



# Research



## BC Iron BUY

Current Price: **\$1.90**  
Valuation: **\$2.70**

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

Shares on Issue (m): **83.9**  
Market Cap (A\$m): **159.4**  
Net Cash (A\$m): **17.3**  
Enterprise Value (A\$m): **142.1**

52 wk High/Low: **\$2.23** **\$0.47**  
12m Av Daily Vol (m): **0.34**

### Key Metrics

	10F	11F	12F
P/E (x)	-21.4	9.5	2.3
EV/EBITDA (x)	-19.1	5.7	1.4

### Financials:

	10F	11F	12F
Revenue (\$m)	0.0	56.5	161.2
EBITDA (\$m)	-7.4	25.0	101.0
NPAT (\$m)	-7.4	16.9	69.3

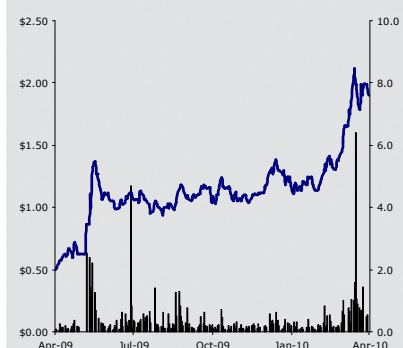
	10F	11F	12F
Net Assets (\$m)	41.9	67.3	144.3

	10F	11F	12F
Op CF (\$m)	-3.0	32.7	80.1

### Per Share Data:

	10F	11F	12F
EPS (cps)	-8.9	20.1	82.5
DPS (cps)	0.0	0.0	0.0
Div Yield	0.0	0.0	0.0
CFPS (cps)	-3.6	39.0	95.5

### Share Price Graph



Analysts:  
Tim Serjeant  
Troy Irvin

30 April 2010

## Lining up the ducks

BC Iron (BCI) made strong headway in the Mar Q to ensure first production from the Nullagine Iron Ore JV remains on track to commence in the Dec Q 2010.

Major milestones achieved during and subsequent to the Q include:

- Mining Lease (ML) for the Nullagine Iron Ore JV granted by the West Australian Department of Mines and Petroleum (DMP), which clears the way for the DMP to complete its review and approve the Mining Proposal.
- Native Title Mining Agreement with the Palyku Native Title Claim Group, paving the way for final environmental and regulatory approvals.
- Haul road, mining and crushing contracts awarded to Watpac (ASX:WTP).
- Contracts for camp construction, ore haulage awarded to Complete Portables and Mitchell West respectively.

Nullagine JV partner FMG recommenced construction work on the Cloudbreak to Christmas Creek Rail Spur in November 2009 as part of its ~\$500m (was \$360m) capital program to facilitate production expansion to 55Mtpa. The Chichester Hub optimisation program is expected to be completed in the Dec Q.

We do not anticipate any further funding ahead of first production following the US\$50m prepayment/20Mt off-take agreement signed in November 2009 with Henghou Industries. To date, the JV has received two installment payments (totalling US\$30m), with a third and final payment (US\$20m) due in the June Q.

Key dates on the road to production:

- June 2010 – Haul road and mine centre construction begins
- September 2010 – Mining commences
- October 2010 – Road haulage begins
- December 2010 – First Rail & Ship

We also await a resolution to the matter between the Company and Tennant Metals which is presently before arbitration.

The ducks are lining up for BCI and Argonaut expects that as the tangibility of the project dawns on investors, the stock will track towards our assessed valuation of \$2.70.

BCI can be distinguished from the plethora of iron ore hopefuls given its high quality, marketable product, low capital intensity, tangible infrastructure solution and near-term production potential. The stock is still trading at a significant discount to NPV despite recent share price appreciation.

## BUY

### Important Disclosures

See page 3 for Important Disclosures

**BC Iron**
**Equities Research**  
Analyst: Tim Serjeant

**Recommendation** **BUY**  
**Current Price** **\$1.90**  
**Valuation** **\$2.70**  
**All Ords (XAO)** **4,816**
**Sector** **Materials**  
**Issued Capital (m)** **83.9**  
**Market Cap (m)** **\$159.4**  
**Updated** **30-April-2010**

Profit & Loss (A\$m) 30 June	2010E	2011E	2012E
<b>Sales Revenue</b>	<b>0.0</b>	<b>56.5</b>	<b>161.2</b>
Other Income	1.0	1.0	3.3
Profit/(Loss) on Hedging	0.0	0.0	0.0
Operating Costs	5.0	28.8	59.9
Exploration Exp	1.1	0.8	0.5
Corporate/Admin	2.4	3.0	3.0
<b>EBITDA</b>	<b>-7.4</b>	<b>25.0</b>	<b>101.0</b>
Depn & Amort	0.0	1.0	2.1
<b>EBIT</b>	<b>-7.4</b>	<b>24.1</b>	<b>98.9</b>
Net Interest Paid	0.0	0.0	0.0
<b>Operating Profit</b>	<b>-7.4</b>	<b>24.1</b>	<b>98.9</b>
Tax expense	0.0	7.2	29.7
Minorities	0.0	0.0	0.0
<b>NPAT</b>	<b>-7.4</b>	<b>16.9</b>	<b>69.3</b>
Normalised NPAT	-7.4	16.9	69.3

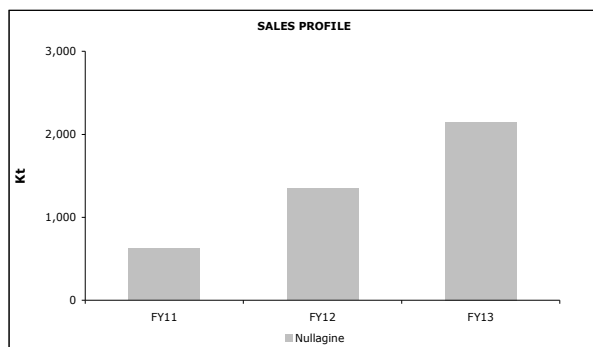
Cash Flow (A\$m)	2010E	2011E	2012E
<b>Operating Cashflow</b>	<b>-3.0</b>	<b>32.7</b>	<b>80.1</b>
- Capex (+asset sales)	-22.6	-11.6	-6.0
-Exploration Expenditure	-0.6	-0.8	-0.5
-Other	0.0	0.0	1.5
<b>Free Cashflow</b>	<b>-20.7</b>	<b>20.4</b>	<b>75.1</b>
- Dividends	0.0	0.0	0.0
+ Equity raised	12.6	0.0	0.0
+ Debt drawdown (- repaid)	31.3	5.4	0.0
<b>Net Change in Cash</b>	<b>5.2</b>	<b>20.4</b>	<b>73.6</b>
Cash at End Period	25.5	45.9	119.5
Net Cash (Debt)	-5.8	9.3	82.9

Balance Sheet (A\$m)	2010E	2011E	2012E
Total Assets	74.1	104.9	182.1
Total Debt	31.3	36.6	36.6
Total Liabilities	32.1	37.6	37.8
Shareholders Funds	41.9	67.3	144.3

Production & Cash Costs	2010E	2011E	2012E
<b>Sales</b>			
Nullagine Mt	-	0.50	1.50
<b>Cash Costs</b>			
- inc royalties A\$/t	-	46.1	44.4

Reserves & Resources				
<b>Nullagine DSO</b>				
<b>Reserves</b>	<b>Mt</b>	<b>% Fe</b>	<b>%CaFe</b>	<b>%P</b>
Proven				
Probable	35.6	56.9	-	0.020
<b>Total</b>	<b>35.6</b>	<b>56.9</b>	<b>-</b>	<b>0.020</b>

<b>Resources</b>	<b>Mt</b>	<b>% Fe</b>	<b>%CaFe</b>	<b>%P</b>
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
<b>Total</b>	<b>50.7</b>	<b>57.0</b>	<b>64.8</b>	<b>0.015</b>



Financial Summary	2010E	2011E	2012E
<b>Reported Earnings</b>			
Net Profit (\$m)	-7.4	16.9	69.3
EPS (A\$)	-0.09	0.20	0.83
PER (x)	-21.4	9.5	2.3
<b>Normalised Earnings</b>			
Net Profit (\$m)	-7.4	16.9	69.3
EPS (A\$)	-0.09	0.20	0.83
EPS Growth (%)	-	-326.3	310.9
PER (x)	-21.4	9.5	2.3
<b>Cashflow</b>			
Operating Cashflow (\$m)	-3.0	32.7	80.1
GCFPS (\$)	-0.04	0.39	0.95
PCF (x)	-53.4	4.9	2.0
<b>Dividend</b>			
Dividend (\$)	0.00	0.00	0.00
Yield (%)	0%	0%	0%
Franking %	0%	0%	0%

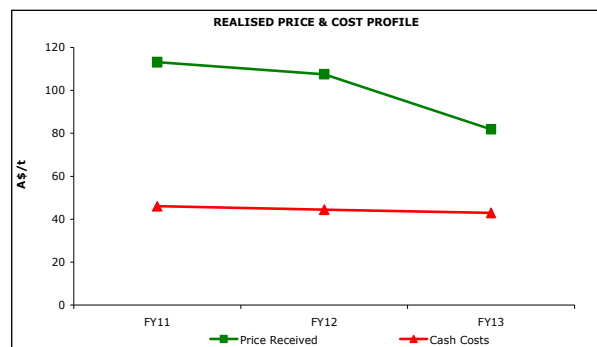
Financial Ratios	2010E	2011E	2012E
<b>Balance Sheet Ratios</b>			
Total Debt/Equity (%)	75%	54%	25%
Interest Coverage (x)	-	-	-
<b>Profitability Ratios</b>			
Net Profit Margin (%)	-	30%	43%
Return on Assets (%)	-44%	-21%	-11%
Return on Equity (%)	-18%	25%	48%

Valuation Summary	A\$m	\$/sh
Nullagine JV (BCI - 50%)	215	2.57
Bungaroo Creek	5	0.06
Investments	0	0.00
Unpaid Capital	3	0.04
Corporate	-14	-0.17
Cash (estimate)	34	0.41
Debt	-17	-0.20

**Total @ 10% Discount Rate** **227.0** **2.70**

Directors	Position
<b>Name</b>	
Tony Kiernan	Chairman
Mike Young	Managing Director
Glenn Baldwin	Non-Executive Director
Terry Ransted	Non-Executive Director
Steven Chadwick	Non-Executive Director

Substantial Shareholders	%
Palmary	22%
Regent Pacific	16%



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## Important Disclosures

Argonaut acts as Corporate Adviser to BCI and receives fees commensurate with these services

Argonaut has acted in the following roles:

- 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 or controls 500,000 BCI options exercisable on or before 31 March 2012

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