

27 February 2008

More nickel, more exploration success!

Investment Highlights

- SMY's reported \$24M NPAT for H1 has reduced our FY08 NPAT 11% to \$76M. The result was well flagged with hedging losses having an impact, however higher grades at Sally Malay are expected to flow through from next Q and together with potential additional production from the Northern Ore Zone (NOZ) by year end, means we have increased our FY09 production +4% and NPAT +5%. Despite SMY's share price strength we continue to believe the upcoming announcements from Sally Malay outweigh any potential delays to the ramp up at Lanfranchi. Our price target is \$4.91/sh and we retain a BUY recommendation.
- Production:** Focus is moving from Sally Malay, which now has the paste plant operational, to Lanfranchi which is driving SMY's production growth in the short term. The higher grade Deacon orebody requires level development and a new ventilation system before it can be fully exploited.
- Exploration:** Focus will move from SMY's Lanfranchi JV, which held our attention in CY07 due to the Deacon discovery, back to SMY's flagship operation Sally Malay as a maiden resource is announced for the Northern Ore Zone (NOZ) and the drill rig moves to the Sally Malay Deeps.
- Sally Malay Northern Ore Zone (NOZ):** We estimate it could contain up to 1Mt of ore and at a similar resource grade to the main lode (1.3%) it could add 10kt of nickel metal to the reserve base. Most importantly, because of its location close to existing development, it can be quickly brought into production and add feed to the under-utilised processing plant, increasing throughput and decreasing unit costs.
- Sally Malay Deeps:** The drill rig will move from the NOZ to the Deeps in a few weeks. This program will be substantial with the rig likely to be stationed there for +6 months. Confirmation of historical resource estimates of up to 80,000t of contained nickel would not only add 8-10 years of mine life but confirm the longevity and strategic nature of the Sally Malay operation.
- Lanfranchi JV (SMY 75%):** While exploration of the northern side of the Tramways Dome region is early stage, it has been proven to be mineralised and represents SMY's 'blue sky'.

Company

Stock code:	SMY
Share price:	\$4.45
Recommendation:	BUY

\$4.42 \$5.40



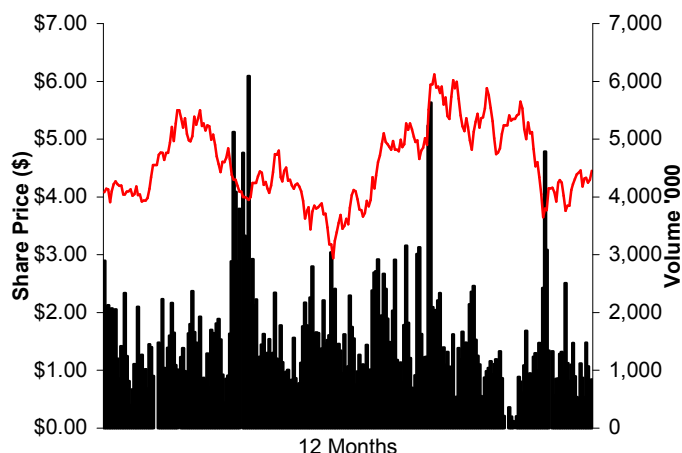
S&P/ASX 300 = 5770

Analyst

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Company Statistics & Performance

Shares on Issue	196.8m	Daily Vol.	1,448,000
Market Cap.	\$875.6m	Debt	\$12.3m
52 Week Range	\$2.94 - \$6.12	Cash est.	\$66.3m



Investment Summary

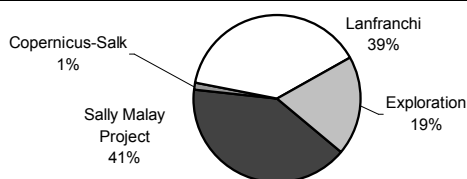
Year End June 30	2007A	2008F	2009F	2010F
Reported Earnings				
Net Profit (\$m)	88.1	76.4	135.0	150.9
EPS (cents)	47.5	39.9	69.6	77.8
EPS growth (%)	484.7	(16.1)	74.4	11.8
PER (x)	9.4	11.2	6.4	5.7
EBITDA				
EBITDA (\$m)	204.2	140.9	241.4	263.8
EV/EBITDA (x)	3.5	5.6	2.7	2.0
Cashflow Multiples				
Gross Cashflow (\$m)	167.9	93.7	179.2	195.3
GCFPS (cents)	90.6	49.0	92.4	100.7
PGCF (x)	4.9	9.1	4.8	4.4
Free Cashflow (\$m)	121.8	(5.7)	164.6	179.3
FCFPS (cents)	61.9	(2.9)	83.7	91.1
PFCF (x)	7.2	(154.2)	5.3	4.9
Dividend				
Dividend (cents)	12.0	15.0	16.0	21.0
Yield (%)	2.7	3.4	3.6	4.7
Franking (%)	100	100	100	100

Sally Malay Mining Limited (SMY)

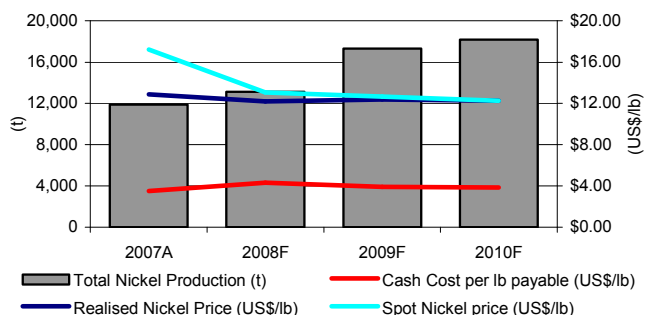
\$4.45

Valuation	A\$m	A\$/sh	
Sally Malay Project	299	1.51	
Copernicus-Salk	11	0.05	
Lanfranchi	286	1.45	
Forwards	(7)	(0.04)	
Corporate	(44)	(0.22)	
Cash	66	0.34	
Debt	(12)	(0.06)	
Exploration	141	0.71	
Unpaid capital	7	0.04	
NPV	747	3.78	
Price Target	972	4.91	
Sensitivities	+10%	0	
Nickel Price	\$5.58	\$4.91	\$4.24
A\$: \$US	\$4.25	\$4.91	\$5.72

Valuation Summary of Operating Assets



Nickel Production Summary



Reserves & Resources

Reserves	Kt	Metal	Grade (%)	Metal (kt)
Sally Malay	2,790	Ni	1.32	36.8
		Cu	0.61	17.0
		Co	0.07	2.0
Lanfranchi JV	673	Ni	2.72	18.3
Deacon	1,695	Ni	2.54	43.1
Total	5,158	Ni	1.90	98.2
Resources	Kt	Metal	Grade (%)	Metal (kt)
Sally Malay	2,830	Ni	1.74	49.2
		Cu	0.80	22.6
		Co	0.09	2.5
Copernicus JV	852	Ni	1.24	10.6
		Cu	0.60	5.1
		Co	0.04	0.3
Lanfranchi JV	2,907	Ni	1.95	56.6
Deacon	1,910	Ni	3.04	58.1
Total	8,499	Ni	2.05	174.5

Directors

Name	Position
Christopher de Guingand	Non-Executive Chairman
Peter Harold	Managing Director
Chris Langdon	Non Executive Director
John Rowe	Non Executive Director
Brian Phillips	Non Executive Director
Senior Management	Position
Chris Williams	Chief Operating Officer
Trevor Eton	Chief Financial Officer

Substantial Shareholders

Substantial Shareholders	Shares (m)	%
Barclays	12.2	6.6
BT Funds Management	7.2	3.9
GMO	6.9	3.7
Old Mutual	6.6	3.5
Bank Julius Baer	5.4	2.9
Top 20	92.2	48.0

Year End June 30

Commodity Assumptions	2007A	2008F	2009F	2010F
As:US\$	\$0.79	\$0.88	\$0.84	\$0.80
Nickel (US\$/lb)	\$17.21	\$13.08	\$12.64	\$12.27
Copper (US\$/lb)	\$3.21	\$3.29	\$3.13	\$3.02
Cobalt (US\$/lb)	\$21.33	\$23.24	\$20.31	\$13.77
Zinc (US\$/lb)	\$1.67	\$1.20	\$1.07	\$1.06
Lead (US\$/lb)	\$0.77	\$1.31	\$1.15	\$0.86

Production Summary

Production Summary	2007A	2008F	2009F	2010F
Nickel (t)				
Sally Malay	8,010	7,963	9,029	8,870
Copernicus	0	0	821	912
Lanfranchi	3,888	5,175	7,458	8,400
Total Nickel Production (t)	11,898	13,139	17,307	18,182
Cobalt (t)				
Sally Malay	431	397	547	518
Copernicus	0	0	48	53
Lanfranchi	0	0	0	0
Copper (t)				
Sally Malay	3,688	4,011	4,188	3,967
Copernicus	0	0	653	725
Lanfranchi	202	246	333	360
Cash Cost per lb payable (US\$/lb)	\$3.52	\$4.31	\$3.92	\$3.84
Total Cost per lb payable (US\$/lb)	\$5.04	\$6.04	\$5.50	\$5.27
Spot Nickel price (US\$/lb)	\$17.21	\$13.08	\$12.64	\$12.27
Realised Nickel Price (US\$/lb)	\$12.87	\$12.21	\$12.36	\$12.27

Profit & Loss (A\$m)

Profit & Loss (A\$m)	2007A	2008F	2009F	2010F
Sales Revenue	299.3	268.9	410.4	441.2
Other Income	3.0	5.1	6.3	5.8
Operating Costs	88.2	117.8	157.0	164.5
Exploration Exp.	2.1	3.7	6.6	6.7
Corporate/Admin	7.8	11.6	11.7	12.0
EBITDA	204.2	140.9	241.4	263.8
Depn & Amort	41.9	35.9	47.8	48.0
EBIT	162.3	105.0	193.7	215.8
Derivatives adjustment	34.2	-4.1	0.0	0.0
Interest	3.4	1.1	0.8	0.2
Operating Profit	124.6	108.1	192.9	215.6
Tax expense	36.5	31.7	57.9	64.7
NPAT	88.1	76.4	135.0	150.9

Normalised NPAT

Normalised NPAT	2007A	2008F	2009F	2010F
Normalised NPAT	87.2	71.6	135.0	150.9
Cash Flow (A\$m)	2007A	2008F	2009F	2010F
Adjusted Net Profit	88.1	76.4	135.0	150.9
+ Interest/Tax/Expl Exp	42.0	36.4	65.2	71.6
- Interest/Tax/Expl Inc	48.1	55.0	68.8	75.2
+ Depn/Amort	41.9	35.9	47.8	48.0
+/- Other	44.0	0.0	0.0	0.0
Operating Cashflow	167.9	93.7	179.2	195.3
- Capex (+asset sales)	38.4	78.5	14.6	16.0
- Working Capital Increase	7.8	21.0	0.0	0.0
Free Cashflow	121.8	(5.7)	164.6	179.3
- Dividends (ords & pref)	0.0	36.0	30.8	34.9
+ Equity raised	3.9	2.3	6.5	0.0
+ Debt drawdown (repaid)	(36.6)	(4.0)	0.0	(12.3)
Net Change in Cash	89.1	(43.4)	140.3	132.1
Cash at End Period	119.6	76.2	216.4	348.5
Net Cash/(LT Debt)	106.5	63.9	204.2	348.5

Balance Sheet (A\$m)

Balance Sheet (A\$m)	2007A	2008F	2009F	2010F
Cash	119.6	76.2	216.4	348.5
Total Assets	283.7	295.3	482.0	639.7
Total Debt	13.1	12.3	12.3	0.0
Total Liabilities	161.8	75.5	151.7	199.4
Shareholders Funds	121.8	219.7	330.2	440.4
Ratios				
Net Debt/Equity (%)	na	na	na	na
Interest Cover (x)	47.1	99.0	248.9	1109.2
Return on Equity (%)	72.3	34.8	40.9	34.3

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