

## BC Iron Limited (BCI)

### Drilling results and Management Discussion

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#### Resource Drilling to increase mine life

- The latest drilling results from the Nullagine Iron Ore JV (50/50 BCI/FMG) point towards a reserve upgrade and an increase in mine life. The current reserve is 35Mt @ 57% Fe, mine life ~8 years. We see an extension to a 10+ year mine life as likely.
- Cash position continues to grow, \$35.6m (Sep Qtr \$16.2m). As the ramp up process continues we would expect cash costs to come down towards the guidance of A\$40-A\$45/t.
- FY12 sales guidance remains at 3.5Mt, after discussion with management on mining rates achievable in the coming half we remain confident that guidance can be met, bearing in mind the risk that cyclones pose to production.

#### Cyclones could blow sales targets

**Drilling Results** - The recent drilling is part of an infill program at the Bonnie East deposit (8.6Mt @ 57% Fe) designed to lift the resource from the inferred category to reserve level, potentially adding ~1.5 years extra mine life (~8 years currently). Existing infrastructure will be used in the development of the deposit.

Resource modelling and mine planning are underway with the results expected to be released in the March quarter.

Given that the Bonnie East deposit is hosted within the same palaeochannel as the current mining operations we had built in the increased reserves and modelled a 10+ year mine life.

Additionally there is scope for the low grade material to be beneficiated on site through a simple screening process to additionally upgrade the reserve.

#### Quarterly Highlights

Iron ore shipped during the quarter was 0.63Mt, taking the 1H12 shipped ore to 1.1Mt, as previously guided. The ramp up process is continuing as new bulk haulage trucks are brought on-line and additional crushing capacity is also introduced.

Guidance on cash costs is not given however we see that as volumes increase costs will approach guidance of \$40-\$45/t, our current assumption has C1 cash costs in the mid-high \$50/t range.

Cash increased to \$35.6m (Sep Qtr \$16.2m), our FY12e is \$76m.

#### Sales Guidance

Given the successful track record of management in delivering on targets we remain confident that FY12 sales guidance can be met. BCI has indicated that there is a risk to guidance from possible weather delays, associated with cyclone activity in the Pilbara.

Stockpiles built up during the commissioning phase act as a buffer to possible interruptions and also enable BCI to meet sales targets as mine production ramps up to the 5Mtpa rate. At the time of our site visit in late 2011 stockpiles totalled ~480kt.

#### Recommendation

#### Buy

Previous Recommendation	Buy
Risk Rating	High
Current Share Price	\$2.68
12 Month Price Target	\$3.36
Price Target Methodology	NAV
Total Return (Capital + Yield)	29.9%
NAV / Share	\$3.36
Market capitalisation	\$255m
Liquidity – Daily Value	\$0.3m

#### Financial Forecasts & Valuation Metrics

Y/e Jun (\$m)	2011A	2012F	2013F	2014F
Revenue	22	213	304	325
NPAT	1.0	75.1	120.5	129.1
EPS (cps)	1.1	72.7	116.0	124.3
EPS Growth	139%	>100%	60%	7%
DPS (c)	0.0	12.6	24.3	25.3
EV / EBITDA (x)	na	2.1	0.9	0.3
PER (x)	na	3.7	2.3	2.2
Dividend Yield	0.0%	4.7%	9.1%	9.4%
Gearing	2%	na	na	na
Interest Cover (x)	2.5	na	na	na

Source: Austock Securities estimates

#### Summary

- BCI continue to deliver on their objectives in respect to resource upgrades and production. At a PE of 3.7x FY12 and 2.3x FY13 they are cheap.
- Growth options available beyond Nullagine are a question that remains to be answered. Management have reported that they are currently looking into development options. We see that with a healthy balance sheet and a proven management team BCI will be in strong position to make the next stage in their growth.

## COMPANY SUMMARY

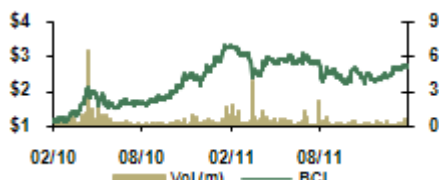
## BC Iron Limited

BCI.AX

## Price Information

Price (\$/share)	2.68
Mkt Cap (\$m)	258
Enterprise Value (\$m)	221

## Share Price &amp; Volume Chart



## Commodity / FX forecasts

	FY12F	FY13F	LT
Iron Ore Fines(US\$/t 62% benchmark FOB)	149.38	130.00	70
Iron Ore Fines(US\$/t % Fe benchmark FOB)	240.93	209.68	113
Exchange Rate (AUD:USD)	1.01	0.96	0.85

## Production / Costs

	FY12F	FY13F	FY14F
Production - 100% JV (Mt)	3.5	5.0	5.0
Production - BCI (Mt)	1.7	2.5	2.5
EBIT Margin (A\$/t)	48.0	55.8	55.8

## Business Summary

BCI is a producer of DSO grade (57% Fe) iron ore from the Pilbara region of Western Australia. When production reaches full capacity in mid CY12 the mine will be running at 5.0Mtpa.

The mine is a 50/50 JV with Fortescue Metals (FMG). FMG provide rail and port access and also marketing services.

## NPV by parts

	A\$m	Per Share
Nullagine Iron Ore Mine	333.71	3.23
Cash	75.78	0.73
Debt	-19.85	-0.19
Corporate	-43.01	-0.42
Total	346.63	3.36

## FINANCIAL SUMMARY

Year End - Jun	FY10A	FY11A	FY12F	FY13F	FY14F
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## KEY METRICS

EPS Growth (%)		139	6,816	60	7
PER (x)	-99.4	255.0	3.7	2.3	2.2
Dividend Yield (%)	0.0	0.0	4.7	9.1	9.4
EV/EBITDA (x)	na	na	2.1	0.9	0.3
EV (\$m)	210.1	254.4	220.9	145.2	61.5
ROE (%)	-7.5	1.9	77.4	73.8	53.9
ROA (%)	-12.5	1.8	91.1	156.2	176.0
ROIC (%)	-9.3	2.4	104.8	178.1	203.8

## PROFIT &amp; LOSS (AUD \$m)

Revenue	2	22	213	304	325
EBITDA	-2	2	107	171	181
Depreciation & Amortisation	0	0	5	7	7
EBIT	-2	2	102	164	174
Net Interest Expense	0	-1	0	0	0
Income Tax Expense	0	0	-27	-43	-45
NPAT Reported	-1	1	75	120	129
NPAT Adjusted	-2	1	75	120	129

## PER SHARE DATA (cps)

Shares on Issue (m)	84	94	103	104	104
EPS Reported	-1	1	73	116	124
EPS Adjusted	-3	1	73	116	124
DPS	0	0	13	24	25

## BALANCE SHEET (AUD \$m)

Cash	29	18	76	149	228
Debtors & Inventory	5	18	13	13	13
PP&E	17	62	61	57	53
Intangibles	0	0	0	0	0
Total Assets	55	103	155	224	300
Borrowings	14	19	20	16	11
Creditors	2	16	7	8	8
Total Liabilities	16	36	28	24	20
Net Assets	39	67	127	200	279

## BALANCE SHEETS RATIOS

Gearing - Debt/Equity (%)	-38.0	2.2	-44.1	-66.6	-77.6
Interest Cover (x)	na	2.5	na	na	na
NTA per Share (cps)	46.5	71.4	122.6	192.4	268.9

## CASH FLOW (AUD \$m)

EBITDA	-2	-1	96	148	156
Interest & Tax	1	1	-26	-40	-39
Working Capital Change	0	0	0	0	0
Operating Cash Flow	-1	3	70	108	117
Maintenance Capex	0	-1	-3	-3	-3
Free Cash Flow	-1	3	67	105	114
Expansion Capex	-12	-50	0	0	0
Equity Issues / (Buy Backs)	14	20	11	1	0
Proceeds from Borrowings	0	0	-5	-5	-6
Other	-9	-16	-3	-3	-3
Net Cash Flow	-8	-42	58	73	79

## Resource Statement

Category	Mt	Fe %	SiO2%	Al2O3 %	P%
Measured	1.8	54.1	5.1	4.0	0.02
Inferred	68.1	53.9	4.5	3.1	0.017
Indicated	32.9	54.5	3.9	4.6	0.018
Total	102.9	54.1	4.3	3.6	0.014

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## Recommendation Criteria

### Investment View

Austock Securities Investment View is based on an absolute 1-year total return equal to capital appreciation plus yield.

Buy	Hold	Sell
>20%	20% – 5%	<5%

A Speculative recommendation is when a company has limited experience from which to derive a fundamental investment view.

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