

Mincor Resources NL

22 May 2008

Moore upside

Steady as she goes

- MCR has set an impressive standard of production growth through exploration and acquisitions. This looks set to continue and it is on track for a \$73M FY08 NPAT. We expect a continued steady production performance from MCR's operations and have reaffirmed our FY08 forecast of 16,750t nickel in concentrate. With solid earnings and regular exploration results, MCR's recent pullback in share price presents a solid buying opportunity. MCR is cheap on earnings (9.2x FY08 and 6.6x FY09), our 12 month price target is \$4.24/sh and we re-iterate our BUY recommendation.
- Otter-Juan/GMM acquisition:** MCR confirmed the 9-month payback for the Otter-Juan acquisition after delivering another \$17M operating surplus for the March Q. This has already proved a very astute acquisition with all future surpluses going straight to the bottom line before taking into account production from McMahon which comes online in the September Q and Durkin, for which a feasibility study is due June 30 before 1st production 12 months later. Otter-Juan continues to operate at high grades (3.71% nickel) making it the lowest cost mine (A\$5/lb) in the MCR stable and is MCR's key production source while Miitel, Mariners and Carnilya Hill ramp up.
- Carnilya Hill JV (MCR 70%):** Production from Carnilya Hill commenced during the Q and will continue to ramp up by year end. This is MCR's only JV and while the JV partner's difficulties have delayed MCR acquiring the minority interest, we believe Carnilya will be an important production source over the next +5 years with its known down dip extent mineralised but not yet included in resources.
- Mariners:** Production at Mariners was the stand out performer in the March Q with higher tonnage stope ore from the 08 orebody and higher grades from the 09 orebody. This is a sign of thing to come with the 09 orebody shaping up as the largest and highest grade yet at Mariners.
- Miitel:** Production from Miitel will step up as South Miitel is brought online as an independent production centre to supplement North Miitel production.

Company	
Stock code:	MCR
Share price:	\$3.43
Recommendation:	BUY

\$3.81 \$4.66

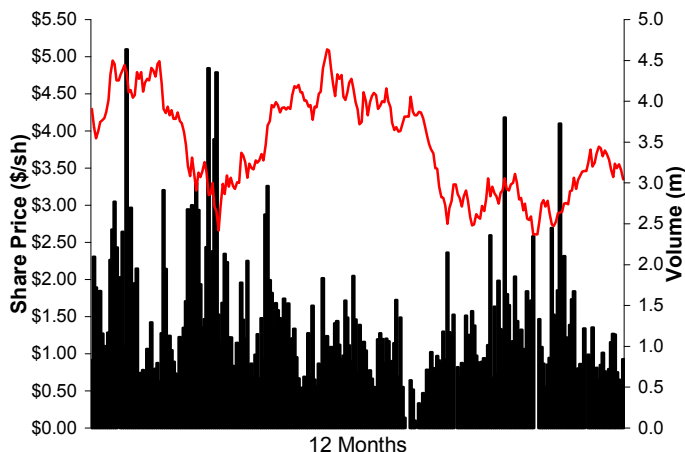


S&P/ASX 300 = 5833

Analyst	
Analyst:	Levi Spry
Phone:	(+61 8) 9263 1610
Email:	lspry@psl.com.au

Company Statistics & Performance

Shares on Issue	202.6m	Daily Vol.	1,186,000
Market Cap.	\$694.8m	Debt	\$0.0m
52 Week Range	\$2.61 - \$5.10	Cash est.	\$97.1m



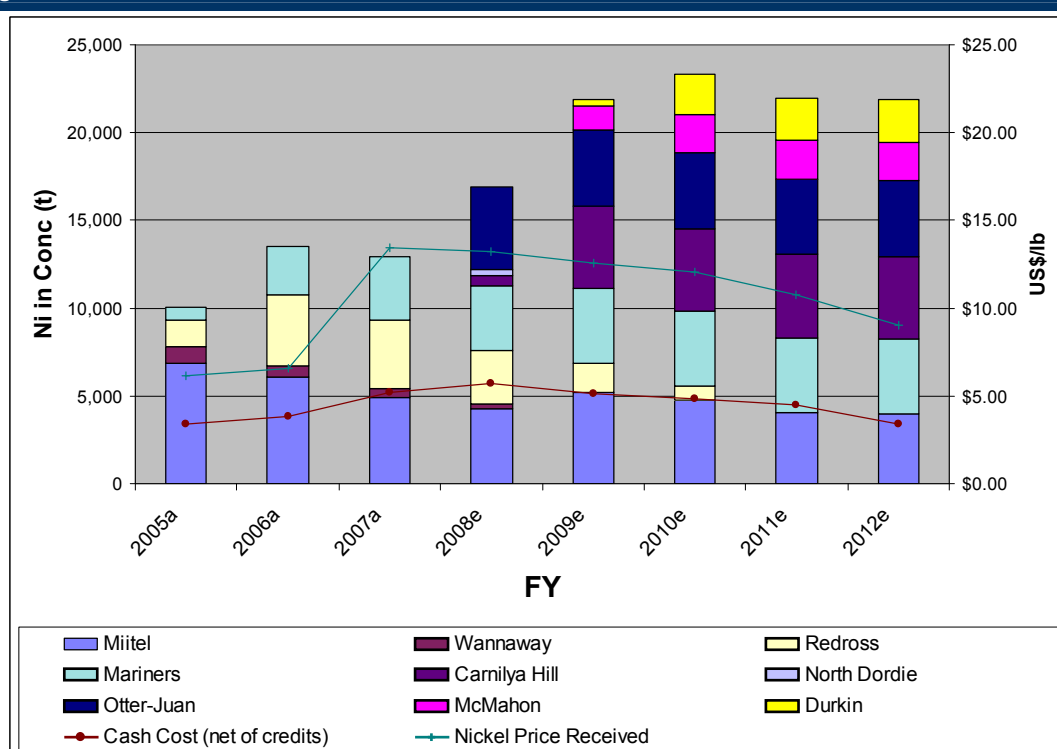
Investment Summary

Year End June 30	2007A	2008F	2009F	2010F
Reported Earnings				
Net Profit (\$m)	101.3	73.7	103.5	119.3
EPS (cents)	50.0	36.4	51.1	58.9
EPS growth (%)	236.0	(27.2)	40.4	15.3
PER (x)	6.9	9.4	6.7	5.8
EBITDA				
EBITDA (\$m)	180.4	168.9	220.7	248.2
EV/EBITDA (x)	2.8	3.4	2.2	1.4
Cashflow Multiples				
Gross Cashflow (\$m)	167.3	108.8	174.0	195.1
GCFPS (cents)	84.7	55.0	88.0	98.6
PGCF (x)	4.0	6.2	3.9	3.5
Free Cashflow (\$m)	139.9	(40.9)	123.7	157.1
FCFPS (cents)	70.8	(20.7)	62.5	79.4
PFCF (x)	4.8	(16.6)	5.5	4.3
Dividend				
Dividend (cents)	12.0	14.0	16.0	18.0
Yield (%)	3.5	4.1	4.7	5.2
Franking (%)	100	100	100	100

Production

- **New production:** With production from Carnilya Hill this Q and McMahon in the Sept Q, MCR continues to grow production.
- **More sources = more consistent:** While MCR has a large number of production sources (up to 7 will be operational in FY09) this does de-risk and makes production more consistent.
- **Harder work & Higher cost = But more tonnes & less hedged:** With a larger number of smaller orebodies MCR does work slightly harder for its tonnes and they come at a slightly higher unit cost than its peers (IGO US\$3/lb, SMY US\$4/lb, MCR US\$5/lb). But with spot prices holding around US\$12/lb it remains very profitable and as the largest ASX producer of unhedged nickel, outside of BHP and MRE for the next few years, it provides tremendous leverage to a higher nickel price over this period.
- **Whats next?:** The MCR team continues to deliver with a minimum of fuss and not only are they in the box seat for any consolidation of the Kambalda district, already controlling 60% of production, but they seem to be developing a strong relationship with BHP. This relationship has already yielded the very prospective Bluebush tenements, which may already have sufficient resources to underpin development. It could become even more fruitful with BHP continuing to spend significant amounts on exploration drilling nearby to ensure the longevity of its smelting operations and supply/blend for Mt Keith concentrates. But with the typical Kambalda discovery unlikely to meet BHP's hurdle rates, MCR may well receive another 'free kick'.

Figure 1: MCR Production Profile



Source: Patersons Estimate

- A short mine life is often pushed as a weakness of MCR when compared with its peers but it is targeting 20 years at 20ktpa nickel and given its track record we believe that is achievable though mostly through incremental additions from its suite of ore shoots.

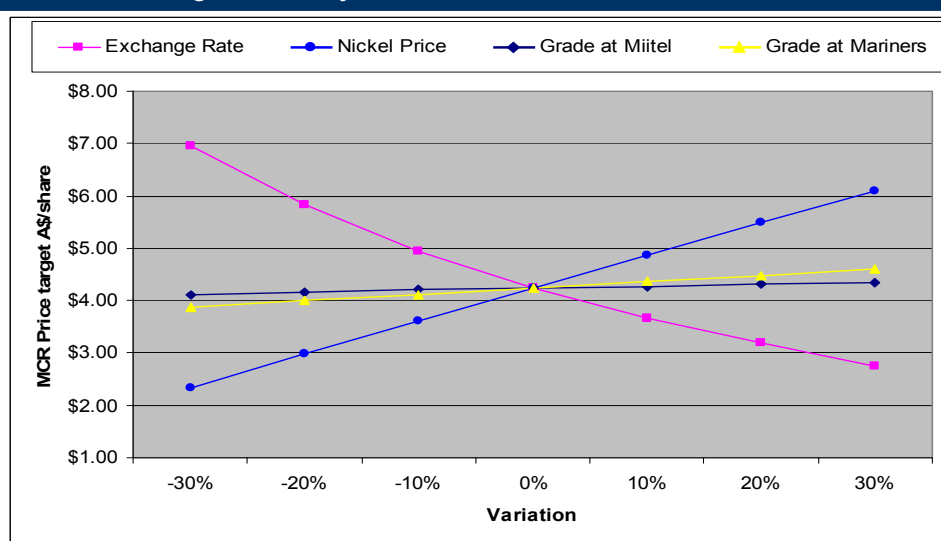
Exploration

- MCR has one of the most active exploration programs of its peers and newsflow is expected to be regular. Targets include:
- **North Kambalda:** Priorities here include Otter-Juan extensions, Durkin and Durkin Deeps (which may in fact be the extension of IGO's Long orebody).
- **Bluebush tenements:** With an existing historic resource of 20,800t nickel, some of which is open-pitabile, remaining open along strike and at depth, this may be MCR's next mine. Drilling begins this Q.
- **Carnilya Hill JV:** Now that production activities are underway, exploration will soon become a priority again with down dip reserve and resource increases certain.
- **Mariners 09:** The drill out of Mariners 09 continues and the orebody is shaping as one of MCR's most significant discoveries to date.
- **Wannaway:** The recent high tenor mineralisation at Wannaway represents a major new target and a drilling program this Q may extend its life.
- **Outside of nickel:** MCR also has work planned for the Tottenham copper project in NSW, the Georgina and Bonaparte lead-zinc projects in the NT, the Gascoyne tungsten/uranium project in WA and the Tipperary zinc project in Ireland.

Sensitivity

- With 3,107t of payable nickel hedged at an average price of A\$36,070/t out to May 2010, (10% of payable production) MCR remains highly leveraged to the nickel price with every 10% increase in the nickel price adding 15% (62cps) to our price target.
- Grade at MCR's two bell-weather operations, Miitel and Mariners are also important drivers for its profits going forward.

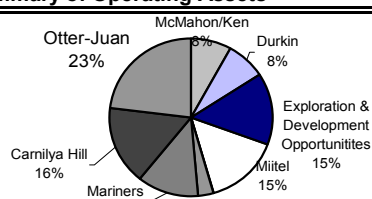
Figure 2: MCR Price Target sensitivity



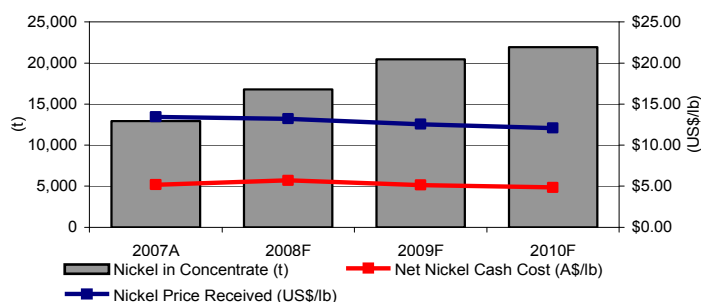
Source: Patersons Estimate

Mincor Resources NL		\$3.43	
Valuation	A\$m	A\$/sh	
Miitel	89	0.44	
Wannaway	0	0.00	
Redross	19	0.09	
Mariners	73	0.36	
Carnilya Hill	98	0.48	
Otter-Juan	139	0.69	
McMahon/Ken	48	0.24	
Durkin	47	0.23	
Bluebush line	30	0.15	
Forward Sales	10	0.05	
Corporate	(60)	(0.30)	
Exploration & Development Opportunities	88	0.43	
Unpaid Capital	8	0.04	
Cash	97	0.48	
Debt	0	0.00	
NPV	687	3.39	
Price Target @ 8% Discount Rate	858	4.24	
Sensitivity Price Target	+10%	0	-10%
Nickel Price	\$4.86	\$4.24	\$3.62
A\$: \$US	\$3.66	\$4.24	\$4.94

Valuation Summary of Operating Assets



Nickel Production Summary



Reserves & Resources

	Mt	Ni %	Ni kt
Reserves			
Miitel	0.97	2.5	24.4
North Dordie	0.04	1.2	0.5
Wannaway	0.03	2.3	0.8
Redross	0.18	2.9	5.3
Mariners	0.39	2.7	10.5
Carnilya Hill	0.34	2.9	9.8
Otter-Juan	0.29	3.9	11.2
Total	2.24	2.28	62.4
Resources			
Mariners	0.78	4.0	31.4
Redross	0.28	3.7	10.2
North Dordie	0.15	1.5	2.3
Miitel	1.10	3.6	39.5
Wannaway	0.07	2.6	1.9
Carnilya Hill JV	0.23	4.9	11.3
Otter-Juan	0.40	4.9	19.8
McMahon/Ken	0.39	4.0	15.7
Durkin	0.37	5.0	18.7
Gellatly	0.03	3.4	1.0
Bluebush	0.63	3.3	20.8
Total	4.44	3.88	172.4

Directors

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

Substantial Shareholders

	Shares (m)	%
Barclays Global Investors	21.30	10.30

Commodity Assumptions	Year End June 30			
	2007A	2008F	2009F	2010F
A\$:US\$	\$0.79	\$0.89	\$0.88	\$0.84
Copper (US\$/lb)	\$3.21	\$3.55	\$3.70	\$3.31
Lead (US\$/lb)	\$0.77	\$1.37	\$1.28	\$1.05
Zinc (US\$/lb)	\$1.67	\$1.20	\$1.06	\$1.05
Nickel (US\$/lb)	\$17.21	\$13.30	\$12.37	\$11.96
Cobalt (US\$/lb)	\$21.33	\$23.23	\$20.28	\$13.73
Production Summary	2007A	2008F	2009F	2010F
Miitel	4,901	4,251	5,194	4,794
Wannaway	519	271	0	0
Redross	3,891	3,069	1,658	765
Mariners	3,616	3,683	4,250	4,250
Carnilya Hill	0	404	3,308	3,308
North Dordie	0	326	0	0
Otter-Juan	0	4,749	4,306	4,306
McMahon/Ken	0	0	1,422	2,188
Durkin	0	0	306	2,297
Nickel in Concentrate (t)	12,927	16,753	20,442	21,906
Copper in Concentrate (t)	1,175	1,399	1,574	1,632
Cobalt in Concentrate (t)	256	316	338	352

Per Pound of Payable Metal

Net Nickel Cash Cost (A\$/lb)	\$6.58	\$6.39	\$5.86	\$5.78
Net Nickel Cash Cost (US\$/lb)	\$5.18	\$5.71	\$5.14	\$4.85
Nickel Price Received (US\$/lb)	\$13.45	\$13.20	\$12.56	\$12.09
Spot Nickel Price (US\$/lb)	\$17.21	\$13.30	\$12.37	\$11.96

Profit & Loss (A\$m)	2007A	2008F	2009F	2010F
Sales Revenue	334.5	347.6	429.3	460.2
Other Income	0.0	6.9	6.4	12.1
Operating Costs	127.2	152.1	181.1	189.4
Exploration Exp.	10.3	13.1	13.8	14.0
Corporate/Admin	16.6	20.4	20.3	20.7
EBITDA	180.4	168.9	220.7	248.2
Depn & Amort	35.0	63.1	72.7	77.7
EBIT	145.4	105.8	147.9	170.5
Interest	0.4	0.2	0.0	0.0
Operating Profit	145.0	105.6	147.9	170.5
Tax expense	43.7	31.9	44.4	51.1
Abnormal Losses / Minorities	0.0	0.0	0.0	0.0
NPAT	101.3	73.7	103.5	119.3

Normalised NPAT	101.5	73.9	103.5	119.3
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Cash Flow (A\$m)	2007A	2008F	2009F	2010F
Adjusted Net Profit	101.3	73.7	103.5	119.3
+ Interest/Tax/Expl Exp	54.4	45.1	58.1	65.2
- Interest/Tax/Expl Inc	23.4	73.2	60.4	67.1
+ Depn/Amort	35.0	63.1	72.7	77.7
+/- Other	0.0	0.0	0.0	0.0
Operating Cashflow	167.3	108.8	174.0	195.1
- Capex (+asset sales)	42.9	141.7	50.4	38.0
- Working Capital Increase	(15.5)	8.0	0.0	0.0
Free Cashflow	139.9	(40.9)	123.7	157.1
- Dividends (ords & pref)	17.6	23.7	31.7	33.6
+ Equity raised	2.2	0.7	0.0	0.0
+ Debt drawdown (repaid)	0.0	(0.5)	0.0	0.0
Net Change in Cash	124.5	(64.5)	92.0	123.5
Cash at End Period	169.6	105.1	197.1	320.6
Net Cash/(LT Debt)	169.6	105.1	197.1	320.6

Balance Sheet (A\$m)	2007A	2008F	2009F	2010F
Cash/Bullion	169.6	105.1	197.1	320.6
Total Assets	310.8	335.2	421.8	513.1
Total Debt	3.4	0.0	0.0	0.0
Total Liabilities	160.5	108.7	123.4	129.0
Shareholders Funds	150.3	226.5	298.4	384.1

Ratios

Net Debt/Equity (%)	na	na	na	na
Interest Cover (x)	348.7	604.6	na	na
Return on Equity (%)	67.4	32.6	34.7	31.1

Research

Mark Simpson – Head of Research	Phone: (+61 8) 9263 1678	Email: msimpson@psl.com.au
Andrew Quin - Research Strategy Coordinator	Phone: (+61 8) 9263 1152	Email: aquin@psl.com.au

Resources

Andrew Harrington – Coal Analyst	Phone: (+61 2) 8238 6214	Email: aharrington@psl.com.au
Alex Passmore – Head of Metals & Mining	Phone: (+61 8) 9263 1239	Email: apassmore@psl.com.au
Mark Savich – Resources Analyst	Phone: (+61 8) 9263 1144	Email: msavich@psl.com.au
Scott Simpson – Oil & Gas Analyst	Phone: (+61 8) 9263 1679	Email: ssimpson@psl.com.au
Levi Spry – Resources Analyst	Phone: (+61 8) 9263 1610	Email: lspry@psl.com.au
Josh Welch – Resources Analyst	Phone: (+61 8) 9263 1668	Email: jwelch@psl.com.au

Industrials

John Deniz – Senior Industrial Analyst	Phone: (+61 3) 8803 0160	Email: jdeniz@psl.com.au
David Gibson – Industrial Analyst	Phone: (+61 8) 9263 1664	Email: dgibson@psl.com.au
Jonathan Kriska – Property Analyst	Phone: (+61 2) 8238 6245	Email: jkriska@psl.com.au
Mark Topy – Banking & Finance Analyst	Phone: (+61 3) 8803 0117	Email: mtopy@psl.com.au
Russell Wright - Retail Analyst	Phone: (+61 2) 8238 6219	Email: rwright@psl.com.au

Institutional Dealing

Phil Schofield	Phone: (+61 2) 8238 6223	Email: pschofield@psl.com.au
Michael Brindal	Phone: (+61 2) 8238 6274	Email: mbrindal@psl.com.au
Dan Bahen	Phone: (+61 2) 8238 6237	Email: dbahen@psl.com.au
Paul Doherty	Phone: (+61 3) 8803 0108	Email: pdoherty@psl.com.au
Trent Foxe	Phone: (+61 2) 8238 6265	Email: tfoxe@pls.com.au
Andrew Frazer	Phone: (+61 8) 9263 1241	Email: afrazer@psl.com.au
Jason Lal	Phone: (+61 2) 8238 6276	Email: jlal@psl.com.au
Ben McIlvrde	Phone: (+61 2) 8238 6253	Email: bmcilvrde@psl.com.au
Jeremy Nugara	Phone: (+61 3) 8803 0166	Email: jnugara@psl.com.au
Trevor Pike	Phone: (+61 3) 8803 0110	Email: tpike@psl.com.au
Nicholas Whiteley	Phone: (+61 2) 8238 6244	Email: nwhiteley@psl.com.au
Sandy Wylie	Phone: (+61 8) 9263 1232	Email: swylie@psl.com.au

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Securities & Derivatives Industry Association Principal Member
Financial Planning Association Principal Member



Western Australia

Perth - Head Office: Level 23, Exchange Plaza, 2 The Esplanade, Perth, Western Australia 6000
Ph: (+61 8) 9263 1111 Fax: (+61 8) 9325 6452 Email: patersons@psl.com.au

West Perth Office: Level 2, 34 Colin Street, West Perth Western Australia 6005
Ph: (+61 8) 9482 0900 Fax: (+61 8) 9482 0999 Email: patersons@psl.com.au

Albany Office: Level 2, Middleton Centre, 184 Aberdeen Street, Albany, Western Australia 6330
Ph: (+61 8) 9842 4700 Fax: (+61 8) 9841 4211 Email: albany@psl.com.au

Bunbury Office: Unit 3, 53 Victoria Street Bunbury, Western Australia 6230
Ph: (+61 8) 707 2000 Fax: (+61 8) 9721 1840 Email: bunbury@psl.com.au

Busselton Office: Suite 1, 72 Duchess Street, Busselton Western Australia 6280
Ph: (+61 8) 9754 0700 Fax: (+61 8) 9754 4333 Email: busselton@psl.com.au

Kalgoorlie Office: 63 Hannan Street, Kalgoorlie, Western Australia 6430
Ph: (+61 8) 9021 1422 Fax: (+61 8) 9021 8133 Email: kalgoorlie@psl.com.au

New South Wales

Sydney Office: Level 27, 264 George Street, Sydney New South Wales 2000
Ph: (+61 2) 8238 6222 Fax: (+61 2) 8238 6266 Email: sydney@psl.com.au

Victoria

Melbourne Office: Level 18, 90 Collins Street, Melbourne Victoria 3000
Ph: (+61 3) 8803 0100 Fax: (+61 3) 8803 0199 Email: melbourne@psl.com.au

Queensland

Brisbane Office: Level 37, 123 Eagle Street, Brisbane Queensland 4000
Ph: (+61 7) 3737 8000 Fax: (+61 7) 3737 8100 Email: brisbane@psl.com.au

ACT

Canberra Office: Level 4, 53 Blackall Street, Barton ACT 2600
Ph: (+61 2) 6120 2222 Fax: (+61 2) 6273 3433 Email: canberra@psl.com.au