

Mincor Resources NL MCR (\$3.20)

Recommendation: BUY

Large margins and production growth

Analyst: Levi Spry

OUR VIEW

Mincor's FY07 was highlighted not only by nickel prices but by its growth strategy, as evidenced through its recent \$68.5M GMM acquisition, more successful near mine exploration and entering more JV's. June Q production was steady and brought FY07 production to 12,927t nickel in concentrate. Company guidance is for 17,000t nickel in concentrate for FY08 and we believe MCR may do even better than that. With the immediate bolt on of 3,000tpa higher grade production from Otter-Juan, Carnilya Hill JV ramping up from the March Q, McMahon coming in late in the June Q and a one-off 630t contribution from North Dordie adding to a repeat performance from its Widgiemooltha operations, we are forecasting 17,200t for FY08. Cash costs for FY08 US\$4.86/lb (FY07 US\$5.12/lb) versus a forecast price received of US\$13.75/lb (18% FY08 production hedged) mean MCR is heading for a FY08 NPAT of \$136M putting it on 4.7 times earnings. With continued news flow from across projects, increased production at large margins and ahead of our price target of \$4.40, we retain our BUY recommendation.

Investment Highlights

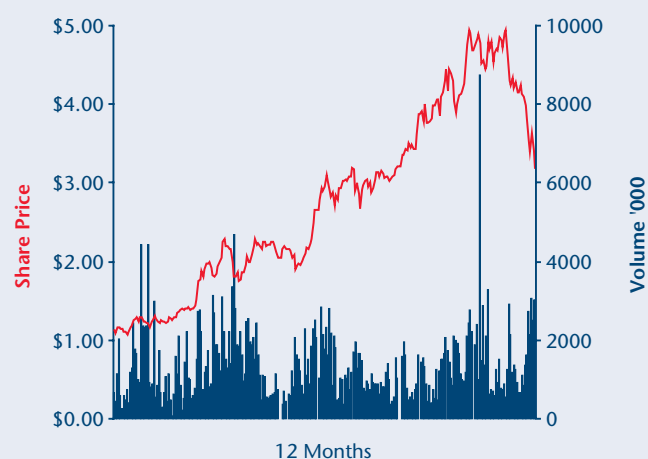
- ▲ *Until recently MCR had only 4 nickel mines on the Widgiemooltha Dome. Recent timely developments have seen it add 3000tpa contained nickel from the Otter-Juan operation, through the acquisition of GMM Pty Ltd, and further production growth is expected before the year end when the Carnilya Hill JV ramps up and the McMahon deposit can be exploited. This brings MCR's operations to 7. Further growth will come from removing 630t of nickel from North Dordie and potentially from continued drilling across sites including the Rav 8 JV.*
- ▲ **Nickel; Its not over:** After a sharp fall (40% since mid May), nickel is still at very profitable levels and a prolonged stay above US\$30,000/t represents further upside. With continued strong demand for stainless steel and the long awaited nickel laterite production still a way off, we believe nickel prices will recover towards the end of the Q and the MCR share price will follow. The importing of low grade ores by China to produce nickel pig iron was to be the demise of the nickel market. It may now provide a floor, as much of this supply should become unprofitable if the price were to fall much further.
- ▲ **Operational drivers = GRADE!** The FY07 result of 12,927t nickel in concentrate was inline with expectations. Going forward important operational value drivers for FY08 are the grades at Miitel and Mariners, (MCR's largest mines by tonnage) and continued high grade (+3.5% Ni) production from Otter-Juan. The purchase of GMM Pty Ltd is complete and production of 3,000tpa nickel in concentrate from Otter-Juan has been attributed to MCR since 1 July.
- ▲ **New operations:** MCR is developing two new operations, Carnilya Hill JV and McMahon, with production forecast for later in the year. The contractor is on site rehabilitating Carnilya and production is forecast to ramp up from the March Q '08. At McMahon two rigs are verifying the resource and results should begin to filter through within a month. Feasibility studies have commenced on McMahon and we believe first production will commence as early as June Q '08.
- ▲ **MCR are proven explorers:** Aside from ongoing drilling at the Kambalda Dome, Widgiemooltha Dome and Rav 8, other upcoming results to watch for, outside of nickel, include drilling at the Tottenham copper project in NSW, which is almost complete and results are only weeks away. Elsewhere MCR has applied for the along strike landholding of its Tipperary zinc project. Competition for the lease was fierce and an announcement will be made shortly.

Investment Summary

Year End June 30	2006A	2007F	2008F	2009F
Reported Earnings				
Net Profit (\$m)	30.2	115.0	136.0	186.6
EPS (cents)	15.0	57.0	67.4	92.5
EPS growth (%)	n.a.	281.2	18.3	37.2
PER (x)	21.4	5.6	4.7	3.5
EBITDA				
EBITDA (\$m)	71.4	195.3	230.5	302.0
EV/EBITDA (x)	8.2	2.6	2.2	1.2
Cashflow Multiples				
Gross Cashflow (\$m)	74.3	152.5	171.1	221.0
GCFPS (cents)	38.2	77.8	86.6	111.9
PGCF (x)	8.4	4.1	3.7	2.9
Free Cashflow (\$m)	35.2	104.0	30.5	171.5
FCFPS (cents)	18.1	53.1	15.5	86.8
PFCF (x)	17.7	6.0	20.7	3.7
Dividend				
Dividend (cents)	5.0	12.0	12.0	12.0
Yield (%)	1.6	3.8	3.8	3.8
Franking (%)	100	100	100	100

Company Statistics & Performance

Shares on Issue	201.6m	Daily Vol.	1,260,000
Market Cap.	\$645.3m	Debt	\$0.0m
52 Week Range	\$1.07 - \$4.95	Cash est.	\$78.4m



Mincor Resources NL

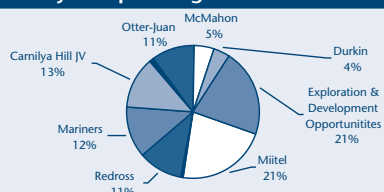
\$3.20

Year End June 30

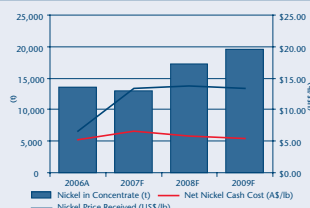
Valuation	A\$m	A\$/sh
Miitel	146	0.73
Wannaway	6	0.03
Redross	71	0.35
Mariners	84	0.42
Carnilya Hill JV	85	0.42
North Dordie	6	0.03
Otter-Juan	71	0.35
McMahon	32	0.16
Durkin	28	0.14
Forward Sales	(19)	(0.10)
Corporate	(54)	(0.27)
Exploration & Development Opportunities	143	0.71
Unpaid Capital	5	0.02
Cash	78	0.39
Debt	0	0.00
NPV	682	3.38
@ 8% Discount Rate Price Target	887	4.40
@ 30% premium to DCF 6 x FY08 NPAT	816	4.05

Sensitivity Price Target	+10%	0	-10%
Nickel Price	\$5.07	\$4.40	\$3.73
A\$: \$US	\$3.63	\$4.40	\$5.33

Valuation Summary of Operating Assets



Nickel Production Summary



Reserves & Resources

Reserves	Mt	Ni %	Ni kt
Miitel (incl. Nth Miitel)	0.58	2.6	15.0
South Miitel	0.38	2.6	9.8
Wannaway	0.04	2.7	1.0
Redross	0.27	3.0	8.2
Mariners	0.41	2.7	11.0
Total	1.67	2.69	44.9
Resources	Mt	Ni %	Ni kt
Miitel (incl. Nth Miitel)	0.80	3.8	30.2
South Miitel	0.30	3.8	11.3
Wannaway	0.14	3.2	4.5
Redross	0.30	4.2	12.5
Mariners	0.35	4.5	15.6
North Dordie	0.14	1.5	2.1
McMahon North	0.31	3.3	10.3
Ken North	0.08	6.6	5.3
Durkin Deeps	0.28	4.6	13.1
Total	2.69	3.89	104.9

Directors

Name	Position
David Humann	Non Executive Chairman
David Moore	Managing Director
Jack Gardener	Non Executive Director
Ian Burston	Non Executive Director
Jim Reeve	Non Executive Director

Substantial Shareholders	Shares (m)	%
Barclays Global Investors	15.60	7.94

Commodity Assumptions	2006A	2007F	2008F	2009F
A\$:US\$	\$0.75	\$0.79	\$0.84	\$0.79
Copper (US\$/lb)	\$2.29	\$3.21	\$3.23	\$2.82
Lead (US\$/lb)	\$0.49	\$0.77	\$1.02	\$0.94
Zinc (US\$/lb)	\$0.96	\$1.67	\$1.50	\$1.31
Nickel (US\$/lb)	\$7.03	\$17.21	\$14.64	\$13.33
Cobalt (US\$/lb)	\$12.64	\$21.33	\$23.26	\$20.36

Production Summary	2006A	2007F	2008F	2009F
Miitel	6,102	4,901	4,626	4,794
Wannaway	641	519	430	516
Redross	3,999	3,891	4,079	1,736
Mariners	2,754	3,616	3,318	3,770
Carnilya Hill JV			827	3,308
North Dordie			630	0
Otter-Juan			3,063	3,063
McMahon			219	2,078
Durkin			0	306

Nickel in Concentrate (t)	13,496	12,927	17,191	19,571
Copper in Concentrate (t)	1,194	1,175	1,357	1,422
Cobalt in Concentrate (t)	258	256	312	315

Per Pound of Payable Metal

Net Nickel Cash Cost (A\$/lb)	5.16	6.50	5.82	5.52
Net Nickel Cash Cost (US\$/lb)	3.86	5.12	4.86	4.36
Nickel Price Received (US\$/lb)	6.57	13.45	13.75	13.29
Spot Nickel Price (US\$/lb)	7.03	17.21	14.64	13.33

Profit & Loss (A\$m)	2006A	2007F	2008F	2009F
Sales Revenue	175.2	357.9	401.2	479.7
Other Income	10.3	-7.2	5.2	9.4
Operating Costs	98.1	128.1	152.7	163.5
Exploration Exp.	5.0	11.0	6.9	7.0
Corporate/Admin	10.9	16.2	16.3	16.7
EBITDA	71.4	195.3	230.5	302.0
Depn & Amort	29.3	31.5	36.3	35.5
EBIT	42.1	163.8	194.2	266.5
Interest	0.7	0.3	0.0	0.0
Operating Profit	41.4	163.5	194.2	266.5
Tax expense	11.3	48.6	58.3	80.0
Abnormal Losses / Minorities	0.0	0.0	0.0	0.0
NPAT	30.2	115.0	136.0	186.6

Normalised NPAT	29.0	114.5	136.0	186.6
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Cash Flow (A\$m)	2006A	2007F	2008F	2009F
Adjusted Net Profit	30.2	115.0	136.0	186.6
+ Interest/Tax/Expl Exp	17.0	59.9	65.1	87.0
- Interest/Tax/Expl Inc	9.0	53.8	66.3	88.0
+ Depn/Amort	29.3	31.5	36.3	35.5
+/- Other	6.9	0.0	0.0	0.0
Operating Cashflow	74.3	152.5	171.1	221.0
- Capex (+asset sales)	28.4	41.9	140.6	49.5
- Working Capital Increase	10.7	6.6	0.0	0.0
Free Cashflow	35.2	104.0	30.5	171.5
- Dividends (ords & pref)	7.8	17.5	23.6	23.7
+ Equity raised	0.0	0.6	0.0	0.0
+ Debt drawdown (repaid)	(0.6)	(4.0)	0.0	0.0
Net Change in Cash	26.8	83.1	6.9	147.8
Cash at End Period	45.0	128.1	135.1	282.9
Net Cash/(LT Debt)	40.7	128.1	135.1	282.9

Balance Sheet (A\$m)	2006A	2007F	2008F	2009F
Cash/Bullion	45.0	128.1	135.1	282.9
Total Assets	164.8	261.6	381.8	558.8
Total Debt	4.4	0.0	0.0	0.0
Total Liabilities	93.8	147.0	154.8	168.9
Shareholders Funds	71.1	188.0	300.3	463.2

Ratios	2006A	2007F	2008F	2009F
Net Debt/Equity (%)	na	na	na	na
Interest Cover (x)	60.3	554.5	na	na
Return on Equity (%)	42.4	61.2	45.3	40.3

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