

Mincor Resources

(ASX: MCR)

Outperform

Above Average Risk

Site Visit – Focus on Growth & Orebody Expansions

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Price:	\$3.12	Price Target:	\$3.60	
Capital Return			15.4%	
Prospective Dividend Yield			3.8%	
Implied All-in Return			19.2%	
52 Wk High:	\$3.30	52 Wk Low:	\$0.66	
Float (MM):	195	Debt-to-Cap (MM):	0%	
Shares Out:	195	Market Cap (MM):	609	
2006 Dividend:	\$0.05	Yield:	1.6%	
Tr. 12 ROE:	41.2%	3-Yr EPS Gr:	211%	
Trading Volume:	1.51	P/NAV	1.58	
Major Shareholders:			Widely Held	
(FY June)	2006A	2007E	2008E	2009E
EPS	\$0.15	\$0.41	\$0.55	\$0.47
P/E	20.8x	7.6x	5.7x	6.7x
CFPS	\$0.28	\$0.57	\$0.68	\$0.60
P/CFPS	11.1x	5.5x	4.6x	5.2x
EPS		H1		H2
2006A		\$0.05		\$0.10
2007E		\$0.21		\$0.20
2008E		\$0.24		\$0.30
Cash Flow		H1		H2
2006A		\$0.13		\$0.15
2007E		\$0.29		\$0.28
2008E		\$0.31		\$0.37
Assumptions	2006A	2007E	2008E	2009E
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 noted.

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

For Required Disclosures, please see page 8.

Event

Mincor has a clearly defined and sound growth strategy to grow to ~20kt pa nickel by 2010 and it now has the resources to deliver this target. We include Carnilya Hill for the first time and retain our Outperform rating.

Investment Opinion

- 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 contribution from Carnilya Hill is included at the rate of 5ktpa (100%) for the first time. The newly acquired former mines of McMahon & Durkin could be restarted as significant producers in the medium term.
- We expect several resource or reserve increases by mid-year; we forecast a 70% increase in Mincor's resources from 70kt to ~120kt at June 2007. Key increases are to be N09 at Mariners, down plunge extensions at North Miitel plus an initial +15kt resource at Carnilya Hill. Furthermore, 29kt of resources will be added for the old McMahon and Durkin mines acquired from GMM.
- FY07 earnings are little changed despite lowering production to 13.1kt (13.6kt), close to the mid-point of the 12.5-13.5kt guidance. A weaker March Q has been included. Carnilya Hill contributes to earnings from FY08 and hence we raise profit 5% to A\$107m.
- We remain very positive on the outlook for nickel, but are forecasting a correction from the current giddy heights. The metal is certainly supply constrained for at least the next two years but some substitution is possible. Mincor is a quality junior nickel miner with an aggressive growth strategy that belies market perception of short mine life.
- **Valuation:** Our price target rises A\$3.60 (A\$3.50) using an unchanged mix of FY07E & FY08 P/E multiples of 7x and a P/CF multiples of 6x. Our NPV decreases to A\$1.97 (A\$2.16) due largely to an assumed short life at Redross (our base case). 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.

Mincor Site Visit:

Last week we visited Mincor's nickel mines south of Kambalda on the Widgiemooltha Dome, a little over an hour's drive from Kalgoorlie in Western Australia. The key findings are the confirmation of reserve/resource expansions and confirmation of the company's growth prospects through new projects. This mid sized ASX listed nickel producer and developer is in very good shape to be able to deliver on its expansion plans to attain 20kt nickel by 2010.

Site Visit Summary:

- Reserve / resource expansions:** By June 2007, we expect resource or reserve increases from "N09" at Mariners, the northward strike extension beyond N11 at North Miitel, the down plunge extension at South Miitel and an initial resource at Carnilya Hill. Also, 29kt of nickel resource will be added for the old McMahon and Durkin mines acquired from GMM and we forecast total Mincor nickel resources to **rise by about 70% from 70kt at June 2006 to ~120kt at June 2007**, net of depletion of ~15kt.
- New Projects:** The recent acquisitions of Carnilya Hill and GMM's Kambalda properties are expected to result in expanded production from late 2007. In our view, the company's aim to produce 20kt of nickel by 2010 is a realistic target and for the first time, we include production from Carnilya Hill in our forecasts beginning in FY08.

Exhibit 1: Mincor's Kambalda Mines and Tenements



Source: Company

Carnilya Hill (70%):

RBC is including 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 begins in the Dec Q 2007 building to 5kt (100%)
- Production rate of 200ktpa of ore
- Head grade of 2.9% and mill recoveries of 90%
- Cash costs estimated to range between A\$5.50 to A\$6.00/lb (~US\$4.60/lb)
- EBITDA is forecast to peak at about A\$50m in FY09 using a US\$12/lb nickel price.

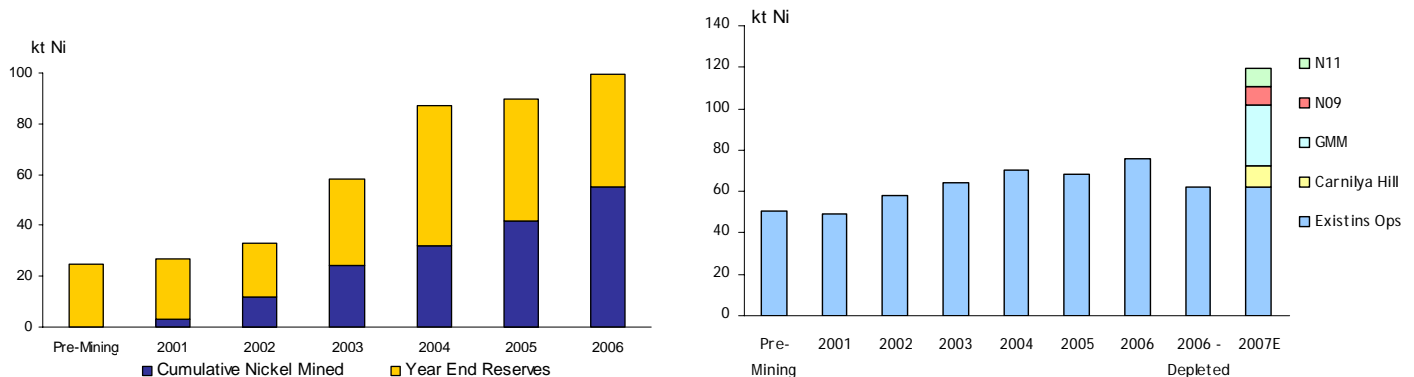
Refer to the Earnings Revision section later in this note for further the summary of earnings changes.

Expansion Focus:

Mincor operates four modest sized underground nickel mines on the Widgiemooltha Dome south of Kambalda and is producing around 13kt pa at present. Over the past year or so it has acquired what can be termed three advanced nickel projects broadly within the Kambalda area – Carnilya Hill, GMM tenements and RAV8. We believe that “sticking to their knitting” will prove very beneficial for shareholders. Several members of senior management are highly experienced and have spent more than 20 years working in the Kambalda region. This is very important when judging whether Mincor can successfully deliver on its growth strategy. We believe that they can!!

- Production:** Company guidance, issued early in the fiscal year, is to produce **12.5-13.5kt in FY07** and around the mid point of 13kt is probably appropriate according to management. We have lowered our FY07 production from 13.6kt to 13.1kt due to the mostly one-off factors impacting the March Q 2007. Production promises to be stronger in the June Q when higher grades are accessed. For example better grades in Redross and in N11 at Miitel should ensure Mincor achieves at least 13kt in FY07, in our view.
- March Q 2007:** Nickel production in the current March Q will be down on previous Qs due to three factors 1. a ventilation upgrade at Mariners when a large fan was changed. 2. Grades have been lower than normal especially at the flagship Miitel mine due to the mining sequence. 3. Contractor Barminco has been experiencing a shortage of operators for jumbos and loaders (an industry wide problem).

Exhibit 2: 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 7 mines, up from 4 mines at present.

Exhibit 2 shows on the left hand side, the growth of reserves from 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 2, 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. On the right side of the RH exhibit, we show RBC forecasts for resource additions as at June 2007.

Forecast resource additions:

- Carnilya Hill** – 10kt (or 70% of 15kt targeted)
- GMM** – 29kt acquired on purchase
- Miitel** – 10kt for N09
- Mariners** – 10kt for the extension of N11

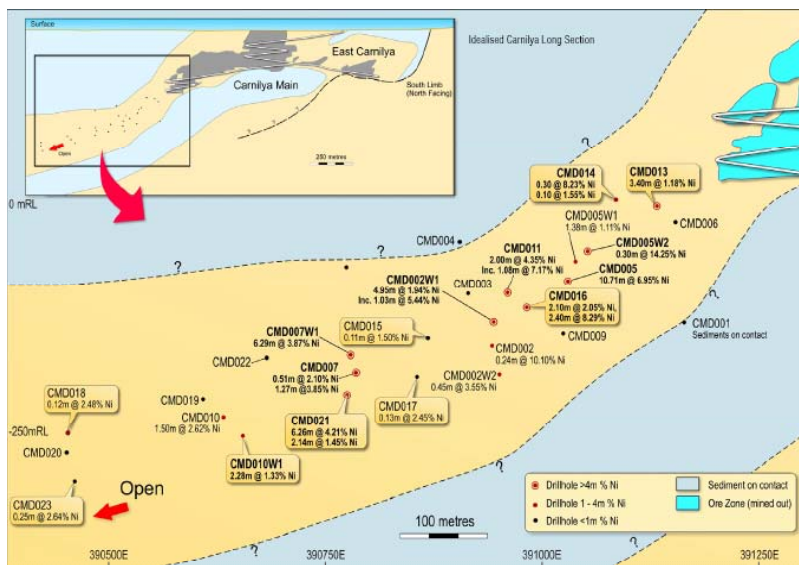
- Mine Lives:** Mincor suffers from the *perception* of short mine lives. In some ways this is accurate (there is no purpose drilling out major plunge extensions a long way ahead of working faces) but as shown above, the company has more nickel in resources today than in 2001, prior to mining. Management is working very hard to address modest mine lives and its recent acquisitions will go a long way to address this perception.

- Carnilya Hill (70%):** Mincor has earned its 70% interest in this former WMC-BHP underground mine by undertaking a drilling program after signing the deal in April 2006. Mincor met with immediate success and the results of the feasibility study and a reserve are due in about 2 months time. 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.

An initial resource is due by the end of March and ~15kt nickel is the company's initial aim. 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 3: Carnilya Hill Cross Section



Source: Company

- GMM Pty Ltd Acquisition:** For A\$30m cash, Mincor is acquiring tenements in the Central Kambalda district from a private group that also owns the profitable operating Otter-Juan mine in the centre of the leases, mining down to 1,300m depth. These ex WMC properties include the old **McMahon and Durkin mines** which contain 29kt of resources – a great start and sufficient to get “two decent-sized mines into production in the short term” according to management.

Most of these Kambalda mines closed in the mid 1980s when nickel sank to near record low prices. The down plunge of McMahons looks very prospective to management (“best area on the Kambalda Dome” was the comment from them), some of whom have worked on these leases over a period of 20+ years. They know the area extremely well and negotiated what we regard as a very good deal. The private group has focused totally on Otter-Juan and virtually no drill holes have been put into the area since 1998. Historic production is a significant 153kt nickel.

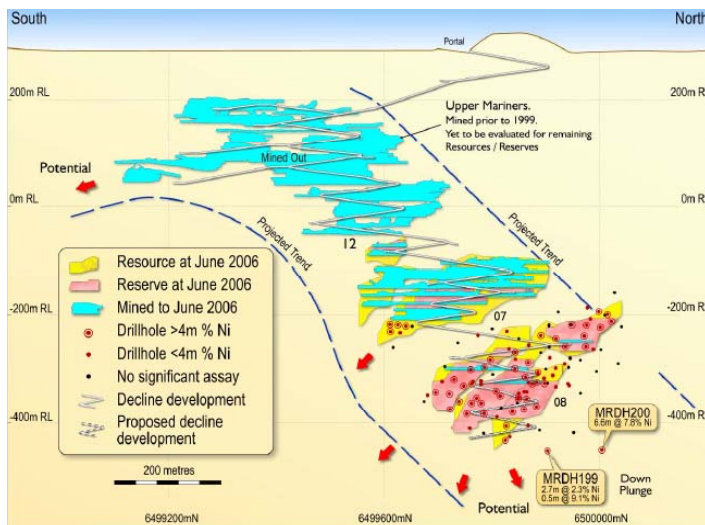
Perhaps the most important comment is from MD, David Moore, who on *Open Briefing* stated “**that this area could become a centre to rival our existing operational centre**”. This is an apparently bold statement from an MD who is regarded as quite conservative by nature. RBC has not included production from these mines at this time – early days! As with all ex WMC mines in the area, this property has an existing offtake agreement with new owner BHP.

- RAV 8:** Mincor recently paid A\$2m to Tectonic Resources and farmed into this old Carnilya Hill look-alike mine. Mincor is earning 80% by spending A\$5m over 3 years. Past production is 460kt at 3.46% for 15kt of nickel, again good grade, down to ~300m depth. It is a high grade and high tenor nickel orebody and past drilling was only extended 60m beneath underground workings.

Mincor is once more seeking the down plunge extension of the orebody beneath 300m depth and RAV 8 is regarded as a “high quality target” with **potential to find 1Mt of ore grading 3.5% nickel**. Mineralisation is similar to the mines on the Widgiemooltha Dome and there is good infrastructure allowing a low cost re-development. Mincor will begin work within 2 months at RAV 8. We include no value for Mincor from RAV 8 at this time

- **Miitel Extensions:** Drilling down plunge from the “N11” orebody has been very successful at **North Miitel** and the orebody remains open. This resource update is “due soon” and we expect a further one year or **~7kt of nickel** may be added to the mine life.
- **Mariners Extension:** There have been some excellent drill results in the “N09” discovery such as 5m at 7% nickel. There is more drilling to complete and **a reserve for N09 should be released by about mid year**. Ground conditions are good and Mincor is pleased with progress at this mine, which was re-commissioned in early 2005 after the mine had been dewatered.

Exhibit 4: Mariners Mine Cross Section Showing Plunge Extensions



Source: Company

- **Redross:** this is a very good mine with higher grade and better ground conditions but it has perhaps an 18 month life remaining and despite the exploration effort, an extension is yet to be found. The orebody appears open but intercepts have proven to be elusive to date.
- **Financials:** Mincor had cash of A\$87m at Dec 06 and no debt. It has a policy to regularly hedge nickel to cover two years of production costs. The good news is that this policy requires less hedging at record nickel prices and the average price of the hedge book is rising. Hedging covers about ~30% of production over the next two years on our forecasts.

Valuation

We raise our price target to A\$3.60 (A\$3.50) 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.

Earnings Revisions

We have made only slight changes to FY07 earnings as lower nickel production is offset by higher realized price. In FY08, our earnings forecast has increased 5% to A\$107m due to the initial inclusion of Carnilya Hill.

Our NPV is reduced by 9% to A\$1.97 largely as a result of two factors:

- An end to mining at Redross in two years time, previously four years – this is a conservative base case.
- Higher capex for Carnilya Hill development partly offset by positive cash flow from the new mine.

Exhibit 6: Mincor Earnings Revisions

Fiscal 2007		Revised	Previous	% Change
NPAT	A\$m	80.0	80.7	(1%)
EPS	¢	41.0	41.4	(1%)
DPS	¢	12.0	12.0	0%
Gross Cashflow	A\$m	111.6	112.6	(1%)
Cashflow/share	¢	57.1	57.7	(1%)
Nickel Production	kt	13.1	13.6	(4%)
Cash Costs	US\$/lb	5.12	4.90	5%
Realized Nickel Price	US\$/lb	12.24	11.82	4%
Fiscal 2008				
NPAT	A\$m	106.5	101.4	5%
EPS	¢	54.5	51.9	5%
DPS	¢	15.0	13.0	15%
Gross Cashflow	A\$m	133.0	128.1	4%
Cashflow/share	¢	68.1	65.6	4%
Nickel Production	kt	16.0	13.8	16%
Cash Costs	US\$/lb	4.76	4.89	(3%)
Realized Nickel Price	US\$/lb	11.39	11.80	(3%)
Valuation (A\$/share)		1.97	2.16	(9%)

Source: RBC Capital Markets Estimates

Exhibit 7: Mincor Resources Forecast Financial and Operating Summary

Mincor Resources						Stock Rating:	Outperform	Price Target:	A\$3.60				
ASX: MCR	Share Price: (A\$)	3.12		Issued Shares (m)	195.9	Mkt Cap: (A\$MM)	611.2	Risk Qualifier:	Above Average	NAV:	A\$1.96		
Fiscal Year Ended June													
ASSUMPTIONS						ATTRIBUTABLE MINE STATS							
Exchange Rate	A\$/US\$	0.75	0.77	0.76	0.76	0.74	Nickel Production (100% ownership)						
Spot Nickel Price	US\$/lb	7.05	15.21	13.05	10.80	8.00	Mittel	tonnes	6,101	5,577	5,967	5,967	5,967
Spot Nickel Price	A\$/lb	9.44	19.69	17.17	14.29	10.80	Wannaway	tonnes	641	520	632	0	0
Realised Nickel Price	US\$/lb	6.43	12.24	11.39	10.68	8.00	Redross	tonnes	3,999	3,612	3,786	1,893	0
Realised Nickel Price	A\$/lb	8.84	15.85	14.99	14.13	10.80	Mariners	tonnes	2,754	3,359	3,456	3,456	3,456
Cobalt Price	US\$/lb	14.91	23.39	21.50	17.50	12.50	Carnilya Hill (70% interest)	tonnes			2,177	3,654	3,654
Realised 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	A\$/lb	19.94	30.24	28.29	23.16	16.90	Cash Costs (including Credits):						
Hedged % of Sales	%		35%	24%	16%	0%	Mittel	A\$/lb	4.26	6.56	6.23	6.39	6.44
Hedged Price	US\$/lb		6.46	7.47	9.28		Wannaway	A\$/lb	6.83	9.41	7.93	NA	NA
							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						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	Mittel	14.8	2.6	29.8	3.8		
Significant Items	A\$MM	5	0	0	0	0	South Mittel	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	20.8x	7.6x	5.7x	6.7x	20.0x	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	11.2x	5.5x	4.6x	5.2x	11.2x	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	%	1.6%	3.8%	4.8%	4.8%	2.6%	Enterprise Value/tonne Reserve	13,476		7,943			
Franking Level	%	100%	100%	100%	100%	100%	Enterprise Value/tonne Reserve	10,511		6,195			
Payout Ratio	%	33%	29%	28%	32%	51%	<i>* Resources are inclusive of Reserves</i>						
Effective Tax Rate	%	28%	30%	33%	33%	33%	EARNINGS SENSITIVITY						
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	8.6x	5.6x	3.2x	2.4x	2.4x	Exchange Rate	-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							
							REALISED NICKEL PRICE VS CASH COST						
							SHARE VALUATION - as at December 2006						
							Projects	% Ownership	A\$MM	A\$/Shr	%		
							Mittel	100%	115	0.59	37%		
							Wannaway	100%	7	0.04	2%		
							Redross	100%	51	0.26	16%		
							Mariners	100%	75	0.39	24%		
							Carnilya Hill	70%	60	0.31	19%		
							Total Operating Assets		308	1.57			
							Exploration & Other		80	0.41			
							Debt		(4)	(0.02)			
							Cash		87	0.45			
							Corporate		(87)	(0.45)			
							Net Asset Value - \$A		385	1.96	159%		

Source: Company Reports and RBC Capital Markets estimates

March 23, 2007

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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

Explanation of RBC Capital Markets Rating System

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.

Underperform (U): Returns expected to be materially below 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.

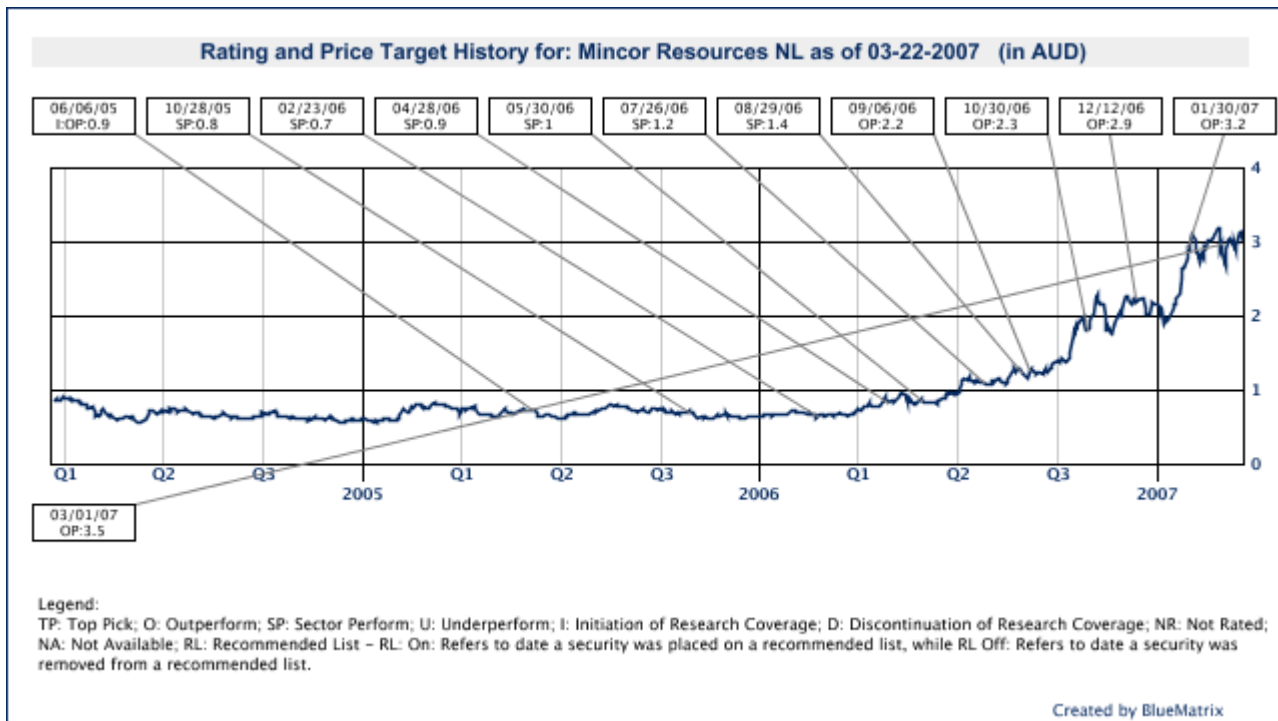
Above Average Risk (AA): Volatility and risk expected to be above sector; below average revenue and earnings predictability; may not be suitable for a significant class of individual equity investors; may have negative cash flow; low market cap or float.

Speculative (Spec): Risk consistent with venture capital; low public float; potential balance sheet concerns; risk of being delisted.

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Rating	Distribution of Ratings, Firmwide			
	RBC Capital Markets		Investment Banking Serv./Past 12 Mos.	
	Count	Percent	Count	Percent
BUY [TP/O]	438	43.41	172	39.27
HOLD [SP]	468	46.38	144	30.77
SELL [U]	103	10.21	19	18.45



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