AUSTRALASIA

BCI		Not rated
Stock price as of 01/12/2011	A$	**2.35**
GICS sector		**Metals and Mining**
Market cap	A$m	**224.0**
Avg Value Traded (3m)	A$m	**0.24**
12m high/low	A$	**3.29 / 2.00**
PER FY12 consensus	x	**3.60**
P/BV FY11	x	**3.27**

Historical financials

YE June (A$m)	2009A	2010A	2011A
Revenue	N/A	0.5	19.1
% growth	N/A	N/A	3852%
EBITDA	-1.6	-1.9	-1.0
EPS	-0.022	-0.017	0.011
EBIT Margin	N/A	N/A	-9%

Source: Company data, FactSet,December 2011

Historical business risk/reward*

*Relative to the market.
Source: Macquarie Research, December 2011

Share Price Driver

Thematic
Growth
Value
Event

Source: Macquarie Research, December 2011

Analyst(s)

1 December 2011
Macquarie Securities (Australia) Limited

MacVisit – BC Iron

Iron platform

- We visited BCI's operations in the Pilbara which encompass the flagship Nullagine iron ore project and the Fortescue Metals (FMG AU, Outperform, TP: A$8.35ps, CP: A$4.54ps) iron ore stockyard at Christmas Creek.
- BCI is an emerging iron ore producer currently focussed on operating Nullagine, a 50:50 joint venture with FMG. Production has been ramped up to ~3mtpa currently and is forecast by management to reach 5mtpa by 2H12.

An efficient business model

- **A straightforward operating model.** BCI mines iron ore at its Nullagine project and transports the ore to FMG's rail head at Christmas Creek via a newly built 55km bitumen road, using 360t Pit Hauler trucks. FMG is responsible for providing rail haulage and port services at a fee, and shares in 50% of the revenue and costs. FMG also provides marketing services.
- **Leveraging existing infrastructure:** By entering a JV agreement with FMG, BCI overcame the infrastructure barriers faced by most emerging iron ore producers / developers. As a result, BCI has proceeded from feasibility to first ore shipment in the space of ~18 months. Management estimates current operating rates at ~3mtpa and plans to increase this to 5mtpa by mid-2012, largely by enhancing crushing capacity and doubling the fleet of 360t road trains to 8.
- **A low cost project.** A total of ~A$70m was spent to bring Nullagine into production, including ~A$18m on the village. Management indicated that ~A$3m per year is expected to be spent on sustaining capex. The life-of-mine strip ratio is forecast at 1:1, which contributes to a relatively low unit operating cost estimate of ~A$43/t (including transport and marketing fees charged by FMG). As the orebody is located atop a mesa, the strip ratio is low and there is no requirement for dewatering. Surface miners perform the dual role of ore mining and primary crushing, while a small-scale crushing plant (currently ~4mtpa capacity, increasing to 6mtpa by 2H12) produces a single fines product.
- **Solid cash generation.** Revenue is driven by the 62% CIF China spot price adjusted for Fe content and a 10% discount on half of Nullagine's production (in lieu of a funding arrangement with Chinese ore trader Henghou). FOB operating costs are currently A$55/t, and are expected by management to decline to ~A$43/t over the life-of-mine. At the current 62% spot price of US$130/t, a cash margin of ~A$48/t (post royalties pre tax) is likely or ~A$110m EBITDA a year on the 2.5mtpa production attributable to BCI.
- **Investment risk: what next?** Based on its 35mt reserve grading 57% Fe (65% calcined Fe), BCI currently has a seven-year life-of-mine at 5mtpa (2.5mtpa attr); management also flagged potential to convert additional resources from its 103mt resource (grading 54% Fe) to reserve and add ~2-5 years LOM. BCI currently has limited other growth options in its portfolio; adding assets will most likely require M&A, potentially consuming cash generated by Nullagine / requiring additional external funds, should management decide to pursue expansion in favour of returning cashflow from Nullagine to shareholders.

Please refer to the important disclosures and analyst certification on inside back cover of this document, or on our website www.macquarie.com/disclosures.

Ownership

- Consolidated Minerals is the largest shareholder with 24.1%.
- Regent Pacific owns 22.6% following a failed takeover bid in January 2011.
- Directors hold 2.6%.
- Institutional ~45% (incl. Regent) / Retail ~55%
- Domestic / international split is approximately 50:50.
- The flagship Nullagine project is a 50:50 joint venture between BCI and Fortescue Metals (FMG AU, Outperform, TP: A$8.35ps, CP: A$4.54ps).

History and corporate governance

- The company listed in November 2006 with Nullagine the primary asset.
- Maiden resource was announced in March 2008, standing at 47.2mt @ 53.6% Fe. The current resource is 102.9mt @ 54.1% Fe.
- The DFS for the project was completed in July 2009, with estimated capex of A$43m and a strip ratio of 1:1 delivering opex of A$43/t.
- In January 2011, BCI received a cash bid of A$3.30ps from Regent Pacific. The offer was rejected following the release of an Independent Expert report that valued the company in a range of A$3.80-4.13ps.

Balance sheet data (as of 3Q11)

- Cash: A$16m (BCI: A$6m, NIOJV: A$10m)
- Debt: A$25m

Management and Directors background

- Managing Director Michael Young is geologist by training with over 20 years of experience in the mining industry. Previous roles include resource modelling and feasibility work on projects such as Escondida Copper (Chile) and Koolyanobbing iron ore (WA), and acting as a founding director for Bannerman Resources. He has been MD at BCI since 2006.
- Chairman Tony Kiernan is a solicitor with directorial experience across a range of listed and private companies, including Venturex Resources, Uranium Equities and Liontown Resources. He has sat on the BCI Board since 2006.
- Other directors are Terry Ransted (geologist) and Andy Haslam (mining engineer).
- Other key management includes Blair Duncan (COO), Morgan Ball (CFO and Company Secretary) and John McCarthy (Resident Manager).

Fig 1 June 2011 – Reserves and Resources Statement

Probable Ore Reserves

Pit	Mt	Fe (%)	CaFe (%)	Al2O3 %	SiO2 %	P%	S%	LOI1000
Outcamp	18.3	56.8	64.7	1.92	3.17	0.014	0.010	12.2
Warrigal	10.4	57.0	64.6	2.14	3.68	0.022	0.013	11.7
Coongan	6.0	57.0	65.0	1.84	2.54	0.011	0.012	12.4
TOTAL	**34.7**	**56.9**	**64.7**	**1.97**	**3.21**	**0.016**	**0.011**	**12.1**

Total CID Resource Estimate

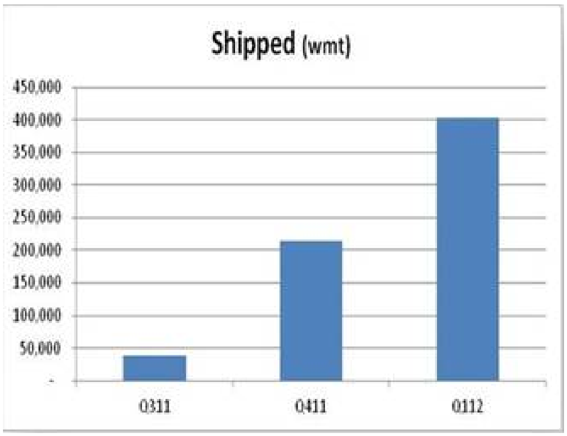
Class	Mt	Fe (%)	CaFe (%)	Al2O3 %	SiO2 %	P%	S%	LOI1000
Measured	1.8	54.1	61.6	3.98	5.08	0.020	0.018	12.3
Indicated	68.1	53.9	61.8	3.09	4.48	0.017	0.011	12.7
Inferred	32.9	54.5	61.8	4.58	3.86	0.019	0.018	11.9
TOTAL	**102.9**	**54.1**	**61.8**	**3.58**	**4.29**	**0.018**	**0.014**	**12.4**

Source: Company data, November 2011

Latest results highlights (3Q11)

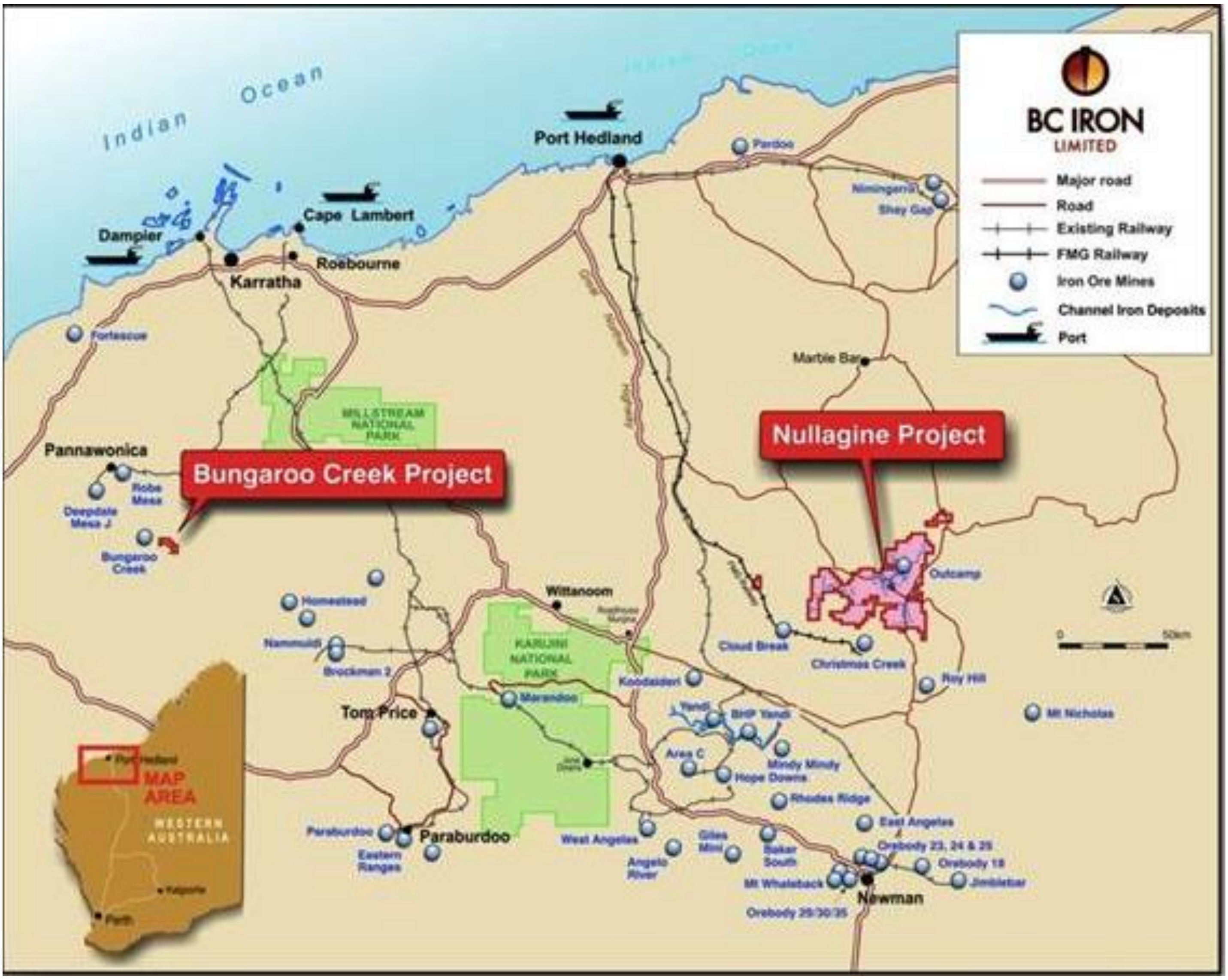
- BCI reported output of 570kt and shipments of 402kt, sold at an average CFR price of ~US$145/dmt.
- Construction of the bitumen-surface private haul road was completed in October 2011, which should contribute to lower opex by reducing wear-and-tear on equipment and decreasing water consumption (a scarce resource in the area).
- BCI guided to ~3.5mt of shipments by June 2012, with a 5mtpa production rate achieved by 2Q12.
- Management indicated that shipments should reach two 170kt full cape-sized vessels for the month of December. Shipments will consist of two to three capes per month moving forward.

Fig 2 Recent ramp-up



Source: BCI, December 2011

Fig 3 Project Location



Source: BCI, December 2011

Fig 4 PowerTrans Pit Haulers

- BCI use these trucks to haul a 360t payload 55km to the FMG Chichester Hub, where the ore is transferred to rail for transport to Port Hedland.
- BCI has four of these units operating at the moment, which will increase to eight by 1H12. These will gradually phase out the 100t road trains currently in operation.

Source: Macquarie Research, November 2011

Fig 5 JV infrastructure

- As part of the JV with FMG, BCI has access to the Christmas Creek infrastructure to transport ore to port.
- The ore load-out reclaimer (pictured) was commissioned in October 2011, and is used to load JV ore onto 240-car trains carrying ~32kt each.

Source: Macquarie Research, November 2011

The growth proposition

- BCI achieved a production run-rate of ~2.3mtpa in 3Q11 and is aiming to ramp-up production to 3mtpa in 4Q11 and 5mtpa by 2H12.

The value propositon

- BCI is currently trading at a **significant discount** to the independent expert base valuation of A$3.80ps, delivered in May 2011, and the Regent Pacific takeover offer of A$3.30ps launched in January 2011 but later withdrawn.
- Funding, execution and infrastructure **risks**, key issues for other aspirant iron ore producers, **are mostly behind BCI** which has commenced production and is in ramp-up.

The business model

- **A straightforward operating model.** BCI mines iron ore at its Nullagine project and transports the ore to FMG's rail head at Christmas Creek via a newly built 55km bitumen road, using 360t Pit Hauler trucks. FMG is responsible for providing rail haulage and port services at a fee, and shares in 50% of the revenue and costs. FMG also provides marketing services.
- **Surface mining.** BCI uses surface mining techniques to mine its ore (as opposed to the more common drill-and-blast method). Management indicated that ~15% more of the orebody can be monetised using surface mining. 3 surface mining units are currently in operation, with a fourth to be added.
- Crushing and screening occurs on-site at a 3mtpa capacity processing plant. BCI intends to complete expansion of the facility to 6mtpa by April 2012.

The main risks

- **Ramp-up delays:** To reach the target 5mtpa rate by 2H12, BCI requires the delivery of a number of key items, including 4 new haul trucks and 2 additional feed belts for expansion of the processing plant's capacity to 6mtpa.
- **Infrastructure availability:** BCI is dependent on its JV partner for the commissioning of key capital equipment.
- **Iron ore price:** Spot CIF China prices have fallen ~31% off highs in February, reaching a low of ~US$116/t in October. However, prices have since recovered to ~US$134/t. As a single commodity producer, BCI remains highly leveraged to the iron ore price.
- **Currency:** BCI receives revenue in US$ and has A$ denominated costs. Any strengthening of the A$ would compress margins and vice versa.
- **What next?** BCI currently has limited growth options in its portfolio; adding assets will most likely require M&A, potentially consuming cash generated by Nullagine.

Strengths

- Relatively low forecast opex of ~A$43/t.
- Relatively low capex to bring the mine into operation (~A$70m in total). The company indicated ~A$3m per annum sustaining capex.
- Haulage secured by JV agreement with FMG.
- Low gangue levels in product (lowest phos DSO in the Pilbara).
- No wet processing (i.e. no tailings dam is required).

Weaknesses

- Production nominally capped at 5mtpa (2.5mtpa attr) by agreement with FMG.
- Limited growth options beyond 2.5mtpa (attr) at the current time.
- Relatively small free float (two major shareholders hold ~47%), low liquidity.

Opportunities

- Capacity to produce in excess of 5mtpa (possibly up to ~6mtpa) should FMG make more capacity available.
- Potential to extend LOM 2-5 years by converting further resources to reserves / investigating options to beneficiate.

Threats

- Iron ore price volatility.
- MRRT: small capex shield to protect against this new tax.

Important disclosures:

Recommendation definitions

Macquarie - Australia/New Zealand
Outperform – return >3% in excess of benchmark return
Neutral – return within 3% of benchmark return
Underperform – return >3% below benchmark return

Benchmark return is determined by long term nominal GDP growth plus 12 month forward market dividend yield

Macquarie – Asia/Europe
Outperform – expected return >+10%
Neutral – expected return from -10% to +10%
Underperform – expected return <-10%

Macquarie First South - South Africa
Outperform – expected return >+10%
Neutral – expected return from -10% to +10%
Underperform – expected return <-10%

Macquarie - Canada
Outperform – return >5% in excess of benchmark return
Neutral – return within 5% of benchmark return
Underperform – return >5% below benchmark return

Macquarie - USA
Outperform (Buy) – return >5% in excess of Russell 3000 index return
Neutral (Hold) – return within 5% of Russell 3000 index return
Underperform (Sell)– return >5% below Russell 3000 index return

Volatility index definition*

This is calculated from the volatility of historical price movements.

Very high–highest risk – Stock should be expected to move up or down 60–100% in a year – investors should be aware this stock is highly speculative.

High – stock should be expected to move up or down at least 40–60% in a year – investors should be aware this stock could be speculative.

Medium – stock should be expected to move up or down at least 30–40% in a year.

Low–medium – stock should be expected to move up or down at least 25–30% in a year.

Low – stock should be expected to move up or down at least 15–25% in a year.
* Applicable to Australian/NZ/Canada stocks only

Recommendations – 12 months
Note: Quant recommendations may differ from Fundamental Analyst recommendations

Financial definitions

All "Adjusted" data items have had the following adjustments made:
Added back: goodwill amortisation, provision for catastrophe reserves, IFRS derivatives & hedging, IFRS impairments & IFRS interest expense
Excluded: non recurring items, asset revals, property revals, appraisal value uplift, preference dividends & minority interests

EPS = adjusted net profit / efpowa*
ROA = adjusted ebit / average total assets
ROA Banks/Insurance = adjusted net profit /average total assets
ROE = adjusted net profit / average shareholders funds
Gross cashflow = adjusted net profit + depreciation
*equivalent fully paid ordinary weighted average number of shares

All Reported numbers for Australian/NZ listed stocks are modelled under IFRS (International Financial Reporting Standards).

Recommendation proportions – For quarter ending 30 September 2011

	AU/NZ	Asia	RSA	USA	CA	EUR	
Outperform	57.35%	65.88%	56.94%	46.54%	74.68%	47.85%	(for US coverage by MCUSA, 11.63% of stocks covered are investment banking clients)
Neutral	31.99%	20.68%	31.94%	50.00%	23.42%	34.66%	(for US coverage by MCUSA, 9.30% of stocks covered are investment banking clients)
Underperform	10.66%	13.45%	11.11%	3.46%	1.90%	17.49%	(for US coverage by MCUSA, 0.47% of stocks covered are investment banking clients)

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