



Research



BC Iron BUY

Current Price: **\$1.09**
Valuation: **\$1.89**

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

Shares on Issue (m): **80.2**
Market Cap (A\$m): **87.4**
Net Cash (A\$m): **10.0**
Enterprise Value (A\$m): **77.4**

52 wk High/Low: **\$1.63** **\$0.17**
12m Av Daily Vol (m): **0.12**

Key Metrics

	10F	11F	12F
P/E (x)	15.2	4.9	3.5
EV/EBITDA (x)	11.4	2.7	2.0

Financials:

	10F	11F	12F
Revenue (\$m)	21.3	80.7	118.4
EBITDA (\$m)	6.8	28.3	39.6
NPAT (\$m)	5.8	17.7	24.7

	10F	11F	12F
Net Assets (\$m)	18.0	40.0	67.3

	10F	11F	12F
Op CF (\$m)	7.6	23.8	29.0

Per Share Data:

	10F	11F	12F
EPS (cps)	7.2	22.0	30.8
DPS (cps)	0.0	0.0	0.0
Div Yield	0.0	0.0	0.0
CFPS (cps)	9.5	29.7	36.2

Share Price Graph



Analysts:
Tim Serjeant
Troy Irvin

25 June 2009

\$22m capital raising

BC Iron Limited (BCI) has taken another step in its quest to become the Pilbara's next iron ore producer, having recently announced a \$22m capital raising via an institutional placement (\$9.4m) and non renounceable 1 for 6 underwritten entitlements issue (\$12.6m) at \$1.10 per share.

The combined proceeds will be used to fund BCI's \$10m equity contribution towards the Nullagine JV (established upon FMG accepting BCI's feasibility study, which is due imminently) and supplement ongoing working capital to ensure a smooth transition into production by early CY10.

The BCI Board has attracted the support of active resources investor Regent Pacific to anchor the capital raising. Regent Pacific holds several interests in listed companies including more than 3% in Kalahari Minerals plc, ~4.7% interest in Polo Resources and ~5% in Bannerman Resources. Regent Pacific has subscribed for a minimum 6m shares, which will result in a holding of ~7.5% of the expanded capital structure.

BCI, having listed in December 2006, is set to turn what may have been a pipe dream 3 years ago into a reality. It now becomes the envy of peers, with an infrastructure solution setting it apart from the plethora of hopefuls. In doing so, BCI 'ticks the boxes' under Argonaut's key evaluation criteria for iron ore stocks which include a high quality, marketable product, low capital intensity of production, access to infrastructure and tangible near term production.

Our valuation of BCI falls slightly to \$1.89 assuming the quotation of an additional ~20m shares. We have incorporated project finance in the vicinity of \$30m (attributable to the JV) in our modelling for the first time to fund the \$45-\$50m capex bill required to bring Nullagine into production.

Other key valuation parameters include:

- Mining inventory of 38Mt (~75% of current DSO resource)
- Production ramping up to 5Mtpa by CY12
- Cash costs averaging ~A\$42/t (including royalties) over the life of the project, although they could fall to sub-A\$40/t once the rail line between Christmas Creek and Cloudbreak is complete (currently 47% built).

Risks include timing (mining and environmental approvals outstanding) and a reliance on FMG/TPI to upgrade key infrastructure to reach ultimate production targets.

We note the enormous leverage BCI has to iron ore prices. Using the recent Hamersley Iron - Nippon Steel benchmark price for Yandi fines of ~US97c/dmtu (~US\$55/t fob) and A\$:US\$ exchange rate of US80c, Argonaut derives a valuation of \$2.70 per BCI share.

Given the premium sinter qualities of the 'ultra-low' phosphorous ore, the low capital intensity of production required and infrastructure solution obtained, BCI represents an attractive, leveraged entry point for investors seeking exposure to the Pilbara's next iron ore producer.

BUY

Important Disclosures

See page 3 for Important Disclosures

BC Iron

Post Placement and Entitlements Issue

Equities Research

Analyst: Tim Serjeant

Recommendation **BUY**
Current Price **\$1.09**
DCF Valuation **\$1.89**
All Ords (XAO) **3,852**

Sector **Materials**
Issued Capital (m) **80.2**
Market Cap (m) **\$87.4**
Updated **25-June-2009**

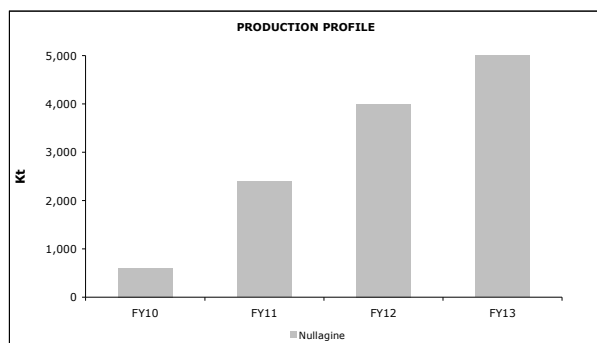
Profit & Loss (A\$m) 30 June	2010E	2011E	2012E
Sales Revenue	21.3	80.7	118.4
Other Income	0.5	0.8	1.7
Profit/(Loss) on Hedging	0.0	0.0	0.0
Operating Costs	13.6	51.7	79.0
Exploration Exp	0.4	0.4	0.4
Corporate/Admin	1.0	1.0	1.1
EBITDA	6.8	28.3	39.6
Depn & Amort	0.5	1.9	3.2
EBIT	6.3	26.4	36.5
Net Interest Paid	0.6	1.2	1.2
Operating Profit	5.8	25.3	35.3
Tax expense	0.0	7.6	10.6
Minorities	0.0	0.0	0.0
NPAT	5.8	17.7	24.7
Normalised NPAT	5.8	17.7	24.7

Cash Flow (A\$m)	2010E	2011E	2012E
Operating Cashflow	7.6	23.8	29.0
- Capex (+asset sales)	-23.0	-3.0	-3.0
-Exploration Expenditure	-0.4	-0.4	-0.4
-Other	0.0	0.0	0.0
Free Cashflow	-15.8	20.5	25.7
- Dividends	0.0	0.0	0.0
+ Equity raised	12.6	0.0	0.0
+ Debt drawdown (- repaid)	15.0	0.0	0.0
Net Change in Cash	-3.2	20.5	25.7
Cash at End Period	9.8	30.3	55.9
Net Cash (Debt)	-5.2	15.3	40.9

Balance Sheet (A\$m)	2010E	2011E	2012E
Total Assets	33.7	55.8	83.2
Total Debt	15.0	15.0	15.0
Total Liabilities	15.7	15.8	15.9
Shareholders Funds	18.0	40.0	67.3

Production & Cash Costs	2010E	2011E	2012E
Production			
Nullagine kt	600	2,400	4,000
Cash Costs			
- inc royalties A\$/t	45.6	43.3	39.4

Reserves & Resources				
Nullagine DSO				
Resources	Mt	% Fe	%CaFe	%P
Measured	1.7	57.0	64.8	0.018
Indicated	38.6	57.0	64.7	0.016
Inferred	10.4	57.0	64.8	0.013
Total	50.7	57.0	64.8	0.015
Including CID				
Resources	Mt	% Fe	%CaFe	%P
Measured	2.2	54.5	62.1	0.018
Indicated	68.8	54.0	61.8	0.017
Inferred	18.1	54.7	62.3	0.013
Total	89.1	54.1	61.9	0.016



Financial Summary	2010E	2011E	2012E
Reported Earnings			
Net Profit (\$m)	5.8	17.7	24.7
EPS (A\$)	0.07	0.22	0.31
PER (x)	15.2	4.9	3.5
Normalised Earnings			
Net Profit (\$m)	5.8	17.7	24.7
EPS (A\$)	0.07	0.22	0.31
EPS Growth (%)	n/a	207.3	39.7
PER (x)	15.2	4.9	3.5
Cashflow			
Operating Cashflow (\$m)	7.6	23.8	29.0
GCFPS (\$)	0.09	0.30	0.36
PCF (x)	11.5	3.7	3.0
Dividend			
Dividend (\$)	0.00	0.00	0.00
Yield (%)	0%	0%	0%
Franking %	0%	0%	0%

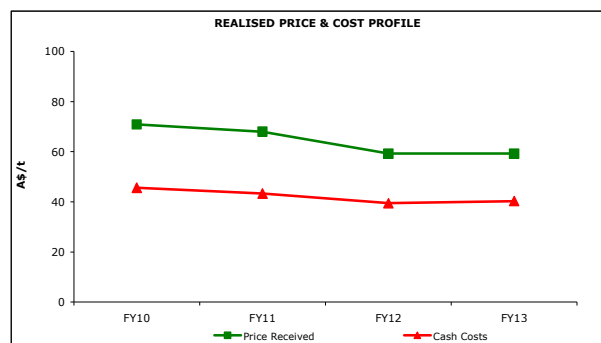
Financial Ratios	2010E	2011E	2012E
Balance Sheet Ratios			
Total Debt/Equity (%)	83%	38%	22%
Interest Coverage (x)	n/a	n/a	n/a
Profitability Ratios			
Net Profit Margin (%)	27%	22%	21%
Return on Assets (%)	-10%	-7%	-23%
Return on Equity (%)	32%	44%	37%

Valuation Summary	A\$m	\$/sh
Nullagine JV (BCI - 50%)	140.0	1.75
Bungaroo Creek	5.0	0.06
Investments	0.0	0.00
Unpaid Capital	1.3	0.02
Corporate	-5.0	-0.06
Cash (estimate)	25.0	0.31
Debt (assume)	-15.0	-0.19

Total @ 10% Discount Rate **151.3** **1.89**

Directors	
Name	Position
Tony Kiernan	Chairman
Mike Young	Managing Director
Garth Higgs	Non-Executive Director
Terry Ransted	Non-Executive Director
Steven Chadwick	Non-Executive Director

Substantial Shareholders	%
Palmary	19.4%
Alkane Resources	11.2%
Regent Pacific	7.5%



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Important Disclosures

Argonaut has acted or is acting in the following roles for BCI and has or will receive fees commensurate with these services:

- Corporate advisor
- Manager to the placement of 8.5m shares to raise \$9.4m (June 2009)
- Underwriter to the pro-rata entitlements issue to raise \$12.6m (June 2009)

Argonaut owns/and or controls 500,000 BCI options exercisable at \$0.65 on or before 31 March 2012

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