Mineral Resources

Leveraged to raw materials pricing

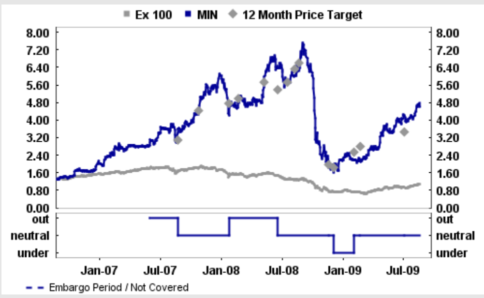
Friday 21 August 2009

MIN AU		**Outperform**
Relative to		ex 100
Volatility index		high
Stock price as of 20 Aug 09	A$	5.03
12-month target	A$	5.92
12-month TSR	%	+22.7
Valuation	A$	4.61-5.27
- Sum of Parts		
GICS sector		commercial & professional services
Market cap	A$m	625
30-day avg turnover	A$m	0.6
Number shares on issue	m	124.3

Investment fundamentals

Year end 30 Jun		2009A	2010E	2011E	2012E
Sales revenue	m	257.4	347.6	382.3	408.7
EBIT	m	61.2	82.6	91.9	98.9
Reported profit	m	44.3	62.1	69.8	75.7
Adjusted profit	m	49.6	62.1	69.8	75.7
Gross cashflow	m	68.0	84.3	93.8	101.7
CFPS	¢	54.1	66.8	74.3	80.6
CFPS growth	%	0.0	23.5	11.2	8.4
PGCFPS	x	9.3	7.5	6.8	6.2
PGCFPS rel	x	1.07	0.80	0.81	0.80
EPS adj	¢	39.5	49.3	55.3	60.0
EPS adj growth	%	3.3	24.9	12.3	8.4
PE adj	x	12.7	10.2	9.1	8.4
PE rel	x	0.80	0.65	0.69	0.70
Total DPS	¢	19.4	25.0	28.0	31.0
Total div yield	%	3.8	5.0	5.6	6.2
Franking	%	100	100	100	100
ROA	%	23.9	26.5	25.9	25.0
ROE	%	38.0	38.8	36.1	33.0
EV/EBITDA	x	8.0	6.1	5.5	5.1
Net debt/equity	%	8.0	-1.2	-10.0	-16.8
Price/book	x	4.3	3.6	3.0	2.5

MIN AU vs ex 100, & rec history



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

Analyst

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Event

- Full-year adjusted NPAT of $49.6m (MQG: $43.1m). EBITA of $61.2m (MQG: $61.9m). Significant items after tax of $5.3m (MQG $0.0m). Net debt of $11.6m (MQG: net cash $0.9m), final dividend of 12.35cps (MQG: 12cps).

Impact

- **First flat year since listing, upside for FY10:** After strong growth since listing, this is MIN's first flat full-year result, a credible result, considering the commodity volatility during the year. Increased earnings from pipelines and crushing were offset by lower commodity earnings. The ructions in commodity markets in 2Q and 3Q were the principal drivers of lower commodity earnings.
- Given current spot manganese and iron ore prices, combined with current freight and foreign exchange rates, there is a strong chance of earnings upgrades for FY10.
- **Commodity uncertainty throws up opportunities:** MIN has a range of growth options including third-party ore processing (Hancock Processing, major diversified miners), port construction and the development of its Philippines iron sands processing plant.
- A recent example is the recommended takeover offer for Polaris Metals (ASX: POL). This follows the agreement to mine, process, transport and ship the iron ore contained in the Poondano tenements owned by Polaris. This agreement is consistent with MIN's strategy to own the logistics chain for bulk commodities and process stranded resources. If successful, this offer would result in MIN issuing 14.1m shares, or 11.3% of issued capital.
- **Balance sheet remains strong:** MIN has a strong balance sheet that allows capital management initiatives and organic growth opportunities. MIN has un-drawn debt facilities of over $40m.

Earnings revision

- FY10 EPS up 49.9% to 49.3cps. FY11 EPS up 47.0% to 55.3cps. Upgrades are mainly due to an increase in manganese prices from US$4.50 to US$5.50/mtu.

Price catalyst

- 12-month price target: A$5.92 based on an EV/EBITA methodology.
- Catalyst: Manganese and Iron ore prices remain key share price catalysts.

Action and recommendation

- We upgrade the stock to Outperform and raise our target price from $3.46 to $5.92. The recent bounce in commodity markets could generate substantial earnings upside in FY10. Crushing volumes are also expected to be supported by minimum contracted sliding scale arrangements and new crushing contracts. We highlight the strong balance sheet position.

First flat year since listing, upside for FY10

- We detailed the result in the table below.

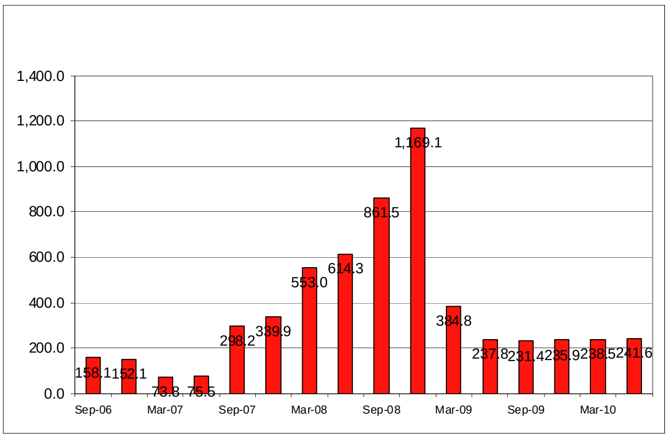
Result summary

	1H08A	2H08A	FY08A	1H09A	2H09A	FY09A	Change
(A$m)							
Revenue	$115.3	$122.8	$238.1	$140.9	$116.5	$257.4	8.1%
EBITDA	$41.2m	$45.9m	$87.1m	$42.8m	$36.9m	$79.6m	-8.5%
Depreciation	$11.9m	$7.7m	$19.6m	$8.7m	$9.7m	$18.4m	-6.2%
Amortisation	$0.0m	$0.0m	$0.0m	$0.0m	$0.0m	$0.0m	n/a
EBIT	$29.3m	$38.2m	$67.5m	$34.1m	$27.1m	$61.2m	-9.2%
Net Interest	$0.4m	$0.0m	$0.5m	($0.1m)	$1.9m	$1.8m	299.3%
Pre-Tax Profit	$28.9m	$38.1m	$67.0m	$34.2m	$25.2m	$59.4m	-11.3%
Tax Expense	$8.8m	$11.1m	$19.9m	$10.8m	($0.9m)	$9.9m	-50.4%
Net Profit	$20.1m	$27.0m	$47.1m	$23.4m	$26.2m	$49.6m	5.2%
Outside eq int	$0.0m	$0.0m	$0.0m	$0.0m	$0.0m	$0.0m	n/a
Net ISI's	$0.0m	$0.0m	$0.0m	$0.0m	($5.2m)	($5.2m)	n/a
Rep Earnings	$20.1m	$27.0m	$47.1m	$23.4m	$20.9m	$44.3m	-5.9%
Adj Earnings	$20.1m	$27.0m	$47.1m	$23.4m	$26.2m	$49.6m	5.2%
Gross Cflow	$31.9m	$34.8m	$66.7m	$32.0m	$35.9m	$68.0m	1.9%
EPS (Adj/dil)	16.3c	21.9c	38.2c	18.7c	20.8c	39.5c	3.3%
EPS growth	168.7%	104.8%	128.1%	14.1%	-4.7%	3.3%	
EBITDA/Sales	35.7%	37.4%	36.6%	30.4%	31.6%	30.9%	
EBIT/Sales	25.4%	31.1%	28.3%	24.2%	23.3%	23.8%	
Earnings Split	42.6%	57.4%		52.7%	47.3%		

Source: Company data, Macquarie Research, August 2009

- After strong growth since listing, this is MIN's first flat full year result, a credible result considering the commodity volatility during the year. Increased earnings from pipelines and crushing were offset by lower commodity earnings. The ructions in commodity markets in 2Q and 3Q being the principal drivers of lower commodity earnings.
- Given current spot manganese and iron ore prices combined with current freight and foreign exchange rates there is a strong chance of earnings upgrades for FY10.

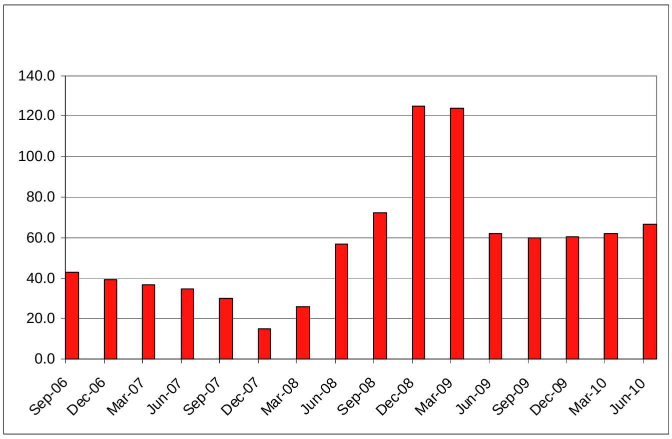
AUD CIF MN Price (44%) per tonne since listing



Source: Macquarie Research, August 2009

- We estimated MIN roughly matched its H109 commodity export volumes in H209. MIN exported ~95kt of manganese (~320kt in FY08) and ~180kt of iron fines (~220kt in FY08) in 1H09. MIN
- had substantial stockpiles of manganese and iron ore allowing it to hit the ground running in H2 when demand returned.
- Our FY10 estimates assume volumes of 400,000 tonnes of manganese and 1,000,000 tonnes of iron ore.
- Recent industry feedback indicates manganese ore sales are being realised as high as US$7/mtu up from the 2009 lows of US$3.50/mtu. The higher spot price is being only partially offset by a stronger AUD and increased freight rates.

AUD/t CIF Fe Price (62%) since listing



Source: Macquarie Research, August 2009

- Earnings will also be supported by continued growth in crushing volumes. FY10 will be supported by the ramp up of two new iron ore crushing contracts. We expect double-digit volume growth for crushing in FY10.
- Crushing contracts are typically negotiated under a sliding scale arrangement with minimum contracted volumes. MIN has historically processed volumes in excess of minimum contract requirements.

Commodity uncertainty throws up opportunities

- MIN has a range of growth options including third-party ore processing (Hancock Processing, major diversified miners), port construction and the development of its Philippines iron sands processing plant.
- A recent example is the recommended takeover offer for Polaris Metals (ASX: POL). This follows the agreement to mine, process, transport and ship the iron ore contained in the Poondano tenements owned by Polaris.

- This agreement is consistent with MIN's strategy to the own logistics chain for bulk commodities and process stranded resources. If successful this offer would result in MIN issuing 14.1m shares or 11.3% of issued capital.
- Polaris has limited cash resources and many prospective tenements making this a perfect opportunity for MIN. The deposits are only 30km from MIN's existing Port Headland operations.
- The Poondano tenements contain a targeted 5–10mt resource of 50–55% haematite deposits in three main zones. The ore is likely to need some form of beneficiation prior to shipment. This will be determined by a $400,000 operational feasibility review funded by MIN.
- A brief summary of MIN's other opportunities are provided below.

Utah Port expansion

- MIN is a foundation member at the proposed Utah Port in Western Australia. We expect this has the potential to provide MIN with additional export capacity by FY11.

Additional manganese ore

- Excess port capacity may be utilised from available Peak Hill and Woodie Woodie ore. MIN has acquired rights to ~200ktpa of manganese ore for 10 years from Peak Hill.
- MIN also holds the rights to past and present manganese superfines produced from the Woodie Woodie mine. This is estimated to supply MIN with ~300ktpa of manganese fines.

Agreement with Hancock Prospecting

- MIN has entered into a seven-year agreement with Hancock Prospecting to build, own and operate processing facilities at the Balfour Downs manganese project in WA. The agreement allows MIN to receive a share of earnings from ore sales.
- While we estimate production of ~350kt is possible as early as FY10 (subject to approvals).

Philippines iron sands development

- MIN has been developing its iron sands processing plant in the Philippines. Our initial modelling indicates production at a rate of 1mtpa of iron fines for a minimum of 10 years.

Other growth opportunities

- In addition, we believe MIN has the opportunity to pursue third-party ore processing agreements, and port development and associated services.

Balance sheet remains strong

- MIN has a strong balance sheet, allowing capital management initiatives and organic growth opportunities. MIN has undrawn debt facilities of over $40m.
- FY09 capex of $50m is mainly related to the construction of the Windimurra processing facilities. MIN has noted that the appointment of an administrator to Windimurra will not impact earnings forecasts.
- FY10 capex of $35m relates mainly to upgrading commodity export facilities to allow for the increased volumes.

A strong cash generator

A$m	1H08A	2H08A	FY08A	1H09A	2H09A	FY09A
EBITDA	41.2	45.9	87.1	42.8	36.9	79.6
Operating Cashflow	34.1	62.7	96.8	27.0	18.9	45.9
+ Tax Paid	2.5	5.1	7.6	14.5	9.6	24.1
+ Net Interest Paid	0.4	0.0	0.5	-0.1	1.9	1.8
Ungeared Pre tax Cf	37.1	67.8	104.9	41.4	30.5	71.8
Profit to cash Conv	90.0%	147.7%	120.4%	96.7%	82.6%	90.2%

Source: Company data, August 2009

Valuation $4.61–5.27

- We have valued MIN on an EV/EBITA basis.

EV/EBIT valuation

A$m	FY10	Multiple-Low	Multiple - High	Value - Low	Value - High
EBIT	82.6	7.00	8.00	577.9	660.5
Total	82.6			577.9	660.5
Less Net Debt				-2.2	-2.2
Plus option Cash				2.7	2.7
				582.8	665.4
Diluted Shares				126.3	126.3
Valuation				$4.61	$5.27

Source: Macquarie Research, August 2009

- The table below details the valuation of MIN's peer group.

Current peer group multiples

FY10	EV/EBITA	PER	Yield
DOW	10.9x	16.4x	3.3%
LEI	11.7x	17.3x	3.1%
MAH	7.8x	12.2x	4.4%
SDM	8.7x	12.0x	4.0%
Average	9.8x	16.8x	3.2%

Source: Macquarie Research, August 2009

Mineral Resources (MIN: A$5.03)

Interim results		1H07(a)	2H07(a)	1H08(a)	2H08(e)
Revenue		**70.1**	**76.7**	**115.3**	**122.8**
EBITDA	**$m**	**18.0**	**19.9**	**41.2**	**45.9**
Depreciation	$m	6.4	4.4	11.9	7.7
Amortisation of goodwill	$m	0.0	0.0	0.0	0.0
EBIT	**$m**	**11.7**	**15.5**	**29.3**	**38.2**
Net Interest expense	$m	0.8	0.7	0.4	0.0
Pre-Tax Profit	**$m**	**10.8**	**14.8**	**28.9**	**38.1**
Tax Expense	$m	3.5	1.9	8.8	11.1
Net Profit	**$m**	**7.3**	**12.8**	**20.1**	**27.0**
Outside equity interests	$m	0.0	0.0	0.0	0.0
Net Abn/Extra	$m	0.0	0.0	0.0	0.0
Reported Earnings	**$m**	**7.3**	**12.8**	**20.1**	**27.0**
Adjusted Earnings	**$m**	**7.3**	**12.8**	**20.1**	**27.0**
Gross Cashflow	**$m**	**17.2**	**17.4**	**38.2**	**40.8**
EPS (Adj/dil)	c	6.1	10.7	16.3	21.9
EPS growth	%	nmf	24.4	168.7	104.8
CFPS	c	14.4	10.6	27.7	50.6
CFPS Growth	%	nmf	-31.7	92.9	375.3
EBITDA/Sales	%	25.7	25.9	35.7	37.4
EBIT/Sales	%	16.6	20.2	25.4	31.1
Earnings Split	%	36.3	63.7	42.6	57.4
Revenue Growth	%	nmf	-24.5	64.6	60.1
EBIT Growth	%	nmf	5.8	151.3	146.6

Profit and Loss ratios		2009A	2010E	2011E	2012E
Revenue Growth	%	8.1	35.0	10.0	6.9
EBIT Growth	%	-9.2	34.8	11.3	7.6
EBITDA/Sales	%	30.9	30.1	30.3	30.5
EBIT/Sales	%	23.8	23.7	24.0	24.2
Effective tax rate	%	16.6	22.0	22.0	22.0
Payout ratio	%	49.0	50.7	50.6	51.7
EV/EBIT	x	10.4	7.5	6.6	5.9
EV/EBITDA	x	8.0	5.9	5.2	4.7
EV/Sales	x	2.5	1.8	1.6	1.4
Balance sheet ratios					
ROE	%	38.0	38.8	36.1	33.0
ROA	%	30.0	33.1	33.3	33.2
ROFE	%	48.8	50.0	50.5	49.9
Net Debt	$m	11.6	-2.2	-21.0	-41.7
Net Debt/Equity	%	8.0	< 0	< 0	< 0
Interest Cover	x	33.8	28.6	38.1	53.7
Price/NTA	x	4.6	3.8	3.1	2.6
NTA per share	$	1.09	1.33	1.61	1.90
EFPOWA	m	125.9	126.3	126.3	126.3

Historical performance		2006A	2007A	2008A	2009A
Revenue	**$m**	**101.6**	**146.7**	**238.1**	**257.4**
EBITDA	**$m**	**23.3**	**37.9**	**87.1**	**79.6**
Depreciation/Amortisation	$m	8.7	10.7	19.6	18.4
EBIT	**$m**	**14.6**	**27.1**	**67.5**	**61.2**
Net interest expense	$m	2.2	1.5	0.5	1.8
Pre-Tax Profit	**$m**	**12.4**	**25.6**	**67.0**	**59.4**
Tax Expense	$m	2.1	5.4	19.9	9.9
Net Profit	**$m**	**10.3**	**20.2**	**47.1**	**49.6**
Net Abn/Extra	$m	0.0	0.0	0.0	-5.2
EPS (adj/dil)	c	8.6	16.8	38.2	39.5
EPS growth	%	nmf	1.0	1.3	0.0
Ordinary DPS	c	0.0	9.5	19.4	19.4
EBITDA/Sales	%	23.0	25.8	36.6	30.9
EBIT/Sales	%	14.4	18.5	28.3	23.8
ROE	%	47.2	33.8	49.1	38.0
ROFE	%	36.7	33.0	75.4	48.8
EFPOWA	m	120.3	120.3	123.5	125.9

Profit & Loss		2009A	2010E	2011E	2012E
Revenue	**$m**	**257.4**	**347.6**	**382.3**	**408.7**
EBITDA	**$m**	**79.6**	**104.7**	**115.9**	**124.9**
Depreciation	$m	18.4	22.1	24.0	26.0
Amortisation of goodwill	$m	0.0	0.0	0.0	0.0
EBIT	**$m**	**61.2**	**82.6**	**91.9**	**98.9**
Net interest expense	$m	1.8	2.9	2.4	1.8
Pre-Tax Profit	**$m**	**59.4**	**79.7**	**89.5**	**97.0**
Tax Expense	$m	9.9	17.5	19.7	21.3
Net Profit	**$m**	**49.6**	**62.1**	**69.8**	**75.7**
Outside equity interests	$m	0.0	0.0	0.0	0.0
Net Abnormals/Extra.	$m	-5.2	0.0	0.0	0.0
Reported Earnings	**$m**	**44.3**	**62.1**	**69.8**	**75.7**
Adjusted Earnings	**$m**	**49.6**	**62.1**	**69.8**	**75.7**
Gross Cashflow	**$m**	**53.7**	**91.9**	**95.9**	**103.3**
EPS (adj/diluted)	c	39.5	49.3	55.4	60.0
EPS growth	%	0.0	24.9%	12.3%	8.4%
PE (adj)	x	12.7	10.2	9.1	8.4
CFPS	c	36.5	63.2	72.9	79.5
CFPS Growth	%	-53.4	73.3	15.3	9.0
PGCFPS	x	13.8	8.0	6.9	6.3
DPS	c	19.4	25.0	28.0	31.0
Yield	%	3.8	5.0	5.6	6.2
Franking	%	100.0	100.0	100.0	100.0

Cashflow Analysis		2009A	2010E	2011E	2012E
Pre-tax Profit	**$m**	**59.4**	**79.7**	**89.5**	**97.0**
Depreciation & Amortisation	$m	18.4	22.1	24.0	26.0
Tax Paid	$m	-24.1	-9.9	-17.5	-19.7
Gross cashflow	**$m**	**53.7**	**91.9**	**95.9**	**103.3**
Changes in working capital	$m	-18.0	-4.4	-1.7	-1.3
Other	$m	10.2	-7.7	-2.2	-1.7
Operating Cashflow	**$m**	**45.9**	**79.9**	**92.1**	**100.4**
Acquisitions	$m	0.0	0.0	0.0	0.0
Capex - Plant & Equip.	$m	-49.8	-35.0	-38.5	-41.1
Asset Sales	$m	1.6	0.0	0.0	0.0
Other	$m	0.0	0.0	0.0	0.0
Investing cashflow	**$m**	**-48.2**	**-35.0**	**-38.5**	**-41.1**
Dividend (ordinary)	$m	-25.2	-31.0	-34.8	-38.5
Equity raised	$m	1.1	0.0	0.0	0.0
Other	$m	0.0	0.0	0.0	0.0
Financing cashflow	**$m**	**-24.1**	**-31.0**	**-34.8**	**-38.5**
Net Change in cash/debt	**$m**	**-26.3**	**13.8**	**18.8**	**20.7**

Balance Sheet		2009A	2010E	2011E	2012E
Cash	$m	54.9	68.7	87.5	108.3
Receivables	$m	36.8	49.7	54.6	58.4
Inventories	$m	16.3	22.0	24.2	25.9
Investments	$m	0.2	0.2	0.2	0.2
Property, plant & equipment	$m	157.0	169.9	184.4	199.5
Intangibles	$m	10.2	10.2	10.2	10.2
Other Assets	$m	13.4	13.4	13.4	13.4
Total Assets	**$m**	**288.8**	**334.1**	**374.6**	**415.9**
Payables	$m	40.5	54.7	60.1	64.3
Short Term Debt	$m	9.8	9.8	9.8	9.8
Long Term Debt	$m	56.7	56.7	56.7	56.7
Other Liabilities	$m	37.0	37.0	37.0	37.0
Total Liabilities	**$m**	**144.1**	**158.2**	**163.7**	**167.9**
Shareholders Funds	$m	144.8	175.9	210.9	248.1
Minority Interests	$m	0.0	0.0	0.0	0.0
Total Shareholders Equity	$m	144.8	175.9	210.9	248.1
Total Funds employed	**$m**	**288.8**	**334.1**	**374.6**	**415.9**

	2009A	2010E	2011E	2012E
Sales	**257.4**	**347.6**	**382.3**	**408.7**
EBITDA	79.6	104.7	115.9	124.9
Margin	**30.9%**	**30.1%**	**30.3%**	**30.5%**
EBIT	61.2	82.6	91.9	98.9
Margin	**23.8%**	**23.7%**	**24.0%**	**24.2%**

Source: Company data, Macquarie Research, August 2009