

## Sally Malay (SMY) – September 07 Q Report

Date: 31 October 2007

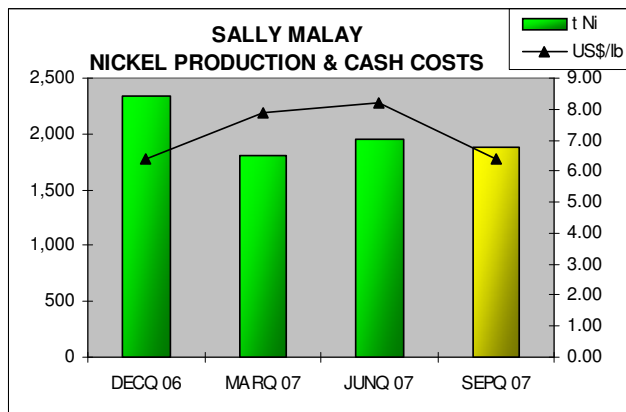
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<b>Current Share Price</b>	<b>A\$5.83</b>
<b>Target Price</b>	<b>A\$6.58</b>
<b>Recommendation</b>	<b>BUY</b>

### Market Statistics

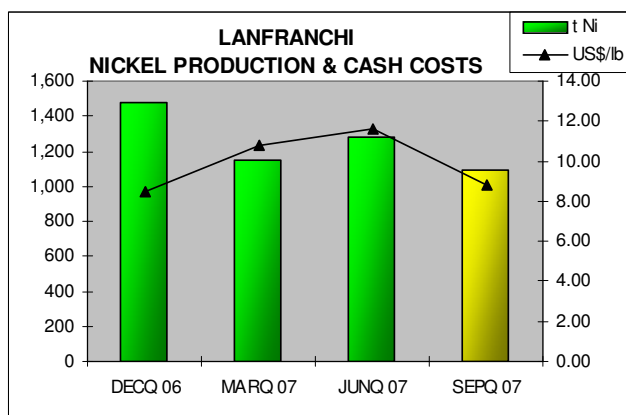
ASX Code	SMY
Sector	Materials
Ordinary Shares on Issue	189.4m
Capitalisation	A\$1.10b
Cash (30 September 2007)	A\$110.0m
Year High	A\$6.02
Year Low	A\$1.62

### Sally Malay Production Performance



Source: Argonaut

### Lanfranchi Production Performance



Source: Argonaut

## ATTRACTIVELY PRICED

September Q results were solid:

- Sally Malay project (compared to previous Q):
  - × Nickel production down 3% (similar amount of ore milled, at a 5% lower grade)
  - × C1 costs 22% lower at US\$6.39/lb Ni
- Lanfranchi project:
  - × Nickel production down 14% (9% less ore milled, at a 6% lower grade)
  - × C1 costs 24% lower at US\$8.81/lb Ni

A US\$180m currency protection program (bought puts) is now in place at US\$0.90 to protect against a rising A\$. During the Q SMY's mark-to-market nickel and currency hedging position reduced from -A\$66m to less than -A\$20m.

Near mine exploration continues to add value to the 75% owned Lanfranchi nickel business:

- Reserves have more than tripled to 61.3kt
- Resources have almost doubled to 98.7kt

Capex approaching A\$70m is planned for FY08 to facilitate production growth to >20kt from FY09. Key items include:

- Sally Malay paste plant (A\$20m) – Currently being commissioned
- Sally Malay Deeps drilling (A\$2m) – Commencing January 2008
- Deacon vent raise (A\$20m) – Contract about to be awarded
- Thundelarra pre-strip – June Q 2008

Following Xstrata's A\$3.1b bid for JBM nickel peers are trading at significant premiums to NPV (Appendix A).

Argonaut's target price is \$6.58 (1.2 x NPV).

**BUY**



**Recommendation** BUY  
**Current Price** \$5.83  
**Target Price (1.2x NPV)** \$6.58  
**All Ords (XAO)** 6,768

**Sector** Metals & Mining  
**Issued Capital (m)** 189.5  
**Market Cap (m)** \$1,104.5  
**Date** 31-October-2007

Profit & Loss (\$m) 30 June	2007A	1H/08E	2008E	2009E	2010E
<b>Sales Revenue</b>	<b>302.3</b>	<b>149.2</b>	<b>310.7</b>	<b>403.2</b>	<b>351.4</b>
Other Income	3.0	4.3	8.6	12.0	18.5
Operating Costs	93.4	53.0	107.0	138.3	137.1
Deprn & Amort	41.9	19.4	39.2	54.0	27.9
Exploration Exp.	2.1	1.7	3.3	3.1	3.1
Corporate/Admin	6.0	4.0	8.1	8.2	8.4
Derivatives Loss	34.2	23.0	23.0	0.0	0.0
<b>EBIT</b>	<b>127.7</b>	<b>52.5</b>	<b>138.6</b>	<b>211.7</b>	<b>193.3</b>
Interest Paid	3.1	0.4	0.8	0.8	0.8
<b>Operating Profit</b>	<b>124.6</b>	<b>52.1</b>	<b>137.8</b>	<b>210.9</b>	<b>192.5</b>
Tax expense	36.5	15.6	41.3	63.3	57.7
Minorities	0.0	0.0	0.0	0.0	0.0
<b>NPAT</b>	<b>88.1</b>	<b>36.4</b>	<b>96.5</b>	<b>147.6</b>	<b>134.7</b>
<b>Normalised NPAT</b>	<b>88.1</b>	<b>36.4</b>	<b>96.5</b>	<b>147.6</b>	<b>134.7</b>

Cash Flow (\$m)	2007A	1H/08E	2008E	2009E	2010E
<b>Operating Cashflow</b>	<b>203.3</b>	<b>52.0</b>	<b>127.9</b>	<b>194.4</b>	<b>155.3</b>
- Capex	31.8	37.3	68.5	19.2	10.0
- Exploration & evaluation	6.9	5.5	11.1	10.3	10.5
- Asset purchases (+ asset sales)	(1.1)	0.0	0.0	0.0	0.0
<b>Free Cashflow</b>	<b>165.7</b>	<b>9.1</b>	<b>48.4</b>	<b>164.9</b>	<b>134.8</b>
- Dividends (ords & pref)	0.0	22.4	39.4	36.0	36.0
+ Equity raised	4.0	0.0	0.0	0.0	0.0
+ Debt drawdown (repaid)	(36.7)	0.0	0.0	0.0	0.0
- Settlement of call option fees	44.0	0.0	0.0	0.0	0.0
<b>Net Change in Cash</b>	<b>88.9</b>	<b>(13.3)</b>	<b>9.0</b>	<b>128.9</b>	<b>98.8</b>
Cash at end period	119.6	106.3	128.5	257.5	356.3

Balance Sheet (\$m)	2007A	2008E	2009E	2010E
Cash	119.6	128.5	257.5	356.3
Total Assets	283.7	378.7	519.5	612.8
Total Debt	13.1	13.1	13.1	13.1
Total Liabilities	161.8	194.5	225.6	218.3
Shareholders Funds	121.8	184.2	293.9	394.5

Production Summary	2007A	2008E	2009E	2010E
Sally Malay Project (kt)	8.0	7.7	10.7	10.7
Lanfranchi (kt)	3.9	4.9	7.3	7.3
<b>Total Nickel Production</b>	<b>11.9</b>	<b>12.6</b>	<b>18.0</b>	<b>18.0</b>
By-product Copper Production	4.0	4.4	5.6	5.6
By-product Cobalt Production	0.4	0.4	0.5	0.5
Ni Cash Cost - net of credits (US\$/lb)	3.85	4.83	4.29	4.35
Ni Total Cost - net of credits (US\$/lb)	6.31	7.38	6.50	5.49
Ni Price Realised (US\$/lb)	13.85	13.13	11.64	10.00

Reserves & Resources Attributable to SMY				
<b>Nickel Reserves</b>				
		mt	Grade (%)	Ni (kt)
Sally Malay Project	June 2007	2.83	1.73	48.9
Lanfranchi - Deacon	August 2007	1.27	2.54	32.3
Lanfranchi - Winner	March 2007	0.11	4.26	4.6
Lanfranchi - Other	June 2007	0.40	2.30	9.1
Copernicus	April 2007	0.78	1.10	8.5
<b>Total Reserves</b>		<b>5.39</b>	<b>1.92</b>	<b>103.4</b>
<b>Nickel Resources</b>				
		mt	Grade (%)	Ni (kt)
Sally Malay Project	June 2007	2.79	1.32	36.8
Lanfranchi - Deacon	April 2007	1.43	3.04	43.5
Lanfranchi - Winner	March 2007	0.08	6.16	5.2
Lanfranchi - Other	June 2006	2.10	1.78	37.3
Copernicus	December 2007	0.51	1.24	6.3
<b>Total Resources</b>		<b>6.91</b>	<b>1.87</b>	<b>129.2</b>
<b>PGM Resources</b>				
		mt	Grade (g/t)	PGM (moz)
Panton	March 2003	7.2	5.2	1.2

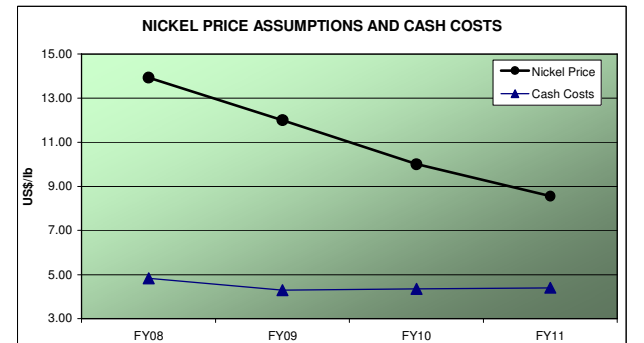
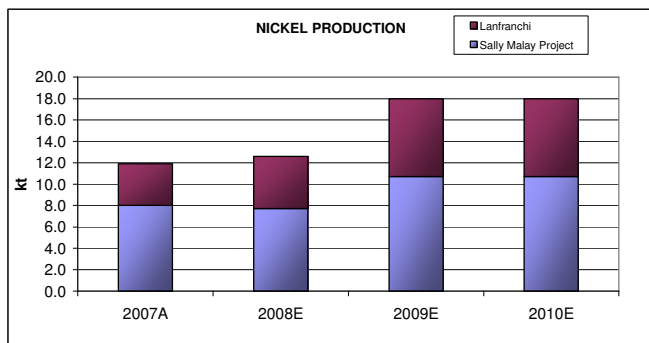
Financial Summary	2007A	2008E	2009E	2010E
<b>Reported Earnings</b>				
Net Profit (\$m)	88.1	96.5	147.6	134.7
EPS (cents)	45.3	49.6	75.9	69.3
PER (x)	12.9	11.8	7.7	8.4
<b>Normalised Earnings</b>				
Net Profit (\$m)	88.1	96.5	147.6	134.7
EPS (cents)	45.3	49.6	75.9	69.3
EPS Growth (%)	392.5	9.4	53.0	(8.7)
PER (x)	12.9	11.8	7.7	8.4
<b>Cashflow</b>				
Operating Cashflow (\$m)	203.3	127.9	194.4	155.3
GCFPS (cents)	104.5	65.8	99.9	79.8
PCF (x)	5.6	8.9	5.8	7.3
<b>Dividend</b>				
Dividend (cents)	12.0	18.0	20.0	18.0
Yield (%)	2.1	3.1	3.4	3.1
Franking (%)	100	100	100	100

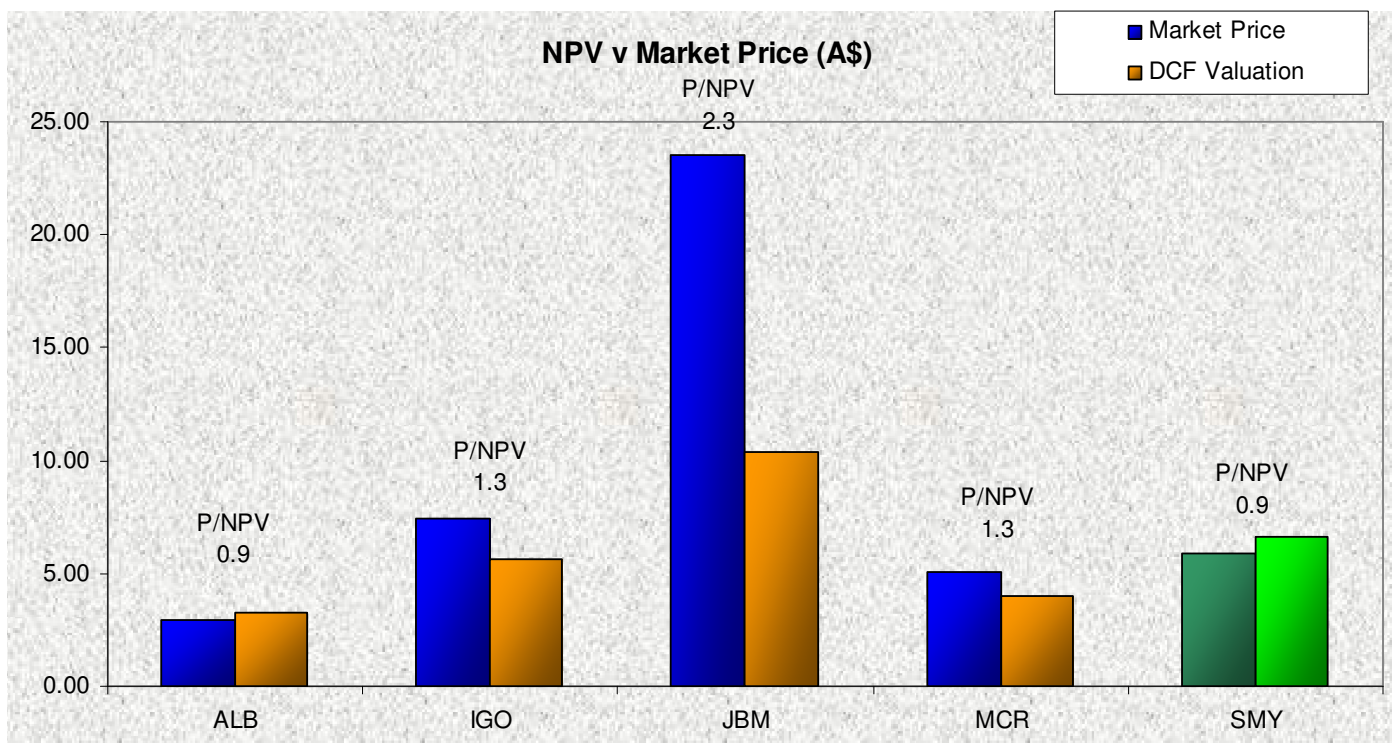
Financial Ratios	2007A	2008E	2009E	2010E
<b>Balance Sheet Ratios</b>				
Total Debt / Equity (%)	11	7	4	3
Interest Cover (x)	41.7	166.8	254.6	232.5
Acid test ratio (x)	1.2	1.2	1.8	2.4
<b>Profitability Ratios</b>				
Net Profit Margin (%)	29.2	31.1	36.6	38.3
Return on Assets (%)	77.8	55.4	80.8	75.4
Return on Equity (%)	72.3	52.4	50.2	34.1

Valuation Summary	A\$m	A\$/sh
Sally Malay (including Copernicus)	395.9	2.04
Lanfranchi	508.4	2.61
Panton PGM	3.5	0.02
Forwards	-24.6	-0.13
Corporate	-32.8	-0.17
Cash (30 September 2007)	110.0	0.57
Debt	-13.1	-0.07
Exploration	107.6	0.55
Unpaid capital	10.6	0.05
Listed Investments	1.3	0.01
<b>Total @ 10% discount rate</b>	<b>1055</b>	<b>5.48</b>

Directors		
Name		Position
Christopher J G de Guingand		Non-Executive Chairman
Peter Harold		Managing Director
Christopher Langdon		Non-Executive Director
John Rowe		Non-Executive Director
Brian Phillips		Non-Executive Director

Substantial Shareholders		%
ANZ Nominees		39.3
Barclays		13.8
Westpac Nominees		12.8
National Nominees		9.3





Source: Argonaut

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- This report been produced by Troy Irvin, an employee of Argonaut Securities Pty Limited. Troy has tertiary qualifications in mining engineering and finance.
- The analyst has an immaterial interest in SMY shares.

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