



Mincor Resources BUY

Current Price: **\$1.54**
Valuation: **\$2.12**

Ticker: **MCR**
Sector: **Materials**

Shares on Issue (m): **200.2**
Market Cap (\$m): **307.3**
Net Cash (\$m): **97.9**
Enterprise Value (\$m): **209.4**

52 wk High/Low: **\$2.92** **\$0.59**
12m Av Daily Vol (m): **1.18**

Key Metrics

	09A	10F	11F
P/E (x)	-18.3	8.4	5.8
EV/EBITDA (x)	6.8	2.3	1.9

Financials:

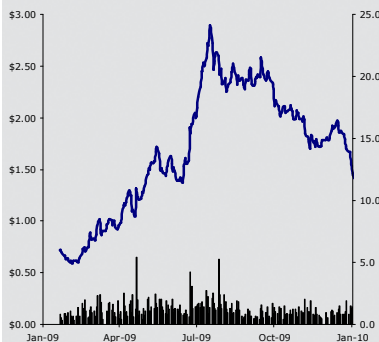
	09A	10F	11F
Revenue (\$m)	186.7	191.0	245.5
EBIT (\$m)	-26.2	52.7	76.1
NPAT (\$m)	-16.8	36.8	53.2

	09A	10F	11F
Net Assets (\$m)	199.3	288.0	394.2
Op CF (\$m)	39.8	105.5	135.6

Per Share Data:

	09A	10F	11F
EPS (cps)	-7.7	17.0	24.5
DPS (cps)	2.0	7.0	7.0
Div Yield	1.3%	4.6%	4.6%
CFPS (cps)	18.3	48.6	62.5

Share Price Graph



Analysts:
Troy Irvin
Tim Serjeant

19 February 2010

Dirt cheap nickel leverage

Leveraged Kambalda nickel miner Mincor Resources (MCR) has reported NPAT of \$14.2m for the December H and a 3c interim dividend. Operating cash flow for the 6 months was \$49.8m and free cash flow was \$31.0m.

On the production front the Company continues to impress. Cost performance remains a highlight with an 8% reduction in cash operating costs to A\$5.29/lb (pcp A\$5.76/lb).

The evolution of Mariners is a good example of MCR's production prowess. When Argonaut first visited the mine in May 2006, the operators were battling challenging ground conditions, high dilution and water ingress. Cash costs were >A\$7/lb, the head grade was <2%, and resources were 16kt Ni. Today the "Lazarus under Lake Zot" is delivering cash costs of <A\$6/lb, a head grade >3%, and despite almost 4 years of mining, resources are 27kt Ni.

On the exploration front MCR was busy finding new ore bodies in the December Q:

- A wide, high-grade intersection (13.5m at 3.6% Ni, true width ~4.1m) at Mariners could herald the discovery of the N11 ore body
- Five additional high-grade drill intersections confirm the discovery of a new ore body at South Miitel

The reinvigorated exploration effort (6 underground drill rigs, 2 surface rigs, annual budget \$16m) will translate into increased resources and reserves, and ultimately mine life. MCR has consistently maintained reserves ahead of production since starting mining in 2001.

MCR is also focusing on Company-changing exploration opportunities. During the current March Q a long underground hole is expected to intersect a high priority "Ultra-Sized Nickel Ore Body" target from a position in the Otter Juan mine. The potential prize is >100kt Ni.

Following a contractor change-over at Mariners, Argonaut forecasts FY10 production of 13kt Ni in concentrate. Assuming that Miitel is restarted in the September Q 2010 (Miitel is a 5-6ktpa swing factor with 100kt of developed ore) this estimate rises to 18kt in FY11.

Assuming US\$8.00/lb nickel and AUD/USD of 0.88 over the next 2 years MCR is valued at \$2.12. Today's stock price of \$1.54 is justified by a nickel price of US\$5.50/lb. At spot nickel and spot exchange rate the valuation is \$2.55.

BUY

Mincor Resources NL

Equities Research
Analyst: Troy Irvin

Recommendation BUY
Current Price \$1.54
Valuation \$2.12
All Ords (XAO) 4,674

Sector Materials
Issued Capital (m) 200.2
Market Cap (m) \$307.3
Updated 19-February-2010

Profit & Loss (\$m) 30 June	2009A	2010E	2011E
Sales Revenue	186.7	191.0	245.5
Other Income	5.1	4.7	8.1
Operating Costs	125.0	92.3	125.4
Depn & Amort	57.1	36.7	36.4
Exploration Expensed	10.1	6.0	7.6
Corporate/Admin	8.0	8.0	8.1
Impairment	17.9	0.0	0.0
EBIT	-26.2	52.7	76.1
Interest Paid	0.2	0.1	0.1
Operating Profit	-26.4	52.6	76.0
Tax Expense	-9.7	15.8	22.8
Minorities	0.0	0.0	0.0
NPAT	-16.8	36.8	53.2
Normalised NPAT	-16.8	36.8	53.2

Financial Summary	2009A	2010E	2011E
Reported Earnings			
Net Profit (\$m)	(16.8)	36.8	53.2
EPS (cents)	(7.7)	17.0	24.5
PER (x)	(18.3)	8.4	5.8
Normalised Earnings			
Net Profit (\$m)	(16.8)	36.8	53.2
EPS (cents)	(7.7)	17.0	24.5
EPS Growth (%)	(124.3)	(320.5)	44.6
PER (x)	(18.3)	8.4	5.8
Cashflow			
Gross (Op.) Cashflow (\$m)	39.8	105.5	135.6
GCFPS (cents)	18.3	48.6	62.5
PCF (x)	8.4	3.2	2.5
Dividend			
Dividend (cents)	2.0	7.0	7.0
Yield (%)	1.3	4.6	4.6
Franking %	100	100	100

Cash Flow (\$m)	2009A	2010E	2011E
Operating Cashflow	39.8	105.5	135.6
- Capex	43.7	24.9	18.3
- Exploration	9.6	15.0	15.3
- Asset Purchases (+ Asset Sales)	6.6	0.0	0.0
Free Cashflow	(20.1)	65.5	102.0
- Dividends	16.0	10.0	14.0
+ Equity Raised	0.1	0.0	0.0
+ Debt Drawdown (Repaid)	(0.9)	0.0	0.0
Net Change in Cash	(36.8)	55.5	88.0
Cash at End Period	75.7	131.3	219.3

Financial Ratios	2009A	2010E	2011E
Balance Sheet Ratios			
Total Debt / Equity (%)	0.7	0.7	0.5
Interest Cover (x)	-139.0	406.5	1174.1
Acid test ratio (x)	4.9	2.5	3.1
Profitability Ratios			
Net Profit Margin (%)	-9.0	19.3	21.7
Return on Assets (%)	-14.9	36.2	54.9
Return on Equity (%)	-8.4	12.8	13.5

Balance Sheet (\$m)	2009A	2010E	2011E
Total Assets	251.2	276.8	357.8
Total Debt	1.5	2.0	2.0
Total Liabilities	51.9	-11.2	-36.3
Shareholders Funds	199.3	288.0	394.2

Valuation Summary	A\$m	A\$/sh
South Kambalda Operations	188.2	0.87
North Kambalda Operations	82.5	0.38
Bluebush	20.0	0.09
Forward Sales	3.0	0.01
Corporate	-12.3	-0.06
Exploration	80.0	0.37
Unpaid Capital	1.4	0.01
Cash Estimate	99.4	0.46
Debt	-1.5	-0.01

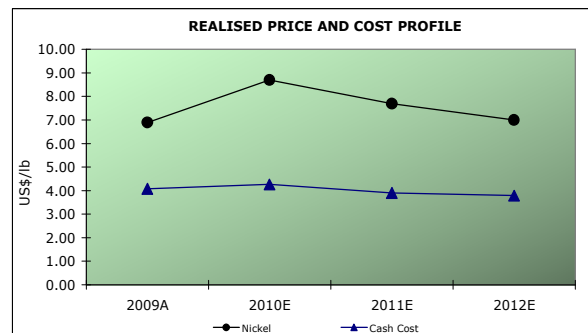
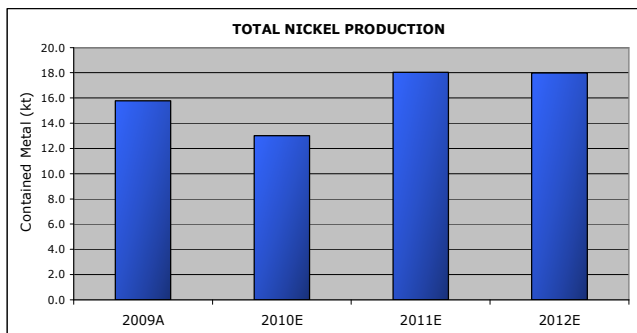
Production Summary	2009A	2010E	2011E
Total Nickel Production (kt)	15.8	13.0	18.0
Ni Cash Cost - net of credits (US\$/lb)	4.08	4.26	3.90
Ni Price Realised (US\$/lb)	6.90	8.70	7.69

Total @ 10% discount rate **461** **2.12**

Reserves & Resources (30 June 2009)						
Nickel	Reserves			Resources		
	Mt	% Ni	Ni (kt)	Mt	% Ni	Ni (kt)
Mariners	0.34	2.7	9.0	0.71	3.9	27.2
Redross	0.03	3.5	1.2	0.24	3.2	7.5
Mittel	0.47	2.7	12.4	0.82	3.6	29.1
Wannaway	0.04	2.9	1.1	0.14	3.0	4.2
Carnilya Hill	0.13	3.2	4.1	0.17	4.5	7.6
Otter-Juan	0.31	3.4	10.5	0.58	3.7	21.7
McMahon / Ken	0.29	2.4	7.1	0.39	4.0	15.6
Durkin				0.38	5.1	19.4
Gellatly				0.03	3.4	1.0
Stockwell				0.56	3.1	17.1
Cameron				0.10	3.3	3.2
Total	1.61	2.8	45.4	4.10	3.8	153.7

Directors	
David Humann	Non-Executive Chairman
David Moore	Managing Director
Jack Gardener	Non-Executive Director
Ian Burston	Non-Executive Director

Substantial Shareholders	
Blackrock	7.5



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