

Mincor Resources

(ASX: MCR)

Outperform
Above Average Risk

Reaping Rewards of Record Profits

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Price:	\$3.04	Price Target:	\$3.20	
Capital Return			5.3%	
Prospective Dividend Yield			3.9%	
Implied All-in Return			9.2%	
52 Wk High:	\$3.12	52 Wk Low:	\$0.63	
Float (MM):	195	Debt-to-Cap (MM):	0%	
Shares Out:	195	Market Cap (MM):	594	
2006 Dividend:	\$0.05	Yield:	1.6%	
Tr. 12 ROE:	41.2%	3-Yr EPS Gr:	174%	
Trading Volume:	1.51	P/NAV	1.42	
Major Shareholders:			Widely Held	
(FY June)	2006A	2007E	2008E	2009E
EPS	\$0.15	\$0.37	\$0.41	\$0.41
P/E	20.2x	8.2x	7.4x	7.4x
CFPS	\$0.28	\$0.53	\$0.55	\$0.54
P/CFPS	10.9x	5.7x	5.5x	5.6x
EPS		H1		H2
2006A		\$0.05		\$0.10
2007E		\$0.19		\$0.18
2008E		\$0.18		\$0.23
Cash Flow		H1		H2
2006A		\$0.13		\$0.15
2007E		\$0.28		\$0.26
2008E		\$0.25		\$0.30
Assumptions	2006A	2007E	2008E	2009E
Nickel Price US\$/lb	\$13.57	\$12.55	\$11.25	\$8.00
Exchange rate US\$/A\$	0.75	0.77	0.76	0.76
Nickel Price A\$/lb	\$9.44	\$17.59	\$16.51	\$14.89
Realised Price US\$/lb	\$6.43	\$10.80	\$10.90	\$11.11

All values in A\$ unless otherwise noted.

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

For Required Disclosures, please see page 4.

Event

Mincor reported a strong 1H with a 217% increase in profit to A\$37m. Key 1H features were the sharply higher interim DPS of A6¢ (A2¢) and a doubling of cash to A\$87m. We believe management has a sound strategy to grow the company to ~20kt pa nickel and we retain our Outperform Above Average Risk rating.

Investment Opinion

- Reported profit of A\$37.2m was a record and slightly above our forecast of A\$36.8m. Cash at the end of Dec 06 was an impressive A\$87m and almost double the A\$45m at the end of June 06. This is a strong result and Mincor is clearly reaping the benefits of near record nickel prices. We forecast a similar result in the 2H for a full year profit of A\$72m.
- The sharply higher dividend of A6¢ (A2¢) was a surprise and delivers a respectable yield of 4%, fully franked. Cash generation is strong and the significantly higher return of funds to shareholders is very positive, in our view. Mincor is debt-free and our forecast full-year DPS of A12¢ equates to an undemanding payout ratio of 33%.
- The company's four mines continue to deliver to expectation with 6.9kt of nickel in concentrate produced in the 1H. We maintain our forecast of 13.6kt for FY07, at the upper end of guidance of 12.5-13.5kt. We note that FY07 production to date annualizes to 13.8kt.
- We believe management has a well thought-out strategy to grow the company to a ~20kt pa producer in the medium term. Pre-feasibility at the Carnilya Hill JV is ongoing. An initial resource is expected in the March Q and production late in 2007. Growth is also offered from South Miitel and other Kambalda properties, but these are not yet included in our model.
- We remain very positive on the near-term outlook for nickel, which is currently trading well above our forecast price of US\$12.50/lb. We regard Mincor as a quality junior nickel miner with an aggressive growth strategy that belies market perception of a short mine life. Despite the strong share price performance over the past 12 months, continued strength in the nickel price could see further gains and upside to our dps forecast.
- Valuation:** Our unchanged price target of A\$3.20 uses a mix of FY07E & FY08 P/E multiples of 8x and a P/CF multiples of 6x. Our NPV increases slightly to A\$2.09 (A\$2.02). Its share price has performed very strongly since its 63¢ in early 2006 but we believe the company will continue to be a leading share price performer with potentially higher dividend returns for shareholders. We retain our Outperform, Above Average Risk rating.

Exhibit 1: Mincor Resources Forecast Financial and Operating Summary

Mincor Resources						Stock Rating:	Outperform	Price Target:	A\$3.20						
ASX: MCR	Share Price: (A\$)	3.04				Risk Qualifier:	Above Average	NAV:	A\$2.09						
Issued Shares (m)	195.3	Mkt Cap: (A\$MM)	593.7												
Fiscal Year Ended June															
ASSUMPTIONS						ATTRIBUTABLE MINE STATS									
Exchange Rate	A\$/US\$	0.75	0.77	0.76	0.76	0.74	Nickel Production (all 100% ownership)								
Spot Nickel Price	US\$/lb	7.05	13.57	12.55	11.25	8.00	Mittel	tonnes	6,101	5,906	5,967	5,967	5,967		
Spot Nickel Price	A\$/lb	9.44	17.59	16.51	14.89	10.80	Wannaway	tonnes	641	520	632	0	0		
Realised Nickel Price	US\$/lb	6.43	10.80	10.90	11.11	8.00	Redross	tonnes	3,999	3,612	3,786	3,786	3,786		
Realised Nickel Price	A\$/lb	8.84	13.99	14.35	14.71	10.80	Mariners	tonnes	2,754	3,538	3,456	3,456	3,456		
Cobalt Price	US\$/lb	14.91	19.89	17.50	12.50	9.25	TOTAL	tonnes	13,496	13,575	13,842	13,209	13,209		
Realised Cobalt Price	US\$/lb	14.91	19.89	17.50	12.50	9.25	Cash Costs (including Credits):								
Realised Cobalt Price	A\$/lb	19.94	25.75	23.03	16.54	12.53	Mittel	A\$/lb	4.26	6.03	6.08	6.30	6.31		
Hedged % of Sales	%		34%	27%	19%	0%	Wannaway	A\$/lb	6.83	9.25	7.62	NA	NA		
Hedged Price	US\$/lb		6.46	7.47			Redross	A\$/lb	4.68	5.42	5.58	5.77	5.76		
							Mariners	A\$/lb	7.23	7.08	7.04	7.24	7.26		
RATIO ANALYSIS						Reserves & Resources (as at June 2006) - Contained Nickel									
Shares outstanding	MM	195	195	195	195	195	Reserves Ni		%Ni	Rscs Ni*		%Ni			
Reported Net profit	A\$MM	29.3	72.0	80.5	80.2	32.4	Mittel	14.8	2.6	29.8	3.8				
Significant Items	A\$MM	5	0	0	0	0	South Mittel	9.8	2.6	11.26	3.8				
Profit excl. one-offs	A\$MM	24	72	81	80	32	Wannaway	1.0	2.7	4.4	3.2				
EPS	A¢	15.0	36.9	41.2	41.1	16.6	Redross	8.3	3.0	12.5	4.2				
P/E	x	20.2x	8.2x	7.4x	7.4x	18.3x	Mariners	10.9	2.7	15.7	4.5				
CFPS	A¢	28.0	53.2	54.9	54.1	28.7	North Dordie	0.0	0.0	2.2	1.5				
P/CF	x	10.9x	5.7x	5.5x	5.6x	10.6x	Reserves - Contained Nickel	44.7	2.7	75.8	3.9				
Dividend per share	A¢	5.0	12.0	13.0	13.0	10.0	Reserves - Contained Nickel	99	167						
Dividend yield	%	1.6%	3.9%	4.3%	4.3%	3.3%	Enterprise Value/tonne Reserve	13,083	7,711						
Franking Level	%	100%	100%	100%	100%	100%	Enterprise Value/tonne Reserve	10,205	6,015						
Payout Ratio	%	33%	33%	32%	32%	60%	<i>* Resources are inclusive of Reserves</i>								
Effective Tax Rate	%	28%	31%	33%	33%	33%	EARNINGS SENSITIVITY				FY07E	FY08E			
Book value per share	A\$	0.36	0.53	0.82	1.10	1.14	Nickel Price US\$/oz	+10%	3	12	4%	23%			
P/Book value	x	8.3x	5.7x	3.7x	2.8x	2.7x	Exchange Rate	+10%	(5)	(10)	-8%	-20%			
R.O.E - pre sign. Items	%	41%	70%	50%	37%	15%	-10%	6	13	10%	26%				
R.O.A - pre sign. Items	%	18%	30%	28%	24%	10%	NICKEL PRODUCTION PROFILE - 100%								
EBITDA	A\$MM	71	135	144	141	66	15,000 tonnes								
EBITDA per share	A\$	0.36	0.69	0.74	0.72	0.34	12,000								
PROFIT & LOSS						9,000									
Revenue	A\$MM	175	282	285	278	205	6,000								
Operating costs	"	(96)	(125)	(125)	(122)	(122)	3,000								
Mine Operating Profit	"	79	157	160	157	82	0								
Exploration Expense	"	(5)	(10)	(8)	(8)	(8)	0								
DD&A	"	(30)	(32)	(27)	(26)	(24)	0								
Corporate & Other Costs	"	(4)	(12)	(8)	(8)	(9)	0								
Operating Income (EBIT)	A\$MM	41	103	118	115	42	0								
Net Interest	"	(0.0)	2	3	4	6	0								
Pre Tax Profit	"	41	105	120	120	48	0								
Tax Expense	"	(11)	(33)	(40)	(40)	(16)	0								
Net profit - as reported	A\$MM	29.3	72	81	80	32	0								
Significant Items after tax	"	5	0	0	0	0	0								
Net Profit excl one-offs	A\$MM	24.4	72	81	80	32	0								
EPS	A¢	15.0	36.9	41.2	41.1	16.6	0								
DPS	A¢	5.0	12.0	13.0	13.0	10.0	0								
CASH FLOWS						SHARE VALUATION - as at December 2006									
Operating Cash Flow	A\$MM	52	140	144	141	66	Projects					% Ownership	A\$MM	A\$/Shr	%
Net Interest	"	0	2	3	4	6	Mittel					100%	147	0.75	44%
Tax Paid	"	0	(26)	(40)	(40)	(16)	Wannaway					100%	7	0.04	2%
Retained Op. Cash Flow	A\$MM	52	117	107	106	56	Redross					100%	98	0.50	29%
Exploration	"	(4)	(12)	(10)	(10)	(10)	Mariners					100%	83	0.42	25%
Capital Expenditure	"	(28)	(52)	(50)	(29)	(24)	Total Operating Assets					335	1.71		
Loan Repayments	"	(1)	0	0	0	0	Exploration & Other					50	0.26		
Funding Surplus/(Deficit)	A\$MM	19	54	47	67	22	Debt					(4)	(0.02)		
Dividends Paid	"	(8)	(18)	(23)	(25)	(25)	Cash					87	0.45		
Borrowings	"	0	0	0	0	0	Corporate					(61)	(0.31)		
Equity Issues	"	0	1	0	0	0	Net Asset Value - \$A					408	2.09	146%	
Other	"	16	(30)	0	0	0									
Total Funds Provided	A\$MM	8	(47)	(23)	(25)	(25)									
Net change in cash	"	27	7	23	42	(3)									
Cash at start of year	"	18	45	52	75	117									
Cash at end of year	A\$MM	45	52	75	117	114									
Net Op. CFPS	A\$	0.27	0.72	0.74	0.72	0.34									

Source: Company Reports and RBC Capital Markets estimates

Earnings Revisions

We have made only slight changes to our earnings forecasts as a result of updating for the 1H result. The only area of significant change is the dps, which has more than doubled to A\$0.12/share and equates to a payout ratio of ~30% in both FY07 and FY08.

Our NPV is increased by 3% to A\$2.09 largely as a result of greater cash on hand.

Exhibit 2: Mincor Earnings Revisions

Fiscal 2007		Revised	Previous	% Change
NPAT	A\$m	72.0	71.2	1%
EPS	¢	36.9	36.5	1%
DPS	¢	12.0	5.0	140%
Gross Cashflow	A\$m	103.9	100.8	3%
Cashflow/share	¢	53.2	51.6	3%
Nickel Production	kt	13,575	13,575	(0%)
Cash Costs	US\$/oz	4.84	4.84	0%
Realized Nickel Price	US\$/oz	10.80	10.80	0%
Fiscal 2008				
NPAT	A\$m	80.5	80.3	0%
EPS	¢	41.2	41.1	0%
DPS	¢	13.0	5.0	160%
Gross Cashflow	A\$m	107.4	107.0	0%
Cashflow/share	¢	54.9	54.8	0%
Nickel Production	kt	13,842	13,842	0%
Cash Costs	US\$/oz	4.75	4.75	0%
Realized Nickel Price	US\$/oz	10.90	10.90	0%
Valuation (A\$/share)		2.09	2.02	3%

Source: RBC Capital Markets Estimates

Valuation

We retain our price target of A\$3.20 using a mix of FY07E & FY08 P/E multiple of 8x and a P/CF multiple of 6x, in line with multiples for comparable companies. Very high nickel prices persist and this continues to underpin the company's strong financial performance. We maintain our Outperform, Above Average Risk rating.

Price Target Impediments

We have estimated the sensitivity of Mincor's earnings to various factors and they are most sensitive to changes in the nickel price and the A\$/US\$ exchange rate. Mincor processes its ore through the BHP Kambalda concentrator under an estimated 65% profit sharing agreement, and therefore Mincor is not susceptible to potential operating plant failures. Maintaining the license to continue to dispose of saline water from the Mariners mine into Lake Lefroy is a very low risk, in our view. The main operational risk is mining. We do not believe that nickel head grade is high risk, mostly because of the long history of mining in the district. 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 to high cost.

Company Description

Mincor is a relatively small Australian nickel sulphide producer with four modest-sized, wholly owned underground mines and significant acreage around the Widgiemooltha Dome structure, just south of Kambalda in Western Australia. Mincor is the largest supplier of nickel ore to BHP Nickel West's concentrator in the Kambalda nickel district and has an off-take agreement with the company. Mincor owns the Miitel, Redross, Mariners and Wannaway mines, which collectively are on target to produce 12.5-13.5 kt of nickel in concentrates in FY07 at cash cost of ~US\$4.80/lb. Mincor has no net debt and large cash balance. At June 2006, it had a resource base of 2.016 million tonne grading 3.8%, for 75,831 tonne of contained nickel metal, and reserves of 1.668 million tonne grading 2.7%, for 44,695 tonne of contained nickel.

A substantial exploration program is targeted at defining and extending the limits of the known deposits, as well as seeking new orebodies in the area. The district is highly prospective. Mincor first purchased its nickel mines in 2001 and began production in 2002 and total acquisition cost to Mincor was A\$54 million. Mincor sold its equity in Tethyan Copper for a gross A\$15.7m pre tax in April 06; book value was A\$2.2m. Mincor has earned a 70% interest in the Carnilya Hill nickel project.

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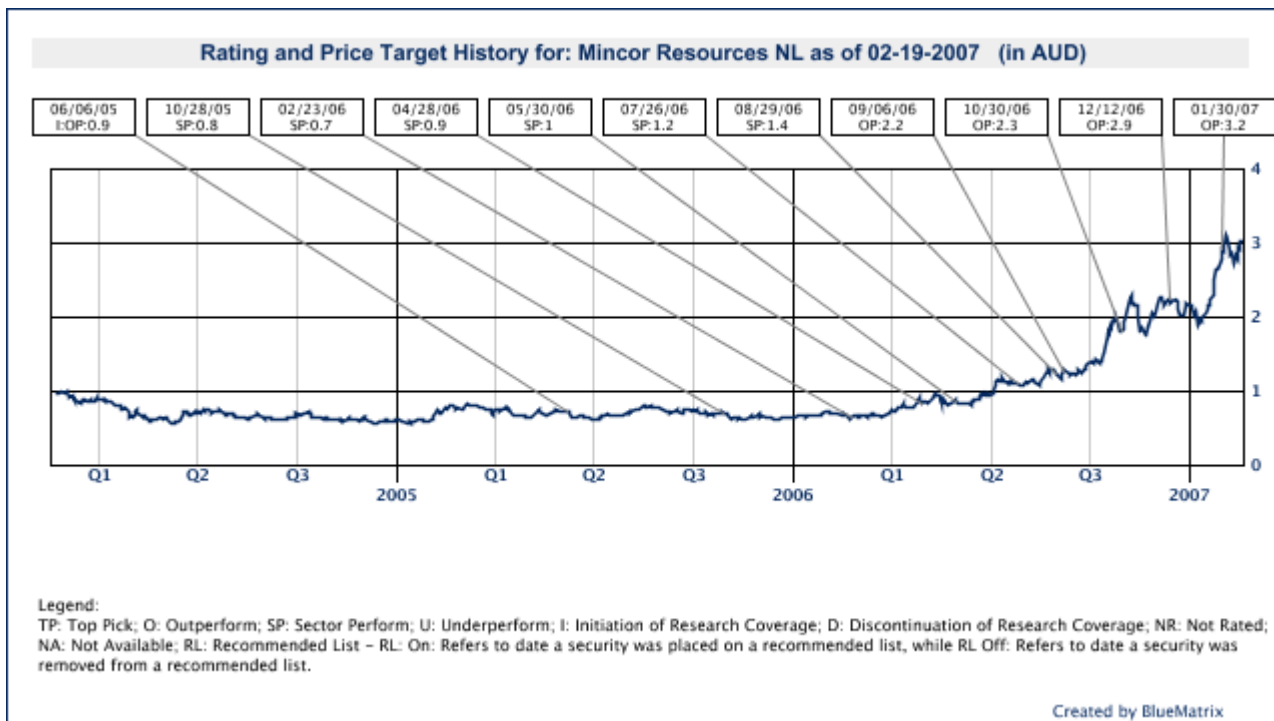
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