

PRICE TARGET REVISION | COMMENT

FEBRUARY 18, 2009

Mincor Resources NL (ASX: MCR)
Building Free Cash Flow through Cycle Lows

Sector Perform
Above Average Risk

Price:	0.72	Price Target:	0.75 ↑ 0.60
Shares O/S (MM):	198.9	Implied All-In Return:	21%
Dividend:	0.12	Market Cap (MM):	143
NAVPS:	1.34	Yield:	16.7%
BVPS:	1.20	P/NAVPS:	0.5x
ROE:	24.0%	P/BVPS:	0.6x
Float (MM):	198.9	Enterprise Val. (\$MM):	86.4
Debt to Cap:	0%	Avg. Daily Volume (MM):	1.60

Price at the close on 18 February 2009 (Australian Eastern Standard Time)

Event

Small interim loss, A\$56m cash and building. Maintain SP and increase target to A\$0.75 (A\$0.60).

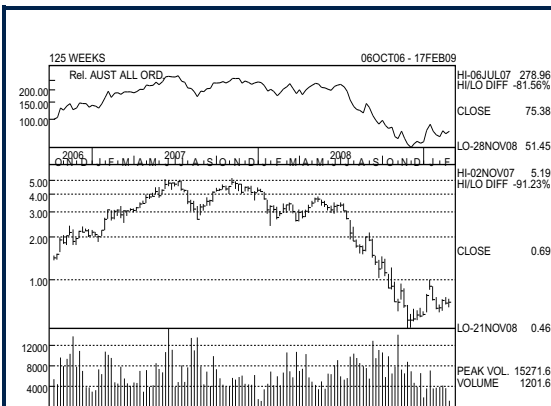
Investment Opinion

The small A\$5.4m normalised loss for 1H met guidance, and the A2c dividend was a positive signal for management's outlook. Operations have been rationalised and going forward we forecast Mincor to be cashflow positive, after all costs. At 31 Dec 08, Mincor had A\$56m cash, no debt, and we see it as a low financial risk, leverage play on the nickel price.

- **Loss:** Mincor reported a 1H09 headline loss of A\$22.7m, incl. a cash provisional pricing adj. of A\$8.4m and a non-cash impairment of A\$17.3m. Normalised profit for H1 ex impairment was a A\$5.4m loss compared to our estimate of an A\$9m loss. This was Mincor's first ever net loss!
- **Interim dividend:** We consider the A2c fully franked dividend as positive, suggesting that management believes operations are now at a sustainable level. We did not expect the company to pay an interim dividend and now forecast A2c per half year through FY11.
- **Cash:** At 31 Dec 08, Mincor had cash of A\$56m, and no debt. Cash was below our forecast, but the timing of a tax refund in January was a key reason. Cash was A\$112m at 30 Jun 08, but we endorse guidance that cashflow should build going forwards. This is a distinguishing feature of Mincor, and we project cash to build by ~A\$9m in the current half. Attractive nickel hedging builds cash a further A\$20m in FY10.
- **Impairments:** A\$17.3m of impairments, comprised A\$9.3m for Miitel, A\$7.1m for McMahan and A\$0.9m for Wannaway. These charges were not unexpected in the context of falling asset values across the industry.
- **Guidance:** Current half guidance is 6.5-7.5kt of Ni in ore, and sustainable exploration and capex of A\$15m, funded from cashflow. This implies FY09 production of 15.0-15.5kt of Ni in conc.
- **Earnings:** Our forecasts are in line with guidance - a small 2H profit and a A\$3m normalised loss for FY09.
- **Valuation:** We raise our price target to A\$0.75 (A\$0.60) based on a mix of 3.0x P/CF for FY09 and FY10 and a 50% discount to NPV. In our view, Mincor is a low financial risk leverage play on the nickel price. We maintain our Sector Perform, and Above Average Risk rating.

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

For Required Disclosures, please see Page 6.



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FY Jun	2007A	2008A	2009E	2010E
EPS (Op) - FD	0.52	0.29	(0.01)	0.00
Prev.			(0.03)	(0.04)
P/E	1.4x	2.5x	NM	NM
CFPS - FD	0.69	0.57	0.27	0.26
Prev.			0.17	0.16
P/CFPS	1.0x	1.3x	2.7x	2.8x
EPS (Op) - FD		H1		H2
2007		0.19A		0.33A
2008		0.16A		0.13A
2009		(0.05)E		0.04E
Prev.				0.02E
2010		0.00E		0.00E
Prev.				(0.04)E
CFPS - FD				
2007		0.27A		0.42A
2008		0.31A		0.26A
2009		0.16E		0.11E
Prev.		0.06E		
2010		0.16E		0.10E
Prev.		0.10E		0.06E

All values in AUD unless otherwise noted.

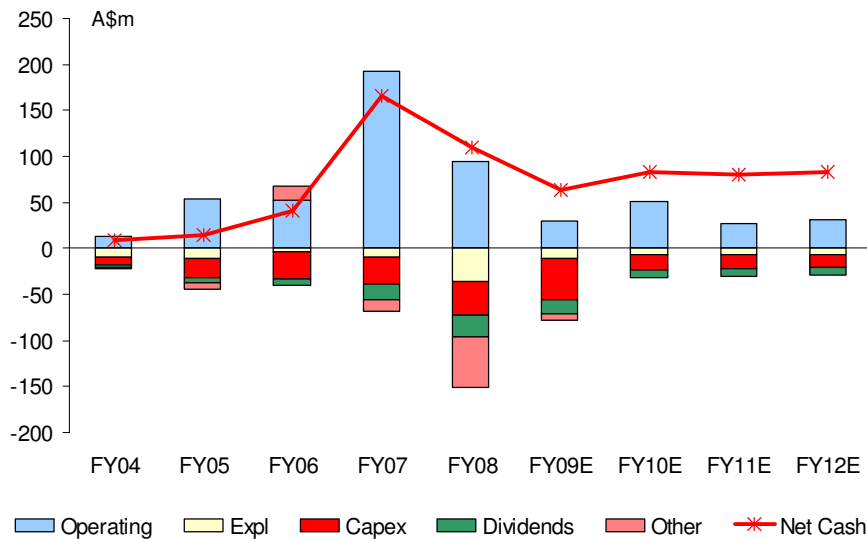
Interim Dividend a Positive Signal

Mincor reported a ‘no surprises’ interim headline loss of A\$22.7m. The focus in these times is on cashflow and we summarise Mincor’s position as follows:

- EBITDA of A\$11.6m after PP of A\$8.4m was satisfactory in the circumstances
- Net operating cash outflow was A\$56.6m - major payments were capex A\$32m, dividends A\$12m, acquisitions A\$6m and tax paid A\$14m
- Net cashflow from operations was A\$15m, down from A\$71m previously.

In Exhibit 2 we demonstrate the health of Mincor, highlighting the steady decline in cash over the last 2 years and recent reversal. Major expenditure in the current half is A\$15m on capex and exploration, to be funded from cashflow, with a surplus estimated at A\$9m.

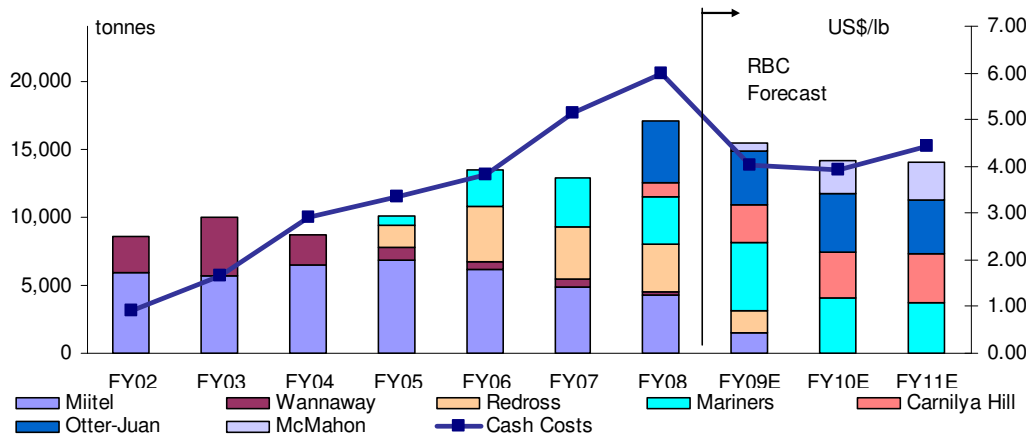
Exhibit 1: Mincor - Mine Production & Cash Costs by Quarter



Source: Company data, RBC Capital Markets estimates

Current half guidance is 6.5-7.5kt of Ni in ore, and sustainable exploration and capex of A\$15m, funded from cashflow. This implies FY09 production of 15.0-15.5kt of Ni in conc. Production is summarised in Exhibit 2 below.

Exhibit 2: Nickel in Concentrate Production - FY02 though FY11E



Source: Company reports and RBC Capital Markets estimates

Earnings Revisions

We have slightly raised earnings for FY09 principally due to lower D&A charges. Similarly in FY10 which benefits from attractive nickel hedging program. We have included a A2c interim dividend through FY11 for a total of A4c per year.

Exhibit 3: Mincor Resources Earnings Revisions

		FY09			FY10			FY11		
		Revised	Prev.	%	Revised	Prev.	%	Revised	Prev.	%
Normalised NPAT	A\$m	(2.6)	(5.4)	(52%)	0.6	(8.0)	(108%)	(14.9)	(13.2)	12%
EPS	¢	(1.3)	(2.8)	(52%)	0.3	(4.1)	(108%)	(7.6)	(6.8)	12%
DPS	¢	4.0	2.0	100%	4.0	2.0	0%	4.0	2.0	0%
Gross Cashflow	A\$m	54.6	32.8	66%	51.5	31.0	66%	34.0	25.8	31%
Cashflow/share	¢	27.4	16.5	66%	25.9	15.6	66%	17.1	13.0	31%
Nickel Production	kt	15.4	14.7	5%	14.1	13.5	5%	14.0	14.5	(3%)
Cash Costs	US\$/lb	4.03	4.20	(4%)	3.94	4.16	(5%)	4.42	4.72	(6%)
Realised Nickel Price	US\$/lb	6.73	6.77	(1%)	6.36	6.15	3%	6.00	6.00	0%
Valuation (A\$/sh)		1.34	1.23	9%						

Source: Company Reports and RBC Capital Markets estimates

Exhibit 4: Mincor Resources Forecast Financial & Operating Summary

Mincor Resources																
ASX: MCR	Share Price: (A\$)	0.72		Stock Rating:	Sector Perform	Price Target:	A\$0.75									
Issued Shares (m)	Mkt Cap: (A\$MM)	143.2		Risk Qualifier:	Above Average	NAV:	A\$1.34									
Return	4%															
Fiscal Year Ended June																
ASSUMPTIONS																
Exchange Rate	A\$/US\$	FY07	FY08	FY09E	FY10E	FY11E	ATTRIBUTABLE MINE STATS									
Spot Nickel Price	US\$/lb	17.37	12.92	5.78	5.50	6.00	Nickel Production (100% ownership)									
Spot Nickel Price	A\$/lb	21.97	14.45	7.85	8.02	8.34	Mittel	tonnes	4,901	4,174	1,555	0	0			
Realised Nickel Price	US\$/lb	14.28	12.69	6.73	6.36	6.00	Wannaway	"	519	265	0	0	0			
Realised Nickel Price	A\$/lb	18.12	14.17	9.33	9.29	8.34	Redross	"	3,891	3,325	1,558	0	0			
Cobalt Price	US\$/lb	23.39	39.32	21.41	13.00	12.00	Mariners	"	3,616	3,445	4,947	4,032	3,696			
Realised Cobalt Price	US\$/lb	23.39	39.32	21.41	13.00	12.00	Carnilya Hill	"		1,023	2,806	3,392	3,634			
Realised Cobalt Price	A\$/lb	29.64	43.51	28.61	19.00	16.70	Otter-Juan	"		4,417	3,923	4,273	3,895			
Hedged Sales	tonnes	2,994	3,450	1,440	1,010	0	McMahon	"			585	2,452	2,802			
Hedged % of Sales	%	23%	21%	9%	7%	0%	Total Nickel in Conc									
Hedged Price	US\$/lb	0.00	12.41	12.60	11.64	11.45	tonnes	12,927	16,648	15,373	14,148	14,027				
RATIO ANALYSIS																
Shares outstanding	MM	195	196	196	196	196	Cash Costs (including Credits):									
Reported Net profit	A\$MM	101	57	(20)	1	(15)	Wannaway	A\$/lb	6.77	8.37	5.22	0.00	0.00			
Significant Items	A\$MM	0	0	(17)	0	0	Redross	"	9.64	9.49						
Profit excl. one-offs	A\$MM	101	57	(3)	1	(15)	Mariners	"	5.24	6.43	7.10	0.00	0.00			
EPS	Ac	51.9	29.3	(1.3)	0.3	(7.6)	Carnilya Hill	"	7.35	7.56	5.65	7.03	7.78			
P/E	x	1.4x	2.5x				Otter-Juan	"		3.94	5.94	5.29	5.47			
CFPS	Ac	68.5	56.6	27.4	25.9	17.1	McMahon	"		5.04	5.17	5.29	5.56			
P/CF	x	1.1x	1.3x	2.6x	2.8x	4.2x	Average Cash Costs									
Dividend per share	Ac	12.0	12.0	4.0	4.0	4.0	A\$/lb	6.59	6.71	5.54	5.75	6.14				
Dividend yield	%	16.7%	16.7%	5.6%	5.6%	5.6%	US\$/lb	5.18	6.02	4.03	3.94	4.42				
Franking Level	%	100%	100%	100%	100%	100%	US\$/lb	11.54	7.46	3.79	3.54	2.20				
Payout Ratio	%	23%	41%	-39%	1224%	-53%	US\$/lb	9.07	6.69	2.75	2.43	1.58				
Effective Tax Rate	%	30%	33%	-36%	30%	30%	Reserves & Resources - Contained Nickel									
Book value per share	A\$	0.76	1.20	1.01	0.91	0.77	* Resources are inclusive of Reserves									
P/Book value	x	1.0x	0.6x	0.7x	0.8x	0.9x	Reserves Ni	%Ni	Rescs Ni*		%Ni					
R.O.E	%	67%	24%	-10%	0%	-10%	Mittel	24.7	2.5	39.9	3.8					
R.O.A	%	33%	17%	-7%	0%	-5%	Wannaway	0.8	2.3	1.9	3.2					
EBITDA	A\$MM	176	134	49	50	26	Redross	5.3	2.9	10.3	4.2					
EBITDA per share	A\$	0.90	0.68	0.25	0.26	0.13	Mariners	10.6	2.7	31.1	4.5					
EV/EBITDA	x	-0.1	0.2	1.6	1.2	2.4	Carnilya Hill	7.7	2.4	11.3	4.6					
EV/EBIT	x	-0.2	0.4	(2.3)	(80.2)	(2.7)	Otter Juan	11.1	3.9	19.8	4.9					
EBITDA Margin	%	53%	41%	25%	27%	15%	McMahon/Durkin +	0.0	0.0	29.9	4.3					
PROFIT & LOSS																
Revenue	A\$MM	330	323	195	188	168	Reserves - Contained Nickel		60.2	2.8	144.2	4.3				
Operating costs	"	(124)	(170)	(134)	(130)	(134)	Reserves - Contained Nickel		133		318					
Mine Operating Profit	"	206	152	61	58	34	Enterprise Value/tonne Reserve		549		229					
Exploration Expense	"	(10)	(13)	(9)	(4)	(4)	Earnings Value/tonne Reserve		428		179					
DD&A	"	(35)	(55)	(83)	(51)	(49)	EARNINGS SENSITIVITY									
Corporate & Other Costs	"	(20)	(6)	(4)	(4)	(4)	Nickel Price US\$/oz		+10%	29	18%					
Operating Income (EBIT)	A\$MM	141	78	(34)	(1)	(23)	Exchange Rate		-10%	(29)	-18%					
Net Interest Income	"	4	7	3	2	2			+10%	(26)	-16%					
Pre Tax Profit	"	145	85	(31)	1	(21)			-10%	32	20%					
Tax Expense	"	(44)	(28)	11	(0)	6	NICKEL PRODUCTION PROFILE - 100%									
Net profit - as reported	A\$MM	101	57	(20)	1	(15)										
Significant Items after tax	"	0	0	(17)	0	0										
Net Profit excl one-offs	A\$MM	101	57	(3)	1	(15)	<th colspan="5">SHARE VALUATION</th>					SHARE VALUATION				
EPS	Ac	51.9	29.3	(1.3)	0.3	(7.6)	Projects		% Ownership	A\$MM	A\$/Shr	%				
DPS	Ac	12.0	12.0	4.0	4.0	4.0	Mittel		100%	19	0.09	10%				
CASH FLOWS																
Operating Cash Flow	A\$MM	201	94	31	50	26	Redross		100%	5	0.03	3%				
Net Interest	"	0	0	1	2	2	Mariners		100%	38	0.19	21%				
Tax Paid	"	(8)	0	(1)	(0)	0	Carnilya Hill		100%	50	0.25	28%				
Retained Op. Cash Flow	A\$MM	192	94	30	52	28	Otter-Juan		100%	51	0.26	28%				
Exploration	"	(9)	(35)	(11)	(6)	(6)	McMahon		100%	19	0.09	10%				
Capital Expenditure	"	(29)	(37)	(44)	(18)	(17)	Total Operating Assets			182	0.92					
Loan Repayments	"	0	0	(0)	0	0	Exploration & Other			50	0.25					
Funding Surplus/(Deficit)	A\$MM	154	21	(25)	28	5	Debt			0	(0.01)					
Dividends Paid	"	(18)	(24)	(16)	(8)	(8)	Cash			56	0.28					
Borrowings	"	0	0	0	0	0	Corporate			(20)	(0.10)					
Equity Issues	"	2	2	0	0	0	Net Asset Value - \$A			266	1.34	54%				
Other	"	(14)	(56)	(6)	0	0										
Total Funds Provided	A\$MM	(30)	(78)	(22)	(8)	(8)										
Net change in cash	"	124	(57)	(47)	20	(3)										
Cash at start of year	"	45	170	112	65	86										
Cash at end of year	A\$MM	170	112	65	86	83										
Net Op. CFPS	A\$	1.03	0.48	0.16	0.26	0.13										
BALANCE SHEET																
Cash & equivalents	A\$MM	170	112	65	86	83										
Other current assets	"	77	55	84	84	84										
PP&E & Other Mining Assets	"	58	145	112	81	50										
Other Non Current Assets	"	7	17	15	39	60										
Total assets	A\$MM	311	329	277	290	278										
Total liabilities	"	161	90	77	108	125										
Total Net Assets	A\$MM	150	238	201	182	153										
Total Debt	"	3	2	2	2	2										
Net Debt (Cash)	A\$MM	(166)	(110)	(63)	(84)	(81)										
Gearing (net debt : nd+ equity)	%	1044%	-86%	-46%	-85%	-112%										
Gearing (net debt:equity)	%	-111%	-46%	-32%	-46%	-53%										

Source: Company Reports and RBC Capital Markets estimates

Valuation

We raise our price target to A\$0.75 (A\$0.60) based on a mix of 3.0x P/CF for FY09 and FY10 and a 50% discount to NPV. In our view, Mincor is a low financial risk leverage play on the nickel price. We maintain our Sector Perform, and Above Average Risk rating.

Price Target Impediment

Earnings are most sensitive to the nickel price and the A\$/US\$ exchange rate. Ore is processed through BHP's Kambalda concentrator under ~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 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 cost.

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. It is debt-free and at June 2006 had resources of 2Mt grading 3.8% for 75.8kt of contained nickel metal, and reserves of 1.7Mt grading 2.7% for 44.7kt nickel. The company has a substantial exploration program. Mines were first purchased in 2001 for A\$54m and production began in 2002. Beginning April 2006, Mincor is increasing its share of Carnilya Hill to 100%, which is scheduled to be in production in January 2008. It paid A\$2m to farm into RAV 8 by spending A\$5m over three years for 80%. 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, which have 29kt nickel resources .

Required Disclosures

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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.

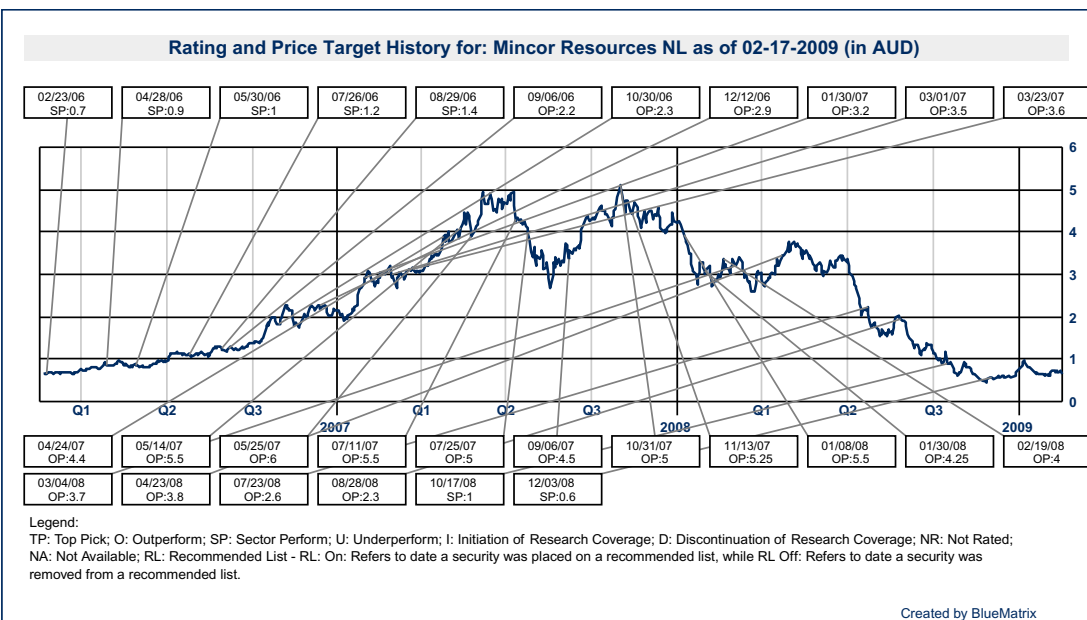
Above Average Risk (AA): Volatility and risk expected to be above sector; below average revenue and earnings predictability; may not be suitable for a significant class of individual equity investors; may have negative cash flow; low market cap or float.

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Distribution of Ratings RBC Capital Markets, Equity Research				
Rating	Count	Percent	Investment Banking Serv./Past 12 Mos.	
			Count	Percent
BUY[TP/O]	492	44.40	110	22.36
HOLD[SP]	511	46.10	84	16.44
SELL[U]	105	9.50	12	11.43



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An analyst involved in the preparation of this report has visited certain material operations of Mincor Resources NL.

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