



BC Iron BUY

Current Price: **\$2.02**
Valuation: **\$2.70**

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

Shares on Issue (m): **83.9**
Market Cap (A\$m): **169.5**
Net Cash (A\$m): **7.3**
Enterprise Value (A\$m): **162.2**

52 wk High/Low: **\$2.05** **\$0.46**
12m Av Daily Vol (m): **0.29**

Key Metrics

	10F	11F	12F
P/E (x)	-22.2	9.8	2.4
EV/EBITDA (x)	-21.3	6.3	1.6

Financials:

	10F	11F	12F
Revenue (\$m)	0.0	56.5	161.2
EBITDA (\$m)	-7.6	25.6	101.8
NPAT (\$m)	-7.6	17.3	69.8

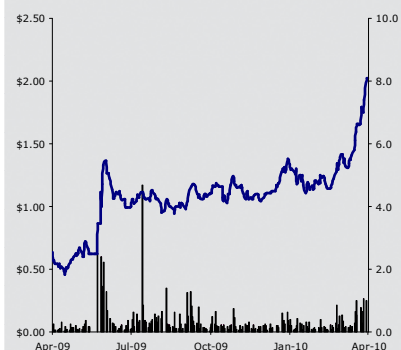
Net Assets (\$m) 35.4 61.3 138.6

Op CF (\$m) -0.5 33.3 80.4

Per Share Data:

	10F	11F	12F
EPS (cps)	-9.1	20.6	83.1
DPS (cps)	0.0	0.0	0.0
Div Yield	0.0	0.0	0.0
CFPS (cps)	-0.5	39.7	95.9

Share Price Graph



Analysts:
Tim Serjeant
Troy Irvin

13 April 2010

Re-rating begins

BC Iron (BCI) remains on track to commence first production from the Nullagine Iron Ore JV in the Dec Q 2010.

Last week, the Company entered into a Native Title Mining Agreement with the Palyku Native Title Claim Group, paving the way for final environmental and regulatory approvals.

Key contracts for Camp Construction and Ore Haulage were recently awarded to Complete Portables and Mitchell West respectively. The JV has also signed agreements with pastoralists in the Nullagine area, clearing the way for land access to facilitate the construction of the heavy haul road to Christmas Creek.

Work associated with the construction contract for the Stage I, 60-man camp at site has commenced. Pending receipt of further approvals, the accommodation village will be expanded to house ~150 employees ahead of first production. It is expected that the planning, construction and delivery of Stage I of the camp will take ~2 months to complete. Complete Portables handle the design, manufacture, transport and set-up of all components of the accommodation.

The Ore Haulage contract with Mitchell West covers the transport of Nullagine iron ore to the FMG rail infrastructure near Christmas Creek. Ore will be transported using 360t powered road trains, which are significantly larger than conventional road trains, thus increasing overall efficiency and reducing costs.

Crucially, BCI is funded to first production following the US\$50m prepayment/20Mt off-take agreement signed in November 2009 with Henghou Industries. To date, the JV has received two installment payments (totalling US\$30m), with a third due later in the year.

Milestone dates over the coming months include:

- June 2010 – Haul road and mine centre construction begins
- August 2010 – Mining commences
- October 2010 – Road haulage begins
- December 2010 – First Rail & Ship

We also await a resolution to the matter between the Company and Tennant Metals which is presently before arbitration.

As the Company continues to tick-off on key project milestones in the coming months, we expect the stock to track higher. Following upgrades to our iron ore pricing forecasts (now +80% for fines), our assessed valuation for BCI has risen to \$2.70.

BCI can be distinguished from the plethora of iron ore hopefuls given its high quality, marketable product, low capital intensity, tangible infrastructure solution and near-term production potential. The stock is still trading at a significant discount to NPV despite recent share price appreciation.

BUY

Important Disclosures

See page 5 for Important Disclosures

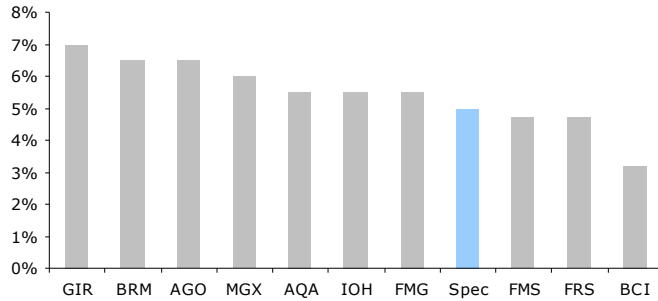
Product Quality

Nullagine Ore is a high quality, value add product...

Nullagine Ore compares favourably against a number of well established products.

Figure 1: Silica (SiO_2)

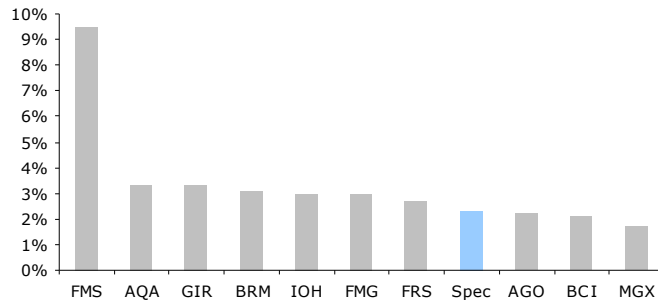
...low silica...



Source: IRESS, Company data, POL, Argonaut estimates

Figure 2: Alumina (Al_2O_3)

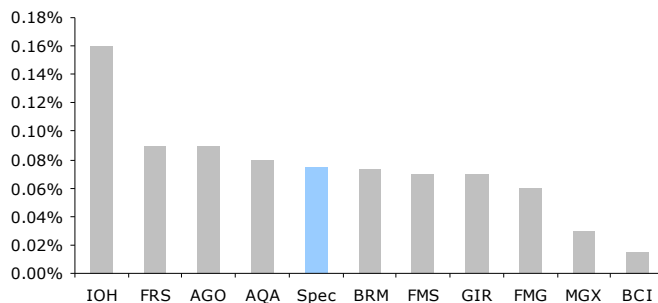
...low alumina...



Source: IRESS, Company data, POL, Argonaut estimates

Figure 3: Phosphorous (P)

...and amongst the lowest phosphorous in seaborne iron ore fines trade globally



Source: IRESS, Company data, BCI, Argonaut estimates

BC Iron (BCI) is the only junior stock which we can identify that betters typical spec thresholds.

The issue for most juniors is that they typically don't have the blending capability (e.g. blend high P ore with lower P ore) to meet spec. As a consequence, they are more likely to attract a discount for their product.

Valuation & Recommendation

Upgrades to Fe prices

Argonaut's commodity and exchange rate pricing assumptions are presented in Table 1.

Table 1: Commodity and exchange rate assumptions

Key Pricing Assumptions		FY11	FY12	FY13	LT
Iron Ore Price	A\$/t	113	107	82	62
Exchange Rate	A\$:US\$	0.88	0.88	0.88	0.80

Source: Argonaut

Model assumes production commences Dec Q 2010

Other assumptions include a 30% corporate tax rate, 6% in royalties and a nominal discount rate of 10%. Our modelling assumes a 36Mt mining inventory (DSO Reserve base) with production commencing in Dec Q 2010. Key model inputs are presented in Table 2 below.

Table 2: Key project parameters

Nullagine Iron Ore JV		
Key Project Assumptions		
Ore Mined	Mt	36
Grade	% Fe	57
Production*	Mtpa	5
Mine Life	yrs	8
Capex + WC	\$m	70
Cash Costs - inc royalties	A\$/t	42

* At targeted capacity

Source: Argonaut

Table 3: Sensitivity

Provides strong leverage in a rising iron ore price environment

% Movement in FX Curve	% Movement in Fe Price Curve				
	-10%	-5%	0%	5%	10%
-10%	\$2.67	\$3.00	\$3.33	\$3.66	\$3.99
-5%	\$2.37	\$2.69	\$3.00	\$3.31	\$3.62
0%	\$2.10	\$2.40	\$2.70	\$2.99	\$3.29
5%	\$1.85	\$2.14	\$2.42	\$2.71	\$2.99
10%	\$1.63	\$1.90	\$2.17	\$2.45	\$2.72

Source: Argonaut

We maintain BCI can be distinguished from the plethora of iron ore hopefuls given its:

- High quality, marketable product
- Low capital intensity
- Tangible infrastructure solution
- Near-term production potential

BUY

BC Iron

Equities Research
Analyst: Tim Serjeant

Recommendation BUY
Current Price \$2.02
Valuation \$2.70
All Ords (XAO) 5,012

Sector Materials
Issued Capital (m) 83.9
Market Cap (m) \$169.5
Updated 13-April-2010

Profit & Loss (A\$m) 30 June	2010E	2011E	2012E
Sales Revenue	0.0	56.5	161.2
Other Income	0.9	0.3	2.7
Profit/(Loss) on Hedging	0.0	0.0	0.0
Operating Costs	5.0	27.5	58.5
Exploration Exp	1.1	0.8	0.5
Corporate/Admin	2.4	3.0	3.0
EBITDA	-7.6	25.6	101.8
Depn & Amort	0.0	1.0	2.1
EBIT	-7.6	24.7	99.7
Net Interest Paid	0.0	0.0	0.0
Operating Profit	-7.6	24.7	99.7
Tax expense	0.0	7.4	29.9
Minorities	0.0	0.0	0.0
NPAT	-7.6	17.3	69.8
Normalised NPAT	-7.6	17.3	69.8

Cash Flow (A\$m)	2010E	2011E	2012E
Operating Cashflow	-0.5	33.3	80.4
- Capex (+asset sales)	-22.6	-11.6	-6.0
-Exploration Expenditure	-1.0	-0.8	-0.5
-Other	0.0	0.0	0.0
Free Cashflow	-24.1	21.0	73.9
- Dividends	0.0	0.0	0.0
+ Equity raised	12.6	0.0	0.0
+ Debt drawdown (- repaid)	22.0	5.4	0.0
Net Change in Cash	-10.7	21.0	73.9
Cash at End Period	9.7	30.6	104.5
Net Cash (Debt)	-12.3	3.3	77.2

Balance Sheet (A\$m)	2010E	2011E	2012E
Total Assets	58.2	89.7	167.1
Total Debt	22.0	27.4	27.4
Total Liabilities	22.9	28.4	28.5
Shareholders Funds	35.4	61.3	138.6

Production & Cash Costs	2010E	2011E	2012E
Sales			
Nullagine Mt	-	0.50	1.50
Cash Costs			
- inc royalties A\$/t	-	44.0	43.4

Reserves & Resources	Nullagine DSO			
	Mt	% Fe	%CaFe	%P
Reserves				
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	2010E	2011E	2012E
Reported Earnings			
Net Profit (\$m)	-7.6	17.3	69.8
EPS (A\$)	-0.09	0.21	0.83
PER (x)	-22.2	9.8	2.4
Normalised Earnings			
Net Profit (\$m)	-7.6	17.3	69.8
EPS (A\$)	-0.09	0.21	0.83
EPS Growth (%)	n/a	-326.5	304.2
PER (x)	-22.2	9.8	2.4
Cashflow			
Operating Cashflow (\$m)	-0.5	33.3	80.4
GCFPS (\$)	-0.01	0.40	0.96
PCF (x)	-374.2	5.1	2.1
Dividend			
Dividend (\$)	0.00	0.00	0.00
Yield (%)	0%	0%	0%
Franking %	0%	0%	0%

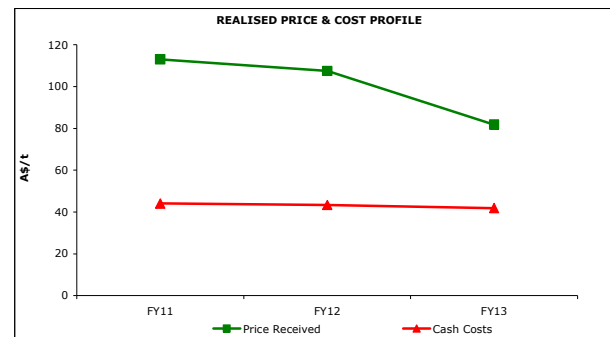
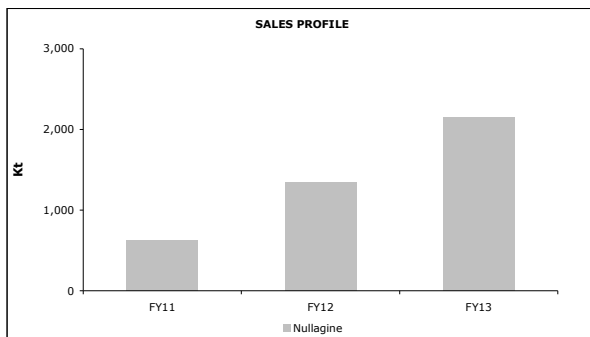
Financial Ratios	2010E	2011E	2012E
Balance Sheet Ratios			
Total Debt/Equity (%)	62%	45%	20%
Interest Coverage (x)	n/a	n/a	n/a
Profitability Ratios			
Net Profit Margin (%)	-	31%	43%
Return on Assets (%)	-30%	-7%	-3%
Return on Equity (%)	-22%	28%	50%

Valuation Summary	A\$m	\$/sh
Nullagine JV (BCI - 50%)	223	2.66
Bungaroo Creek	5	0.06
Investments	0	0.00
Unpaid Capital	4	0.05
Corporate	-14	-0.17
Cash (estimate)	24	0.29
Debt	-17	-0.20

Total @ 10% Discount Rate 226.3 2.70

Directors	Name	Position
	Tony Kiernan	Chairman
	Mike Young	Managing Director
	Garth Higgs	Non-Executive Director
	Terry Ransted	Non-Executive Director
	Steven Chadwick	Non-Executive Director

Substantial Shareholders	%
Palmary	22%
Regent Pacific	16%
Alkane Resources	6%



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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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