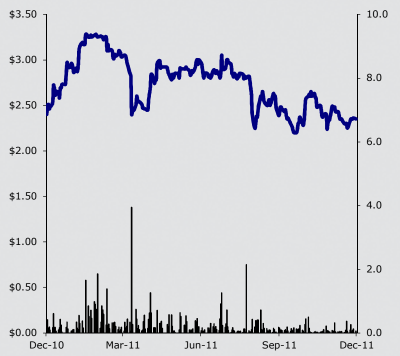
BC Iron
BUY

Current Price:		$2.36
Valuation:		$3.40
Ticker:		BCI
Sector:		Materials
Shares on Issue (m):		95.3
Market Cap (A$m):		224.9
Net Cash (A$m):		-8.2
Enterprise Value (A$m):		233.1
52 wk High/Low:	$3.29	$2.00
12m Av Daily Vol (m):		0.24

Key Metrics

	11A	12F	13F
P/E (x)	214.7	3.3	2.2
EV/EBITDA (x)	105.5	2.6	1.5
Financials:			
Revenue ($m)	19.1	181.8	294.9
EBITDA ($m)	2.2	88.7	154.1
NPAT ($m)	1.0	68.4	102.4
Net Assets ($m)	67.4	139.3	244.4
Op CF ($m)	3.2	78.5	106.5
Per Share Data:			
EPS (cps)	1.1	71.7	108.5
DPS (cps)	0.0	0.0	0.0
Div Yield	0.0	0.0	0.0
CFPS (cps)	6.6	82.4	111.7

Share Price Graph



Analysts:
Tim Serjeant
Troy Irvin

7 December 2011

On track

Site visit:

Argonaut recently attended a site visit to the Nullagine Iron Ore JV (NIOJV, BCI – 50%).

The expectation was to see things running smoothly, with the haul road bitumised and commissioning of FMG's reclaimer at Christmas Creek completed in October/early November the two major impediments to the operation hitting its straps.

Impact: Positive

This was largely the case, with the only apparent bottleneck to hitting the 5Mt rate in the near term being the crushing and screening circuit. An upgrade to this is scheduled for April 2012, lifting its capacity from current 4Mt to ~5.5-6Mt.

Latent capacity exists, particularly on the mining side. On the haulage front, commissioning of an additional 3 pit haulers (360t payload, 5 currently in operation, each can do ~700ktpa at 93% utilisation) over the next 6 months. In the interim, triples (~102t payload) will remain on site to assist with haulage and be phased out over time.

FY12 sales guidance is 3.5Mt, with 400kt sold in Sep Q and expectation of 600kt this Q (2 capes sold to date, a further 2 this month scheduled).

To hit 3.5Mt mark, the JV will need ~15 capes (~170kt/vessel) in 2H. We continue to sit at ~3Mt shipped for FY12, but have gained confidence that the 3.5Mt is achievable.

FY13 sales guidance is 5Mt. We have upgraded our forecast inline with Company guidance (was 4.4Mt).

View: Positive

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. .

The current share price is implying an iron ore price received of only ~A$80/t (assuming spot fx); a 30% discount to the current implied FOB price for *Bonnie Fines* - a price which we do not believe to be likely in the short or medium term.

Clearly the stocks is cheap on 2.2x FY13 earnings and 1.5x EV/EBITDA multiples. With minimal capex going forward, expected cash generation over the next 18 months already has the market asking 'What next?' In the current environment, we'd envisage disciplined capital management would strike a chord with investors as much as growth would.

Recommendation: Buy

Valuation - $3.40. BUY recommendation maintained.

ARGONAUT

BC Iron

Equities Research
Analyst: Tim Serjeant

Recommendation	**BUY**
Current Price	**$2.36**
Valuation	**$3.40**

Sector	**Materials**
Issued Capital (m)	**95.3**
Market Cap (m)	**$224.9**
Updated	**07-December-2011**

Profit & Loss (A$m) 30 June	2010A	2011A	2012E	2013E
Revenue	**0.5**	**19.1**	**181.8**	**294.9**
Other Income	1.0	1.1	1.2	5.4
Profit/(Loss) on Hedging	0.0	2.1	0.0	0.0
Operating Costs	0.0	13.1	87.9	139.8
Exploration Exp	0.0	0.0	1.5	1.5
Corporate/Admin/Other	3.8	6.9	4.8	4.9
EBITDA	**-2.3**	**2.2**	**88.7**	**154.1**
Depn & Amort	0.1	0.6	3.2	5.1
EBIT	**-2.4**	**1.6**	**85.5**	**149.0**
MRRT	0.0	0.0	0.0	1.2
Net Interest Paid	0.0	0.6	0.0	0.0
Operating Profit	**-2.4**	**0.9**	**85.5**	**147.7**
Tax expense	-1.0	-0.1	17.1	44.3
Minorities	0.0	0.0	0.0	1.0
NPAT	**-1.4**	**1.0**	**68.4**	**102.4**
Normalised NPAT	-1.4	1.0	68.4	102.4

Financial Summary	2010A	2011A	2012E	2013E
Reported Earnings				
Net Profit ($m)	-1.4	1.0	68.4	102.4
EPS (A$)	-0.02	0.01	0.72	1.08
PER (x)	-138.8	214.7	3.3	2.2
Normalised Earnings				
Net Profit ($m)	-1.4	1.0	68.4	102.4
EPS (A$)	-0.02	0.01	0.72	1.08
EPS Growth (%)	-	-	-	51.2
PER (x)	-138.8	214.7	3.3	2.2
Cashflow				
Operating Cashflow ($m)	-0.9	3.2	78.5	106.5
GCFPS ($)	-0.03	0.07	0.82	1.12
PCF (x)	-75.4	35.5	2.9	2.1
Dividend				
Dividend ($)	0.00	0.00	0.00	0.00
Yield (%)	0%	0%	0%	0%
Franking %	0%	0%	0%	0%

Cash Flow (A$m)	2010A	2011A	2012E	2013E
Operating Cashflow	**-0.9**	**3.2**	**78.5**	**106.5**
- Capex (+asset sales)	-13.0	-31.0	-7.2	-3.0
-Exploration Expenditure	-0.5	-1.1	-1.5	-1.5
-Other	1.3	-13.8	0.9	0.0
Free Cashflow	**-13.0**	**-42.7**	**70.8**	**101.9**
- 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**	**-9.0**	**66.6**	**96.9**
Cash at End Period	28.7	17.5	84.0	181.0
Net Cash (Debt)	14.7	-1.5	61.2	163.2

Financial Ratios	2010A	2011A	2012E	2013E
Balance Sheet Ratios				
Total Debt/Equity (%)	36%	28%	16%	7%
Interest Coverage (x)	-	-	-	-
Profitability Ratios				
Net Profit Margin (%)	-287%	5%	38%	35%
Return on Assets (%)	-57%	-15%	1%	-11%
Return on Equity (%)	-4%	1%	49%	42%

Valuation Summary	A$m	$/sh
Nullagine JV (BCI - 50%)	339	3.56
Bungaroo Creek	5	0.05
Investments	0	0.00
Unpaid Capital	13	0.13
Corporate	-17	-0.17
MRRT	-8	-0.08
Cash (estimate)	16	0.17
Debt	-24	-0.26
Total @ 11% Discount Rate	**324**	**3.40**

Balance Sheet (A$m)	2010A	2011A	2012E	2013E
Total Assets	54.8	103.4	181.7	284.8
Total Debt	14.0	19.0	22.8	17.8
Total Liabilities	15.8	36.1	42.4	40.3
Shareholders Funds	39.0	67.4	139.3	244.4

Production & Cash Costs	2010A	2011A	2012E	2013E
Sales				
Nullagine (Mt) - BCI share	-	0.13	1.50	2.50
Cash Costs				
- inc royalties (A$/t)	-	-	54.4	55.9

Directors	
Name	**Position**
Tony Kiernan	Chairman
Mike Young	Managing Director
Morgan Ball	Executive Director
Andy Haslam	Non-Executive Director
Malcolm McComas	Non-Executive Director
Terry Ransted	Non-Executive Director

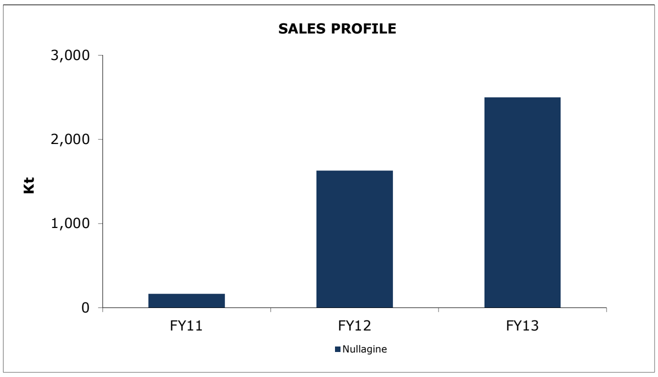
Reserves & Resources

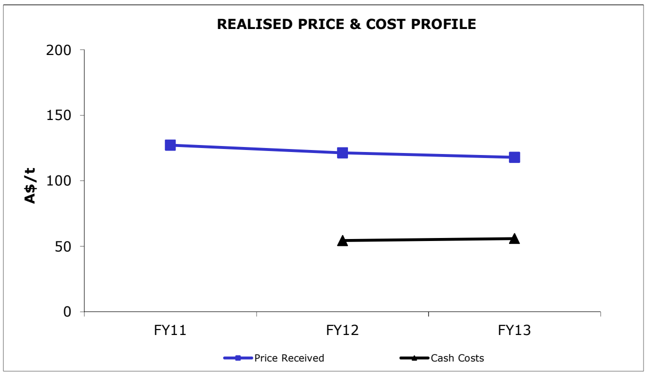
Nullagine - DSO only

Reserves	Mt	% Fe	%CaFe	%P
Proven				
Probable	34.7	56.9	64.7	0.016
Total	**34.7**	**56.9**	**64.7**	**0.016**

Resources	Mt	% Fe	%CaFe	%P
Measured	1.4	56.9	64.7	0.019
Indicated	36	57.0	64.8	0.016
Inferred	13.5	56.9	64.4	0.017
Total	**52.9**	**57.0**	**64.7**	**0.016**

Substantial Shareholders	%
Palmary	24.1%
Regent Pacific	22.6%





Site visit

Overview

Site visit

Argonaut recently attended a site visit to the Nullagine Iron Ore JV (NIOJV, BCI – 50%).

The expectation was to see things running fairly smoothly, with the haul road bitumised and commissioning of FMG's reclaimer at Christmas Creek completed in October/early November the two major impediments to the operation hitting its straps.

The only apparent bottleneck to hitting the 5Mt rate in the near term is the crushing and screening circuit. An upgrade to this is scheduled for April 2012, lifting its capacity from current 4Mt to ~5.5-6Mt.

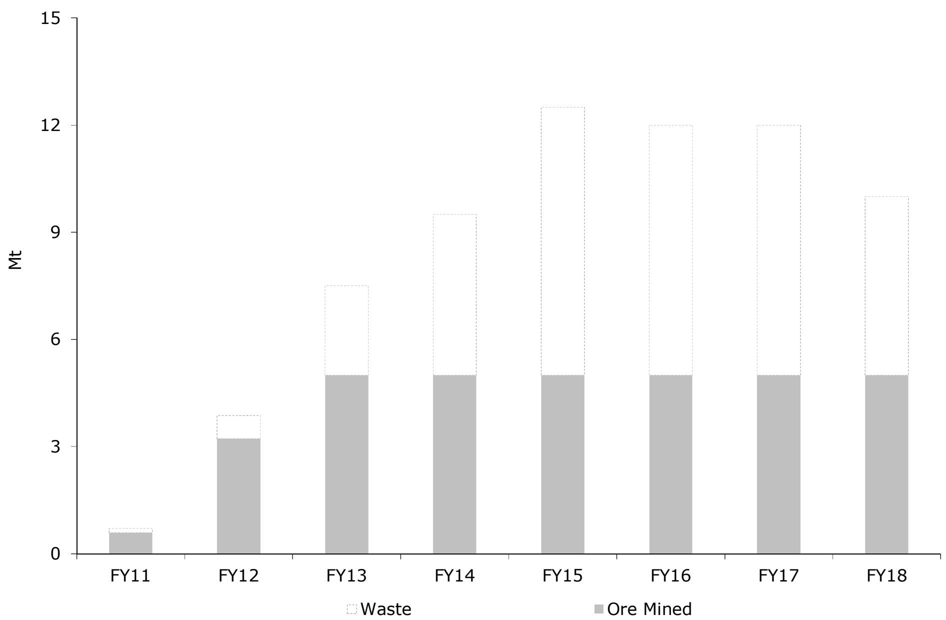
Mining

Latent capacity exists on the mining side …

There is significant latent capacity on the mining side, with currently 3 surface miners on site (typically 2 in operation at any given time). Assuming only 50% utilisation (i.e single shift – 12 hours) and 75% availability, each surface miner could do ~1.9Mtpa (waste and ore).

Given the current low strip ratio (see Figure 1 below) and simplicity of the Outcamp deposit (mined 5m of 15m ore zone, 250m wide on average), there has been little requirement to stretch mining much beyond this rate (particular with haulage being the major bottleneck until recently).

Figure 1: Mining rates (100% basis)



Source: Argonaut, (unless stated otherwise)

… which will be utilised once the mine hits 5Mtpa nameplate and waste stripping increases in later years

Only once the Warrigal (~10Mt) and Coongan (~6Mt) ore bodies are commissioned (2014 onwards) will the surface miners be consistently fully utilised. A 4th surface miner is due to arrive on site in the December Q 2012, to assist as material movement requirements increase.

Figures 2 & 3: Surface Miner

Processing

Crushing and screening upgrade planned for April 2012

The crushing and screening plant appears to be the major bottleneck over the coming months. The plant is currently rating at ~ 4Mt (90% availability), with the addition of two feed conveyors to lift capacity to >5.5Mtpa (in April 2012).

Ore haulage

Ore haulage rates are currently averaging 13-14kt/day, which equates to annualised run rate of ~4.8Mt.

Table 1: Ore Haulage breakdown

Road Haulage					
Haulage	Units	tph	hrs	Mt rate	tpd
Pit Haulers	5	90	24	3.9	10,800
Triples	8	25.5	12	0.9	2,448
TOTAL				4.8	13,248

Haulage rates averaging 13 - 14kt

5 pit haulers (360t payload), and up to 10 x triples (typically ~8 operating, ~102t payload) are in current circulation. The pit haulers are slated to do 3 loads per shift (6 loads per day, equates to >700ktpa per rig at 93% utilisation). The triples are supplementing haulage capacity, delivering an additional ~2,500t per day, operating on single shift.

As additional pit haulers are commissioned (the 6th is due on site in February), the smaller road trains will be phased out. A 7th pit hauler will underwrite the 5Mtpa target while an 8th rig by 30 June 2012 provides additional flexibility (daily haulage rates of >16kt/day).

Figure 4: 360t Pit Haulers (now commissioned)

Figure 5: Triple road train (~102t) in operation

Commissioning the reclaimer has significantly reduced train loading times

We also drove the ~55km down the bitumised, private haul road to the recently commissioned load-out reclaimer infrastructure at Christmas Creek. This has significantly reduced train loading times (from 14 hours to 3 hours).

Figure 6: FMG's Load-Out Reclaimer at Christmas Creek

Source: Argonaut

Shipping

FY12 sales guidance is 3.5Mt, with 400kt sold in the September Q and expectation of 600kt this Q (2 capes sold to date, a further 2 in December scheduled).

To hit 3.5Mt mark, the JV will need ~15 capes (~170kt/vessel) in 2H. We continue to sit at 3Mt shipped for FY12, but have gained confidence that the 3.5Mt is achievable.

Stockpiles – 'insurance' ahead of the wet season

Adequate stocks

With the wet season approaching, the JV has ample stocks on which to draw should mining/haulage become compromised. When we were on site, stocks totalled 479kt (207kt ROM, 168kt at railhead, 104kt at port).

Costs in check

Minimal capex going forward

Going forward, very little capital should be required outside sustaining capex of ~ $3m pa, the majority of which will be haul road. The operation is essentially outsourced to the contractors (Watpac, Toll), so any other costs will be opex rather than capex.

At an operating level, we don't envisage seeing significant cost increases given the relative simplicity of the operation (low strip ratio, above water table) minimal haulage and rail/port charge indexed to CPI.

Valuation

Changes to our model

Following our site visit, we have made some minor changes to our model:

- Lifted FY13 production to ~5.0Mt (was 4.4Mt) on a 100% basis (BCI share – 50%)
- Offset by slight increases to mining costs from FY14 onwards (in line with stripping profile)

Our valuation of $3.40 per share remains.

Pricing

Reconciling spot prices to actual received prices

Our valuation assumes a price received of ~A$120/t FOB over next 18 months. Despite recent price volatility, we are comfortable with this for the time being.

At the current spot price of ~US$139/t (62% CFR), we estimate an implied 'blended' price (combining ore sold at spot and ore sold under contract to Henghou) for *Bonnie Fines* of ~A$113/t FOB, presented in Table 2 below.

Table 2: Indicative pricing calculation

Pricing		
Calculation		
Spot - 62% CFR	US$/t	139.60
Freight	US$/t	10.00
Implied Spot - 62% FOB	US$/t	129.60
Grade Adj factor	x	0.92
Implied Spot - 57% FOB	US$/t	119.15
Spot/Henghou Split	%	50%
AUDUSD	:	1.00
Implied FOB Blended Price	A$/t	113.19

Modelling this price over the next 18 months (as opposed to ~A$120/t FOB assumption), would see our valuation fall ~3% to $3.29 per share.

Share prices implies a price of A$80/t received v current spot of ~A$113/t

The current share price is implying an iron ore price received of only ~A$80/t (assuming spot fx); a 30% discount to the current implied FOB price for *Bonnie Fines* and a price which we do not believe to be likely in the short or medium term.

MRRT

MRRT impact appears minimal

With the proposed increase in profit threshold to $75m (was $50m), then depending on pricing assumptions, BCI may avoid paying MRRT altogether.

We estimate the potential exposure to BCI at ~$8m (or ~2.5% of our assessed valuation).

Admittingly, there are still vagaries around revenue netbacks to the taxing point and the starting base for calculating tax shields.

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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.

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