



Friday 21 August 2009

**MCR AU** **Neutral**

Relative to Volatility index ex 100 very high

Stock price as of 20 Aug 09 A\$ 2.60  
 12-month target A\$ 1.50  
 12-month TSR % -39.2  
 Valuation A\$ 1.12  
 - DCF (WACC 10.0%, beta 1.3, ERP 5.0%, RFR 6.0%)

GICS sector materials  
 Market cap A\$m 519  
 30-day avg turnover A\$m 4.2  
 Number shares on issue m 199.5

**Investment fundamentals**

Year end 30 Jun		2009A	2010E	2011E	2012E
Sales revenue	m	191.9	179.1	205.8	217.8
EBIT	m	-8.3	3.9	0.9	23.7
Reported profit	m	-16.7	10.2	7.0	23.4
Adjusted profit	m	1.2	10.2	7.0	23.4
Gross cashflow	m	68.4	69.2	63.0	77.4
CFPS	¢	33.7	34.1	31.0	38.1
CFPS growth	%	-48.6	1.1	-8.9	22.8
PGCFPS	x	7.7	7.6	8.4	6.8
PGCFPS rel	x	0.88	0.81	1.00	0.87
EPS adj	¢	0.6	5.0	3.5	11.5
EPS adj growth	%	-98.2	nmf	-31.2	nmf
PE adj	x	444.0	51.8	75.3	22.6
PE rel	x	27.91	3.31	5.70	1.89
Total DPS	¢	6.0	8.0	8.0	8.0
Total div yield	%	2.3	3.1	3.1	3.1
Franking	%	100	100	100	0
ROA	%	-2.9	1.6	0.4	9.8
ROE	%	0.5	5.2	3.7	12.4
EV/EBITDA	x	7.5	7.1	7.8	5.7
Net debt/equity	%	-37.3	-51.2	-62.2	-80.3
Price/book	x	2.6	2.7	2.9	2.7

**MCR AU vs ex 100, & rec history**



Source: FactSet, Macquarie Research, August 2009 (all figures in AUD unless noted)

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# Mincor Resources NL

## A great second half

**Event**

- Mincor (MCR) has reported FY09 financial results.

**Impact**

- Second-half highlights operational improvements.** MCR reported a strong second half result following the weak 1H09 on the back of the collapse in nickel prices. MCR reported a net after tax loss of \$16.6m; adjusting for write downs in the 1H09 result, we calculate a NPAT of \$1.19m, which is below our adjusted forecast of \$10m, the difference being a -\$9.3m provisional pricing adjustment from FY08. The most encouraging take away from the result was operating cashflow for 2H09 of \$38m (1H09: \$1.8m), including capital development and exploration free cash flow was \$24m (1H09: -\$44m). MCR declared a final dividend of 4cps (1H09: 2cps).
- The year ahead.** MCR goes into FY10 with a strong balance sheet having cash of \$75m (net receivables \$13m) and no debt. Production guidance for FY10 is 13-14kt of nickel in ore and does not assume a restart of Miitel which has the potential to add around 5-6ktpa nickel. Our cash cost forecast is A\$5.27/lb payable and appears conservative given 2H09 costs of A\$4.83/lb, with a capital development expenditure for FY10 expected to be \$19 or ~A\$0.97/lb payable; our A\$ nickel price forecast for FY10 is A\$7.67/lb. We expect a steady stream of exploration news flow in FY10 as MCR currently has six underground rigs and one surface rig in operation (for more details see *Essentials*, 23 July, *Strong quarter with low costs*). MCR has extended its off take agreement with the BHP Kambalda concentrator out to 2019.

**Earnings revision**

- We have adjusted our 2009 adjusted EPS down 4.6cps to 0.6cps as a result of a \$9.3m provisional pricing adjustment and upgrade our FY10 EPS by 23% on lower cost assumptions.

**Price catalyst**

- 12-month price target: A\$1.50 based on a P/NPV and PER methodology.
- Catalyst: Results of near mine exploration at Otter Juan

**Action and recommendation**

- We are upgrading our recommendation to Neutral from Underperform and increased our price target to \$1.50/sh. While our base case valuation remains below current share price levels, we believe MCR provides leverage to a continued spike in the nickel price, while at the same time having a balance sheet and operations that are well placed to weather any pull back in the nickel price.
- In a relative sense MCR is in the middle of a group of 3 WA nickel sulphide producers with cash costs ~A\$4.50/lb. We do not believe the current nickel price is sustainable which is supporting nickel equity valuations, however, in a relative sense we do not believe MCR warrants an underperform recommendation. MCR provides investors with a good balance of nickel price leverage which is (arguably stronger than others given the latent capacity at Miitel), strong balance sheet and a host of exploration targets with potential to leverage off existing underground infrastructure. In assessing our recommendations in the nickel sector our underperform recommendations have either a lack of an identifiable growth pipeline (Minara) or a highly geared balance sheet during a capital intensive phase (Western Areas).



## Mincor Resources (MCR)

Share price \$2.60

<b>Profit &amp; Loss</b>		<b>2008e</b>	<b>2009e</b>	<b>2010e</b>	<b>2011e</b>
<b>Sales Revenue</b>	\$m	<b>322</b>	<b>192</b>	<b>179</b>	<b>206</b>
+ Other Revenue	\$m	0	0	0	0
<b>Total Revenue</b>	\$m	<b>322</b>	<b>192</b>	<b>179</b>	<b>206</b>
- Operating Costs	\$m	168	133	111	144
- Corporates/Other	\$m	0	0	5	5
<b>EBITDA</b>	\$m	<b>154</b>	<b>59</b>	<b>63</b>	<b>57</b>
- Depreciation/Amortisation	\$m	56	57	54	54
- Write-Offs	\$m	13	10	5	2
<b>EBIT</b>	\$m	<b>85</b>	<b>(8)</b>	<b>4</b>	<b>1</b>
+ Net Interest	\$m	7	(0)	7	9
<b>Pretax Profit</b>	\$m	<b>92</b>	<b>(8)</b>	<b>11</b>	<b>10</b>
- Tax Expense	\$m	28	(10)	1	3
<b>Net Profit</b>	\$m	<b>64</b>	<b>1</b>	<b>10</b>	<b>7</b>
+ Significant Items	\$m	0	(18)	0	0
<b>Reported Profit</b>	\$m	<b>64</b>	<b>(17)</b>	<b>10</b>	<b>7</b>
<b>Adjusted Profit</b>	\$m	<b>64</b>	<b>1.19</b>	<b>10</b>	<b>7</b>
Shares on Issue	m	199	199	199	199
EPS (adj)	c	31.7	0.6	5.0	3.5
DPS	c	12.0	6.0	8.0	8.0
Payout ratio	%	37.8%	1020.1%	159.4%	231.8%
<b>Cashflow Analysis</b>					
		<b>2008e</b>	<b>2009e</b>	<b>2010e</b>	<b>2011e</b>
Operating Surplus	\$m	139	39	63	57
Net Interest	\$m	7	3	7	9
Taxes Paid	\$m	(54)	(4)	(3)	(2)
Other / Dividends Received	\$m	2	1	0	0
<b>Operating Cash Flows</b>	\$m	<b>94</b>	<b>40</b>	<b>67</b>	<b>64</b>
Capital Expenditure	\$m	(92)	(44)	(21)	(28)
Exploration	\$m	(35)	(10)	(5)	(4)
<b>Investing Cash Flows</b>	\$m	<b>(128)</b>	<b>(53)</b>	<b>(26)</b>	<b>(32)</b>
Increase/(Decrease) Borrowings	\$m	(1)	(1)	0	0
Dividends Paid	\$m	(24)	(16)	(16)	(16)
Other	\$m	2	0	0	0
<b>Financing Cash Flows</b>	\$m	<b>(23)</b>	<b>(17)</b>	<b>(16)</b>	<b>(16)</b>
<b>Net Increase/(Decrease) Cash</b>	\$m	<b>(57)</b>	<b>(30)</b>	<b>25</b>	<b>16</b>

<b>Balance Sheet \$m</b>		<b>2008e</b>	<b>2009e</b>	<b>2010e</b>	<b>2011e</b>
Cash	\$m	112	76	101	117
Fixed Assets	\$m	78	95	62	36
Total Assets	\$m	329	252	244	236
Borrowings	\$m	112	76	101	117
Total Liabilities	\$m	90	52	50	51
Shareholders Equity	\$m	238	200	194	185
NDebt/NDebt+Equity	%	-86%	-59%	-105%	-164%
Interest Cover (x)	X	(12.6)	(52.9)	(0.5)	(0.1)
Return on Equity (%)	%	33%	-8%	5%	4%

<b>Production &amp; Key Assumptions</b>		<b>2008e</b>	<b>2009e</b>	<b>2010e</b>	<b>2011e</b>
<b>Total nickel (in-concentrate)</b>	kt	<b>16.5</b>	<b>15.8</b>	<b>13.7</b>	<b>18.0</b>
Payable nickel production	kt	10.7	10.2	8.9	11.7
<b>Cash cost (per lb payable Ni)</b>	US\$/lb	<b>5.47</b>	<b>4.01</b>	<b>4.22</b>	<b>4.07</b>
Ni Price Realised (per lb payable Ni)	US\$/lb	12.83	6.88	7.02	6.09
Spot Nickel Price	US\$/lb	12.93	6.03	6.14	6.06
Exchange Rate	A\$/US\$	89.7	74.7	79.3	78.5

<b>DCF valuation</b>	\$m	<b>\$/share</b>
Kambalda nickel operations	128	0.64
Durkin, other projects	-	-
Hedging	15	0.08
Exploration	-	-
Corporate Overheads	(6)	(0.03)
Cash (ex Carnilya JV buyout price)	89	0.44
Debt	-	-
<b>Net Equity Value</b>	<b>226</b>	<b>1.12</b>
* Fully diluted number of shares	202m	

<b>Key investment ratios</b>		<b>2008e</b>	<b>2009e</b>	<b>2010e</b>	<b>2011e</b>
GCFPS	c	65.7	33.7	34.1	31.0
PER (adj)	x	8.2	442.0	51.8	75.3
PGCF	x	4.0	7.7	7.6	8.4
EV/EBITDA	x	2.9	9.1	7.2	7.3

Source: Company data, Macquarie Research, August 2009



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