



21 August 2008

Mincor

Reuters: **MCR.AX** Bloomberg: **MCR AU** Exchange: **ASX** Ticker: **MCR**

Strong cash position funding organic growth

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Nickel sector sell-off overdone ahead of likely 4Q demand rebound

MCR reported a F2008 profit of A\$64m and lifted the full year dividend to A12c. The company has cash reserves of A\$112m (~A60c/share) and can fully fund its project pipeline. MCR is now discounting US\$8/lb (vs. spot of ~US\$9/lb) going forward (delivers NAV of A\$1.91/share), and is trading well below our A\$2.80 NAV, hence we retain our BUY rating. In our opinion the nickel sector has been oversold, and we believe current supply disruptions and re-stocking by stainless steel mills in 4Q could lead to a strong rebound in the nickel price.

F2008 result in-line, earnings momentum appears to be bottoming

MCR reported a F2008 profit of A\$64m bang in-line with our forecast. EBITDA of A\$141m however was below our forecast A\$157m due to provisional pricing adjustments (negative A\$12m). D&A and tax were slightly lower than expected. Cash reserves of A\$112m are above our forecast A\$103m at June 30 2008. Going forward Mincor has the ability to self-fund internal growth, in particular the Canilya Hill and McMahon development projects, and the Durkin North and Bluebush (Stockwell) projects, which could be approved within the next 6-12 months.

Bluebush project could provide an exploration spark

We visited Mincor's Otter/Juan operation with company geologists in early August but focused heavily on the recently acquired Bluebush project. In our opinion, Bluebush is very exciting and relatively unknown to the market. The project contains 40km of untested basal contact with multiple outcropping targets and an existing near surface resource of 21kt of nickel @3.3%. We believe Bluebush already has the potential to support a mine producing at 3kt of nickel per annum.

Price target reduced to A\$2.80 (A\$3.20) in-line with base case NAV; risks

Our A\$2.80 price target is now set in-line with our base case NAV of A\$2.80/share. Risks to our forecasts include movements in the nickel price, and AUDUSD. Other risks include capital cost overruns and higher operating costs due to escalating diesel and labour costs. See page 4 for more detail on valuation and risks.

Forecasts and ratios

Year End Jun 30	2008A	2009E	2010E	2011E
Sales (AUDm)	322	383	383	355
EBITDA (AUDm)	141	182	180	170
Net Profit (AUDm)	64	74	67	62
EPS (AUD)	0.33	0.38	0.34	0.32
OLD EPS (AUD)	0.33	0.40	0.36	0.31
% Change	0.7%	-4.4%	-4.6%	1.3%
PER (x)	11.2	4.8	5.4	5.8
DPS (net) (AUD)	0.12	0.06	0.06	0.06
Yield (net) (%)	3.3	3.3	3.3	3.3

Source: Deutsche Bank estimates, company data

¹ Pre-exceptionals/extraordinaries² Multiples and yields calculations use average historical prices for past years and spot prices for current and future years, except P/B which uses the year end close

Target Price Revision

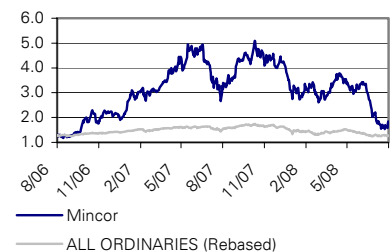
Buy

Price at 21 Aug 2008	1.84
Price target - 12mth	2.80
52 week range (AUD)	5.10 - 1.54
ALL ORDINARIES	4,998

Key changes

Price target	3.20 to 2.80	↓	-12.5%
Sales (FYE)	392 to 383	↓	-2.3%
EBIT margin (FYE)	27.3 to 26.6	↓	-2.6%
Net profit (FYE)	77.7 to 74.3	↓	-4.4%

Price/price relative



Performance (%)	1m	3m	12m
Absolute	-15.4	-45.2	-44.2
ALL ORDINARIES	-1.5	-15.5	-16.4

Stock data

Market cap (AUDm)	360
Market cap (USDm)	313
Shares outstanding (m)	195.6
Daily volume (USDm)	3.75
Free float	0.00

Key indicators (FY1)

ROE (%)	25.8
ROA (%)	-
Net debt/equity (%)	-39.1
Book value/share (AUD)	1.73
Price/book (x)	1.1
Net interest cover (x)	-17.9
EBIT margin (%)	26.6

Deutsche Bank AG/Sydney

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F2008 Result in-line – Provisional pricing the difference

- MCR reported a F2008 profit of A\$64m bang in-line with our forecast. EBITDA of A\$141m was also below our forecast A\$157m due to provisional pricing adjustments (negative A\$12m). D&A and tax were slightly lower than expected. A final dividend of A6c was declared bringing the full year dividend to A12c.
- Mincor has no debt and has cash reserves of A\$112m which were above our forecast A\$103m at June 30 2008. Going forward Mincor has the ability to self-fund internal growth, in particular the Canilya Hill and McMahon development projects, and the Durkin North and Bluebush (Stockwell) projects, which could be approved within the next 6-12 months.

Figure 1: MCR F2008 Result (A\$m)

	MCR F2008	DB Forecast
Revenue	322.0	341.7
Operating Costs	-181.2	-185.3
EBITDA	140.8	156.5
D&A	-55.6	-67.3
EBIT	85.2	89.2
Net Interest	6.8	2.6
Tax	-27.9	-28.2
NPAT	64.1	63.6
DPS (Ac/share)	6.0	3.0

Source: Deutsche Bank estimates

Stress testing MCR at US\$9/lb nickel and below

Figure 2: F2009E earnings and NAV sensitivity to nickel price

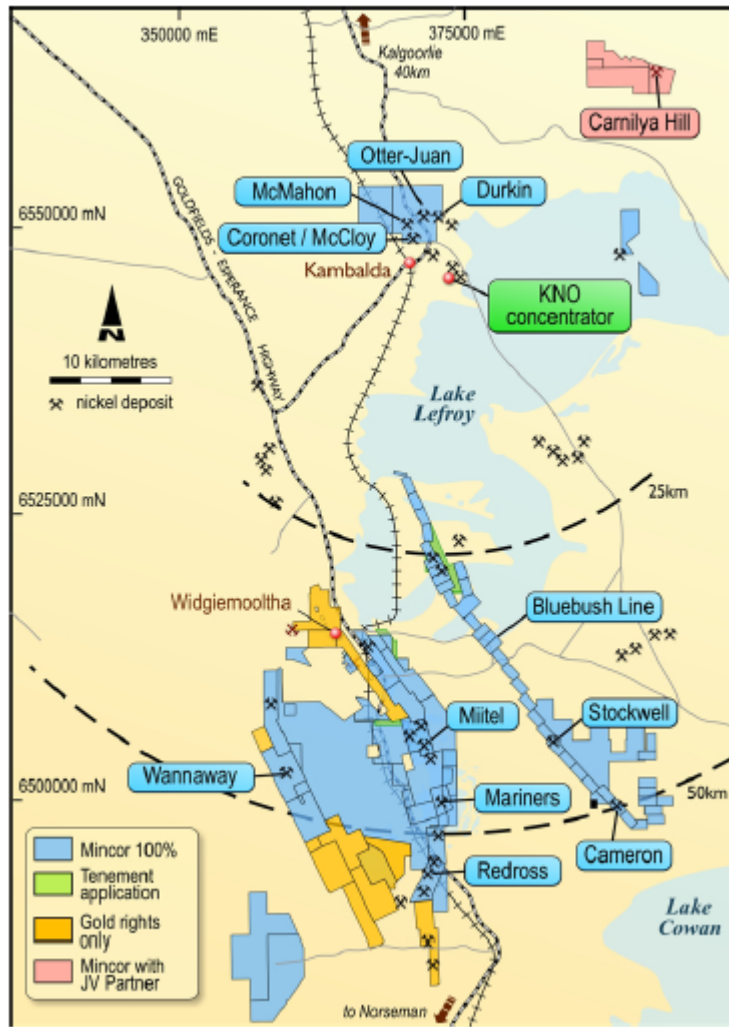
Nickel (US\$/lb)	Ac/share	PER (x)	NAV (A\$/share)
9.00	19.2	9.6x	2.33
8.00	10.0	18.4x	1.91
7.00	0.7	262.9x	1.42

Source: Deutsche Bank estimates

Bluebush project could provide an exploration spark

- We visited Mincor's Otter/Juan operation in early August and focused heavily on the recently acquired Bluebush project (located just 5km from the Miitel and Lanfranchi operations – see Figure 3). In our opinion, Bluebush is very exciting and relatively unknown to the market. Bluebush contains 40km of untested basal contact with multiple outcropping targets and a near surface resource of 21kt of nickel @3.3%. We note that there are many untested near surface nickel gossans. Electro magnetic (EM) is currently being run now along the entire contact.
- Drilling has commenced to convert the existing resource to reserve. The true width of the deposits (Stockwell and Grimsby) appears to be around 2-3m and both deposits are within just 20-50m from surface extending to 300m depth, but both deposits are open in all directions.
- We believe that a first reserve could be released as soon as the Dec Q and we note that project studies have commenced. Although it's early days we believe that the Stockwell and Grimsby deposits could potentially support a 3ktpa of nickel (in ore) project from an open pit and underground operation. The deposits are located close to roads and power.

Figure 3: Mincor's projects showing the 40km Bluebush contact



Source: company report – published with permission from the company

Investment Thesis

Outlook

In our opinion, Mincor is an undervalued nickel producer trading at a ~30% discount to our base case NAV of A\$2.80/share. It appears that the market applies a low premium on the stock due to the short life and high cost nature of its operations. However, we believe this is about to change. The company's acquisition of the Otter/Juan mine in July 2007 for A\$68m, in our opinion, was a company changing acquisition allowing Mincor to reach the production target of 20kt of nickel in concentrate per annum by 2010 and reduce the company's average C1 cash cost by ~5% to US\$6/lb, although we note costs are likely to remain above Mincor's peer group. Most importantly the Otter/Juan operation provides Mincor with exploration upside that could result in the discovery of multiple and major nickel deposits (50kt+) within the next 18 months. We rate Mincor as a BUY as the stock is trading at a deep discount to our base case NAV.

Valuation

We value MCR at A\$2.80/share. Our price target of A\$2.80 is now set in-line with our base case NAV (which includes just A\$50m or A\$0.26/share for exploration-as the market is not paying up for exploration as before). Our NAV is calculated using a long term nickel price of US\$9/lb, and AUDUSD of 0.74.

Risks

Macro risks include movements in the nickel, copper, and AUDUSD. Project execution risk, capital cost overruns and potential project delays exist at the Durkin North, Canilya Hill and McMahon projects. Additional downside risk could result from higher than expected costs at Mincor's existing operations due to higher diesel, labour and explosive costs.

Model updated: 21 August 2008

Equity Research

Asia Pacific

Australia

Other Metals

Mincor Resources NI

Reuters: MCR.AX Bloomberg: MCR AU Sedol: 6000521

Buy

Price as at 21-Aug **A\$1.84**

Target price **A\$2.80**

Company website

<http://www.mincor.com.au>

Company description

Mincor operates six mines clustered around Kambalda in Western Australia. Mincor acquired of the Otter/Juan mine in July 2007 for A\$68m, allowing Mincor to target a production rate of 20kt of nickel in concentrate per annum by 2010. Most importantly the Otter/Juan operation provides Mincor with exploration upside that could result in additional deposits being discovered.

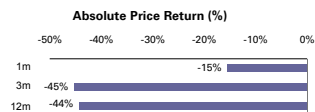
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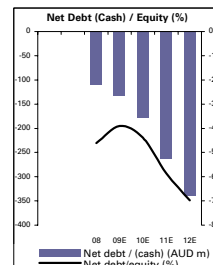
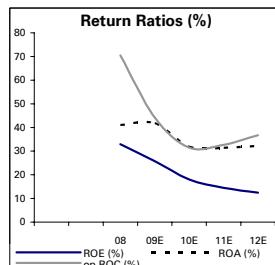
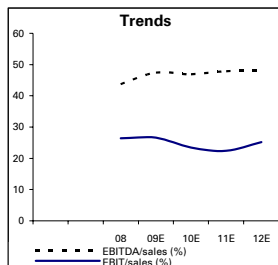
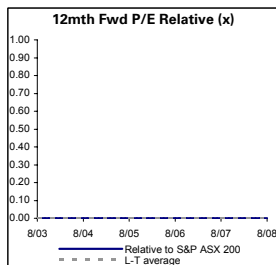
52-week High/Low: A\$5.10 - 1.54
Market Cap (m) A\$ 365
US\$ 318

DCF VALUATION (A\$)

Beta (MRP - 6.00) #N/A
Debt/mkt value ratio (%) #####
WACC (6.25% bond yield) 8.0
Net value per share (\$) **2.58**
Price/NPV (x) **0.71**

Source: Company data, DB estimates

Y/E 30 June	07/08	08/09E	09/10E	10/11E	11/12E
SUMMARY					
Normalised EPS (A\$)	0.327	0.380	0.343	0.317	0.299
P/E ratio normalised (x)	11.2	4.8	5.3	5.8	6.1
Normalised EPS growth (%)	na	16.0	-9.6	-7.6	-5.9
EPS FD (A\$)	0.327	0.380	0.343	0.317	0.299
P/E ratio FD (x)	11.2	4.8	5.3	5.8	6.1
Operating CFPS (A\$)	0.480	0.788	0.804	0.779	0.621
P/CFPS (x)	7.7	2.3	2.3	2.4	3.0
DPS (A\$)	0.120	0.060	0.060	0.060	0.060
Dividend yield (%)	3.3	3.3	3.3	3.3	3.3
Price/BV (x)	3.02	1.06	0.88	0.80	0.74
Enterprise Value (A\$m)	226	238	204	138	57
EV/EBITDA	1.6	1.3	1.1	0.8	0.4
EV/EBIT	2.6	2.3	2.3	1.7	0.8
DIVISIONAL EBIT (A\$m)					
Other	85	102	90	79	70
Total	85	102	90	79	70
PROFIT & LOSS (A\$m)					
Sales revenue	322	383	383	355	277
EBITDA	141	182	180	170	133
Depreciation/amortisation	56	80	90	90	63
EBIT	85	102	90	79	70
Net interest income (expense)	7	6	7	10	15
Income tax expense	28	33	30	28	26
Associates/affiliates	0	0	0	0	0
Minorities/preference dividends	0	0	0	0	0
Net profit	64	74	67	62	58
Significant items	0	0	0	0	0
Net profit excluding significant item	64	74	67	62	58
Net abnormal and extraordinary	0	0	0	0	0
CASH FLOW (A\$m)					
Cash flow from operations	94	154	157	152	121
Movement in net working capital	22	0	0	0	0
Capex	-73	-93	-77	-46	-23
Free cash flow	21	62	80	106	99
Other investing activities	-55	-20	-20	-8	-8
Equity raised/(bought back)	2	0	0	0	0
Dividends paid	-24	-18	-12	-12	-12
Net inc/(dec) in borrowings	0	0	0	0	0
Other financing cash flows	-1	-2	-2	-2	-2
Total cash flow from financing	-23	-20	-14	-14	-14
Net cash flow	-58	22	46	85	77
Movement in net debt/(cash)	57	-22	-46	-85	-77
BALANCE SHEET (A\$m)					
Cash and other liquid assets	112	134	181	266	342
Tangible fixed assets	78	151	168	124	83
Goodwill	0	0	0	0	0
Other intangible assets	0	0	0	0	0
Associates/investments	0	0	0	0	0
Other assets	138	143	148	150	152
Total assets	329	429	497	539	578
Interest bearing debt	2	2	2	2	2
Other liabilities	88	88	88	88	88
Total liabilities	90	90	90	90	90
Shareholders' equity	238	338	407	449	487
Minorities/other	0	0	0	0	0
Total shareholders' equity	238	338	407	449	487
Net working capital	35	35	35	35	35
Net debt/(cash)	-110	-132	-179	-263	-340
RATIO ANALYSIS					
Sales growth - pcp (%)	na	19.0	0.0	-7.5	-22.0
EBITDA/sales (%)	43.7	47.5	46.9	47.9	48.0
EBIT/sales (%)	26.5	26.6	23.5	22.4	25.2
Payout ratio (%)	36.6	23.7	17.5	18.9	20.1
ROA (%)	41.1	41.7	31.9	31.5	32.3
ROE (%)	33.0	25.8	18.0	14.5	12.5
Operating Return on Capital (%)	70.5	44.2	31.5	32.7	36.7
Tax rate (%)	30.3	31.0	31.0	31.0	31.0
Capex/sales (%)	22.6	24.1	20.1	13.0	8.2
Capex/depreciation (x)	1.3	1.2	0.9	0.5	0.4
Net debt/equity (%)	-46.2	-39.1	-43.9	-58.6	-69.8
Net interest cover (x)	-12.6	-17.9	-12.0	-7.6	-4.7



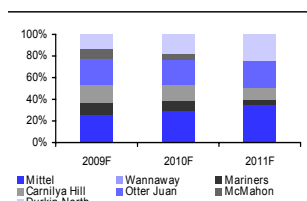
	2005A	2006A	2007A	2008F	2009F	2010F	2011F
OPERATING PROFIT BY DIVISION (A\$m)							
Mittel	42.2	37.8	71.0	37.3	26.5	17.5	15.0
Wannaway	2.0	1.9	5.8	3.7	-	-	-
Redross	0.6	22.6	66.5	35.4	23.0	-	-
Mariners	1.4	4.3	47.1	39.1	26.3	19.7	17.6
Carnilya Hill	-	-	-	1.6	26.0	36.3	27.8
Otter Juan	-	-	-	65.3	53.6	48.9	44.1
McMahon	-	-	-	-	15.7	18.5	12.7
Durkin North	-	-	-	-	1.9	20.0	18.3
Other	(17.0)	(26.0)	(49.7)	(97.1)	(71.0)	(71.0)	(56.0)
Total Consolidated Operating Profit	29.2	40.6	140.7	85.2	102.0	89.9	79.5

PRODUCTION (pre-payable)							
Mittel Nickel in Conc (t) (100%)	6,884	6,102	4,901	4,084	4,027	3,914	3,914
Wannaway Nickel in Conc (t) (100%)	924	641	519	512	-	-	-
Redross Nickel in Conc (t) (100%)	1,537	3,999	3,891	2,959	2,488	-	-
Mariners Nickel in Conc (t) (100%)	701	2,754	3,616	3,899	3,529	3,529	3,529
Carnilya Hill Nickel in Conc (t) (70%)	-	-	-	382	1,492	2,617	2,699
Otter Juan Nickel in Conc (t) (100%)	-	-	-	4,726	4,499	4,499	4,284
McMahon Nickel in Conc (t) (100%)	-	-	-	-	2,270	2,802	2,102
Durkin North Nickel in Conc (t) (100%)	-	-	-	-	262	2,615	2,615
Total	10,046	13,496	12,927	16,562	18,566	19,976	19,144

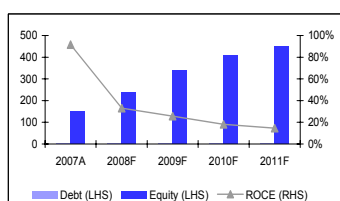
SALES REVENUE - Consolidated (A\$m)							
Mittel Nickel in Conc	84	77	119	83	75	67	66
Wannaway Nickel in Conc	11	8	13	10	-	-	-
Redross Nickel in Conc	19	50	97	61	46	-	-
Mariners Nickel in Conc	8	35	88	79	66	60	59
Carnilya Hill Nickel in Conc	-	-	-	7	28	45	45
Otter Juan Nickel in Conc	-	-	-	96	84	77	72
McMahon Nickel in Conc	-	-	-	-	43	48	35
Durkin North Nickel in Conc	-	-	-	-	5	45	44

CASH COST (US\$/lb)							
Mittel	2.78	3.18	5.30	6.92	7.03	6.80	6.65
Wannaway	5.28	5.10	7.56	8.70	-	-	-
Redross	4.24	3.50	4.09	5.10	6.08	-	-
Mariners	4.59	5.40	5.75	6.43	7.01	6.78	6.61
Carnilya Hill	-	-	-	7.30	5.78	5.31	5.13
Otter Juan	-	-	-	4.15	4.09	3.97	3.89
McMahon	-	-	-	-	8.98	6.95	6.74
Durkin North	-	-	-	-	10.22	7.06	6.85
Average	3.36	3.82	5.15	5.75	6.37	6.02	5.85

NPV by Division (2009F-2011F)



Debt, Equity & ROCE (%)



NET PRESENT VALUE (Dec-08)

	A\$m	A\$ps	(%)
Mittel	100	0.51	23%
Wannaway	-	-	0%
Redross	10	0.05	2%
Mariners	53	0.27	12%
Carnilya Hill	73	0.37	17%
Otter Juan	106	0.54	24%
McMahon	47	0.24	11%
Durkin North	51	0.26	12%
Hedging	-	-	0%
Exploration	50	0.26	11%
Corporate	(52)	(0.27)	-12%
Gross Asset Value	438	2.24	100%
Net debt	(109)	(0.56)	
Valuation	547	2.80	

*NPV discounting rate: 8.0%

FX/COMMODITY ASSUMPTIONS

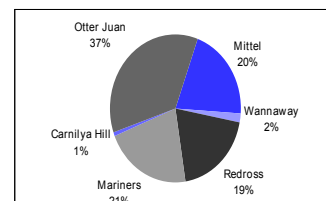
	2008F	2009F	2010F
USD/AUD	0.90	0.93	0.90
Nickel	1294	1180	1050
Copper	353	378	336

SENSITIVITY ANALYSIS

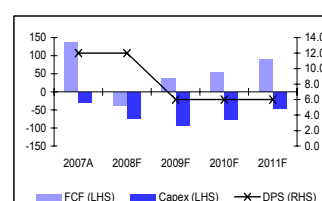
(EPS Change (%) for a 10% change in)

	USD/AUD	Nickel	Copper
USD/AUD	(0.7)	(26.7)	(31.0)
Nickel	-0.71	29.68	38.04

Operating Profit by Division (2008F)



Free Cashflows, Capex & Dividend



Appendix 1

Important Disclosures

Additional information available upon request

Disclosure checklist

Company	Ticker	Recent price*	Disclosure
Mincor	MCR.AX	1.84 (AUD) 21 Aug 08	NA

*Prices are sourced from local exchanges via Reuters, Bloomberg and other vendors. Data is sourced from Deutsche Bank and subject companies.

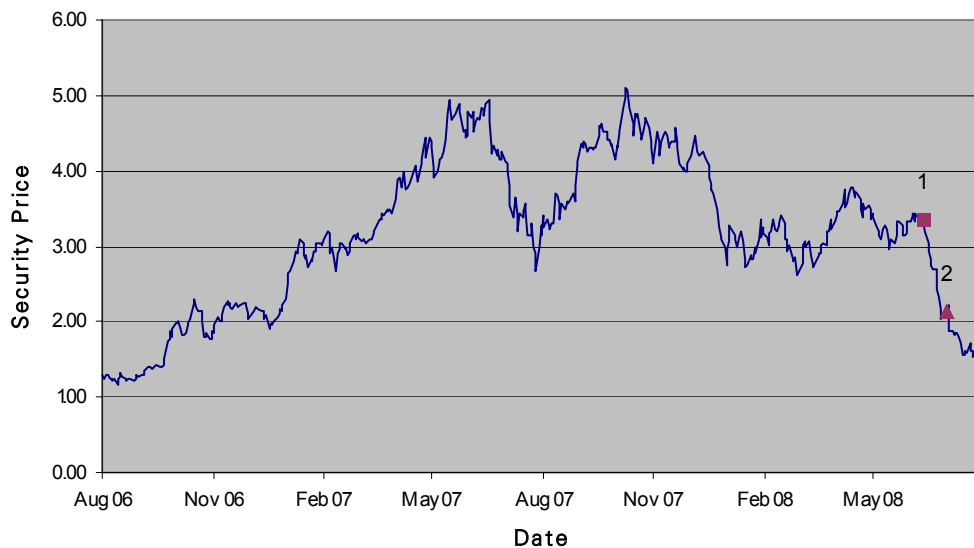
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Historical recommendations and target price: Mincor (MCR.AX)

(as of 21/08/2008)



Previous Recommendations

- Strong Buy
- Buy
- Market Perform
- Underperform
- Not Rated
- Suspended Rating

Current Recommendations

- Buy
- Hold
- Sell
- Not Rated
- Suspended Rating

*New Recommendation Structure as of September 9, 2002

1.	3/7/2008:	Hold, Target Price Change AUD3.50	2.	23/7/2008:	Upgrade to Buy, Target Price Change AUD3.20
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Equity rating key Equity rating dispersion and banking relationships

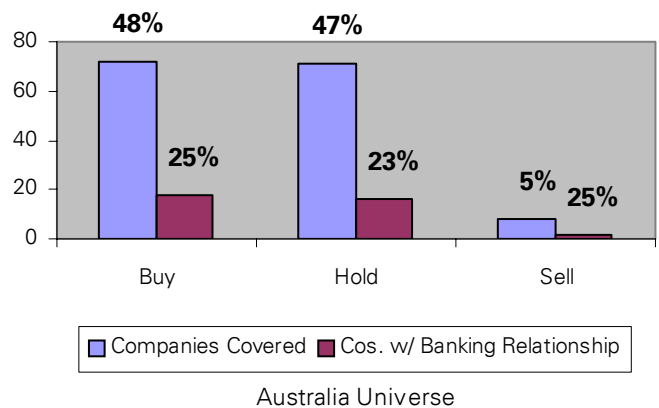
Buy: Based on a current 12- month view of total shareholder return (TSR = percentage change in share price from current price to projected target price plus projected dividend yield) , we recommend that investors buy the stock.

Sell: Based on a current 12-month view of total shareholder return, we recommend that investors sell the stock

Hold: We take a neutral view on the stock 12-months out and, based on this time horizon, do not recommend either a Buy or Sell.

Notes:

- Newly issued research recommendations and target prices always supersede previously published research.
- Ratings definitions prior to 27 January, 2007 were:
 - Buy: Expected total return (including dividends) of 10% or more over a 12-month period
 - Hold: Expected total return (including dividends) between -10% and 10% over a 12-month period
 - Sell: Expected total return (including dividends) of -10% or worse over a 12-month period



Regulatory Disclosures

1. Important Additional Conflict Disclosures

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