

Very strong production performance in December quarter

Recommendation: Buy

Event

Gold output rose 17% in 2Q10 to 442,000 ounces versus 1Q10. Higher grades at Telfer and Cadia Hill and first production from the new Hidden Valley mine were the main pluses.

Copper output similarly rose 12% to 23,860 tonnes with contributions from Telfer, Cadia Hill and Ridgeway.

Cash costs declined 29% to A\$310/oz after by products. NCM is growing its operating cost advantage. Industry average cash costs in 3Q 2009 were US\$492/oz compared to US\$310/oz for NCM in 2Q10. The company is cementing itself in the bottom quartile of the industry cash cost curve.

Cash costs in US\$ have fallen 40% since 3Q09, 17% of that benefit coming from business improvement and 22% due to the increased copper by-product with the higher price.

Wet weather delayed commissioning of Hidden Valley by three months. Group FY10 gold production guidance remains at 1.81-1.91 Moz though. NCM believes the shortfall can be made up.

Copper guidance rises slightly from 83,000-87,000 tonnes to 85,000-90,000 tonnes.

NCM says it is tracking towards the low end of cost guidance.

Impact

We upgrade forecast FY10 NPAT from \$533.2m to \$695.2m after raising gold and copper prices to US\$1065/oz and US\$2.92/lb respectively. Similarly FY11 NPAT increases from \$565.6m to \$772.0m assuming US\$1000/oz gold and US\$2.87/lb copper. The A\$/US\$ exchange rate forecast is little changed at 0.89 for FY10 and FY11.

Our valuation rises from \$29.00 to \$37.00 a share after raising near term and long term copper and gold prices. Long term assumptions are now US\$700/oz gold and US\$2.50/lb copper. The A\$/US\$ exchange rate assumption remains 0.80, as does the 10% discount rate and 1.6 x NPV gold sector premium.

Recommendation

At the right price, NCM is a cornerstone gold exposure for a balanced portfolio. Buy at these levels.

Snapshot

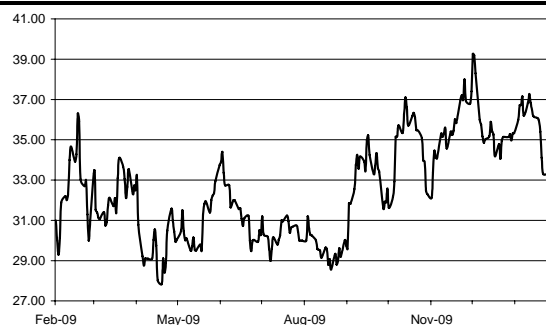
Last Price	\$31.53
Market Cap.	\$15.24 billion
52 Week High	\$39.75
52 Week Low	\$27.64
Sector	Metals & Mining

Investment Fundamentals

Year-end June	FY08A	FY09A	FY10E	FY11E
NPAT (\$m)	493.9	483.1	695.2	772.0
EPS (c)	113.8	103.0	143.4	159.3
EPS Growth (%)	122.8	-9.5	39.2	11.1
PE Ratio (x)	28.2	31.2	22.4	20.2
DPS (c)	10.0	15.0	20.0	20.0
Franking (%)	0	0	0	0
Dividend Yield (%)	0.3	0.5	0.6	0.6

Source: Intersuisse estimates

Price Chart



Business Description

NCM is a quality, low cost gold producer with growth and strong exploration upside. Almost all value has come organically through exploration. MD Ian Smith broadened the growth strategy to include advanced exploration project acquisition. Predominantly Australian based, sovereign risk is low. After a troubled start Telfer appears to have recovered. At the right price, NCM is a cornerstone gold exposure for a balanced portfolio. The lack of quality ASX listed gold alternatives sees shares trade above valuation. Offshore peers also trade on lofty multiples.

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