



July 23, 2013

Mincor Resources NL

A Strong June Q; \$13m Writedown Flagged

Our View: Mincor finished FY13 strongly beating full year production and cost guidance. The company continues to deliver operationally, but its share price continues to be weighed down by low prevailing nickel prices. We don't expect Mincor's share price to outperform peers without success on the exploration front or a material improvement in the nickel price.

Key Points:

- **A Strong June Q:** Production of 2.68kt of Ni-in-ore was up 38% on a weak March Q and well ahead of our 2.3kt forecast. Costs were also down 27% Q-on-Q and materially better than our A\$5.45/lb estimate. FY13 production of 9.67kt of Ni-in-ore at A\$5.34/lb beat company guidance of 9kt at A\$5.50/lb.
- **FY13 A\$21-23m Reported Loss Flagged:** Mincor has flagged two non-cash writedowns in its upcoming FY13 result. The company has decided to write down the A\$11.4m in exploration spend to date in PNG as well as an additional A\$2m impairment to the carrying value of McMahon. Excluding one-off items, we forecast an underlying FY13 loss of A\$11.5m.
- **First Guidance for FY14:** Mincor expects FY14 production of 8.5-9kt of Ni-in-ore at cash costs including royalties of A\$5.30/lb. Capital and exploration guidance for FY14 are A\$15m and A\$7m respectively.
- **A Change in Exploration Focus:** In addition to its near-mine nickel exploration, Mincor's near-term exploration focus is on the MW gold soil anomaly near its nickel mines in Kambalda, where aircore drilling is planned for August. Mincor regards this as a 'very exciting' target. Mincor plans to wind down its exploration spend in PNG given the high-cost environment in PNG and low prevailing nickel prices.
- **Modest Cash Burn:** Despite tough prevailing nickel prices, Mincor's cash burn was only A\$2.5m for the quarter with cash on hand falling to A\$59.7m, which we regard a good result in the current climate.
- **Changes & Impact:** In light of the tough outlook for nickel and the company's plans to wind down exploration in PNG, we reduce our notional exploration value to A\$25m (A\$50m). This and other changes leads to a 19% drop in our NAV to A87c (A\$1.06).
- **Valuation:** We maintain Sector Perform but reduce our price target 20% to A60c (A75c) on an unchanged 0.7x NAV, in line with comparable peers.

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Sector Perform

ASX: MCR; AUD 0.54

Price Target AUD 0.60 ↓ 0.75

WHAT'S INSIDE

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Scenario Analysis*



*Implied Total Returns

Key Statistics

Shares O/S (MM):	188.7	Market Cap (MM):	102
Dividend:	0.04	Yield:	7.4%
NAVPS:	0.87	P/NAVPS:	0.6x
BVPS:	0.79	P/BVPS:	0.7x
ROE:	0.0%	Enterprise Val. (MM):	42
Float (MM):	188.7	Avg. Daily Volume (MM):	1.06
Debt to Cap:	0%		

Share price as at close on the ASX on 23 July, 2013.

RBC Estimates

FY Jun	2011A	2012A	2013E	2014E
EPS (Op) - FD	(0.12)	0.00	(0.12)	0.05
Prev.			(0.06)	(0.01)
P/E	NM	NM	NM	10.8x
CFPS - FD	0.11	0.18	0.13	0.14
Prev.				0.08
P/CFPS	4.9x	3.0x	4.2x	3.9x
DPS	0.04	0.04	0.04	0.04
Div Yield	7.4%	7.4%	7.4%	7.4%
Prod.	9	0	0	0
Prev.		9	8	6

All values in AUD unless otherwise noted.

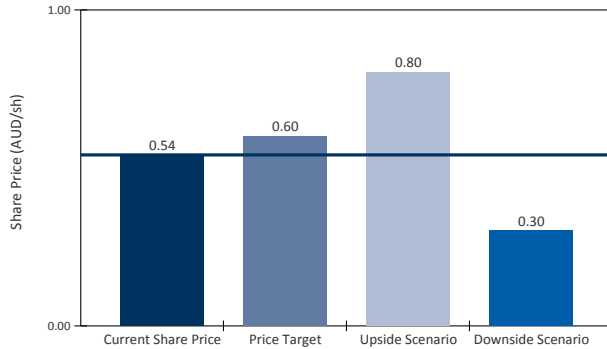
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Target/Upside/Downside Scenarios

Exhibit 1: Mincor Resources NL



Source: RBC Capital Markets estimates

Target Price/ Base Case

We maintain Sector Perform but reduce our price target to A60c (A75c) on an unchanged 0.7x NAV, in line with comparable peers.

Upside Scenario

Our upside scenario forecasts higher throughput and grades at Mariners and Miitel and gives greater value to exploration.

Downside Scenario

Our downside scenario gives no valuation to exploration and runs a flat US\$7.00/lb nickel price. Cash backing is A32c per share.

Investment Thesis

We expect Mincor to perform in line with peers based on:

- **Relative value** – On our forecasts, the ASX nickel space is trading on an average P/NAV of ~0.4–0.7x, compared to Mincor on 0.6x.
- **Leveraged to recovery** – Mincor's assets are marginal at spot prices and we do not expect the company to outperform peers unless there is a material improvement in the nickel price.



Exhibit 2: Mincor Operating and Financial Forecasts

Mincor Resources						Sector Perform							
ASX: MCR	Share Price: (A\$)	0.54	Implied Return:	19%	Stock Rating:								
Issued Shares (m)	188.7	Mkt Cap: (A\$MM)	102	Ent Value (A\$MM)	42	Price Target:	A\$0.60						
Fiscal Year Ended June						NAV:	A\$0.87						
ASSUMPTIONS						ATTRIBUTABLE MINE STATS							
		FY11	FY12	FY13E	FY14E	FY15E	FY11	FY12	FY13E	FY14E	FY15E		
Exchange Rate	A\$/US\$	0.99	1.03	1.03	0.94	0.92	Group Ni-in-ore Production						
Spot Nickel Price	US\$/lb	10.88	8.75	7.44	7.57	8.50	Mariners	"	2.5	3.7	3.4	4.8	3.4
Spot Nickel Price	A\$/lb	10.99	8.45	7.24	8.06	9.30	Mittel	kt	3.0	2.4	3.3	3.8	2.5
Realised Nickel Price	US\$/lb	10.89	9.61	7.91	7.57	8.50	McMahon / Coronet	"	0.1	1.7	2.2	0.3	-
Realised Nickel Price	A\$/lb	11.01	9.30	7.69	8.06	9.30	Otter-Juan	"	3.1	1.7	0.8	-	-
Colbalt Price	US\$/lb	19.80	15.56	12.52	12.84	12.90	Carnilya Hill (70%)	"	1.6	0.8	-	-	-
Realised Colbalt Price	US\$/lb	19.80	15.56	12.52	12.84	12.90	Total Nickel-in-Ore Production	kt	10.3	10.3	9.7	8.8	5.9
Realised Colbalt Price	A\$/lb	20.05	15.04	12.19	13.66	14.10	Ni-in-Ore Production Guidance		13.5-14.5	15-16	9.0	8.5-9.0	
Hedged Sales	tonnes	2,040	1,320	0	0	0	Group Cash Costs						
Hedged Price	US\$/lb	10.95	12.77	0.00	0.00	0.00	Cash Costs incl royalties	A\$/lb	7.95	5.77	5.38	5.42	6.17
						Cash Cost Guidance							
						5.50 5.30							
RATIO ANALYSIS						Reserves & Resources - Contained Nickel							
		FY11	FY12	FY13E	FY14E	FY15E					June 2012		
Shares outstanding	MM	200	189	189	189	189	* Resources are inclusive of Reserves						
EPS	A¢	(11.7)	0.1	(12.5)	4.6	2.7	P+P Reserve	%Ni	M+I Resource		%Ni		
P/E	x	n.m.	n.m.	n.m.	n.m.	20.2x	Mariners	kt	12.7	4.0	20.3	4.6	
CFPS	A¢	11.1	17.9	12.6	13.9	11.2	Mittel	kt	7.8	3.1	17.7	4.0	
P/CF	x	4.9x	3.0x	4.3x	3.9x	4.8x	McMahon	kt	2.3	3.1	5.4	3.6	
Dividend per share	A¢	4.0	4.0	4.0	4.0	4.0	Otter Juan	kt	0.4	3.3	6.1	4.6	
Dividend yield	%	7.4%	7.4%	7.4%	7.4%	7.4%	Carnilya Hill (70%)	kt			2.4	3.0	
Franking Level	%	100%	100%	100%	100%	100%	Wannaway	kt	1.1	2.9	2.9	2.6	
Payout Ratio	%	-34%	n.m.	-32%	87%	148%	Redross	kt	1.6	3.3	5.9	3.3	
Effective Tax Rate	%	30%	78%	16%	30%	30%	Others	kt			39.6	3.6	
Book value per share	A\$	0.91	0.79	0.65	0.66	0.65	Total		25.9	3.5	100.3	3.9	
P/Book value	x	0.6x	0.7x	0.8x	0.8x	0.8x	Contained Nickel (mlbs)						
R.O.E	%	-14%	0%	-19%	7%	4%	Enterprise Value / tonne (A\$'000/t)						
R.O.A	%	-11%	0%	-15%	5%	3%	Enterprise Value / tonne (US\$'000/t)						
EBITDA per share	A\$	-0.04	0.17	0.09	0.15	0.11	57 221						
EV/EBITDA	x	-4.9x	1.3x	2.4x	1.5x	2.0x	1.6 0.4						
EV/EBIT	x	(0.4)	(21.7)	0.0	0.0	0.0	1.6 0.4						
EBITDA Margin	%	-6%	27%	18%	28%	28%							
PROFIT & LOSS						NICKEL PRODUCTION PROFILE - 100%							
		FY11	FY12	FY13E	FY14E	FY15E	10,000 Ni-in-conc sales (tonnes)						
Revenue	A\$MM	147	119	98	98	75	7,500						
Operating costs	"	(103)	(69)	(64)	(59)	(45)	5,000						
Mine Operating Profit	"	44	50	34	39	30	2,500						
Exploration Expense	"	(10)	(4)	(7)	(5)	(5)	0						
Corporate & Other Costs	"	(43)	(13)	(9)	(6)	(4)							
EBITDA	"	-9	32	18	28	21							
DD&A	"	(28)	(34)	(47)	(18)	(16)							
Operating Income (EBIT)	"	(37)	(1)	(29)	10	5							
Net Interest Income	"	3	2	1	2	2							
Pre Tax Profit	"	(33)	1	(28)	12	7							
Tax Expense	"	10	(1)	5	(4)	(2)							
Reported NPAT	A\$MM	(23)	0	(24)	9	5							
Significant Items after tax	"	(17)	0	(12)	0	0							
Underlying Net Profit	A\$MM	(6)	0	(12)	9	5							
CASH FLOWS						ALL IN SUSTAINING COSTS							
		FY11	FY12	FY13E	FY14E	FY15E	12 US\$/lb						
Operating Cash Flow	A\$MM	26	41	23	33	26	8						
Net Interest	"	0	0	1	2	2	6						
Tax Paid	"	0	0	0	(4)	(2)	4						
Retained Op. Cash Flow	A\$MM	26	41	24	31	26	2						
Exploration	"	(10)	(9)	(11)	(7)	(7)	0						
Capital Expenditure	"	(39)	(21)	(18)	(15)	(10)	0						
Loan Repayments	"	0	0	0	0	0	0						
Funding Surplus/(Deficit)	A\$MM	(23)	10	(4)	9	10	0						
Dividends Paid	"	(16)	(8)	(8)	(8)	(8)	0						
Borrowings	"	0	0	0	0	0	0						
Equity Issues	"	0	(9)	0	0	0	0						
Other	"	(1)	(5)	(4)	0	0	0						
Total Funds Provided	A\$MM	(17)	(22)	(12)	(8)	(8)	0						
Net change in cash	"	(39)	(11)	(16)	2	2	0						
Cash at start of year	"	127	87	76	60	62	0						
Cash at end of year	A\$MM	87	76	60	62	64	0						
BALANCE SHEET						SHARE VALUATION							
		FY11	FY12	FY13E	FY14E	FY15E							
Cash & equivalents	A\$MM	87	76	60	62	64	% Ownership						
Other current assets	"	38	30	27	27	27	Mariners	100%	57	0.30	59%		
PP&E & Other Mining Assets	"	81	72	58	58	53	Mittel	100%	32	0.17	33%		
Other Non Current Assets	"	4	2	10	29	48	McMahon	100%	5	0.03	6%		
Total assets	A\$MM	211	180	155	175	191	Total Operating Assets		97	0.51	100%		
Total liabilities	"	40	30	32	51	69	Exploration & Other		28	0.15			
Total Net Assets	A\$MM	171	150	124	125	122	Debt		0	0.00			
Total Debt	"	0	0	0	0	0	Cash		60	0.32			
Net Debt (Cash)	A\$MM	(87)	(76)	(60)	(62)	(64)	Corporate		(21)	(0.11)			
Gearing (net debt:nd+equity)	%	-105%	-103%	-93%	-98%	-109%	Net Asset Value		164	0.87	0.62x		
Gearing (net debt:equity)	%	-51%	-51%	-48%	-49%	-52%							

Source: Company reports, RBC Capital Markets Estimates



Valuation

We maintain Sector Perform but reduce our price target to A60c (A75c) on an unchanged 0.7x NAV, in line with comparable peers.

Price Target Impediments

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 3–4 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.

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. The company has a substantial exploration program. Mines were first purchased in 2001 for A\$54m and production began in 2002. In April 2006, Mincor increased its share of Carnilya Hill to 100%. 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.



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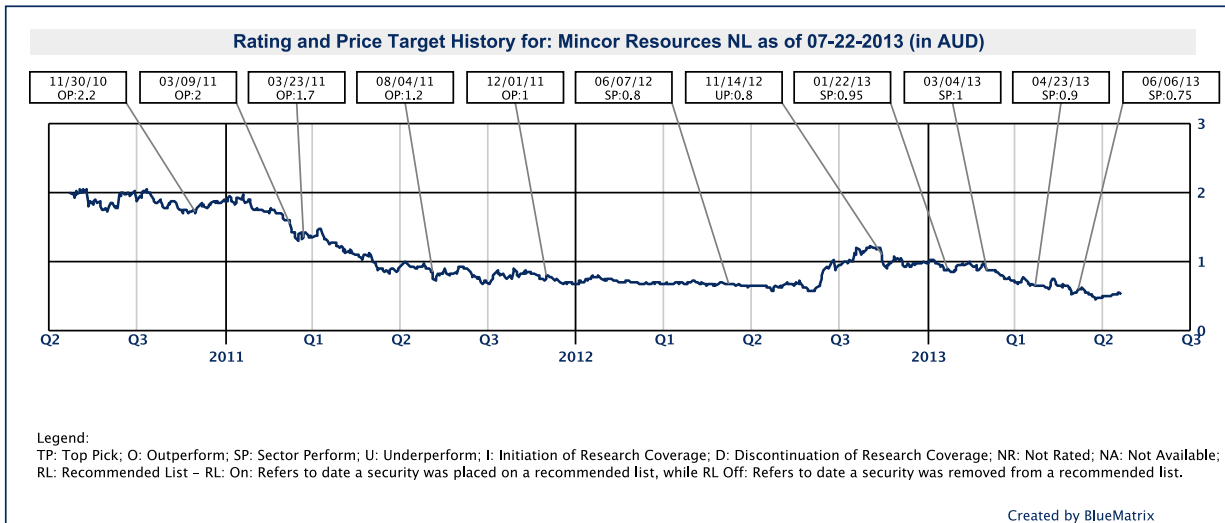
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