



Research



BC Iron BUY

Current Price: **\$2.38**
Valuation: **\$3.20**

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

Shares on Issue (m)*: **92.1**
Market Cap (A\$m*): **219.1**
Net Cash (A\$m*): **21.1**
Enterprise Value (A\$m)*: **198.0**

* Post capital raising

52 wk High/Low: **\$2.50** **\$1.04**
12m Av Daily Vol (m): **0.27**

Key Metrics

	10A	11F	12F
P/E (x)	-158.1	113.9	3.4
EV/EBITDA (x)	-85.3	53.6	2.1

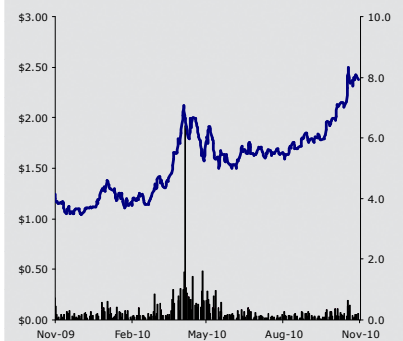
Financials:

	10A	11F	12F
Revenue (\$m)	0.5	47.4	166.3
EBITDA (\$m)	-2.3	3.7	93.2
NPAT (\$m)	-1.4	1.9	63.8
Net Assets (\$m)	39.0	68.6	139.5
Op CF (\$m)	-0.9	12.1	74.9

Per Share Data:

	10A	11F	12F
EPS (cps)	-1.5	2.1	69.3
DPS (cps)	0.0	0.0	0.0
Div Yield	0.0	0.0	0.0
CFPS (cps)	-3.2	13.1	81.4

Share Price Graph



Analysts:
Tim Serjeant
Troy Irvin

11 November 2010

\$18.4m capital raising

Capital raising:

BC Iron (BCI) has raised \$18.4m via the placement of 8m shares (at \$2.30 per share) to institutional and sophisticated investors.

Funds raised under the Offer will be used to provide working capital for contingency purposes and for further development of the Nullagine Iron Ore Project.

The placement is to be completed in two tranches, with 4m shares subject to shareholder approval. Indicatively, Tranche 2 will be settled in mid December.

Impact:

Positive

We understand BCI was looking at putting in place a working capital contingency plan before year end, be it debt or equity.

Post the raising, BCI will have gross cash totalling ~\$50m, ~\$30m of which is directly attributable to the corporate entity, with the remaining \$20m it's share of the JV funds.

The raising provides BCI with the adequate funding to ramp up production (without compromising ongoing development) at the rate required to achieve the JV's target of 1Mt shipped by June 2010.

The sporadic nature of cashflows during the ramp up phase may have placed BCI's working capital position under undue pressure if were to be any unforeseen hiccups (e.g. cyclone season in the WA's north-west has just commenced).

View:

Positive

BCI is breaking away from the pack of Pilbara iron ore hopefuls, whose production aspirations lie beyond their control. Growth is not contingent on future third party haulage/access developments, or the establishment of greenfields infrastructure.

The stock offers compelling value for those seeking iron ore exposure.

Recommendation:

Buy

Argonaut's valuation for BCI has to upped to \$3.20 (from \$3.00) as risks abate and countdown to first production approaches.

Important Disclosures

Argonaut acts as Corporate Adviser to BCI and receives fees commensurate with these services. Argonaut acted as Manager to the placement of 8.0m shares to raise \$18.4m (November 2010). Argonaut owns or controls 500,000 BCI options exercisable on or before 31 March 2012.

BC Iron
Equities Research
Analyst: Tim Serjeant

Recommendation BUY
Current Price \$2.38
Valuation \$3.20
All Ords (XAO) 4,812

Sector Materials
Issued Capital (m) 92.1
Market Cap (m) \$219.1
Updated 11-November-2010

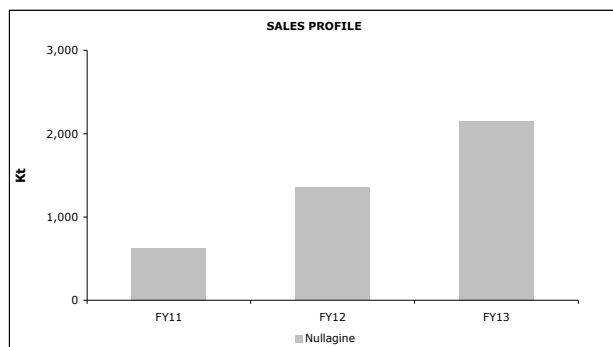
Profit & Loss (A\$m) 30 June	2010A	2011E	2012E	2013E
Revenue	0.5	47.4	166.3	190.1
Other Income	1.0	1.5	3.5	6.3
Profit/(Loss) on Hedging	0.0	0.0	0.0	0.0
Operating Costs	0.0	41.6	73.2	102.3
Exploration Exp	0.0	0.8	0.5	0.5
Corporate/Admin/Other	3.8	2.9	3.0	3.0
EBITDA	-2.3	3.7	93.2	90.6
Depn & Amort	0.1	0.9	2.1	3.4
EBIT	-2.4	2.7	91.1	87.2
MRRT	0.0	0.0	0.0	11.0
Net Interest Paid	0.0	0.0	0.0	0.0
Operating Profit	-2.4	2.7	91.1	76.2
Tax expense	-1.0	0.8	27.3	22.9
Minorities	0.0	0.0	0.0	1.0
NPAT	-1.4	1.9	63.8	52.3
Normalised NPAT	-1.4	1.9	63.8	52.3

Cash Flow (A\$m)	2010A	2011E	2012E	2013E
Operating Cashflow	-0.9	12.1	74.9	73.2
- Capex (+asset sales)	-13.0	-16.0	-6.0	-6.0
-Exploration Expenditure	-0.5	-0.8	-0.5	-0.5
-Other	1.3	-0.8	0.0	0.0
Free Cashflow	-13.0	-5.5	68.4	66.7
- Dividends	0.0	0.0	0.0	0.0
+ Equity raised	12.6	18.4	0.0	0.0
+ Debt drawdown (- repaid)	15.6	12.2	-5.6	-5.6
Net Change in Cash	16.7	25.0	62.8	61.2
Cash at End Period	28.7	53.7	116.6	177.7
Net Cash (Debt)	14.7	25.9	94.3	161.0

Balance Sheet (A\$m)	2010A	2011E	2012E	2013E
Total Assets	54.8	98.6	164.2	228.3
Total Debt	14.0	27.8	22.2	16.7
Total Liabilities	15.8	29.9	24.7	19.5
Shareholders Funds	39.0	68.6	139.5	208.8

Production & Cash Costs	2010A	2011E	2012E	2013E
Sales				
Nullagine (Mt)	-	0.42	1.50	2.15
Cash Costs				
- inc royalties (A\$/t)	-	54.6	54.2	47.6

Reserves & Resources				
Nullagine				
Reserves	Mt	% Fe	%CaFe	%P
Proven				
Probable	35.6	56.9	-	0.020
Total	35.6	56.9	-	0.020
Resources	Mt	% Fe	%CaFe	%P
Measured	2.2	54.5	62.1	0.018
Indicated	68.8	54.0	61.8	0.017
Inferred	30.6	54.4	61.8	0.016
Total	101.6	54.1	61.8	0.017



Financial Summary	2010A	2011E	2012E	2013E
Reported Earnings				
Net Profit (\$m)	-1.4	1.9	63.8	52.3
EPS (A\$)	-0.02	0.02	0.69	0.58
PER (x)	-158.1	113.9	3.4	4.1
Normalised Earnings				
Net Profit (\$m)	-1.4	1.9	63.8	52.3
EPS (A\$)	-0.02	0.02	0.69	0.58
EPS Growth (%)	-	-	-	-16.4
PER (x)	-158.1	113.9	3.4	4.1
Cashflow				
Operating Cashflow (\$m)	-0.9	12.1	74.9	73.2
GCFPS (\$)	-0.03	0.13	0.81	0.80
PCF (x)	-73.4	18.1	2.9	3.0
Dividend				
Dividend (\$)	0.00	0.00	0.00	0.00
Yield (%)	0%	0%	0%	0%
Franking %	0%	0%	0%	0%

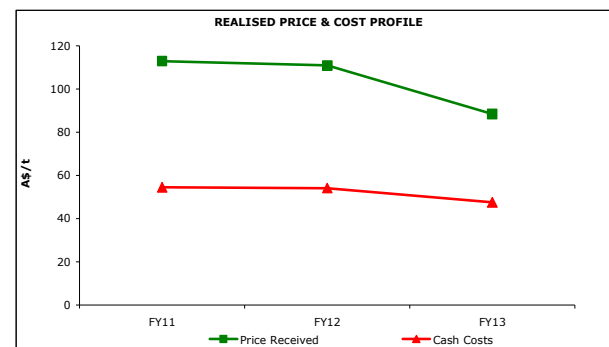
Financial Ratios	2010A	2011E	2012E	2013E
Balance Sheet Ratios				
Total Debt/Equity (%)	36%	41%	16%	8%
Interest Coverage (x)	-	-	-	-
Profitability Ratios				
Net Profit Margin (%)	-287%	4%	38%	28%
Return on Assets (%)	-57%	-52%	-16%	-40%
Return on Equity (%)	-4%	3%	46%	25%

Valuation Summary	A\$m	\$/sh
Nullagine JV (BCI - 50%)	269	2.92
Bungaroo Creek	5	0.05
Investments	0	0.00
Unpaid Capital	14	0.15
Corporate	-14	-0.15
Cash (estimate)	50	0.54
Debt	-29	-0.31

Total @ 11% Discount Rate 295 3.20

Directors	
Name	Position
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	20%
Regent Pacific	19%



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