

Mineral Resources (MIN)

Opinion Data

Recommendation	Buy
Risk Rating	High
Current share price	\$6.98
12 month target price	\$8.40 (from \$8.00)
DCF valuation	\$8.40 (from \$8.03)
Market capitalisation	\$866m

Company Background

Mineral Resources (MIN) operates three interrelated businesses:

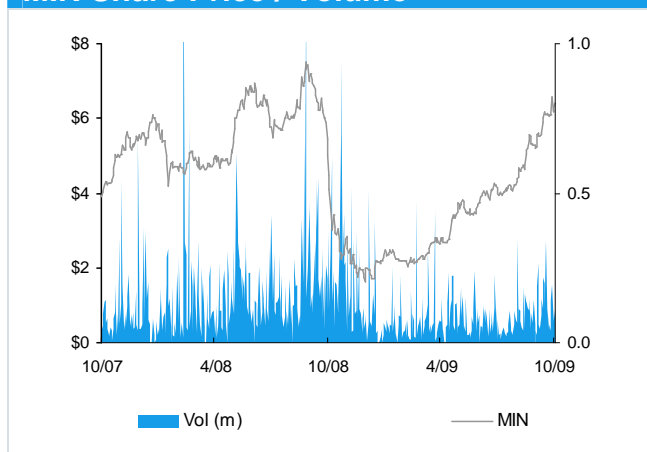
- **Crushing Services International (CSI)** – designs, builds, owns and operates mine crushing plants on behalf of mining companies.
- **PIHA** manufactures, installs and repairs pipelines, predominantly for the mining and oil industries.
- **Process Minerals International (PMI)** – reprocesses mine tailings to create manganese and iron ore concentrate for export to China. This division is leveraged to mineral pricing and volumes shipped.

MIN operates in predominantly in Western Australia. MIN's mining operations process other mining companies waste into saleable grade ore or mine other company's ore bodies to sell the minerals as MIN's own (royalty system).

The three businesses were established in the early to mid 90's, with Executive Director Chris Ellison key to their establishment.

Director and senior executive holdings are ~ 61% of issued shares.

MIN Share Price / Volume



Highlights

POL has received a competing bid from Lion (25% shareholder) at \$0.60/share. It is our opinion that POL is still worthwhile pursuing by MIN at these higher levels, as it offers an iron ore reserve that has access to southern WA ports. At current iron ore pricing, we estimate an investment pay back horizon of ~2.5 years. POL takeover is not in our forecasts.

Should Lion be successful, they may want MIN to develop the site for them in any case.

KordaMentha has confirmed that 2 bidders are short listed for WVL. MIN has a standstill agreement in place (meaning they are getting paid to have their equipment on site). It appears likely that WVL will be operating in late FY'10. MIN has previously indicated they expect to generate \$30m revenue pa from WVL (this is not in our forecasts).

MIN has secured the rights to iron ore tenements at Talga Peak (near Port Hedland). In conjunction with the Poondano rights, MIN has sufficient reserves to supply its ongoing Utah Point Port shipping rights of ~2m tpa for at least the next ten years. Utah Point is expected to commence operating in early FY'11. We have increased iron shipments in our forecasts to reflect greater certainty of shipping volumes.

MIN has acquired the rights over the Borrooloola Mn project in N.T. This is expected to be high grade manganese (~44% post beneficiation). Shipping capability of 0.5m tpa is ~50km away at MacArthur River. Given its early stages of development, we have not included increased Mn volumes from Borrooloola in our forecasts.

Outlook / Investment View

MIN has several growth prospects that are not in our forecasts. Should it be successful in gaining a controlling interest in POL, MIN is likely to be re-rated.

Our DCF valuation is \$8.40/share, offering a 22% premium to the current price. MIN remains a high conviction Buy call, with FY'11 offering high growth, coinciding with the opening of Utah Point port.

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Mineral Resources (MIN)

NFPOS
124 m
Price \$ 6.98
Market Cap \$866 m
Date:
9-Oct-09
Model Updated:
9-Oct-09
PROFIT & LOSS (\$m)

y/end June	2008A	2009A	2010F	2011F	2012F
Revenue	205.5	266.5	320.0	432.4	496.2
Mining EBITDA	56.7	36.2	49.6	89.0	112.5
Mining Services EBITDA	31.4	41.3	49.6	52.8	56.3
Total EBITDA	88.1	79.4	99.2	141.9	168.8
Deprn & Amort	(19.6)	(18.4)	(25.4)	(21.0)	(23.4)
EBIT	68.5	61.0	73.7	120.8	145.4
Net Interest	(0.7)	(1.6)	(1.6)	0.5	3.4
Income tax expense	(19.9)	(9.9)	(17.3)	(32.8)	(40.2)
Underlying NPAT	47.8	49.6	54.8	88.6	108.6
Reported NPAT	46.8	44.3	54.8	88.6	108.6

BALANCE SHEET (\$m)

y/end June	2008A	2009A	2010F	2011F	2012F
Cash	50	55	65	90	138
PP&E	120	157	182	198	204
Debtors & Inventory	19	37	28	42	49
Intangibles	10	10	10	10	10
Other assets	24	30	30	30	30
Total Assets	224	289	315	370	431
Borrowings	28	67	52	37	27
Trade Creditors	39	40	49	66	76
Other Liabilities	40	37	39	42	44
Total Liabilities	108	144	139	145	146
NET ASSETS	116	145	175	225	285
OEI and Pref Shares	0	0	0	0	0
Shareholder Equity	116	145	175	225	285

CASHFLOW STATEMENT (\$m)

y/end June	2008A	2009A	2010F	2011F	2012F
Operating EBITDA	88	79	99	142	169
Interest & Tax Paid	(8)	(26)	(19)	(32)	(37)
Working Cap.	17	(8)	19	6	5
Operating CF	97	46	99	116	137
Maintenance Capex	(41)	(48)	(50)	(37)	(30)
Expansion Capex	0	0	0	0	0
Free Cashflow (FCF)	56	(2)	49	79	107
Ord & Pref Dividends	(15)	(25)	(24)	(40)	(49)
Net Other	(11)	33	(9)	0	0
Net Cashflow	30	5	15	40	59

GROWTH PROFILE (YoY)

y/end June	2008A	2009A	2010F	2011F	2012F
Sales (\$m)	38%	30%	20%	35%	15%
EBITDA (\$m)	132%	-10%	25%	43%	19%
EBIT (\$m)	152%	-11%	21%	64%	20%
NPAT (\$m)	132%	-5%	24%	62%	23%
EPS (cps)	112%	7%	6%	62%	22%
DPS (cps)	133%	5%	-7%	63%	23%

Price / Volume Assumptions

y/end June		2009A	2010F	2011F	2012F
Exchange Rate	A\$/US\$	0.71	0.87	0.85	0.85
Manganese Sales	m Tonnes	0.23	0.55	0.80	1.00
Iron Ore Fines Sales	m Tonnes	0.43	0.60	1.25	1.50
Iron Sands Sales	m Tonnes	0.00	0.00	0.00	0.00
Manganese (CIF)	\$US Mh 1%	8.0	4.8	5.0	5.0
Iron Ore Spot (FOB)	\$US/Tonne	89	75	75	84

KEY RATIOS

y/end June	2008A	2009A	2010F	2011F	2012F
EBIT Margin (%)	33.3%	22.9%	23.0%	27.9%	29.3%
NPAT Margin (%)	22.8%	16.6%	17.1%	20.5%	21.9%
ROE (%) y/e	40.4%	30.6%	31.2%	39.4%	38.1%
ROA (%) y/e	39.3%	26.1%	29.5%	43.2%	49.6%
ROIC (%) Av.	75.9%	44.5%	40.4%	61.3%	71.1%
NTA per share (\$)	0.82	1.00	1.25	1.65	2.13
Eff Tax Rate (%)	29.4%	16.6%	24.0%	27.0%	27.0%
Interest Cover (x)	98.1	38.9	46.2	224.8	42.3
Net Gearing (%)	-18.5%	8.0%	-7.5%	-23.5%	-39.1%

VALUATION PARAMETERS

y/end June	2008A	2009A	2010F	2011F	2012F
EPS (c)	37.8	40.3	42.8	69.3	84.8
PE (x)	18.4	17.3	16.3	10.1	8.2
PER Rel - Small Indust.	168%	173%	230%	153%	137%
Enterprise Value (\$m)	844	878	853	813	754
EV / EBITDA (x)	9.6	11.1	8.6	5.7	4.5
EV / EBIT (x)	12.3	14.4	11.6	6.7	5.2
Price / NTA	8.5	7.0	5.6	4.2	3.3
DPS (cps)	19.4	20.4	19.0	31.0	38.0
Dividend Yield (%)	2.8%	2.9%	2.7%	4.4%	5.4%
Franking (%)	100%	100%	100%	100%	100%
Free Cash / Share (c)	0.4	0.0	0.4	0.6	0.8
Price / FCF PS (x)	15.9	-385.0	18.3	11.3	8.3

DCF VALUATION & SENSITIVITY

PV of Cashflows 2009 to 2013	370	Risk Free Rate	6.0%
PV of Cashflows 2014 to 2018	255	Equity Risk Premium	6.0%
PV of Term Year Cashflow	398	Equity Beta	1.3
		Cost of Equity	13.8%
Less Net Debt	(25)	WACC	13.8%
PV of Equity	1,047	Terminal WACC	13.8%
PV of Equity per share	\$ 8.40	Terminal Growth	3.0%

TV WACC

	14.8%	13.8%	12.8%	11.8%
2.0%	\$ 7.55	\$ 8.09	\$ 8.75	\$ 9.53
2.5%	\$ 7.66	\$ 8.24	\$ 8.93	\$ 9.77
3.0%	\$ 7.78	\$ 8.40	\$ 9.13	\$ 10.04
3.5%	\$ 7.92	\$ 8.57	\$ 9.36	\$ 10.34
5.0%	\$ 8.41	\$ 9.20	\$ 10.20	\$ 11.49

DIRECTORS

	Shares (m)	Shares (m)
Peter Wade	6.1	Joe Ricciardo 0.6
Chris Ellison	44.1	Mark Dutton 0.0

MAJOR SHAREHOLDERS

Sandini Pty Ltd (C. Ellison)	35.3%	Perpetual	14.4%
Henderson Park (Wyatt)	11.1%	Peter Wade	4.9%
Keneric (B & C Ganrahich)	9.0%	Top 20	90%

Directory

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Recommendation Criteria

Investment View

Austock Securities Investment View is based on an absolute 1-year total return equal to capital appreciation plus yield.

Buy	Hold	Sell
> 20%	20% - 5%	< 5%

A Speculative recommendation is when a company has limited experience from which to derive a fundamental investment view.

Risk Rating

Austock Securities Limited has a four tier Risk Rating System consisting of: Very High, High, Medium and Low. The Risk Rating is a subjective rating based on: Management Track Record, Forecasting Risk, Industry Risk and Financial Risk including cash flow analysis.

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