

# Mincor Resources (MCR)

## Opinion Data

<b>Recommendation</b>	<b>Hold</b>
<b>Risk Rating</b>	<b>High</b>
<b>Current share price</b>	<b>\$1.00</b>
<b>12 month target price</b>	<b>\$1.20</b>
<b>Price range - high/low</b>	<b>\$5.19 - \$0.93</b>
<b>Market capitalisation</b>	<b>\$199m</b>

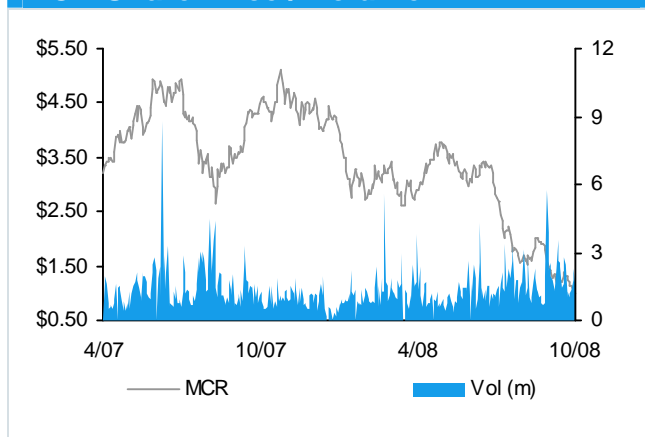
## Company Background

Mincor Resources NL (MCR) is a Perth based nickel mining company that has been listed on the ASX since 1999. MCR has delivered strong profits since 2001, and has paid fully franked dividends since 2003.

MCR operates a number of nickel mines in the Kambalda District of Western Australia (Otter Juan, Coronet, Miitel, Mariners, Redross, and Wannaway) with two news mines (Carnilya Hill and McMahon) now coming on stream. With an excellent record of exploration success, the Company is targeting nickel production of 20ktpa for 20 years from its Kambalda District operations.

MCR also has a growing portfolio of mineral exploration projects across Australia (plus a project in Ireland), and is pursuing a strategy that could see MCR become a diversified mining house, supported by its strong cashflows and balance sheet.

## MCR Share Price / Volume



## Highlights

MCR delivered a stronger than expected FY'08 result (NPAT of \$64.0m vs. forecast \$58.8m), driven by a higher revenue line, i.e., a higher average received nickel price. MCR ended FY'08 with \$113m in cash and no debt (cash backing of approximately \$0.57/share).

The Company has increased its resource inventory by 14% to 167,300t of contained nickel, while reserves are down 9% to 57,000t.

## Outlook / Investment View

MCR is targeting production of ~20kt in FY'09, notwithstanding the fact that the production focus has moved from volumes to margins, given the weaker nickel price. MCR is targeting a reduction in cash costs to US\$6.00/lb (was US\$6.40/lb in FY'08).

Exploration remains a key focus and MCR has an exploration budget of \$20m for the year ahead.

In the past quarter we have again revised down our nickel price assumptions and are now applying US\$6.80/lb in FY'09, US\$6.00/lb in FY'10 and US\$6.75/lb in FY'11, all down an average 36%. Offering some offset, our A\$ assumptions have also been reduced such that in A\$ terms, the nickel price decline is lower, an average 22%.

This still has a severely detrimental impact on forward earnings assumptions, putting MCR into loss making territory under our assumptions. After reporting profits of \$101.3m in FY'07 and \$64.0m in FY'08, we are now expecting losses of \$7.4m in FY'09 and \$26.7m in FY'10. Forecast EBITDA is more attractive, at \$39.3m and \$13.9m in FY'09 and FY'10 respectively, although we note that MCR tends to expense a great deal of its capital expenditure as it is incurred (D&A therefore is somewhat reflective of actual cash outflow).

Our NPV for the Company has reduced from \$2.83/share to \$1.71/share.

The key catalyst for a MCR share price recovery is the nickel price. During the past quarter we raised our recommendation from a Sell to Hold, following an almost 50% decline in MCR's share price. However, while MCR appears to offer good value, trading at around 50% of its NPV, earnings risk in the short term remains high. Fortunately MCR has the cash buffer to be able to withstand these more difficult times.

Maintain Hold. Look to acquire should the nickel price show signs of a recovery.

**Analyst: Hunter Hillcoat**

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## Mincor

**NFPOS**                      199 m                      **Price**                      **\$ 1.00**  
**Market Cap**                      **\$199 m**                      **Date**                      **9-Oct-08**  
**Model Update**                      **9-Oct-08**

### PROFIT & LOSS (A\$m)

Y/E 30 Jun	FY'07A	FY'08A	FY'09F	FY'10F	FY'11F
<b>Sales Revenue</b>	<b>329.6</b>	<b>321.0</b>	<b>245.2</b>	<b>213.8</b>	<b>240.5</b>
Other Revenue	0.2	1.0	0.0	0.0	0.0
Operating Costs	97.4	131.4	162.0	162.0	162.0
<b>Gross Operating Profit</b>	<b>232.3</b>	<b>190.6</b>	<b>83.2</b>	<b>51.8</b>	<b>78.5</b>
Depreciation	35.0	55.6	56.0	56.0	52.0
Exploration and Royalties	36.3	27.2	27.9	21.9	21.6
Corporate and Other	20.3	22.6	16.0	16.0	16.0
<b>EBIT</b>	<b>140.7</b>	<b>85.2</b>	<b>-16.7</b>	<b>-42.1</b>	<b>-11.1</b>
Less Net Interest Expense	-4.3	-6.8	-6.2	-3.9	-2.4
<b>Pre-Tax Profits</b>	<b>145.0</b>	<b>91.9</b>	<b>-10.5</b>	<b>-38.2</b>	<b>-8.7</b>
Less Tax	43.7	27.9	-3.2	-11.5	-2.6
plus Minorities	0.0	0.0	0.0	0.0	0.0
Less Pref Dividends	0.0	0.0	0.0	0.0	0.0
<b>NPAT (pre-Abs)</b>	<b>101.3</b>	<b>64.0</b>	<b>-7.4</b>	<b>-26.7</b>	<b>-6.1</b>
Net Abnormals	0.0	0.0	0.0	0.0	0.0
<b>Reported Profit</b>	<b>101.3</b>	<b>64.0</b>	<b>-7.4</b>	<b>-26.7</b>	<b>-6.1</b>

### BALANCE SHEET (A\$m)

Y/E 30 Jun	FY'07A	FY'08A	FY'09F	FY'10F	FY'11F
<b>Current Assets</b>					
Cash and Liquids	169.6	112.5	69.7	45.5	47.9
Other	76.5	54.7	75.2	85.7	86.2
<b>Non-Current Assets</b>					
Investments	3.0	1.7	1.7	1.7	1.7
Fixed Assets	50.5	127.2	121.7	101.2	84.8
Other	11.2	32.9	20.4	24.4	28.4
<b>Current Liabilities</b>					
Borrowings	1.0	0.8	0.8	0.8	0.8
Creditors	42.3	47.5	34.3	29.9	33.7
Other	95.8	5.0	5.4	5.8	6.2
<b>Non-Current Liabilities</b>					
Borrowings	2.4	1.6	1.6	1.6	1.6
Other	19.1	35.6	35.8	36.0	36.2
Minority Interest	0.0	0.0	0.0	0.0	0.0
<b>SHAREHOLDERS FUNDS</b>	<b>150.3</b>	<b>238.5</b>	<b>210.8</b>	<b>184.4</b>	<b>170.5</b>

### CASHFLOW STATEMENT (A\$m)

Y/E 30 Jun	FY'07A	FY'08A	FY'09F	FY'10F	FY'11F
<b>Cash Flows From Operating Activities</b>					
Cashflow from operations	369.9	339.5	245.2	213.8	240.5
Payments To Suppliers	-168.9	-200.6	-162.0	-162.0	-162.0
Net Interest	4.4	8.7	6.2	3.9	2.4
Tax and Other	-13.2	-53.8	-48.8	-28.4	-29.0
<b>Cash Flows From Investing Activities</b>					
Acq. of Property, Plant and E	-43.0	-115.1	-50.5	-35.5	-35.5
Exploration Expenditure	-9.4	-12.8	-15.0	-12.0	-10.0
Other	0.1	0.0	0.0	0.0	0.0
<b>Cash Flows From Financing Activities</b>					
Net Change in Borrowings	0.0	-1.0	0.0	0.0	0.0
Dividends Paid	-17.6	-23.7	-17.9	-4.0	-4.0
Other	2.2	1.8	0.0	0.0	0.0
Net Increase In Cash Held	124.4	-57.1	-42.8	-24.2	2.4
Cash At End of Year	169.6	112.5	69.7	45.4	47.8

### PRICE ASSUMPTIONS

Y/E 30 Jun		FY'08A	FY'09F	FY'10F	FY'11F
Exchange Rate	A\$/US\$	0.90	0.80	0.80	0.80
Exchange Rate	A\$/C\$	0.91	0.86	0.86	0.86
Nickel	UScents/lb	1,304	680	600	675
Nickel	Acents/lb	1,440	794	701	789
Copper	UScents/lb	352.0	261.5	200.0	200.0

### KEY RATIOS

Y/E 30 Jun		FY'07A	FY'08A	FY'09F	FY'10F	FY'11F
EBITDA	\$m	175.7	140.8	39.3	13.9	40.9
EBITDA Margin	%	53%	44%	16%	6%	17%
EBIT Margin	%	43%	26%	-7%	-20%	-5%
NPAT Margin	%	31%	20%	-3%	-13%	-3%
ROE	%	67%	27%	-3%	-14%	-4%
ROA	%	45%	26%	-6%	-16%	-4%
NTA per share	\$	0.76	1.20	1.06	0.93	0.86
Eff Tax Rate	%	30%	30%	30%	30%	30%
Interest Cover	x	>50	>50	>50	>50	>50
Net Gearing	%	-111%	-46%	-32%	-23%	-27%
Net Debt /Net Debt plus Equity		1044%	-86%	-47%	-31%	-36%
NFPOS		197.6	197.6	198.9	198.9	198.9

Y/E 30 Jun		FY'07A	FY'08A	FY'09F	FY'10F	FY'11F
EPS	c	50.2	31.6	(3.6)	(13.2)	(3.0)
P/E	x	2.0	3.2	(27.5)	(7.6)	(33.2)
Enterprise Value	\$m	31	89	132	156	153
EV / Sales	x	0.1	0.3	0.5	0.7	0.6
EV / EBITDA	x	0.2	0.6	3.3	11.2	3.8
EV / EBIT	x	0.2	1.0	(7.9)	(3.7)	(13.8)
Price / NTA	x	1.3	0.8	0.9	1.1	1.2
DPS	c	12.0	12.0	4.0	2.0	2.0
Dividend Yield	%	12.0	12.0	4.0	2.0	2.0
Franking	%	100.0	100.0	100.0	100.0	100.0
CFPS	\$	1.0	0.5	0.2	0.1	0.3
P / CFPS	x	1.0	2.1	4.9	7.3	3.8

### DCF VALUATION & SENSITIVITY

	A\$m		
KAMBALDA (all)	231		
Investments	10	Long Term Ni (US\$/lb)	750.00
Exploration	18	Long Term A\$/US\$	0.78
Corporate, Investments	-21		
Options	7		
Net Cash & Other	95		
<b>TOTAL NPV (A\$m)</b>	<b>347</b>		
<b>NPV per Share (A\$)</b>	<b>1.71</b>		

### ATTRIBUTABLE PRODUCTION PROFILE

Y/E 30 Jun		FY'07A	FY'08A	FY'09F	FY'10F	FY'11F
<b>Nickel in concentrate production</b>						
Kambalda (MCR)	100%	12,927	16,562	19,890	19,890	19,890
<b>Payable Nickel Production</b>						
Kambalda (MCR)	100%	8,403	10,765	12,929	12,929	12,929
<b>Total Attrib Nickel - Tonnes</b>		<b>8,403</b>	<b>10,765</b>	<b>12,929</b>	<b>12,929</b>	<b>12,929</b>
<b>DIVISIONAL EARNINGS (EBIT) - A\$m</b>						
Kambalda (MCR)		171.2	123.0	21.9	-7.1	20.7
Other		-16.1	-20.5	-22.6	-19.0	-15.8
Corporate and Other Costs		-14.4	-17.3	-16.0	-16.0	-16.0
<b>EBIT</b>		<b>140.7</b>	<b>85.2</b>	<b>-16.7</b>	<b>-42.1</b>	<b>-11.1</b>

### MARGIN ANALYSIS

Y/E 30 Jun		FY'07A	FY'08A	FY'09F	FY'10F	FY'11F
Ni Cash Cost	US\$/lb	4.14	4.97	4.55	4.55	4.55
Ni Total Cost	US\$/lb	8.03	8.95	7.35	7.18	7.06
Ni Price Received	US\$/lb	14.00	12.14	6.88	6.00	6.75

RESERVES & RESOURCES	Contained Metal	Mine Life
<b>KAMBALDA (all)</b>	('000t)	(yrs)
Nickel Reserves	57.0	4.0
Nickel Resources	167.3	11.7
Austock Estimate	136.5	9.5

### BOARD

David Humann (Chairman)	Ian Burston (non-Exec Director)
David Moore (MD/CEO)	John Gardner (non-Exec Director)

## Directory

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## DISCLOSURE

### Recommendation Criteria

#### Investment View

Austock Securities Investment View is based on an absolute 1-year total return equal to capital appreciation plus yield.

Buy	Hold	Sell
> 20%	20% - 5%	< 5%

A Speculative recommendation is when a company has limited experience from which to derive a fundamental investment view.

#### Risk Rating

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