



BC Iron BUY

Current Price: **\$2.48**
Valuation: **\$3.40**

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

Shares on Issue (m): **95.1**
Market Cap (A\$m): **235.8**
Net Cash (A\$m): **-2.8**
Enterprise Value (A\$m): **238.6**

52 wk High/Low: **\$3.29** **\$2.00**
12m Av Daily Vol (m): **0.26**

Key Metrics

	11A	12F	13F
P/E (x)	225.6	3.2	2.6
EV/EBITDA (x)	108.0	2.6	1.5

Financials:

	11A	12F	13F
Revenue (\$m)	19.1	186.5	264.8
EBITDA (\$m)	2.2	93.2	156.9
NPAT (\$m)	1.0	72.6	88.5
Net Assets (\$m)	67.4	143.6	250.2
Op CF (\$m)	3.2	82.9	107.9

Per Share Data:

	11A	12F	13F
EPS (cps)	1.1	76.4	94.1
DPS (cps)	0.0	0.0	0.0
Div Yield	0.0	0.0	0.0
CFPS (cps)	6.7	87.2	113.5

Share Price Graph



Analysts:
Tim Serjeant
Troy Irvin

21 October 2011

Clicking into gear

September Q Report:

The Nullagine Iron Ore JV (NIOJV, BCI – 50%) shipped 402kt (wet) in the September Q, in line with expectations.

Mining, crushing and ore haulage rates increased significantly Q-on-Q (see Table 1 over page).

BCI reported an average sales price of US\$145/t CFR, slightly above our expectation. While not disclosed, we estimate cash costs of ~A\$70/t.

Ore haulage rates averaged ~7.5kt/day (~3kt/day in the June Q), benefitting from reduced trucking distance (120km – 55km upon commissioning of the private haul road) and increased payload. This will continue to improve once the haul road is bitumised (imminent) and additional large fleet is commissioned. The targeted 5Mt rate by the June Q 2012 implies daily haulage rates of ~15kt/day.

The remaining bottleneck to overcome is the commissioning of FMG's ore reclaimer at Christmas Creek, expected to be operational in November.

FY12 production guidance remains ~3.5Mt, including ~1Mt shipped by the end of CY11.

Impact:

Positive

This is the first Q in which the NIOJV has performed to market expectation.

The expectation for the December Q is ~600kt shipped for the December Q (four shipments), with the JV's first full cape size vessel (~170kt) departing later this month.

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.

Despite the softening in Iron Ore spot prices over recent weeks, we remain comfortable with our pricing forecasts (~US\$130/t, approximating the cost of Chinese domestic supply – the marginal producer). *Bonnie Fines* is a high 'value-in-use' product (low contaminants) and well positioned if market conditions were to deteriorate further.

The current share price is implying an iron ore price of only US\$89/t (assuming spot fx) – a price which we do not believe to be likely in the short or medium term.

Recommendation:

Buy

Valuation - \$3.40. BUY recommendation maintained.



BC Iron

Equities Research

Analyst: Tim Serjeant

Recommendation BUY
Current Price \$2.48
Valuation \$3.40

Sector Materials
Issued Capital (m) 95.1
Market Cap (m) \$235.8
Updated 21-October-2011

Profit & Loss (A\$m) 30 June	2010A	2011A	2012E	2013E
Revenue	0.5	19.1	186.5	264.8
Other Income	1.0	1.1	1.2	5.6
Profit/(Loss) on Hedging	0.0	2.1	0.0	0.0
Operating Costs	0.0	13.1	88.2	107.1
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	93.2	156.9
Depn & Amort	0.1	0.6	2.4	3.4
EBIT	-2.4	1.6	90.8	153.5
MRRT	0.0	0.0	0.0	25.7
Net Interest Paid	0.0	0.6	0.0	0.0
Operating Profit	-2.4	0.9	90.8	127.8
Tax expense	-1.0	-0.1	18.2	38.3
Minorities	0.0	0.0	0.0	1.0
NPAT	-1.4	1.0	72.6	88.5
Normalised NPAT	-1.4	1.0	72.6	88.5

Cash Flow (A\$m)	2010A	2011A	2012E	2013E
Operating Cashflow	-0.9	3.2	82.9	107.9
- 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	75.2	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	-9.0	71.0	98.3
Cash at End Period	28.7	17.5	88.4	186.8
Net Cash (Debt)	14.7	-1.5	65.6	169.0

Balance Sheet (A\$m)	2010A	2011A	2012E	2013E
Total Assets	54.8	103.4	186.0	290.5
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	143.6	250.2

Production & Cash Costs	2010A	2011A	2012E	2013E
Sales				
Nullagine (Mt) - BCI share	-	0.13	1.50	2.20
Cash Costs				
- inc royalties (A\$/t)	-	-	54.6	48.7

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

Financial Summary	2010A	2011A	2012E	2013E
Reported Earnings				
Net Profit (\$m)	-1.4	1.0	72.6	88.5
EPS (A\$)	-0.02	0.01	0.76	0.94
PER (x)	-145.9	225.6	3.2	2.6
Normalised Earnings				
Net Profit (\$m)	-1.4	1.0	72.6	88.5
EPS (A\$)	-0.02	0.01	0.76	0.94
EPS Growth (%)	-	-	-	23.2
PER (x)	-145.9	225.6	3.2	2.6
Cashflow				
Operating Cashflow (\$m)	-0.9	3.2	82.9	107.9
GCFPS (\$)	-0.03	0.07	0.87	1.13
PCF (x)	-79.0	37.3	2.8	2.2
Dividend				
Dividend (\$)	0.00	0.00	0.00	0.00
Yield (%)	0%	0%	0%	0%
Franking %	0%	0%	0%	0%

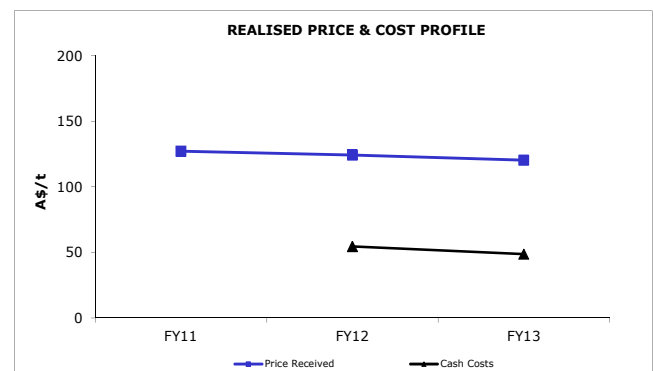
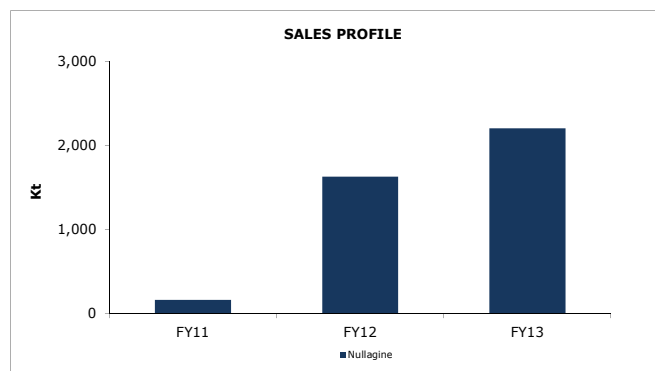
Financial Ratios	2010A	2011A	2012E	2013E
Balance Sheet Ratios				
Total Debt/Equity (%)	36%	28%	16%	7%
Interest Coverage (x)	-	-	-	-
Profitability Ratios				
Net Profit Margin (%)	-287%	5%	39%	33%
Return on Assets (%)	-57%	-15%	1%	-11%
Return on Equity (%)	-4%	1%	51%	35%

Valuation Summary	A\$m	\$/sh
Nullagine JV (BCI - 50%)	326	3.43
Bungaroo Creek	5	0.05
Investments	0	0.00
Unpaid Capital	13	0.13
Corporate	-19	-0.20
Cash (estimate)	18	0.18
Debt	-19	-0.20

Total @ 11% Discount Rate 323 3.40

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

Substantial Shareholders	%
Palmary	24.1%
Regent Pacific	22.7%





Quarterly production data

September Q

Key production data for the Q

Key operating data from the NIOJV for the September Q is presented in Table 1.

Table 1: Nullagine Iron Ore Joint Venture: Q-on-Q

Ore Production		Mar Q	Jun Q	Sep Q	Q-on-Q
Mined	kt	242	351	570	62%
Crushed	kt	n/a	379	527	39%
Hauled	kt	63	268	607	127%
Railed	kt	n/a	227	401	77%
Shipped	kt	38	215	402	87%

Source: Argonaut

The JV shipped 402kt for the Q, including a single shipment of ~150kt (the largest to date). The first full cape vessel is scheduled for later this month (~170kt), with a further 3 shipments in November and December required to meet the ~1Mt shipped mark for the 1H.

FMG's ore reclaimer at Christmas Creek (currently under construction) is expected to be commissioned and operational by November. As flagged in the June Q, delays in train loading and shipping are expected until then.

Ore haulage

Ore haulage rates continue to improve

Ore haulage rates averaged ~7.5kt/day for the Q (~3kt/day in the June Q), benefitting from reduced trucking distance (from 120km to 55km upon commissioning of the private haul road), increased payload (phasing in the 360t Powertrans trucks) and transition to double shift in late August.

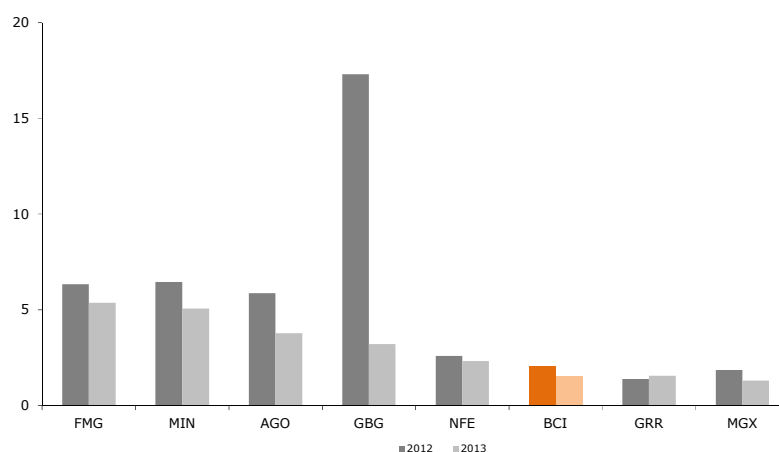
Haulage in October will be impacted by bitumen sealing of the haul road (completion imminent). From November, four 360t trucks supplemented by smaller fleet (~110kt) will lift haulage rates to a consistent 10kt/day, increasing to 12kt/day when the fifth unit arrives later in the month (equating to ~4Mt annualised rate).

The targeted 5Mt rate by the June Q 2012 implies daily haulage rates of ~15kt/day, when 8 Powertrans units are on site.

Comps

BCI remains compelling value on earnings metrics.

Figure 1: Iron Ore Peers – EV/EBITDA



Source: Argonaut, Bloomberg

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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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