

9 January 2007

Nickel keeps its lustre

NICKEL

Despite the nickel price having risen from US\$22,000/t to over US\$35,000/t since we completed our June 06 Kambalda Nickel Book, Patersons outlook for nickel remains positive.

New supply from large laterite projects such as Goro (CVRD/Inco) and Ravensthorpe (BHPB) is yet to impact the nickel market, as these projects continue to experience delays (and large capital overruns). Demand for nickel remains strong, with a net deficit in supply of 13,000t expected in CY07 (ABARE).

The high unit cost nickel sulphide producers of the Kambalda region are well placed to take advantage of these record high nickel price levels.

Mincor Resources NL (\$1.90) – BUY

Our DCF valuation for Mincor Resources NL (MCR) is \$2.05/sh and our price target is \$2.56/sh. We retain our BUY recommendation on the stock.

Recent announcements from MCR (Kambalda acquisition, Mariners 09 discovery and Carnilya Hill JV) will see a substantial increase to MCR's reserves, which we believe is yet to be priced in.

MCR's operations continue to perform strongly with forecast FY07 production of over 13,500t of nickel in concentrate.

Sally Malay Mining Ltd (\$2.12) – BUY

Our DCF for Sally Malay Mining Ltd (SMY) is \$2.11/sh and our price target is \$2.63. We retain our BUY recommendation on the stock.

An initial resource from the Copernicus JV underground, continued exploration success at Lanfranchi JV and positive results from the non-nickel (PGM) Panton project are likely to act as positive price catalysts.

SMY's Sally Malay and Lanfranchi operations are forecast to produce 12,600t of contained nickel in FY07 and 18,000t in FY08.

Independence Group NL (\$3.99) – Upgrade to HOLD

Our DCF valuation for Independence Group NL (IGO) is \$3.32/sh and our price target is \$3.98/sh. Since recommending a sell on IGO at \$5.12, it has pulled back to trade in our price target range. Consequently we are upgrading IGO to a HOLD.

IGO is now a nickel and gold company. Its Long Shaft nickel operation continues to perform strongly and is without doubt the highest quality of the Kambalda orebodies (highest grade translating to lowest cost).

With IGO's annual production rate of around 9,000t of contained nickel, IGO's leverage to a continued high nickel price is limited due to its diversified assets. We believe almost half of its current market capitalisation is being attributed to its 30% share of the Tropicana JV.

Analyst

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

Valuation Metrics

Nickel Operations – segment valuation

MCR is a pure nickel miner and looks to have the largest ore reserves upgrade in the pipeline with its current suite of projects.

SMY is also a pure nickel miner. Value uplift from here is likely to come in the form of reserve upgrades and production growth.

Only half of our valuation for IGO is attributable to its nickel operation, with the remainder being for its exploration projects, mainly the Tropicana Gold JV (IGO 30%).

Figure 1: Segment Valuation

Company	% Valuation attributable to nickel operations	Comment
IGO	63	A large part of IGO DCF is attributed to its 30% stake in the Tropicana JV
MCR	90	Pure nickel miner, upgrade to reserves coming
SMY	89	Pure nickel miner except exposure to PGM's through Panton JV.

Note: This only includes value given to nickel operations not nickel exploration

Source: Patersons Estimates

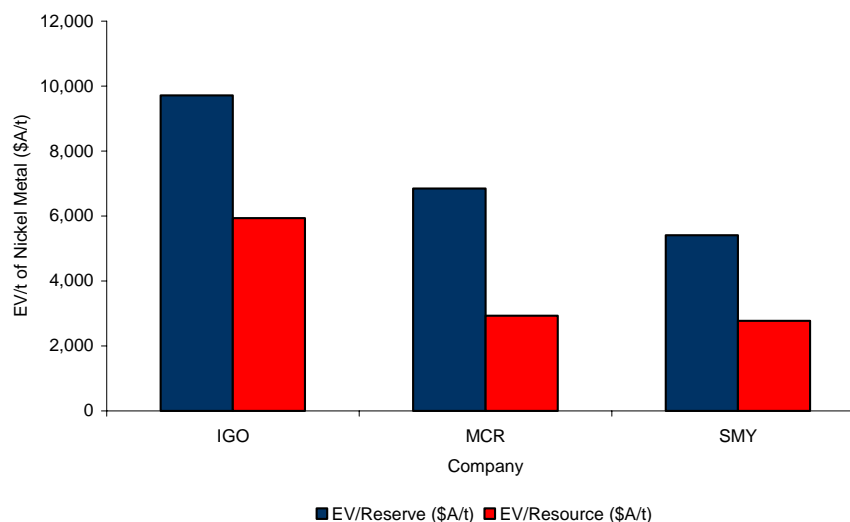
Enterprise Value Per Ore Reserve and Resource Tonne

The market is currently pricing in a modest A\$156 per nickel tonne in resource premium for MCR over that of SMY. Given higher resource grades MCR appears cheap (SMY resource grade 2.0% and MCR 3.9%). This alone should warrant a larger premium, however significant resource increases are the pipeline for MCR from the Carnilya Hill JV, Mariners 09 and resource additions from the newly acquired Kambalda leases. These will further reduce the current premium.

SMY will increase its resource base, through addition of material from underground and through more positive results from Sally Malay western extensions (though these will be low grade) and continued Lanfranchi exploration.

IGO's EV\$/reserve tonne of A\$9,717/t reflects its out performance of reserves and diversified interests i.e. the value the market is placing on its non-nickel assets (Tropicana JV).

Figure 2: Enterprise Value of Reserves/Resources per tonne of nickel metal



Source: Patersons Estimates

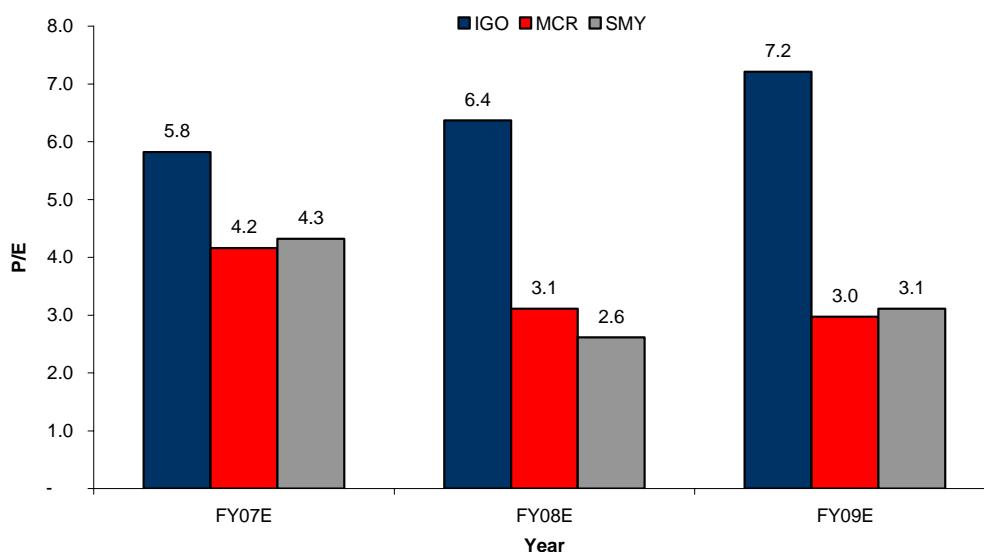
P/E Multiples – Still Cheap!

MCR and SMY both appear cheap trading on 4.2 and 4.3 times FY07 and 3.1 and 2.6 times FY08 earnings respectively.

MCR however historically trades at a premium to SMY, given its consistent performance and newly discovered/acquired growth potential. SMY is only part way through its production ramp up.

IGO is trading on higher multiples (5.8 times FY07) due to the quality of its earnings and expectations of ongoing exploration success at the Tropicana Gold JV.

Figure 3: P/E Multiples



Source: Patersons Estimates

Valuation leverage to nickel price

Although SMY is the only company with debt (estimated A\$25.5m Sept 06) all companies have some hedging in place. As the higher cost producers, SMY and MCR provide the greatest leverage to a continued strong nickel price. SMY's leverage is greatest in the long term, due to the longer life of its operations.

MCR's leverage may be understated with additional reserves pending, reduced hedgebook and no debt.

IGO's leverage to the nickel price is limited because of its increasingly diversified interests (Tropicana Gold JV).

Figure 4: Price Target leverage to nickel price (flat)

Company	Share price 5/1/07	DCF Hedgebook	Our price profile	US\$6/lb	US\$9/lb	US\$12/lb	US\$15/lb
IGO	\$3.99	-\$0.57	\$3.98	\$2.90	\$4.33	\$5.75	\$7.18
MCR	\$1.90	-\$0.29	\$2.56	\$1.09	\$2.38	\$3.67	\$4.95
SMY	\$2.12	-\$0.42	\$2.63	\$1.30	\$3.07	\$4.77	\$6.47

Source: Patersons Estimates

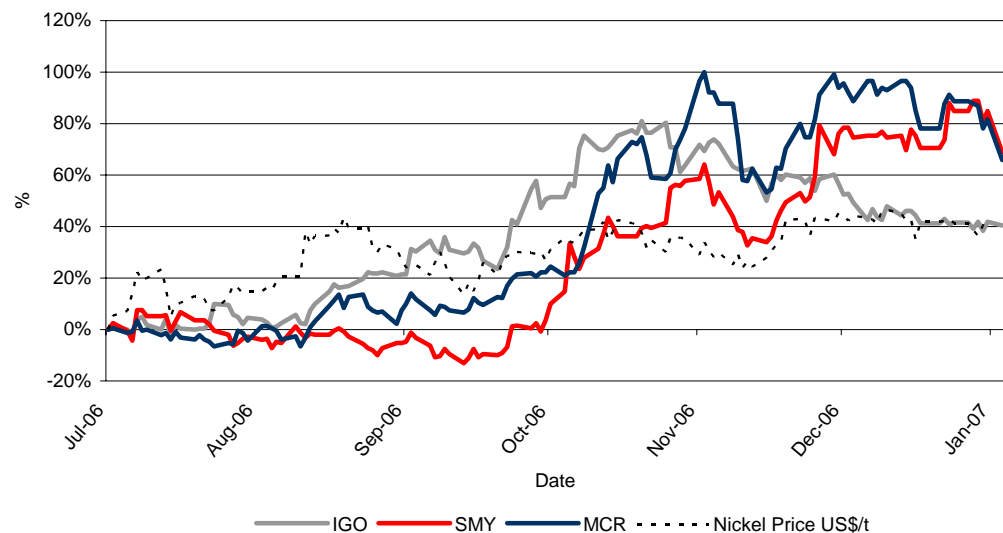
Share Price Performance versus nickel price

Since our last review (June 06) both MCR and SMY have outperformed the nickel price.

SMY has shown a +69% gain as its growth profile and nickel price leverage became more accepted.

MCR's 66% increase in share price has come with consistent production, nickel price leverage and allaying market fears of short mine life with continued exploration success and recent acquisitions.

Figure 5: Nickel price versus share price performance graph



Source: Patersons Estimates

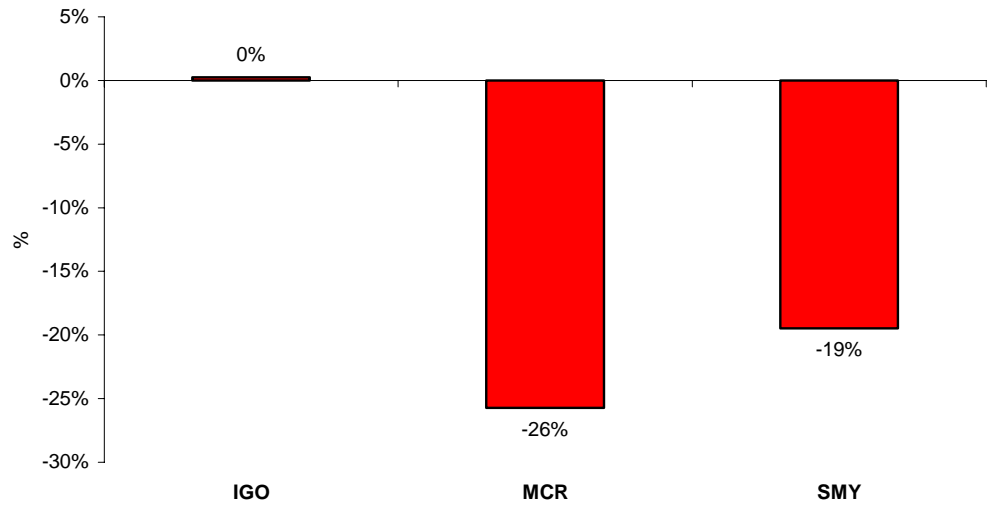
Premium/Discount to Price Target

Following a decline in IGO's share price over the past 2 months, the stock is now trading at a modest premium to our price target. This is likely to be maintained given the grade of its orebody, proven production, cash costs and in anticipation of the initial resource for the Tropicana JV.

Despite a stellar share price rise over the past 6 months, MCR continues to trade at a discount to our price target. Ongoing solid operational performance and a significant increase in its reserves/resources base should see this discount shorten.

SMY also trades at a discount to our price target suggesting the market places some risk on its aggressive production growth profile.

Figure 6: Market Price premium/discount to Price Target

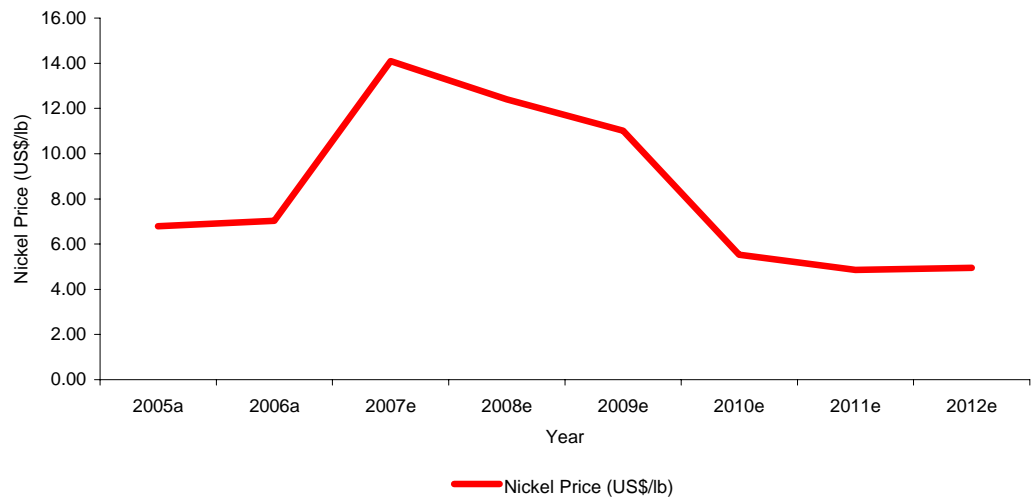


Source: Patersons Estimates

Our Nickel price forecast

Our nickel price forecast is re-calculated every month based on LME futures contracts and returns to a long term average of US\$4.50/lb.

Figure 7: Patersons Nickel price forecast (US\$/lb)



Source: Patersons Estimates

Bring on Tropicana

Investment Highlights

- IGO's share price has pulled back from an October high of \$5.12/share. It is currently trading in our price target range. Patersons believe consistent production from Long Shaft along with the strong nickel price and continued newsflow from exploration will uphold the share price at current levels and we are consequently upgrading IGO to a HOLD.
- **Production:** IGO's production is running at 9,000tpa of contained nickel, which is close to the capacity of Long Shaft nickel operation. While IGO's nickel production has little scope for expansion, it continues to be the lowest unit cost producer of the Kambalda miners, due to its higher grade orebody.
- **Long Shaft operations:** The Long shaft operations have mining reserves of 47kt (June 06) and historically mining has outperformed reserves by a third so mine life is assured.
- **Tropicana Gold JV (IGO 30%):** Tropicana continues to shape up as the most exciting gold discovery in sometime. However with the JV manager AngloGold Ashanti (70%) having substantial investment hurdle rates and an initial resource not expected until late CY07, any production is at least 3 years away.
- **Other exploration:** IGO has a wide range of exploration activities outside of the Tropicana JV including other gold and nickel JV's. Results from these will continue to flow through.
- **Proven performance:** Although mining conditions are becoming more difficult as Long gets deeper, ground stress increases and mining activities are spread wider, IGO's head grade means it will have a much lower unit cost for some time yet.
- Our DCF valuation for IGO is \$3.32/share. With producers currently trading at premiums to DCF derived NPVs and continued newsflow expected from its suite of exploration plays, we have a \$3.98/share price target on IGO.

Company	
Stock code:	IGO
Share price:	\$3.99
Recommendation:	HOLD

\$3.58 \$4.38

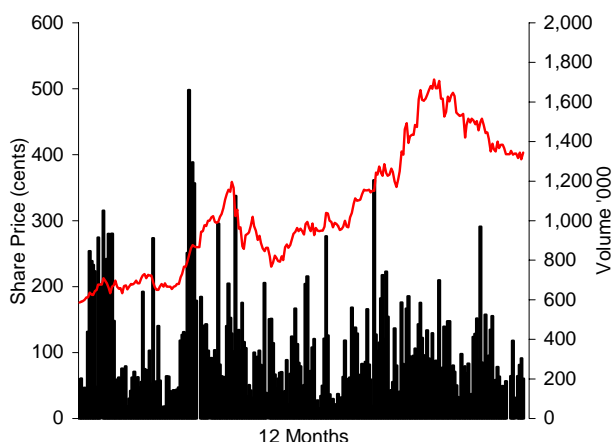


S&P/ASX 300 = 5510

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

Company Statistics & Performance

Shares on Issue	122.6m	Daily Vol.	325,000
Market Cap	\$489m	Debt	\$2.8m
52 Week Range	\$1.74 - \$5.14	Cash	\$37.4m



Investment Summary

Year End June 30	2006A	2007F	2008F	2009F
Reported Earnings				
Net Profit (\$m)	35.0	84.1	76.8	67.8
EPS (cents)	27.4	68.6	62.7	55.3
EPS growth (%)	22.0	149.8	(8.6)	(11.7)
PER (x)	4.0	5.8	6.4	7.2
EBITDA				
EBITDA (\$m)	60.2	128.1	117.8	105.3
EV/EBITDA (x)	7.1	2.9	2.6	3.6
Cashflow Multiples				
Gross Cashflow (\$m)	47.7	86.1	80.1	76.6
GCFPS (cents)	37.4	70.2	65.4	62.5
PGCF (x)	2.9	5.7	6.1	6.4
Free Cashflow (\$m)	12.8	80.3	70.9	(54.9)
FCFPS (cents)	10.0	65.5	57.9	(44.7)
PFCF (x)	39.8	6.1	6.9	(8.9)
Dividend				
Dividend (cents)	7.00	15.00	14.00	11.00
Yield (%)	1.75	3.76	3.51	2.76
Franking (%)	100	100	100	100

Independence Group NL

\$3.99

Profit & Loss (\$m)	1H/06A	2H/06A	1H/07E	2H/07E
Sales Revenue	52.4	60.2	83.3	97.9
Other Income	0.5	1.0	0.8	1.6
Operating Costs	21.4	20.4	24.8	22.6
Depn & Amort	5.0	4.4	3.7	4.0
Exploration Exp.	2.3	5.5	1.3	2.4
Corporate/Admin	1.1	3.3	2.0	2.4
EBIT	23.2	27.7	52.3	68.0
Interest	0.2	0.2	0.1	0.0
Operating Profit	22.9	27.4	52.2	68.0
Tax expense	4.0	11.4	15.7	20.4
Minorities	0.0	0.0	0.0	0.0
NPAT	19.0	16.0	36.5	47.6

Normalised NPAT	16.1	19.2	36.5	47.6
Cash Flow (\$m)	1H/06A	2H/06A	1H/07E	2H/07E
Adjusted Net Profit	19.0	16.0	36.5	47.6
+ Interest/Tax/Expl Exp	6.5	17.1	17.1	22.8
- Interest/Tax/Expl Inc	11.8	8.5	19.2	26.4
+ Depn/Amort	5.0	4.4	3.7	4.0
+/- Other	0.0	0.0	0.0	0.0
Operating Cashflow	18.6	29.0	38.1	48.0
- Capex (+asset sales)	8.0	9.6	2.8	3.0
- Working Capital Increase	7.5	9.8	0.0	0.0
Free Cashflow	3.1	9.6	35.3	45.0
- Dividends (ords)	5.5	2.2	7.9	9.0
+ Equity raised	1.0	1.7	0.0	0.0
+ Debt drawdown (repaid)	(3.3)	(2.4)	(2.1)	(1.1)
Net Change in Cash	(4.8)	6.7	25.3	34.8
Cash at End Period	19.3	26.0	51.3	86.2
Net Cash/(Debt)	15.0	21.9	50.2	86.2

Production	1H/06A	2H/06A	1H/07E	2H/07E
Nickel in concentrate (t)	4593	4304	4059	4720
Copper in concentrate (t)	326	310	272	291
Per Pound of Payable Metal:				
Net Nickel Cash Cost (A\$/lb)	3.44	3.87	4.40	3.37
Nickel Total Cost (A\$/lb)	4.28	4.66	5.10	4.00
Nickel Price Received (US\$/lb)	6.79	6.37	11.09	11.50

Tropicana Gold production ozs (IGO S)	0	0	0	0
Gold Cash costs (US\$/oz)	0	0	0	0
Gold price received (US\$/oz)	462	590	618	649
Average FX Rec'd (US\$/A\$)	0.75	0.74	0.76	0.75

Balance Sheet (\$m)	2006A	2007F	2008F	2009F
Cash/Bullion	26.0	86.2	141.3	74.0
Total Assets	114.6	178.4	239.4	294.8
Total Debt	3.2	0.0	0.0	0.0
Total Liabilities	66.7	63.4	63.4	63.4
Shareholders Funds	47.9	115.0	176.0	231.4
Ratios				
Net Debt/Equity (%)	na	na	na	na
Interest Cover (x)	114.5	778.2	na	na
Return on Equity (%)	73.0	73.1	43.7	29.3

Reserves & Resources

Reserves	Mt	Ni (%)	Kt
Long	0.54	4.2	22.5
Victor South	0.26	4.3	11.1
McLeay	0.32	4.2	13.2
Total	1.11	4.20	46.8
Resources	Mt	Ni (%)	Kt
Long	0.63	6.3	39.8
Victor South	0.42	3.8	16.1
McLeay	0.31	6.6	20.8
Total	1.37	5.60	76.7

Year End June 30

Profit & Loss (\$m)	2006A	2007F	2008F	2009F
Sales Revenue	112.6	181.2	166.4	161.0
Other Income	1.5	2.4	5.5	5.9
Operating Costs	41.8	47.4	45.9	48.2
Depn & Amort	9.3	7.8	8.0	8.4
Exploration Exp.	7.8	3.7	3.3	8.3
Corporate/Admin	4.4	4.4	4.9	5.0
EBIT	50.8	120.3	109.8	96.9
Interest	0.4	0.2	0.0	0.0
Operating Profit	50.4	120.2	109.8	96.9
Tax expense	15.4	36.1	32.9	29.1
Abnormal Losses / Minorities	0.0	0.0	0.0	0.0
NPAT	35.0	84.1	76.8	67.8

Normalised NPAT	35.3	84.1	76.8	67.8
Cash Flow (\$m)	2006A	2007F	2008F	2009F
Adjusted Net Profit	35.0	84.1	76.8	67.8
+ Interest/Tax/Expl Exp	23.6	40.0	36.2	37.4
- Interest/Tax/Expl Inc	20.3	45.7	40.9	37.1
+ Depn/Amort	9.3	7.8	8.0	8.4
+/- Other	0.0	0.0	0.0	0.0
Operating Cashflow	47.7	86.1	80.1	76.6
- Capex (+asset sales)	17.6	5.8	9.2	131.5
- Working Capital Increase	17.3	0.0	0.0	0.0
Free Cashflow	12.8	80.3	70.9	(54.9)
- Dividends (ords)	7.8	17.0	15.8	12.4
+ Equity raised	2.7	0.0	0.0	0.0
+ Debt drawdown (repaid)	(5.8)	(3.2)	0.0	0.0
Net Change in Cash	1.9	60.1	55.1	(67.3)
Cash at End Period	26.0	86.2	141.3	74.0
Net Cash/(LT Debt)	21.9	86.2	141.3	74.0

Production	2006A	2007F	2008F	2009F
Nickel in concentrate (t)	8898	8779	9440	9440
Copper in concentrate (t)	636	563	466	466
Per Pound of Payable Metal:				
Net Nickel Cash Cost (A\$/lb)	3.65	3.84	3.47	3.65
Nickel Total Cost (A\$/lb)	4.46	4.51	4.11	4.32
Nickel Price Received (US\$/lb)	6.65	11.31	9.69	8.97

Tropicana Gold production ozs (IC)	0	0	0	4,991
Gold Cash costs (US\$/oz)	0	0	0	184
Gold price received (US\$/oz)	526	633	668	703
Average FX Rec'd (US\$/A\$)	0.75	0.76	0.74	0.73

Valuation	A\$m	A\$/sh
Victor/Long	325	2.65
Tropicana	43	0.35
Forward Sales	(70)	(0.57)
Corporate	(18)	(0.15)
Exploration	84	0.69
Unpaid Capital	5	0.04
Equity Stake in MRX	3	0.03
Cash	37	0.30
Debt	(3)	(0.02)
Total @ 8% Discount Rate	407	3.32
Base Case Price Target (25% Premium to NPV) for Ni ONLY		3.98

Directors

Name	Position
Rodney Marston	Non Executive Chairman
Christopher Bonwick	Managing Director
Kelly Ross	Executive Director
John Christie	Non Executive Director
Oscar Aamodt	Non Executive Director

Substantial Shareholders

Substantial Shareholders	Shares (m)	%
MIR Investment Management	8.17	7.24%
Barclays Global Investors Australia	6.46	5.27%

Consistent production- Aggressive exploration

Investment Highlights

- MCR have launched an aggressive exploration push, which is backed by consistent production from its Widgiemooltha operations. We retain our BUY recommendation ahead of consistent production, continued positive results from near mine exploration and recent acquisitions (Kambalda and Rav 8 JV), development of Carnilya Hill JV, and a continued strong nickel price.
- Production:** Patersons forecast FY07 production of 13,600t of contained nickel. MCR has stated a longer term production target of 15,000tpa.
- Carnilya Hill JV (MCR 70%):** We believe the Carnilya Hill JV will add circa 20kt of contained nickel to MCR's resource inventory. Having commenced the pre-feasibility, an initial resource is expected in March '07.
- Mariners 09:** We estimate this new discovery, down dip of the 08 orebody, will add 300kt at 4% nickel (12kt contained nickel). Importantly the grades intersected to date (4.6m true width at 7.8%) are some of the highest grades returned in the area and point to the possibility of a higher grade resource.
- Consistent performance:** MCR has a consistent history of production performance and reserve replacement.
- Kambalda acquisition:** MCR's recent \$30M Kambalda acquisition marks it's first foray onto the Kambalda Dome. The Kambalda Dome is known for its higher grade (than the Widgiemooltha Dome) it has added 28kt of contained nickel resources at 4.3% nickel and has the potential to add more with the leases being largely unexplored in recent times.
- Our DCF valuation for MCR is \$2.05/share. With producers currently trading at a premium to DCF derived NPVs, we see MCR moving towards a price target of \$2.56/share as it is rewarded for its aggressive exploration push and consistent production.

Company	
Stock code:	MCR
Share price:	\$1.90
Recommendation:	BUY

\$2.30 \$2.81

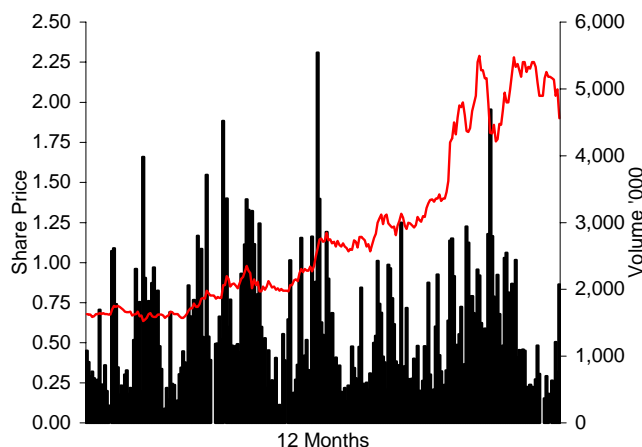


S&P/ASX 300 = 5510

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

Company Statistics & Performance

Shares on Issue	196.8m	Daily Vol.	1,269,000
Market Cap.	\$373.9m	Debt	\$4.0m
52 Week Range	\$0.64 - \$2.29	Cash	\$70.3m



Investment Summary

Year End June 30	2006A	2007F	2008F	2009F
Reported Earnings				
Net Profit (\$m)	29.3	89.9	120.3	125.8
EPS (cents)	14.9	45.7	61.1	63.9
EPS growth (%)		206.8	33.8	4.6
PER (x)	12.8	4.2	3.1	3.0
EBITDA				
EBITDA (\$m)	71.5	164.8	211.6	217.3
EV/EBITDA (x)	4.6	1.7	0.8	0.3
Cashflow Multiples				
Gross Cashflow (\$m)	74.4	124.2	158.9	162.5
GCFPS (cents)	38.2	63.8	81.6	83.5
PGCF (x)	5.0	3.0	2.3	2.3
Free Cashflow (\$m)	35.3	64.9	134.0	147.7
FCFPS (cents)	18.1	33.4	68.9	75.9
PFCF (x)	10.5	5.7	2.8	2.5
Dividend				
Dividend (cents)	5.0	13.0	16.0	16.0
Yield (%)	2.6	6.8	8.4	8.4
Franking (%)	100	100	100	100

Mincor Resources NL

\$1.90

Year End June 30

Profit & Loss (\$m)	1H/06A	2H/06A	1H/07E	2H/07E
Sales Revenue	80.0	95.2	150.1	154.5
Other Income	-0.4	10.7	1.4	1.5
Operating Costs	45.3	52.8	61.2	59.2
Depn & Amort	14.4	15.8	18.0	18.0
Exploration Exp.	2.0	3.0	5.1	5.2
Corporate/Admin	4.8	6.1	6.0	6.1
EBIT	13.0	28.3	61.2	67.5
Interest	0.2	0.5	0.2	0.2
Operating Profit	12.9	27.7	61.0	67.4
Tax expense	2.8	8.5	18.3	20.2
Minorities	0.0	0.0	0.0	0.0
NPAT	10.1	19.2	42.7	47.2

Normalised NPAT 9.0 19.4 42.7 47.2

Cash Flow (\$m)	1H/06A	2H/06A	1H/07E	2H/07E
Adjusted Net Profit	10.1	19.2	42.7	47.2
+ Interest/Tax/Expl Exp	5.0	12.0	23.6	25.5
- Interest/Tax/Expl Inc	5.8	3.3	24.5	26.4
+ Depn/Amort	14.4	15.8	18.0	18.0
+/- Other	0.0	6.9	0.0	0.0
Operating Cashflow	23.7	50.7	59.8	64.4
- Capex (+asset sales)	12.0	16.4	47.4	12.5
- Working Capital Increase	14.4	(3.7)	(0.7)	0.0
Free Cashflow	(2.8)	38.0	13.1	51.9
- Dividends (ords & pref)	3.9	3.9	5.8	11.7
+ Equity raised	0.0	0.0	0.0	0.0
+ Debt drawdown (repaid)	(0.3)	(0.2)	(0.7)	(0.7)
Net Change in Cash	(7.0)	33.9	6.5	39.5
Cash at End Period	11.2	45.1	51.7	91.2
Net Cash/(Debt)	6.7	40.8	48.0	88.2

Production (MCR)	1H/06A	2H/06A	1H/07E	2H/07E
Nickel in concentrate (t)	6754	6741	6897	6762
Copper in concentrate (t)	591	603	644	656
Cobolt in concentrate (t)	127	131	139	143

Per Pound of Payable Metal:

Net Nickel Cash Cost (A\$/lb)	4.84	5.80	6.19	6.11
Nickel Total Cost (A\$/lb)	6.33	7.43	8.01	7.97
Nickel Price Received (US\$/lb)	6.05	6.88	11.27	11.70
Spot Nickel Price (US\$/lb)	6.17	7.88	14.12	14.07
Average FX Received (US\$/A\$)	0.75	0.74	0.76	0.75

Balance Sheet (\$m)	2005A	2006A	2007F	2008F
Cash/Bullion	18.2	45.1	91.2	196.9
Total Assets	125.0	164.9	236.4	339.7
Total Debt	4.3	4.4	3.3	0.8
Total Liabilities	58.0	93.8	148.1	155.9
Shareholders Funds	66.3	71.1	162.3	257.3

Ratios

Net Debt/Equity (%)	na	na	na	na
Interest Cover (x)	140.1	59.1	383.0	1050.9
Return on Equity (%)	27.4	41.2	55.4	46.8

Reserves & Resources (June 2006)

Reserves	Mt	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

Resources	Mt	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 Deepes	0.28	4.6	13.1
Total	2.69	3.89	104.9

Profit & Loss (\$m)	2005A	2006A	2007F	2008F
Sales Revenue	124.2	175.3	304.6	367.5
Other Income	(1.6)	10.3	2.9	6.3
Operating Costs	70.6	98.1	120.4	142.9
Depn & Amort	17.6	30.2	36.0	39.6
Exploration Exp.	2.8	5.0	10.3	7.0
Corporate/Admin	2.2	10.9	12.1	12.3
EBIT	29.4	41.3	128.8	172.0
Interest	0.2	0.7	0.3	0.2
Operating Profit	29.2	40.6	128.4	171.8
Tax expense	8.9	11.3	38.5	51.5
Abnormal Losses / Minorities	0.0	0.0	0.0	0.0
NPAT	20.3	29.3	89.9	120.3

Normalised NPAT 20.5 28.4 89.9 120.3

Cash Flow (\$m)	2005A	2006A	2007F	2008F
Adjusted Net Profit	20.3	29.3	89.9	120.3
+ Interest/Tax/Expl Exp	11.9	17.0	49.1	58.7
- Interest/Tax/Expl Inc	5.1	9.0	50.9	59.7
+ Depn/Amort	17.6	30.2	36.0	39.6
+/- Other	0.0	6.9	0.0	0.0
Operating Cashflow	44.7	74.4	124.2	158.9
- Capex (+asset sales)	36.5	28.4	60.0	24.9
- Working Capital Increase	(5.5)	10.7	(0.7)	0.0
Free Cashflow	13.8	35.3	64.9	134.0
- Dividends (ords & pref)	4.9	7.8	17.5	25.3
+ Equity raised	0.1	0.0	0.0	0.0
+ Debt drawdown (repaid)	0.0	(0.6)	(1.4)	(3.0)
Net Change in Cash	9.0	26.9	46.0	105.7
Cash at End Period	18.2	45.1	91.2	196.9
Net Cash/(LT Debt)	17.9	40.8	88.2	196.9

Production (MCR)	2005A	2006A	2007F	2008F
Nickel in concentrate (t)	10008	13496	13659	16584
Copper in concentrate (t)	1000	1194	1300	1533
Cobolt in concentrate (t)	236	258	282	330

Per Pound of Payable Metal:

Net Nickel Cash Cost (A\$/lb)	4.50	5.16	5.81	5.70
Nickel Total Cost (A\$/lb)	5.73	6.72	7.65	7.37
Nickel Price Received (US\$/lb)	6.17	6.57	11.49	11.28
Spot Nickel Price (US\$/lb)	6.79	7.03	14.10	12.41
Average FX Received (US\$/A\$)	0.75	0.75	0.75	0.74

Valuation	A\$m	A\$/sh
Miitel	160	0.81
Wannaway	10	0.05
Redross	77	0.39
Mariners	104	0.53
Carnilya	34	0.17
Kambalda leases	12	0.06
Forward Sales	(57)	(0.29)
Corporate	(44)	(0.22)
Exploration & Development Opportunitites	38	0.19
Unpaid Capital	2	0.01
Cash	70	0.36
Debt	(4)	(0.02)
Total @ 8% discount rate	407	2.05
Price Target (25% Premium to NPV)	508	2.56

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

Substantial Shareholders	Shares (m)	%
MIR Investment Management	12.99	6.60

Increasing production

Investment Highlights

- SMY are increasing production at a time of record nickel prices. We retain our BUY recommendation ahead of stronger production, positive results from the Copernicus Deeps JV initial resource and Lanfranchi JV drilling, the Panton scoping study and a continued strong nickel price.
- Production:** Patersons forecast FY07 production of 12,400t of contained nickel and a ramp up to 17,600t for FY08.
- Sally Malay mine:** The 'flagship' operation located in the Kimberley will continue to be the keystone of SMY's performance (contributed 85% of EBIT in FY06). Improved grades are expected as the operation mines deeper.
- Lanfranchi JV (SMY 75%):** New discoveries at Lanfranchi have added life and grade to the operation. Ramp up of production towards the 350ktpa BHPB offtake maximum, at higher grades from recently discovered orebodies is critical in order to meet FY08 production target of 18,000t of contained nickel.
- Copernicus JV (SMY 60%):** Production from the Copernicus open pit is scheduled in 2HFY08 with an initial resource for the underground orebody imminent.
- Growth:** SMY offers greater production growth than its peers, which is likely to precipitate a re-rating as earnings growth is factored in.
- Our DCF valuation for SMY is \$2.11/share. With producers currently trading at premiums to DCF derived NPVs, we see SMY moving towards a price target of \$2.63/share with a seamless production ramp up.

Company	
Stock code:	SMY
Share price:	\$2.12
Recommendation:	BUY

\$2.37 \$2.90

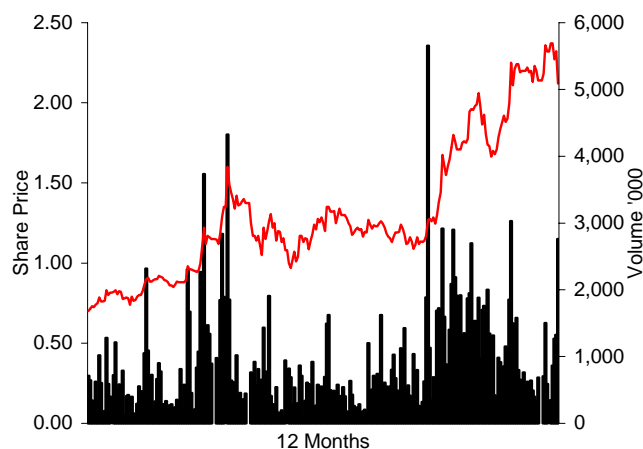


S&P/ASX 300 = 5510

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

Company Statistics & Performance

Shares on Issue	191.2m	Daily Vol.	819,000
Market Cap.	\$405.4m	Debt	\$25.5m
52 Week Range	\$0.67 - \$2.25	Cash	\$35.2m



Investment Summary

Year End June 30	2006A	2007F	2008F	2009F
Reported Earnings				
Net Profit (\$m)	15.0	89.6	148.0	126.1
EPS (cents)	9.2	49.1	81.1	68.2
EPS growth (%)	na	431.7	65.2	-15.9
PER (x)	23.0	4.3	2.6	3.1
EBITDA				
EBITDA (\$m)	68.7	172.1	265.3	225.6
EV/EBITDA (x)	5.0	1.5	0.4	(0.3)
Cashflow Multiples				
Gross Cashflow (\$m)	48.9	130.1	199.7	169.7
GCFPS (cents)	36.4	89.1	136.8	111.8
PGCF (x)	na	2.4	1.5	1.9
Free Cashflow (\$m)	13.7	115.2	168.7	156.3
FCFPS (cents)	7.2	60.2	88.2	81.8
PFCF (x)	29.6	3.5	2.4	2.6
Dividend				
Dividend (cents)	0.0	0.0	0.0	0.0
Yield (%)	0.0	0.0	0.0	0.0
Franking (%)	100.0	100.0	100	100

Sally Malay Mining Limited (SMY)

\$2.12

Year End June 30

Profit & Loss (\$m)	1H/06A	2H/06A	1H/07E	2H/07E
Sales Revenue	100.9	140.6	212.6	256.3
Other Income	0.3	0.2	7.3	2.0
Operating Costs	78.0	89.0	140.7	152.9
Depn & Amort	8.4	28.1	21.1	21.8
Exploration Exp.	0.6	0.2	2.9	1.6
Corporate/Admin	2.5	3.1	4.0	4.0
EBIT	11.8	20.4	51.1	78.1
Interest	2.8	2.2	0.9	0.3
Operating Profit	9.0	18.2	50.2	77.8
Tax expense	3.8	3.3	15.1	23.3
Abnormals	2.6	-7.7	0.0	0.0
NPAT	7.8	7.2	35.1	54.5

Normalised NPAT	5.5	15.1	35.1	54.5
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Cash Flow (\$m)	1H/06A	2H/06A	1H/07E	2H/07E
Adjusted Net Profit	7.8	7.2	35.1	54.5
+ Interest/Tax/Expl Exp	7.2	5.8	18.9	25.2
- Interest/Tax/Expl Inc	8.2	7.4	20.5	26.1
+ Depn/Amort	8.4	28.1	21.1	21.8
+/- Other	0.0	0.0	0.0	0.0
Operating Cashflow	15.2	33.7	54.7	75.4
- Capex (+asset sales)	8.2	28.1	7.5	6.2
- Working Capital Increase	0.8	(1.9)	1.2	0.0
Free Cashflow	6.2	7.5	46.0	69.2
- Dividends (ords & pref)	0.0	0.0	0.0	0.0
+ Equity raised	0.8	19.9	0.0	0.0
+ Debt drawdown (repaid)	(4.5)	(15.5)	(12.0)	(3.7)
Net Change in Cash	2.5	11.9	34.0	65.5
Cash at End Period	17.8	29.7	63.7	129.2
Net Cash/(Debt)	(19.4)	(1.8)	44.2	121.3

Production Summary	1H/06A	2H/06A	1H/07E	2H/07E
Nickel (t)				
Sally Malay	4,371	3,119	4,125	4,411
Copernicus	0	0	0	0
Lanfranchi	470	1,572	1,914	1,987
Total nickel production (t)	4,841	4,691	6,040	6,398
Cobalt (t)				
Sally Malay	246	162	212	220
Copernicus	0	0	0	0
Lanfranchi	0	0	0	0
Copper (t)				
Sally Malay	2,193	1,417	1,749	1,814
Copernicus	0	0	0	0
Lanfranchi	25	79	105	108

Wt Average Cash Cost US\$/lb	4.18	4.73	7.32	7.46
Wt Average Total Cost US\$/lb	4.56	5.82	8.53	8.61
Realised price US\$/lb	5.89	6.63	10.30	12.49
Spot Nickel price US\$/lb	6.17	7.88	14.12	14.07
Exchange rate (US\$/A\$)	0.75	0.74	0.76	0.75

Balance Sheet (\$m)	2006A	2007F	2008F	2009F
Cash	30.6	129.2	299.7	452.8
Total Assets	215.5	337.8	521.7	668.2
Total Debt	48.1	7.9	7.9	0.0
Total Liabilities	166.5	165.8	199.9	215.7
Shareholders Funds	48.9	172.0	321.8	452.6

Ratios				
Net Debt/Equity (%)	3.7	na	na	na
Interest Cover (x)	6.5	106.3	421.1	1432.9
Return on Equity (%)	30.7	52.1	46.0	27.9

Reserves & Resources

Reserves	Kt	Metal	Grade (%)	Metal (kt)
Sally Malay	3,417	Ni	1.56	53.3
		Cu	0.64	21.9
		Co	0.08	2.7
Lanfranchi	607	Ni	3.27	19.9
Total	4,024	Ni	1.82	73.2
Resources	Kt	Metal	Grade (%)	Metal (kt)
Sally Malay	3,736	Ni	1.74	65.0
		Cu	0.72	26.9
		Co	0.09	3.4
Copernicus JV	241	Ni	1.50	3.6
		Cu	0.80	1.9
		Co	0.06	0.1
Lanfranchi	3,648	Ni	2.02	73.9
Total	7,625	Ni	1.87	142.5

Profit & Loss (\$m)	2006A	2007F	2008F	2009F
Sales Revenue	241.5	468.9	639.6	531.8
Other Income	0.6	9.3	9.5	18.1
Operating Costs	167.1	293.6	372.5	312.7
Depn & Amort	36.5	42.9	53.4	45.3
Exploration Exp.	0.8	4.5	3.2	3.3
Corporate/Admin	5.5	8.0	8.2	8.3
EBIT	32.2	129.2	211.9	180.3
Interest	5.0	1.2	0.5	0.1
Operating Profit	27.2	128.0	211.4	180.2
Tax expense	7.2	38.4	63.4	54.1
Abnormals	-5.1	0.0	0.0	0.0
NPAT	15.0	89.6	148.0	126.1

Normalised NPAT	20.6	89.6	148.0	126.1
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Cash Flow (\$m)	2006A	2007F	2008F	2009F
Adjusted Net Profit	15.0	89.6	148.0	126.1
+ Interest/Tax/Expl Exp	13.0	44.1	67.1	57.4
- Interest/Tax/Expl Inc	15.6	46.5	68.8	59.2
+ Depn/Amort	36.5	42.9	53.4	45.3
+/- Other	0.0	0.0	0.0	0.0
Operating Cashflow	48.9	130.1	199.7	169.7
- Capex (+asset sales)	36.3	13.6	31.0	13.3
- Working Capital Increase	(1.1)	1.2	0.0	0.0
Free Cashflow	13.7	115.2	168.7	156.3
- Dividends (ords & pref)	0.0	0.0	0.0	0.0
+ Equity raised	20.6	0.0	1.7	4.7
+ Debt drawdown (repaid)	(19.9)	(15.7)	0.0	(7.9)
Net Change in Cash	14.4	99.5	170.4	153.1
Cash at End Period	29.7	129.2	299.7	452.8
Net Cash/(LT Debt)	(1.8)	121.3	291.7	452.8

Production Summary	2006A	2007F	2008F	2009F
Nickel (t)				
Sally Malay	7,490	8,536	9,461	9,229
Copernicus	0	0	871	1,162
Lanfranchi	2,041	3,902	7,245	4,865
Total nickel production (t)	9,532	12,438	17,577	15,255
Cobalt (t)				
Sally Malay	408	432	423	511
Copernicus	0	0	40	53
Lanfranchi	0	0	0	0
Copper (t)				
Sally Malay	3,610	3,563	3,348	3,668
Copernicus	0	0	51	68
Lanfranchi	103	213	315	270

Wt Average Cash Cost US\$/lb	4.45	7.39	6.66	6.23
Wt Average Total Cost US\$/lb	5.18	8.57	7.68	7.22
Realised price US\$/lb	6.26	11.40	11.55	11.02
Spot Nickel price US\$/lb	7.03	14.10	12.41	11.02
Exchange rate (US\$/A\$)	0.75	0.76	0.74	0.73

Valuation	A\$m	A\$/sh
Sally Malay Project	301.4	1.58
Copernicus-Salk	9.2	0.05
Lanfranchi	131.4	0.69
Forwards	(80.1)	(0.42)
Corporate	(15.9)	(0.08)
Cash	35.2	0.18
Debt	(25.5)	(0.15)
Exploration (incl. Panton)	43.3	0.23
Unpaid capital	6.4	0.03
Total @ 8% Discount Rate	405	2.11
Price Target (25% Premium to NPV)	507	2.63

Directors

Name	Position
Christopher de Guingand	Non-Executive Chairman
Peter Harold	Managing Director
Chris Langdon	Non Executive Director

Senior Management	Position	
Richard Jordinson	Chief Operating Officer	
Trevor Eton	Chief Financial Officer	
Substantial Shareholders	Shares (m)	%
ANZ Nominees	58.8	35.6
National Nominees	21.2	12.8
JP Morgan Nominees	9.0	5.5

Top 20	128.1	78.8
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Research

Resources

Simon Oaten – Oil & Gas Analyst	Phone: (+61 3) 8803 0144	Email: soaten@psl.com.au
Alex Passmore – Head of Metals & Mining	Phone: (+61 8) 9263 1239	Email: apassmore@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
Mark Savich – Assistant Analyst	Phone: (+61 8) 9263 1144	Email: msavich@psl.com.au

Industrials

Robert Gee – Industrial Analyst	Phone: (+61 8) 9263 1637	Email: rgee@psl.com.au
Julia Griffiths – Industrial Analyst	Phone: (+61 8) 9263 1151	Email: jgriffiths@psl.com.au
Matthijs Smith – Healthcare & Biotechnology Analyst	Phone: (+61 3) 8803 0146	Email: msmith@psl.com.au
Steve Suleski – Industrial Analyst	Phone: (+61 8) 9263 1189	Email: ssuleski@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
Jonathan Kriska – Property Analyst	Phone: (+61 2) 8238 6245	Email: jkriska@psl.com.au
David Gibson – Assistant Analyst	Phone: (+61 8) 9263 1664	Email: dgibson@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: pdoherly@psl.com.au
Alastair Gordon	Phone: (+61 2) 8238 6244	Email: agordon@psl.com.au
Trent Foxe	Phone: (+61 2) 8238 6265	Email: tfoxe@psl.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
Jeremy Nugara	Phone: (+61 3) 8803 0166	Email: jnugara@psl.com.au
Trevor Pike	Phone: (+61 3) 8803 0110	Email: tpike@psl.com.au
Sandy Wylie	Phone: (+61 8) 9263 1232	Email: swylie@psl.com.au

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Participant of ASX Group
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: Arrio Building, 7 Stirling Street, Bunbury, Western Australia 6230
Ph: (+61 8) 9791 7133 Fax: (+61 8) 9721 2599 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
Mandurah Office: Suite 10, 55 Mandurah Terrace, Mandurah, Western Australia 6210
Ph: (+61 8) 9534 8422 Fax: (+61 8) 9534 8466 Email: mandurah@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

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