



Research



BC Iron BUY

Current Price: **\$2.79**
Valuation: **\$3.40**

Ticker: **BCI**
Sector: **Materials**

Shares on Issue (m): **94.4**
Market Cap (A\$m): **263.3**
Net Cash (A\$m): **-6.0**
Enterprise Value (A\$m): **269.4**

52 wk High/Low: **\$3.29** **\$1.52**
12m Av Daily Vol (m): **0.26**

Key Metrics

	10A	11F	12F
P/E (x)	n/a	194.5	3.5
EV/EBITDA (x)	n/a	113.2	2.8

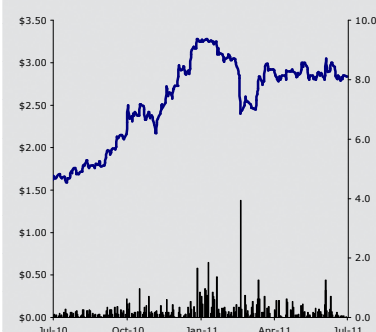
Financials:

Revenue (\$m)	0.5	16.5	189.5
EBITDA (\$m)	-2.3	2.4	97.3
NPAT (\$m)	-1.4	1.4	75.9
Net Assets (\$m)	39.0	51.8	139.5
Op CF (\$m)	-0.9	6.3	92.6

Per Share Data:

EPS (cps)	-1.5	1.4	80.4
DPS (cps)	0.0	0.0	0.0
Div Yield	0.0	0.0	0.0
CFPS (cps)	-3.2	6.7	98.1

Share Price Graph



Analysts:
Tim Serjeant
Troy Irvin

27 July 2011

June Q production

June Q Report:

The Nullagine Iron Ore JV (NIOJV, BCI – 50%) shipped 215kt (wet) in the June Q. FY11 production of 253kt came up short on recent guidance of 300kt, however we do note this was more of a timing issue, with 390kt shipped to the end of July.

Ore haulage rates averaged ~3kt/day for the Q, but showed continued improvement with ~4kt/day achieved in the month of June and 7kt/day in July with the shortened trucking distance (120km – 55km) and increased payload (110t as opposed to 75t).

Impact:

Neutral

The Q has confirmed much of what we already knew – that ore haulage remains the major bottleneck and is dependent on completion of the haul road (late August).

We estimate an average price received of ~A\$150/t product for the Q, consistent with expectations.

We anticipate continuous improvement over the coming six months, but note that various parts of the logistics chain will be compromised at times during this period:

- Bitumising the haul road is expected to take 2-3 weeks (scheduled during September/October), which will cause a temporary reduction of haulage rates
- FMG has advised that the ore reclaimer at Christmas Creek is expected to be commissioned during October and fully operational by November. Until then, there is expected to be delays in train loading and shipping

The NIOJV as confirmed FY12 production guidance at ~3.5Mt (lower end of the previous range given; 3.5 - 3.7Mt), but this will need to be 'back-ended' given infrastructure constraints anticipated in 1H FY12.

Our production estimates over the next 2 Q's have been lowered by ~0.4Mt. Our FY12 production forecast is ~3.1Mt (100% basis). This lowers our FY12 NPAT estimate by ~8% to \$75.9m.

View:

Positive

We don't see any major impediment to achieving the ~5Mt rate from March Q 2012, as the operations move to double shift, the required 8 360t Powertrans trucks are on site and the logistics bottlenecks are resolved.

As the NIOJV hits its straps and production milestones are met, we would expect BCI to trade closer to its fundamental value. The scarcity of infrastructure capacity (rail and port), particularly for junior miners in the Pilbara, is of significant value to BCI.

Recommendation:

Buy

Valuation - \$3.40 (was \$3.60). BUY recommendation maintained.

Operational update

June Q

Key production data for the Q

Key operating data from the NIOJV for the June Q:

- Mined – 351.4kt
- Hauled – 267.5kt
- Railed – 226.5kt
- Shipped – 215.1kt

Mining and crushing

Mining and processing performing

Mining and processing appear to be performing either at or above design parameters, but remain limited by sluggish ore haulage rates.

The surface miners are currently operating on a single shift basis, achieving up to 800tph (design - 650tph), with lower than expected tooth wear. The crushing and screening circuit has achieved nameplate of 700tph.

Ultimately, achieving the 5Mtpa target will require 1-2 additional surface miners, some modifications to the crushing unit and transitioning from day only to day/night shift (which will commence in the current September Q).

Ore haulage

Achieving these targets is largely dependent on transport logistics:

- Completion of Haul Road

Achieving targets is largely dependent on transport logistics

BCI is targeting completion of the private haul road in late August, which will then be bitumised (Sept/October).

During May, construction of the haul road was sufficiently complete to allow a direct route (55km) from site to the Christmas Creek (CC) Ore Process Facility (OPF), running 110t trucks. Haulage rates averaged ~4kt/day in the month of June while recently rates of up to 7kt/day have been achieved.

Once the haul road is complete, including use of the 360t PowerTrans trucks, this will result in ore haulage rates >10kt/day on a consistent basis.

- Christmas Creek OPF

FMG has advised that the ore reclaimer at Christmas Creek (currently under construction) is expected to be commissioned during October and be fully operational by November (FMG has been trucking Christmas Creek ore to Cloudbreak for ~12 months).

Until then, there is expected to be delays in train loading and shipping as TPI (FMG subsidiary company) commission the permanent loading and reclaiming infrastructure.

- Delivery of 360t Powertrans trucks

3 Powertrans units (provided by haulage contractor Toll Mining Services) are on site. Each truck can do ~650ktpa (i.e. to reach the 5Mtpa target will require 8 units). The final (8th) unit is due on site by early CY 2012.

BC Iron
Equities Research
Analyst: Tim Serjeant

Recommendation BUY
Current Price \$2.79
Valuation \$3.40

Sector Materials
Issued Capital (m) 94.4
Market Cap (m) \$263.3
Updated 27-July-2011

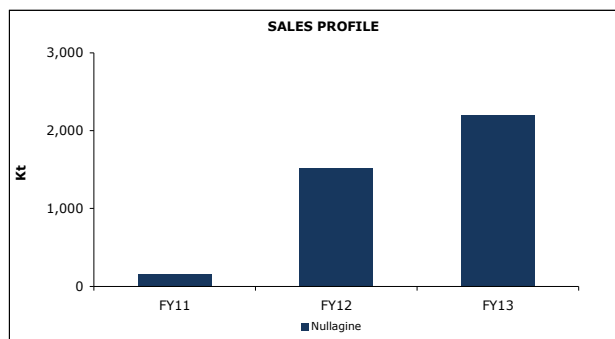
Profit & Loss (A\$m) 30 June	2010A	2011E	2012E	2013E
Revenue	0.5	16.5	189.5	265.4
Other Income	1.0	1.4	1.7	6.0
Profit/(Loss) on Hedging	0.0	0.0	0.0	0.0
Operating Costs	0.0	9.7	87.5	108.2
Exploration Exp	0.0	1.0	1.5	1.5
Corporate/Admin/Other	3.8	4.8	4.9	5.0
EBITDA	-2.3	2.4	97.3	156.7
Depn & Amort	0.1	0.4	2.4	3.4
EBIT	-2.4	1.9	94.9	153.3
MRRT	0.0	0.0	0.0	25.5
Net Interest Paid	0.0	0.0	0.0	0.0
Operating Profit	-2.4	1.9	94.9	127.7
Tax expense	-1.0	0.6	19.0	38.3
Minorities	0.0	0.0	0.0	1.0
NPAT	-1.4	1.4	75.9	88.4
Normalised NPAT	-1.4	1.4	75.9	88.4

Cash Flow (A\$m)	2010A	2011E	2012E	2013E
Operating Cashflow	-0.9	6.3	92.6	107.8
- Capex (+asset sales)	-13.0	-31.3	-7.0	-3.0
-Exploration Expenditure	-0.5	-1.1	-1.5	-1.5
-Other	1.3	-18.8	0.0	0.0
Free Cashflow	-13.0	-44.9	84.0	103.3
- Dividends	0.0	0.0	0.0	0.0
+ Equity raised	12.6	0.0	0.0	0.0
+ Debt drawdown (- repaid)	15.6	12.2	-5.0	-5.0
Net Change in Cash	16.7	-11.2	79.0	98.3
Cash at End Period	28.7	17.5	96.5	194.8
Net Cash (Debt)	14.7	-10.3	73.7	177.0

Balance Sheet (A\$m)	2010A	2011E	2012E	2013E
Total Assets	54.8	80.4	163.3	265.6
Total Debt	14.0	27.8	22.8	17.8
Total Liabilities	15.8	28.7	23.8	19.0
Shareholders Funds	39.0	51.8	139.5	246.6

Production & Cash Costs	2010A	2011E	2012E	2013E
Sales				
Nullagine (Mt) - BCI share	-	0.13	1.53	2.20
Cash Costs				
- Inc royalties (A\$/t)	-	-	55.4	49.2

Reserves & Resources				
Nullagine				
Reserves	Mt	% Fe	%CaFe	%P
Proven				
Probable	35.6	56.9	-	0.020
Total	35.6	56.9	-	0.020
Resources	Mt	% Fe	%CaFe	%P
Measured	2.2	54.5	62.1	0.018
Indicated	68.8	54.0	61.8	0.017
Inferred	30.6	54.4	61.8	0.016
Total	101.6	54.1	61.8	0.017



Financial Summary	2010A	2011E	2012E	2013E
Reported Earnings				
Net Profit (\$m)	-1.4	1.4	75.9	88.4
EPS (A\$)	-0.01	0.01	0.80	0.95
PER (x)	-190.0	194.5	3.5	2.9
Normalised Earnings				
Net Profit (\$m)	-1.4	1.4	75.9	88.4
EPS (A\$)	-0.01	0.01	0.80	0.95
EPS Growth (%)	-	-	-	17.8
PER (x)	-190.0	194.5	3.5	2.9
Cashflow				
Operating Cashflow (\$m)	-0.9	6.3	92.6	107.8
GCFPS (\$)	-0.03	0.07	0.98	1.14
PCF (x)	-88.3	41.6	2.8	2.4
Dividend				
Dividend (\$)	0.00	0.00	0.00	0.00
Yield (%)	0%	0%	0%	0%
Franking %	0%	0%	0%	0%

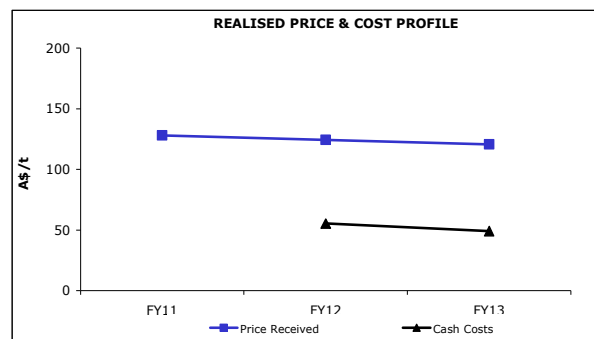
Financial Ratios	2010A	2011E	2012E	2013E
Balance Sheet Ratios				
Total Debt/Equity (%)	36%	54%	16%	7%
Interest Coverage (x)	-	-	-	-
Profitability Ratios				
Net Profit Margin (%)	-287%	8%	40%	33%
Return on Assets (%)	-57%	-19%	-1%	-16%
Return on Equity (%)	-4%	3%	54%	36%

Valuation Summary	A\$m	\$/sh
Nullagine JV (BCI - 50%)	328	3.48
Bungaroo Creek	5	0.05
Investments	0	0.00
Unpaid Capital	13	0.14
Corporate	-19	-0.20
Cash (estimate)	18	0.19
Debt	-24	-0.25

Total @ 11% Discount Rate **321** **3.40**

Directors	Position
Name	
Tony Kiernan	Chairman
Mike Young	Managing Director
Glenn Baldwin	Non-Executive Director
Terry Ransted	Non-Executive Director

Substantial Shareholders	%
Palmary	24.3%
Regent Pacific	22.9%



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Important Disclosure

Argonaut acts as Corporate Adviser to BCI.

Argonaut acted as Corporate Adviser to BCI in relation to the proposed Scheme of Arrangement with Regent Pacific Group and received fees commensurate with these services.

Argonaut acted as Manager to the placement of 8.0m shares to raise \$18.4m (November 2010).

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