel Production Summary



Reserves & Resources as of June 30 2008

Reserves	Mt	Ni %	Ni kt
Miitel	0.579	2.6	15.1
North Dordie	0.038	12	0.5
Wannaway	0.002	14	0.0
Redross	0.084	2.8	2.4
Mariners	0.440	3.1	18.6
Carnilya Hill	0.220	2.8	6.2
Otter-Juan	0.320	3.8	12.2
McMahon	0.322	2.4	7.7
Total	2.005	2.87	57.6
Resources			
Mariners	0.712	3.9	27.8
Redross	0.283	4.0	11.3
Miitel	0.850	3.6	30.6
Wannaway	0.142	3.0	4.3
Carnilya Hill JV	0.174	5.5	9.6
Otter-Juan	0.754	3.8	28.7
McMahon/Ken	0.374	4.1	15.3
Durkin	0.378	5.1	19.3
Gellatly	0.029	3.4	1.0
Stockwell	0.630	3.3	20.8
Total	4.326	3.90	168.6

Directors

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

Substantial Shareholders	Shares (m)	%
Barclays Global Investors	2130	10.30

Commodity Assumptions	Year End June 30			
	2008A	2009F	2010F	2011F
A\$:US\$	\$0.90	\$0.70	\$0.67	\$0.70
Copper (US\$/lb)	\$3.53	\$2.03	\$147	\$150
Lead (US\$/lb)	\$131	\$0.58	\$0.46	\$0.46
Zinc (US\$/lb)	\$118	\$0.60	\$0.55	\$0.57
Nickel (US\$/lb)	\$12.93	\$5.65	\$4.69	\$4.86
Nickel (A\$/lb)	\$14.41	\$8.08	\$6.98	\$6.94
Cobalt (US\$/lb)	\$45.41	\$24.71	\$17.65	\$16.64

Production Summary	2008A	2009F	2010F	2011F
South Kambalda Operations	11,782	8,895	5,814	5,814
Miitel	4,361	182	0	0
Wannaway	271	25	0	0
Redross	3,120	1708	0	0
Mariners	3,704	5,351	5,814	5,814
North Dordie	326	0	0	0
North Kambalda Operations	4,816	7,364	8,658	8,658
Carnilya Hill	49	1876	2,485	2,485
Otter-Juan	4,767	4,025	4,157	4,157
McMahon/Ken	0	1,463	2,016	2,016
Durkin	0	0	0	0

Nickel in Concentrate (t)	16,598	16,260	14,472	14,472
Copper in Concentrate (t)	1,429	1,192	1,024	1,024
Cobalt in Concentrate (t)	324	259	204	204

Per Pound of Payable Metal

Net Nickel Cash Cost (A\$/lb)	\$6.18	\$5.51	\$5.23	\$5.30
Net Nickel Cash Cost (US\$/lb)	\$5.54	\$3.85	\$3.51	\$3.71
Nickel Price Received (US\$/lb)	\$12.97	\$6.40	\$5.37	\$4.86
Spot Nickel Price (US\$/lb)	\$12.93	\$5.65	\$4.69	\$4.86

Profit & Loss (A\$m)	2008A	2009F	2010F	2011F
Sales Revenue	321.0	195.7	171.1	148.4
Other Income	8.3	5.0	5.2	5.5
Operating Costs	151.6	136.6	134	114.3
Exploration Exp.	12.8	114	10.4	10.6
Corporate/Admin	17.3	13.5	12.2	12.5
EBITDA	147.6	39.3	40.2	16.6
Depn & Amort	55.6	37.0	22.0	22.0
EBIT	91.9	2.3	18.3	(5.3)
Interest	0.5	0.1	0.0	0.0
Operating Profit	91.4	2.2	18.3	(5.3)
Tax expense	27.9	3.8	5.5	0.0
Abnormal Losses / Minorities	0.0	0.0	0.0	0.0
NPAT	63.5	(1.6)	12.8	(5.3)
Normalised NPAT	64.0	1.6	12.8	(5.3)

Cash Flow (A\$m)	2008A	2009F	2010F	2011F
Adjusted Net Profit	63.5	(16)	12.8	(5.3)
+Interest/Tax/Expl Exp	413	15.2	15.9	10.6
-Interest/Tax/Expl Inc	72.9	312	17.5	12.0
+Deprn/Amort	55.6	37.0	22.0	22.0
+/- Other	0.0	0.0	0.0	0.0
Operating Cashflow	87.5	19.5	33.1	15.2
- Capex (+asset sales)	127.9	47.9	13.9	14.1
- Working Capital Increase	(5.6)	(11.0)	0.0	0.0
Free Cashflow	(34.7)	(17.5)	19.3	1.1
- Dividends (ords & pref)	23.7	13.9	4.0	4.0
+Equity raised	18	0.0	0.0	0.0
+Debt drawdown (repaid)	(0.5)	(2.3)	0.0	0.0
Net Change in Cash	(57.2)	(33.7)	15.3	(2.9)
Cash at End Period	112.5	78.8	94.1	91.1
Net Cash/(LT Debt)	10.2	78.8	94.1	92.2

Balance Sheet (A\$m)	2008A	2009F	2010F	2011F
Cash/Bullion	112.5	78.8	94.1	91.1
Total Assets	329.0	302.7	307.1	293.7
Total Debt	2.3	0.0	0.0	0.0
Total Liabilities	90.5	100.3	95.9	91.8
Shareholders Funds	238.5	202.4	211.2	201.9

Ratios	2008A	2009F	2010F	2011F
Net Debt/Equity (%)	na	na	na	na
Interest Cover (x)	167.8	44.5	na	na
Return on Equity (%)	26.6	#VALUE!	6.1	#VALUE!

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