



Mincor BUY

Current Price: **\$0.64**
Valuation: **\$1.14**

Ticker: **MCR**
Sector: **Materials**

Shares on Issue (m): **198.9**
Market Cap (\$m): **127.3**
Net Cash (\$m): **0.0**
Enterprise Value (\$m): **127.3**

52 wk High/Low: **\$3.85** **\$0.46**
12m Av Daily Vol (m): **1.38**

Key Metrics

	08A	09F	10F
P/E (x)	2.0	-14.2	4.3
EV/EBITDA (x)	0.9	2.2	1.4

Financials:

	08A	09F	10F
Revenue (\$m)	321.0	210.2	224.9
EBIT (\$m)	92.5	-2.1	42.2
NPAT (\$m)	64.0	-9.0	29.4

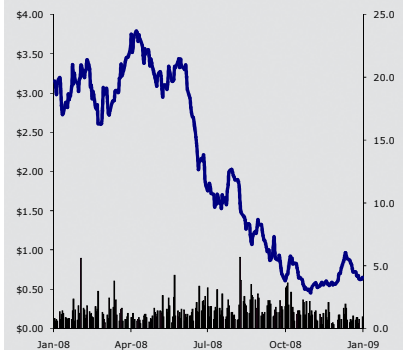
Net Assets (\$m) 238.5 217.6 245.0

Op CF (\$m) 93.8 36.0 90.8

Per Share Data:

	08A	09F	10F
EPS (cps)	31.6	-4.1	13.5
DPS (cps)	12.0	0.0	2.0
Div Yield	18.8%	0.0%	3.1%
CFPS (cps)	46.3	16.5	41.7

Share Price Graph



Analyst:
Troy Irvin

28 January 2009

Tailor-made production

Mincor (MCR) delivered 4,618t of nickel-in-concentrate production in the December quarter. Compared to the previous quarter (Figures 1 & 2):

- Nickel output was up 6% (4% more ore milled, at a slightly higher grade of 2.89%)
- Cash costs were 3% lower at A\$5.61/lb payable

At current distressed base metals prices MCR (and most peers) face a tough job battling thin margins. However MCR is well placed to weather lower nickel prices - at spot nickel of A\$7.50/lb the business is generating positive operating cash flows of up to \$4.5m per month. For the June half Argonaut is forecasting reduced capital expenditure of \$1.5m / month, and reduced exploration expenditure of \$0.5m / month. This translates into potential free cash flows of \$15m for the 6 month period.

MCR's point of differentiation is 'low barriers to exit', enabling management to tailor production to meet changes in the nickel price. This is a unique feature among mining companies and arises because MCR does not operate a plant (it sells ore to Nickel West) and owns a large number of variable mining operations.

MCR's response to the violent downturn in the nickel price has been to focus on output from three core higher grade mines - Otter Juan, Mariners and Carnilya Hill. Production is supplemented by ore from McMahon and Redross (Redross is scheduled to close upon the final exhaustion of its ore reserves in the June Q).

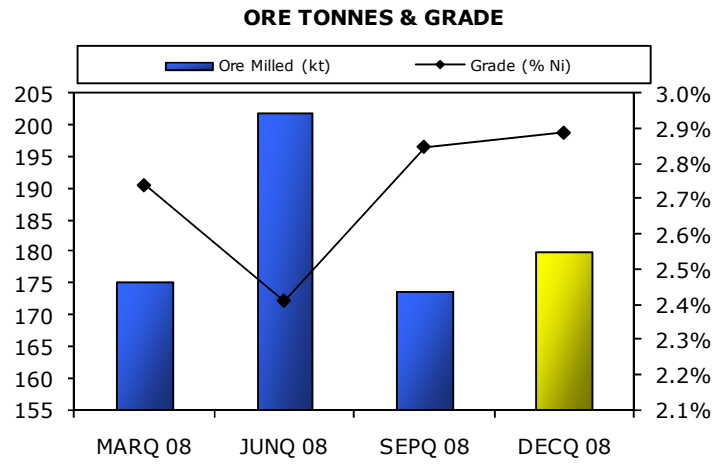
Following the closure of the Miitel mine in late December Argonaut expects FY09 production to be at the lower end of the 16-19,000t guidance. As previously advised, MCR expects to report an accounting loss for the December half 2008 due largely to negative provisional pricing adjustments (negative sales revenue adjustment of \$18.5m).

With a strong balance sheet, (\$72m working capital, no bank debt) and a \$20m in-the-money hedge book, the market is giving MCR little value for its operational assets. The current market cap is \$127m.

Although it is prudent to remain cautious of high cost producers, MCR offers believers leverage to the nickel price.

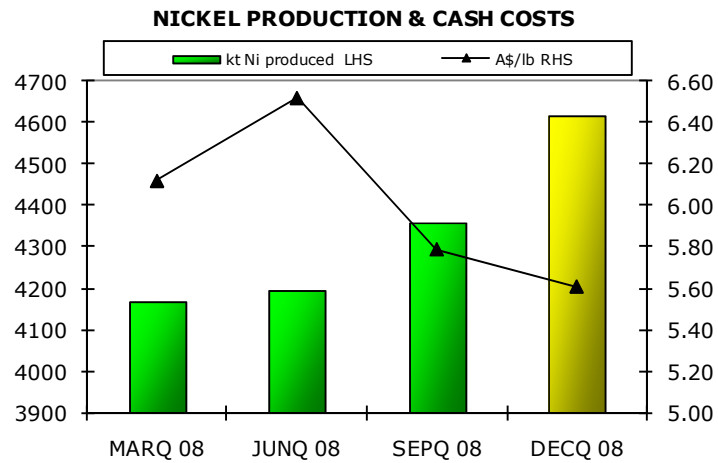
BUY

Figure 1: Ore tonnes and grade



Source: Argonaut

Figure 2: Nickel production and cash costs



Source: Argonaut

Mincor

Equities Research
Analyst: Troy Irvin

Recommendation BUY
Current Price \$0.64
Valuation \$1.14
All Ords (XAO) 3,426

Sector Materials
Issued Capital (m) 198.9
Market Cap (m) \$127.3
Updated 28-January-2009

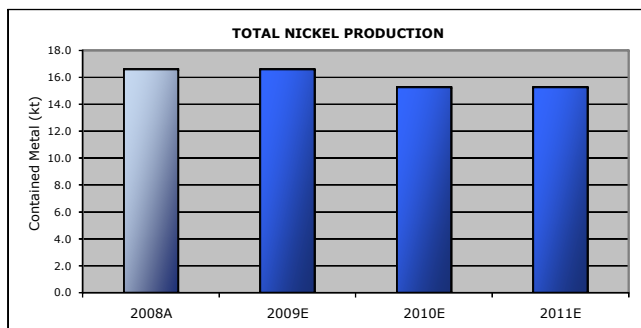
Profit & Loss (\$m) 30 June	2008A	2009E	2010E
Sales Revenue	321.0	210.2	224.9
Other Income	8.3	4.7	5.9
Operating Costs	158.4	138.9	125.7
Depn & Amort	55.6	61.3	50.2
Exploration Expensed	12.8	8.8	4.6
Corporate/Admin	10.0	8.0	8.1
Foreign Exchange Loss	0.0	0.0	0.0
EBIT	92.5	-2.1	42.2
Interest Paid	0.5	0.2	0.2
Operating Profit	92.0	-2.3	42.0
Tax Expense	27.9	6.6	12.6
Minorities	0.0	0.0	0.0
NPAT	64.0	-9.0	29.4
Normalised NPAT	64.0	-9.0	29.4

Cash Flow (\$m)	2008A	2009E	2010E
Operating Cashflow	93.8	36.0	90.8
- Capex	37.4	43.0	20.3
- Exploration	35.3	11.8	6.1
- Asset Purchases (+ Asset Sales)	55.2	0.0	0.0
Free Cashflow	(34.1)	(18.8)	64.4
- Dividends	23.7	11.9	2.0
+ Equity Raised	1.8	0.0	0.0
+ Debt Drawdown (Repaid)	(1.0)	0.0	0.0
Net Change in Cash	(57.1)	(30.7)	62.4
Cash at End Period	112.5	81.8	144.2

Balance Sheet (\$m)	2008A	2009E	2010E
Total Assets	329.0	277.9	314.4
Total Debt	2.4	2.4	2.4
Total Liabilities	90.5	60.3	69.4
Shareholders Funds	238.5	217.6	245.0

Production Summary	2008A	2009E	2010E
Total Nickel Production (kt)	16.6	16.6	15.3
Ni Cash Cost - net of credits (US\$/lb)	5.74	3.92	4.07
Ni Price Realised (US\$/lb)	12.14	6.79	7.59

Reserves & Resources (30 June 2008)							
Nickel	Reserves			Resources			
	Mt	% Ni	Ni (kt)	Mt	% Ni	Ni (kt)	
Mariners	0.44	3.1	13.7	0.71	3.9	27.4	
Redross	0.08	2.8	2.3	0.28	4.0	11.2	
Mittel	0.58	2.6	15.0	0.85	3.6	30.2	
Wannaway	0.02	1.4	0.03	0.14	3.0	4.3	
Carnilya Hill	0.22	2.8	6.3	0.17	5.5	9.5	
Otter-Juan	0.32	3.8	12.1	0.75	3.8	28.4	
McMahon / Ken	0.32	2.4	7.6	0.37	4.1	15.2	
Durkin				0.38	5.1	19.4	
Gellatly				0.03	3.4	1.0	
Bluebush Line				0.63	3.3	20.8	
Total	1.99	2.9	57.0	4.33	3.9	167.4	



Financial Summary	2008A	2009E	2010E
Reported Earnings			
Net Profit (\$m)	64.0	(9.0)	29.4
EPS (cents)	31.6	(4.1)	13.5
PER (x)	2.0	(14.2)	4.3
Normalised Earnings			
Net Profit (\$m)	64.0	(9.0)	29.4
EPS (cents)	31.6	(4.1)	13.5
EPS Growth (%)	(36.7)	(113.0)	(427.5)
PER (x)	2.0	(14.2)	4.3
Cashflow			
Gross (Op.) Cashflow (\$m)	93.8	36.0	90.8
GCFPS (cents)	46.3	16.5	41.7
PCF (x)	1.4	3.9	1.5
Dividend			
Dividend (cents)	12.0	0.0	2.0
Yield (%)	18.8	0.0	3.1
Franking %	100	100	100

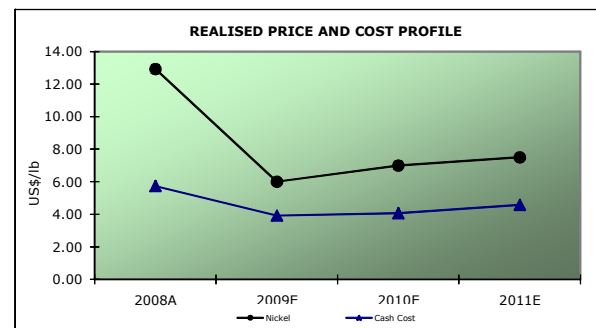
Financial Ratios	2008A	2009E	2010E
Balance Sheet Ratios			
Total Debt / Equity (%)	1.0	1.1	1.0
Interest Cover (x)	185.1	-10.3	203.5
Acid test ratio (x)	3.1	2.4	3.3
Profitability Ratios			
Net Profit Margin (%)	19.9	-4.3	13.1
Return on Assets (%)	42.8	-1.1	24.8
Return on Equity (%)	26.8	-4.1	12.0

Valuation Summary	A\$m	A\$/sh
South Kambalda Operations	92.1	0.42
North Kambalda Operations	63.0	0.29
Bluebush	10.0	0.05
Forward Sales	20.5	0.09
Corporate	-16.5	-0.08
Exploration	15.0	0.07
Unpaid Capital	1.4	0.01
Cash Estimate	65.0	0.30
Debt	-2.4	-0.01

Total @ 10% discount rate 248 1.14

Directors		
David Humann		Non-Executive Chairman
David Moore		Managing Director
Jack Gardener		Non-Executive Director
Ian Burston		Non-Executive Director

Substantial Shareholders		%
Barclays Group		10.3
Barclays Global Investors		5.8



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