

Mincor Resources

(ASX: MCR)

Outperform

Above Average Risk

Carnilya Hill Closer to Mid-Year Start-up

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Price:	\$3.03	Price Target:	\$3.60	
Capital Return			18.8%	
Prospective Dividend Yield			4.0%	
Implied All-in Return			22.8%	
52 Wk High:	\$3.30	52 Wk Low:	\$0.66	
Float (MM):	196	Debt-to-Cap (MM):	0%	
Shares Out:	196	Market Cap (MM):	594	
2006 Dividend:	\$0.05	Yield:	1.7%	
Tr. 12 ROE:	41.2%	3-Yr EPS Gr:	211%	
Trading Volume:	1.51	P/NAV	1.54	
Major Shareholders:			Widely Held	
(FY June)	2006A	2007E	2008E	2009E
EPS	\$0.15	\$0.41	\$0.55	\$0.47
P/E	20.2x	7.4x	5.6x	6.5x
CFPS	\$0.28	\$0.57	\$0.68	\$0.60
P/CFPS	10.9x	5.3x	4.5x	5.1x
EPS		H1		H2
2006A		\$0.05		\$0.10
2007E		\$0.21		\$0.20
2008E		\$0.24		\$0.30
Cash Flow		H1		H2
2006A		\$0.12		\$0.15
2007E		\$0.29		\$0.28
2008E		\$0.31		\$0.37
Assumptions	2006A	2007E	2008E	2009E
Nickel Production kt	13.5	13.1	16.0	15.0
Nickel Price US\$/lb	\$15.21	\$13.05	\$10.80	\$8.00
Exchange rate US\$/A\$	0.75	0.77	0.76	0.76
Nickel Price A\$/lb	\$9.44	\$19.69	\$17.17	\$14.29
Realised Price US\$/lb	\$6.43	\$12.24	\$11.39	\$10.68

All values in A\$ unless otherwise stated.

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

For Required Disclosures, please see page 5.

Event

Mincor's initial resource at Carnilya Hill area (70% interest) of 17.9kt moves the project closer to a go-ahead by mid year and 5ktpa production by Dec 06. We recently included C Hill in our earnings – Outperform.

Investment Opinion

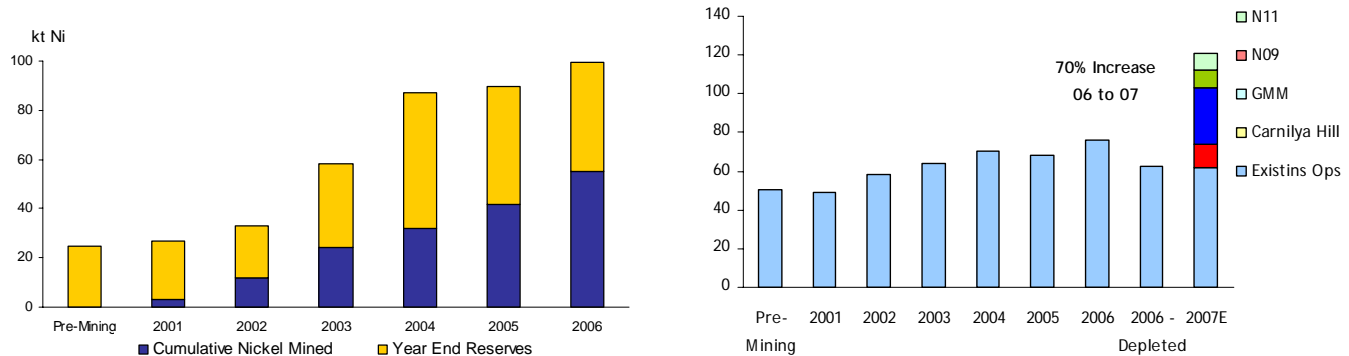
- An initial Carnilya Hill area resource of 389kt grading 4.6% for 17.9kt includes "Zone 29 East" of 1.8kt nickel and exceeds Mincor's targeted 15kt of nickel. The CEO stated that a reserve grade "close to 3% nickel should be achievable". This reduction is due to dilution, especially for the narrower ore zones.
- RBC's Mincor report on 23 March 2007 included production & earnings contributions from Carnilya Hill for the first time – we assume the mine (100%) will produce 200ktpa ore grading 2.9% by 90% recovery for 5.2kt nickel in concentrate. Thus Mincor's 70% share is 3.6kt in the first full year of FY09 at a cash cost of A\$5.73/lb (US\$4.60/lb).
- The feasibility study is incomplete and thus the mining method not chosen. These orebodies are very much a trade-off of **cost versus grade versus production rate**. In other words, grades close to the resource could be mined by inefficient, slow air leg mining. We believe that a semi mechanised method will be chosen, resulting in a mined grade of 3%.
- Management has a sound growth strategy to try to achieve ~20kt pa by 2010, beginning with the Carnilya Hill JV where approval is expected mid-2007. The newly acquired former mines of McMahan & Durkin could be restarted as significant producers in the medium term, but are not included in our forecasts at this time.
- We expect more resource or reserve increases by mid-year, resulting in a 70% increase in Mincor's resources from 70kt to ~120kt at June 2007. Key increases are N09 at Mariners, plunge extensions at North Miitel plus the 17.9kt at Carnilya Hill and 29kt at the old McMahan and Durkin mines acquired from GMM. We rate Mincor as a quality junior nickel miner with an aggressive growth strategy that belies the market's perception of a short mine life.
- **Valuation:** Our price target is A\$3.60 using an unchanged mix of FY07E & FY08 P/E multiples of 7x and a P/CF multiples of 6x. Our NPV is A\$1.96 due largely to an assumed short life at Redross (our base case). We believe the key share price drivers over the next 12 months will be the timely development of Carnilya Hill and several resource upgrades. Furthermore, positive developments are anticipated from the GMM properties. We retain our Outperform, Above Average Risk rating.

Carnilya Hill (70%):

On 23 March, RBC included production and earnings for Mincor's 70% interest in the Carnilya Hill underground nickel mine for the first time. Our assumptions are:

- Capex of A\$25m spent from mid CY07 to early CY08
- Production to begin in the Dec Q 2007, building to 5.2kt (100%)
- Production rate of 200ktpa of ore
- Head grade of 2.9% and mill recoveries of 90%
- Cash costs to range between A\$5.50 to A\$6.00/lb (~US\$4.60/lb)
- EBITDA to peak at about A\$50m in FY09 using a US\$12/lb nickel price.

Exhibit 1: Mincor Reserves (left) and Resource Growth (right)



Source: Company, RBC Capital Markets Estimates

- **Targets:** Mincor aims to build production from **13kt pa to 20ktpa by 2010**. We believe that this target is realistic and achievable and has been endorsed by comments made by CEO David Moore when interviewed on "Open Briefing" on 13 March 2007. David stated that we "could be producing up to 20,000 tonnes of metal ... by the end of the decade." In 18 months time Mincor could be producing from 3 new nickel mines, the CEO stated on 29 March 2007.

Exhibit 1 shows on the left hand side, the growth of reserves before mining commenced up until June 2006. Reserves were 44.7kt nickel at June last year. Reserves are expected to grow by mid year but we have not forecast a figure at this time. To Dec 06, Mincor had produced 2.38Mt at 3.3% for 78.5kt of nickel.

As shown on the right of Exhibit 1, in 2001 and prior to mining commencing, Mincor had resources totaling 50.6kt. By June 2006, Mincor had produced 60kt of nickel and yet still had a further 76kt in resources inclusive of reserves of 44.7kt. At the far right of the exhibit, we show RBC forecasts for resource additions as at June 2007.

Forecast resource additions (first two are actual):

1. **Carnilya Hill area** – 12.5kt (70% of 17.9kt)
2. **GMM** – 29kt acquired on purchase
3. **Miitel** – 10kt for N09
4. **Mariners** – 10kt for the extension of N11

- **Carnilya Hill (70%):** Mincor earned its 70% interest in this former WMC-BHP underground mine by undertaking a drilling program after signing the deal in April 2006. Past production is 1.4Mt grading 3.36% from 1979. The mine was left in a good condition with most of the infrastructure in place and decline access drive within a short distance of the newly delineated orebody. In addition, the plunge of the ore body is very flat, which augers well for possible future expansions.

The orebody has been turned over and thus there is a very competent basalt hanging wall. Kambalda mines typically have a less competent ultramafic wall rock. Metallurgy should be simple and shotcrete protection (an added expense) should not be required. However, the orebody is relatively narrow and will probably be resue mined (waste is blasted from the face prior to blasting the ore zone). The mine is only 25km from the BHP concentrator and similar offtake arrangements apply to Carnilya Hill ore.

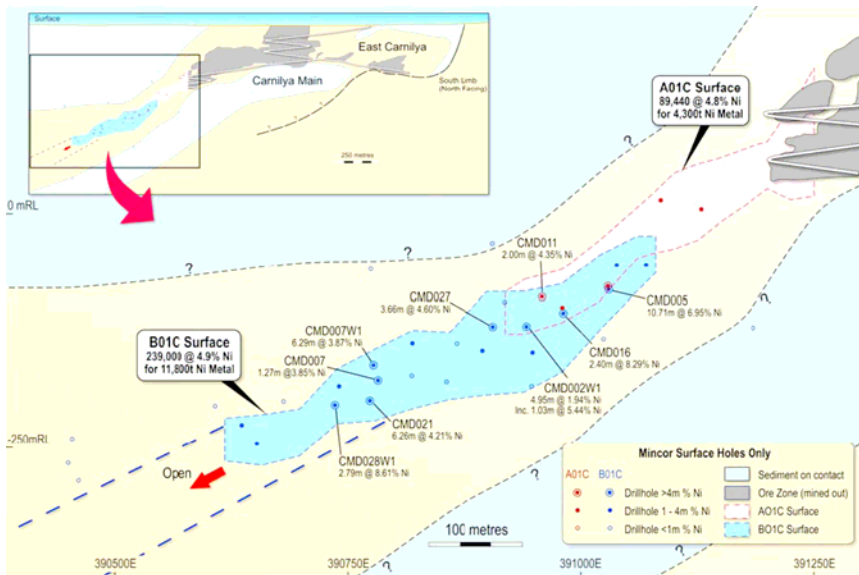
By mid year we expect board approval to proceed, and before year end 2007 production should commence. This will be a mere 18 months since Mincor's farm-in was signed.

Exhibit 2: Mincor Resources Forecast Financial and Operating Summary

Mincor Resources						Stock Rating:	Outperform	Price Target:	A\$3.60				
ASX: MCR	Share Price: (A\$)	3.03	Mkt Cap: (A\$MM)		593.6	Risk Qualifier:	Above Average	NAV:	A\$1.96				
Fiscal Year Ended June						ATTRIBUTABLE MINE STATS							
ASSUMPTIONS		FY06A	FY07E	FY08E	FY09E	FY10E	Nickel Production (100% ownership)						
Exchange Rate	A\$/US\$	0.75	0.77	0.76	0.76	0.74	Miitel	tonnes	6,101	5,577	5,967	5,967	5,967
Spot Nickel Price	US\$/lb	7.05	15.21	13.05	10.80	8.00	Wannaway	tonnes	641	520	632	0	0
Spot Nickel Price	A\$/lb	9.44	19.69	17.17	14.29	10.80	Redross	tonnes	3,999	3,612	3,786	1,893	0
Realised Nickel Price	US\$/lb	6.43	12.24	11.39	10.68	8.00	Mariners	tonnes	2,754	3,359	3,456	3,456	3,456
Realised Nickel Price	A\$/lb	8.84	15.85	14.99	14.13	10.80	Carnilya Hill (70% interest)	tonnes			2,177	3,654	3,654
Cobalt Price	US\$/lb	14.91	23.39	21.50	17.50	12.50	TOTAL	tonnes	13,496	13,068	16,018	14,970	13,077
Realised Cobalt Price	US\$/lb	14.91	23.39	21.50	17.50	12.50	Cash Costs (including Credits):						
Realised Cobalt Price	A\$/lb	19.94	30.24	28.29	23.16	16.90	Miitel	A\$/lb	4.26	6.56	6.23	6.39	6.44
Hedged % of Sales	%		35%	24%	16%	0%	Wannaway	A\$/lb	6.83	9.41	7.93	NA	NA
Hedged Price	US\$/lb		6.46	7.47	9.28		Redross	A\$/lb	4.68	5.55	5.61	5.80	0.00
							Mariners	A\$/lb	7.23	7.50	7.28	7.33	7.38
							Carnilya Hill	A\$/lb			5.37	5.73	5.60
RATIO ANALYSIS		FY06A	FY07E	FY08E	FY09E	FY10E	Reserves & Resources (as at June 2006) - Contained Nickel						
Shares outstanding	MM	195	195	195	195	195	Reserves Ni	%Ni	Rscs Ni*	%Ni			
Reported Net profit	A\$MM	29.3	80.0	106.5	91.4	30.4	Miitel	14.8	2.6	29.8	3.8		
Significant Items	A\$MM	5	0	0	0	0	South Miitel	9.8	2.6	11.26	3.8		
Profit excl. one-offs	A\$MM	24	80	106	91	30	Wannaway	1.0	2.7	4.4	3.2		
EPS	A¢	15.0	41.0	54.5	46.8	15.6	Redross	8.3	3.0	12.5	4.2		
P/E	x	20.2x	7.4x	5.6x	6.5x	19.5x	Mariners	10.9	2.7	15.7	4.5		
CFPS	A¢	27.9	56.9	67.9	59.7	28.0	North Dordie	0.0	0.0	2.2	1.5		
P/CF	x	10.9x	5.3x	4.5x	5.1x	10.8x	Reserves - Contained Nickel	44.7	2.7	75.8	3.9		
Dividend per share	A¢	5.0	12.0	15.0	15.0	8.0	Reserves - Contained Nickel	99		167			
Dividend yield	%	1.7%	4.0%	5.0%	5.0%	2.6%	Enterprise Value/tonne Reserve	13,081		7,710			
Franking Level	%	100%	100%	100%	100%	100%	Enterprise Value/tonne Reserve	10,203		6,014			
Payout Ratio	%	33%	29%	28%	32%	51%	* Resources are inclusive of Reserves						
Effective Tax Rate	%	28%	30%	33%	33%	33%	EARNINGS SENSITIVITY	FY07E	FY08E	FY07E	FY08E		
Book value per share	A\$	0.36	0.56	0.97	1.29	1.31	Nickel Price US\$/oz	+10%	3	12	4%	23%	
P/Book value	x	8.3x	5.4x	3.1x	2.4x	2.3x	-10%	(3)	(11)	-4%	-21%		
R.O.E	%	41%	73%	56%	36%	12%	+10%	(5)	(10)	-8%	-20%		
R.O.A	%	18%	32%	34%	25%	8%	-10%	6	13	10%	26%		
EBITDA	A\$MM	71	145	183	156	63	NICKEL PRODUCTION PROFILE - 100%						
EBITDA per share	A\$	0.36	0.74	0.93	0.80	0.32							
PROFIT & LOSS		FY06A	FY07E	FY08E	FY09E	FY10E							
Revenue	A\$MM	175	298	345	309	202							
Operating costs	"	(96)	(128)	(144)	(134)	(121)							
Mine Operating Profit	"	79	170	200	174	82							
Exploration Expense	"	(5)	(10)	(8)	(8)	(8)							
DD&A	"	(30)	(32)	(27)	(26)	(24)							
Corporate & Other Costs	"	(4)	(15)	(10)	(10)	(11)							
Operating Income (EBIT)	A\$MM	41	113	156	131	39							
Net Interest	"	(0.0)	2	3	6	7							
Pre Tax Profit	"	41	115	159	136	46							
Tax Expense	"	(11)	(35)	(52)	(45)	(15)							
Net profit - as reported	A\$MM	29.3	80	106	91	30							
Significant Items after tax	"	5	0	0	0	0							
Net Profit excl one-offs	A\$MM	24.4	80	106	91	30							
EPS	A¢	15.0	41.0	54.5	46.8	15.6							
DPS	A¢	5.0	12.0	15.0	15.0	8.0							
CASH FLOWS		FY06A	FY07E	FY08E	FY09E	FY10E							
Operating Cash Flow	A\$MM	52	147	183	156	63							
Net Interest	"	0	2	3	6	7							
Tax Paid	"	0	(28)	(52)	(45)	(15)							
Retained Op. Cash Flow	A\$MM	52	121	133	117	55							
Exploration	"	(4)	(12)	(10)	(10)	(10)							
Capital Expenditure	"	(28)	(52)	(50)	(40)	(29)							
Loan Repayments	"	(1)	0	0	0	0							
Funding Surplus/(Deficit)	A\$MM	19	58	73	66	15							
Dividends Paid	"	(8)	(18)	(25)	(29)	(25)							
Borrowings	"	0	0	0	0	0							
Equity Issues	"	0	1	0	0	0							
Other	"	16	(30)	(10)	0	0							
Total Funds Provided	A\$MM	8	(47)	(35)	(29)	(25)							
Net change in cash	"	27	11	37	37	(10)							
Cash at start of year	"	18	45	56	94	131							
Cash at end of year	A\$MM	45	56	94	131	121							
Net Op. CFPS	A\$	0.27	0.75	0.93	0.80	0.32							
BALANCE SHEET		FY06A	FY07E	FY08E	FY09E	FY10E	SHARE VALUATION - as at December 2006						
Cash & equivalents	A\$MM	45	56	94	131	121	Projects	% Ownership	A\$MM	A\$/Shr	%		
Other current assets	"	55	74	74	74	74	Miitel	100%	115	0.59	37%		
PP&E & Other Mining Assets	"	63	113	140	157	164	Wannaway	100%	7	0.04	2%		
Other Non Current Assets	"	1	3	3	3	3	Redross	100%	51	0.26	16%		
Total assets	A\$MM	165	247	310	365	362	Mariners	100%	75	0.39	24%		
Total liabilities	"	94	138	120	113	105	Carnilya Hill	70%	60	0.31	19%		
Total Net Assets	A\$MM	71	109	190	252	257	Total Operating Assets		308	1.57			
Total Debt	"	4	4	4	4	4	Exploration & Other		80	0.41			
Net Debt (Cash)	A\$MM	(41)	(52)	(90)	(127)	(117)	Debt		(4)	(0.02)			
Gearing (net debt : nd+ equity)	%	-134%	-92%	-89%	n.m.	n.m.	Cash		87	0.45			
Gearing (net debt:equity)	%	-57%	-48%	-47%	n.m.	n.m.	Corporate		(87)	(0.45)			
							Net Asset Value - \$A		385	1.96	154%		

Source: Company Reports and RBC Capital Markets estimates

Exhibit 3: Carnilya Hill Cross Section



Source: Company, 29 March 2007

Valuation

We maintain our price target of A\$3.60 using an unchanged mix of FY07E & FY08 P/E multiple of 7x and a P/CF multiple of 6x, in line with multiples for comparable companies. Very high nickel prices persist and this continues to underpin the company's strong financial performance. We maintain our Outperform, Above Average Risk rating.

Price Target Impediments

We have estimated the sensitivity of Mincor's earnings to various factors and they are most sensitive to changes in the nickel price and the A\$/US\$ exchange rate. Mincor processes its ore through the BHP Kambalda concentrator under an estimated 65% profit sharing agreement, and therefore Mincor is not susceptible to potential operating plant failures. Maintaining the license to continue to dispose of saline water from the Mariners mine into Lake Lefroy is a very low risk, in our view. The main operational risk is mining. We do not believe that nickel head grade is high risk, mostly because of the long history of mining in the district. 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, wholly owned underground mines and significant acreage around the Widgiemooltha Dome structure, just south of Kambalda in Western Australia. Mincor is the largest supplier of nickel ore to BHP Nickel West's concentrator in the Kambalda nickel district and has an off-take agreement with the company. Mincor owns the Miitel, Redross, Mariners and Wannaway mines, which collectively are on target to produce 12.5-13.5 kt of nickel in concentrates in FY07 at cash cost of ~US\$4.80/lb. Mincor has no net debt and large cash balance. At June 2006, it had a resource base of 2.016 million tonne grading 3.8%, for 75,831 tonne of contained nickel metal, and reserves of 1.668 million tonne grading 2.7%, for 44,695 tonne of contained nickel.

A substantial exploration program is targeted at defining and extending the limits of the known deposits, as well as seeking new orebodies in the area. The district is highly prospective. Mincor first purchased its nickel mines in 2001 and began production in 2002 and total acquisition cost to Mincor was A\$54 million. Mincor sold its equity in Tethyan Copper for a gross A\$15.7m pre tax in April 06; book value was A\$2.2m. Beginning April 2006, Mincor has earned a 70% interest in the Carnilya Hill nickel project which is expected to be in production by year end 2007. In Dec 2006 Mincor paid A\$30m cash for tenements near Kambalda owned by private group GMM – there are resources of 29kt nickel at former mines McMahon and Durkin. Mincor paid A\$2m cash and is farming into the RAV 8 project, a nickel mine previously operated by Tectonic Resources NL by spending A\$5m over 3 years for an 80% interest.

Required Disclosures

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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.

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.

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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.

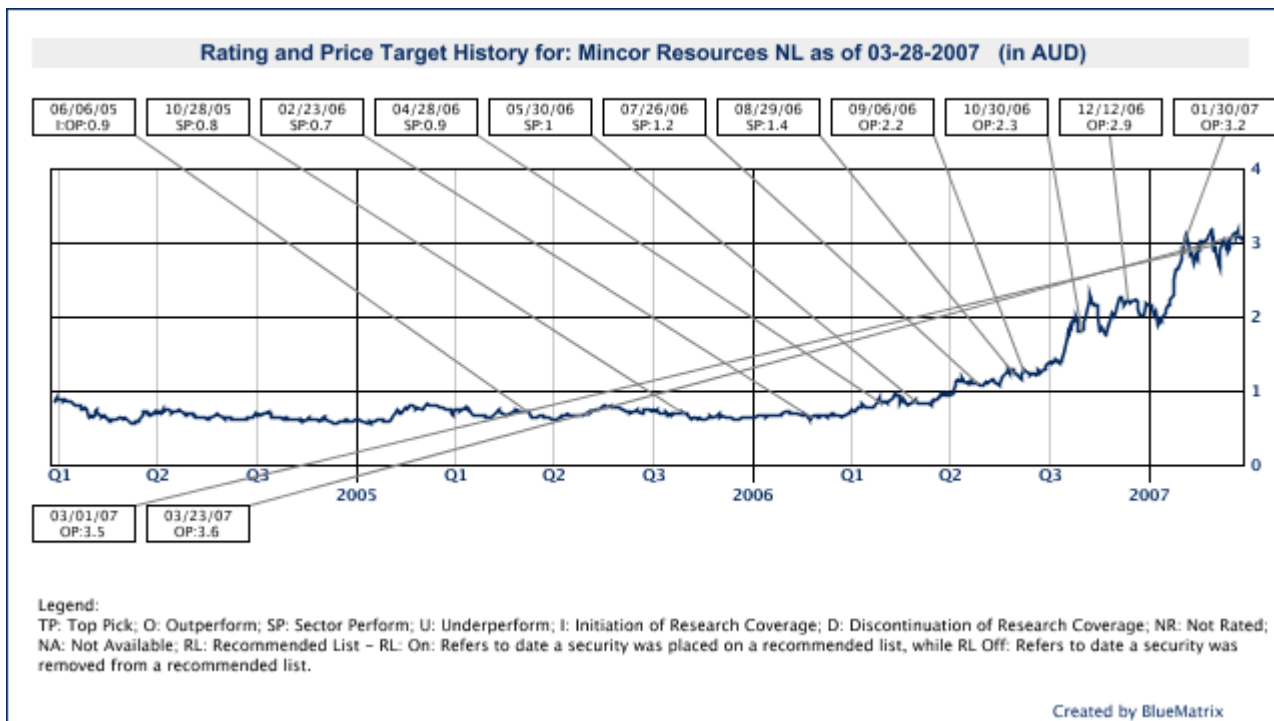
Above Average Risk (AA): Volatility and risk expected to be above sector; below average revenue and earnings predictability; may not be suitable for a significant class of individual equity investors; may have negative cash flow; low market cap or float.

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	Count	Percent	Count	Percent
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SELL [U]	105	10.39	19	18.10



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