INTERSUISSE
INVESTMENT RESEARCH

Mincor Resources

01 February 2007

Steady 2Q07 nickel production underpins strong financial performance

Recommendation: Accumulate for further nickel re-rating | **ASX Code: MCR**

Investment Rating

MCR owns four nickel mines in the Kambalda region of Western Australia. Miitel is the prime contributor followed by Redross and Mariners with only remnant mining at Wannaway. Ore is toll-treated at BHP's Kambalda mill and sold under a long-term offtake agreement. Limited hedging sees MCR leveraged to nickel. Short mine life is a challenge but reserves have successfully been replaced through exploration. The balance sheet is sound with net cash of around $70m. The company is suitable for risk tolerant investors seeking exposure to exploration and development upside.

Event

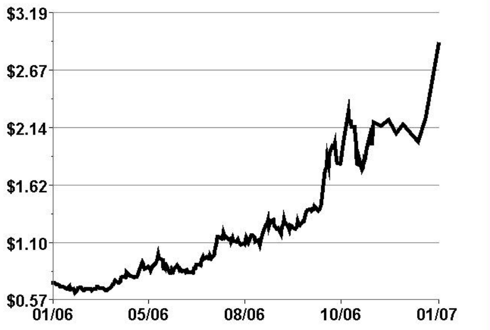
Mid-tier nickel producer, Mincor (MCR), continued to produce at a strong level with saleable output in 2Q07 of 3,276 tonnes (t) of nickel in concentrate, which was down 7% on the previous corresponding period (pcp) but only 14% below the record quarterly total for nickel in concentrate of 3,800t in 4Q06 and only 9% less than the 3,612t produced in the prior quarter (1Q07), taking 1H07 nickel in concentrate sold to a new half-yearly record of 6,888t. The 2Q07 nickel production was achieved from the sale of 157,937t of ore, 15% more than in the pcp but at an average head grade that was 17% lower at 2.44% nickel. While the average cost per pound of nickel was up 40% to $A6.56 in 2Q07, this was more than offset by the estimated 85% higher overall average realised nickel price, despite MCR continuing to have lower priced nickel hedges, which more than justified the mining of lower grade material. MCR had nickel hedges of about 29% of its expected production to December 2008 at an average price of $A21,981 per tonne or less than half the current three month nickel price on the London Metals Exchange of about $43,800 per tonne.

The strong operating and metal price situation in 2Q07 and 1H07 overall enabled MCR to generate a record operating surplus of $42M for 2Q07, taking the total operating surplus for 1H07 to $80M. At the end of 1H07, MCR had a net working capital position of $82M, most of which was in cash and the company continued to have no debt. The strong financial position was achieved after increased exploration and development spending and the company also embarked on a number of corporate deals that involve it acquiring stakes in further nickel projects with nickel resources and nickel exploration potential in WA, such as the purchase of ex-WMC mines and large exploration area from a private group at Kambalda, with Tectonic Resources (TTR) at the now-closed Rav 8 nickel mine near Ravensthorpe and in the earn-in joint venture with Image Resources (IMA) for exploration tenements west of MCRs existing operations.

MCR continued with its broader exploration strategy for additional resources around its operating mines and advanced its studies of the now 70% owned interest in the old Carnilya Hill nickel mine at Kambalda, where it has commenced a pre-feasibility study and expects to announce a first resource estimate for the new discovery zone below the old workings. The company also continued with its Australia-wide gold and base metal exploration with active drilling and associated exploration programs on several projects, including its 100% owned Gascoyne tungsten project, and the 100% owned Tottenham copper project in NSW.

Last Price	$2.90
Market Cap.	$567 million
52 Week High	$2.93
52 Week Low	$0.63
Shares on Issue	195.5 million
Sector	GICS - Materials

1 Year Price Chart



Business Description

Mincor Resources NL (MCR, formerly Africwest Gold NL) is a mining and exploration company with interests in nickel production and precious and base metals exploration. MCR is focused in the Kambalda Nickel District, where it has been in production since 2001.

INTERSUISSE LIMITED ABN 14 002 918 247
ASX Market Participant AFS Licence No. 246827
Internet: www.intersuisse.com.au
e-mail: intersuisse@intersuisse.com.au

Melbourne - Level 37, 530 Collins Street, Melbourne, Vic, Australia 3000
Telephone: (+613) 9629 8288 Facsimile (+613) 9629 8882
Sydney - Level 7, 5 Elizabeth Street, Sydney, NSW, Australia 2000
Telephone: (+612) 9233 2100 Facsimile (+612) 9233 2117

MCR initiated new exploration programmes for several zinc projects, including the Tipperary project in Ireland, where MCR is earning an 85% interest, the 100% owned Georgina Basin project in Queensland and the 100% owned Bonaparte project in WA. MCR also began preliminary exploration drilling for uranium at its 100% owned Dundas gold and uranium project in WA.

Impact

The latest production and ore sales information for MCR indicate the company is on track to achieve record earnings in FY07. We have marginally lifted our FY07 and FY08 earnings forecasts for MCR to take into account the treatment of lower grade ore and higher nickel prices so that we now expect the company to report profits in FY07 and FY08 of about $85M and $91M respectively, equivalent to earnings per share of 43.1 cents and 45.4 cents respectively.

While we recognise MCR has traditionally paid only modest levels of dividends, we estimate the company will have a 240% higher free cash flow of about $128M in FY07 and although free cash flow is forecast to decline to about $77M in FY08 (when actual tax payments rise significantly from the profit jump in FY07), it will still be more than enough to enable the company to pay more generous dividends in those years and in the future. We believe MCR is easily able to make total dividend payments of 10.0 cents per share in FY07 and FY08 (which represent relatively modest payout ratios of only 23% and 21% respectively) after outlaying funds for feasibility studies and developments along with the $30M cash component for the acquisition of the additional Kambalda interests (which also involves subsequent royalty payments) and expanded exploration programs.

We believe MCR is still the most attractively priced nickel stock in the Australian market and that despite its strong share price performance over the past few weeks, during which the price has moved up from around $2 to a peak of $2.97 today. At the current price, the stock is still only priced on a prospective price/earnings (P/E) ratio of about 6.8 times and 6.5 times for FY07 and FY08 respectively. These P/E ratios are significantly below the P/E ratios for the other Australian nickel stocks, as we estimate the P/Es for them range from around 9 to 10 times for Sally Malay Mining (SMY), Minara Resources (MRE) and Independence Group (IGO) to about 15 times for Jubilee Mines (JBM) and over 20 times for Western Areas (WSA) in FY07 although WSAs FY08 prospective P/E should decline to about 7 as the newly begun Forestania mining operation ramps up to full production.

We believe the market has been slow to fully re-rate MCR because of MCRs prolonged period of underperformance in the past, but that the company is now on a strong growth path and is well placed to develop into a solid, mid tier diversified mining company over the next few years based on its strong nickel earnings and base. We see a target share price for MCR over the next year or so of at least $3.50 as the company brings on additional nickel output notwithstanding a decline in the nickel price over that time. Accordingly, we reiterate our previous positive recommendation on MCR for risk tolerant investors seeking growing returns in the resources sector and recommend accumulation of the stock.

Issued for Intersuisse by Peter Russell.