



Research



BC Iron BUY

Current Price: **\$2.35**
Valuation: **\$3.00**

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

Shares on Issue (m): **83.9**
Market Cap (A\$m): **197.2**
Net Cash (A\$m): **20.0**
Enterprise Value (A\$m): **177.1**

52 wk High/Low: **\$2.25** **\$1.00**
12m Av Daily Vol (m): **0.27**

Key Metrics

	10A	11F	12F
P/E (x)	-142.3	27.0	3.0
EV/EBITDA (x)	-76.3	15.5	1.9

Financials:

	10A	11F	12F
Revenue (\$m)	0.5	47.4	166.3
EBITDA (\$m)	-2.3	11.4	95.7
NPAT (\$m)	-1.4	7.3	65.5

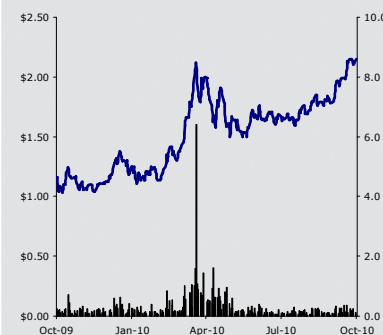
	10A	11F	12F
Net Assets (\$m)	39.0	52.0	132.6

	10A	11F	12F
Op CF (\$m)	-0.9	19.3	79.2

Per Share Data:

	10A	11F	12F
EPS (cps)	-1.7	8.7	78.0
DPS (cps)	0.0	0.0	0.0
Div Yield	0.0	0.0	0.0
CFPS (cps)	-3.6	23.0	94.4

Share Price Graph



Analysts:
Tim Serjeant
Troy Irvin

26 October 2010

Nullagine update

Project update:

BCI has provided an update of activities at the Nullagine Iron Ore JV (NIOJV).

Final approvals from the Department of Mines and Petroleum (DMP) for Stage 2 (Hillside Rd to Native Title Boundary) and Stage 3 (Native Title Boundary to Christmas Creek Ore Processing Facility) have been received.

Approval for Stage 3 heritage surveys has been submitted to the Department of Indigenous Affairs (DIA). Approval is expected in the current December Q.

Mining at the NIOJV is imminent.

Haul road construction continues, and is scheduled for completion by the March Q 2011. Earthworks are continuing up to the 15km section and clearing has been completed to 35km. Mine to railhead is ~56km.

Impact:

Positive

The NIOJV remains committed to delivering first shipment in December 2010. The NIOJV has ~66kt ore stockpiled on site courtesy of the trial mining exercise completed in 2009.

The receipt of Stages 2 and 3 approvals means that permitting from mine to railhead (~56km) is now completed.

The Stage 1 60 man accommodation village is presently being expanded to house over 150 personnel. Timely delivery of the accommodation upgrade will aid ramp up activities.

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.

With risks abating and countdown to first production approaching, the stock offers compelling value for those seeking iron ore exposure.

Recommendation:

Buy

Argonaut's valuation has risen \$3.00 (was \$2.90). Maintain BUY recommendation.

Important Disclosures

See page 3 for Important Disclosures

BC Iron
Equities Research
Analyst: Tim Serjeant

Recommendation BUY
Current Price \$2.35
Valuation \$3.00
All Ords (XAO) 4,781

Sector Materials
Issued Capital (m) 83.9
Market Cap (m) \$197.2
Updated 26-October-2010

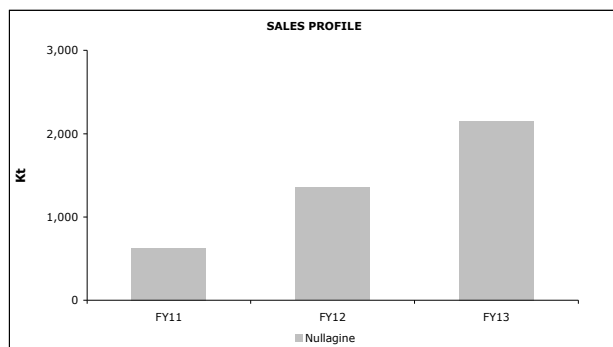
Profit & Loss (A\$m) 30 June	2010A	2011E	2012E	2013E
Revenue	0.5	47.4	166.3	188.7
Other Income	1.0	1.0	2.9	6.7
Profit/(Loss) on Hedging	0.0	0.0	0.0	0.0
Operating Costs	0.0	33.3	70.1	97.0
Exploration Exp	0.0	0.8	0.5	0.5
Corporate/Admin/Other	3.8	3.0	3.0	3.1
EBITDA	-2.3	11.4	95.7	94.8
Depn & Amort	0.1	1.0	2.1	3.4
EBIT	-2.4	10.4	93.6	91.4
MRRT	0.0	0.0	0.0	14.9
Net Interest Paid	0.0	0.0	0.0	0.0
Operating Profit	-2.4	10.4	93.6	76.5
Tax expense	-1.0	3.1	28.1	22.9
Minorities	0.0	0.0	0.0	1.0
NPAT	-1.4	7.3	65.5	52.5
Normalised NPAT	-1.4	7.3	65.5	52.5

Cash Flow (A\$m)	2010A	2011E	2012E	2013E
Operating Cashflow	-0.9	19.3	79.2	104.7
- Capex (+asset sales)	-22.6	-11.6	-6.0	-2.3
-Exploration Expenditure	-0.5	-0.8	-0.5	-0.5
-Other	1.3	0.0	0.0	0.0
Free Cashflow	-13.0	7.0	72.7	101.9
- Dividends	0.0	0.0	0.0	0.0
+ Equity raised	12.6	0.0	0.0	0.0
+ Debt drawdown (- repaid)	15.6	10.8	-5.6	-5.6
Net Change in Cash	16.7	7.0	72.7	101.9
Cash at End Period	28.7	35.7	108.3	210.3
Net Cash (Debt)	14.7	9.3	87.5	195.0

Balance Sheet (A\$m)	2010A	2011E	2012E	2013E
Total Assets	54.8	80.5	155.9	260.8
Total Debt	14.0	26.4	20.8	15.3
Total Liabilities	15.8	28.5	23.3	18.1
Shareholders Funds	39.0	52.0	132.6	242.7

Production & Cash Costs	2010A	2011E	2012E	2013E
Sales				
Nullagine (Mt)	-	0.42	1.50	2.15
Cash Costs				
- inc royalties (A\$/t)	-	53.3	51.9	45.1

Reserves & Resources				
Nullagine DSO				
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	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
Total	50.7	57.0	64.8	0.015



Financial Summary	2010A	2011E	2012E	2013E
Reported Earnings				
Net Profit (\$m)	-1.4	7.3	65.5	52.5
EPS (A\$)	-0.02	0.09	0.78	0.64
PER (x)	-142.3	27.0	3.0	3.7
Normalised Earnings				
Net Profit (\$m)	-1.4	7.3	65.5	52.5
EPS (A\$)	-0.02	0.09	0.78	0.64
EPS Growth (%)	-	-627.4	796.0	-18.3
PER (x)	-142.3	27.0	3.0	3.7
Cashflow				
Operating Cashflow (\$m)	-0.9	19.3	79.2	104.7
GCFPS (\$)	-0.04	0.23	0.94	1.25
PCF (x)	-66.1	10.2	2.5	1.9
Dividend				
Dividend (\$)	0.00	0.00	0.00	0.00
Yield (%)	0%	0%	0%	0%
Franking %	0%	0%	0%	0%

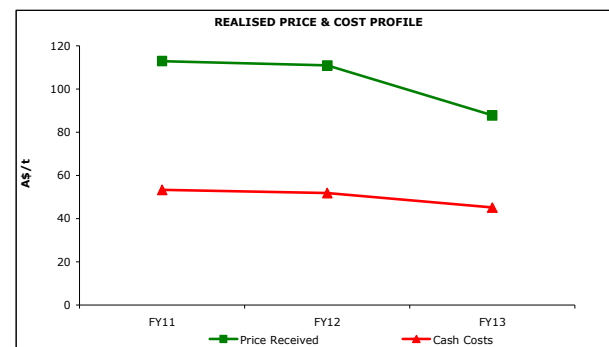
Financial Ratios	2010A	2011E	2012E	2013E
Balance Sheet Ratios				
Total Debt/Equity (%)	36%	51%	16%	6%
Interest Coverage (x)	-	-	-	-
Profitability Ratios				
Net Profit Margin (%)	-287%	15%	39%	28%
Return on Assets (%)	-57%	-31%	-9%	-46%
Return on Equity (%)	-4%	14%	49%	22%

Valuation Summary	A\$m	\$/sh
Nullagine JV (BCI - 50%)	237	2.82
Bungaroo Creek	5	0.06
Investments	0	0.00
Unpaid Capital	4	0.05
Corporate	-14	-0.17
Cash (estimate)	34	0.41
Debt	-14	-0.17

Total @ 11% Discount Rate **252** **3.00**

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	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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