



BC Iron Limited (BCI) – BUY, PT \$0.33

March quarter takes a hit on Fe price discounts. Still cheap on long-term cash royalty earnings.

Metals & Mining

Rating	BUY
Previous	Buy

Share Price (\$)	0.13
52 week low - high (\$)	0.07-0.24
Price Target (\$)	0.33
Previous (\$)	0.34
Valuation (\$/share)	0.33
Methodology	SOP (Sum Of Parts)
Risk	HIGH

Capital Structure

Shares on Issue (m)	393
Market Cap (\$m)	51
Net Debt/(Cash) (\$m)	30
EV (\$m)	21
Options on issue (m)	7.2
12mth Av Daily Volume ('000)	1,101

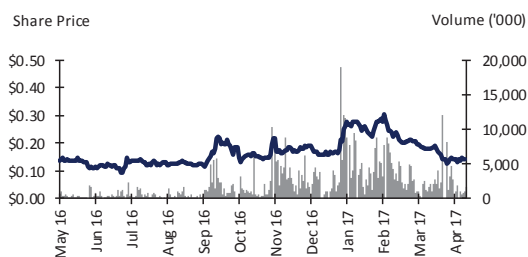
Directors

Tony Kiernan	Non Executive Chairman
Alwyn Vorster	Managing Director
Brian O'Donnell	Non Executive Director
Martin Bryant	Non Executive Director
Andrew Haslam	Non Executive Director

Major Shareholders

Wroxby Pty Ltd	26%
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Share Price Graph



Analyst

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Foster Stockbroking acted as Joint Lead Manager & Underwriter to the \$25.5M Rights Issue at \$0.13 in November 2016. Foster Stockbroking received fees for this service.

Event:

- March 2017 quarterly report.

Analysis:

- Steep discount in realised pricing hits Iron Valley EBITDA.** Reported Iron Valley EBITDA came in at \$4.1m on a production rate of 1.8Mt, well below our forecast of \$7-8m. Pricing has been impacted by a combination of discounted prices for 58-60% Fe ore, a decline in the lump premium and sharp drop in the forward curve with a number of ships priced in March/April/May. We note the average discount has typically been 15% for grade and a 15% premium for lump. The 62% Fe spot during the quarter averaged USD 85/t with the 3mth forward sharply lower now in the low USD 60/t range.
- Company maintains FY17 EBITDA guidance for Iron Valley at \$18-25m, FSBe \$20m assuming a Fe USD 60/t for the June quarter:** we have made an adjustment to our FY17 Iron Valley EBITDA given the drop in the forward Fe price and discounts. With \$16.9m booked, we assume another \$3-4m can be achieved in the June quarter should the discounts normalize. We assume Iron Valley delivers \$20.4m EBITDA. At a group level this translates to \$9-10m for FY17 given we assume \$10m for costs related to corporate, Buckland and Carnegie Potash.
- Strong balance sheet with \$32.9m cash.** Capped at \$55m, and net cash position of \$30.3m as at end of March 2017; we now forecast net cash to be ~\$33-35m at the end of FY17 excluding any investment in new assets or projects and some costs to come on Buckland in the June quarter.
- Buckland to be repositioned as 12-20Mtpa project.** BCI has confirmed Buckland, located in the West Pilbara, will be refocused as a 12-20Mtpa (vs 8Mtpa 2014 Feasibility) to better utilize the approved transshipment port facility at Cape Preston East. We expect the company to target all in cash costs at the A\$40-50/t range, with the timing of a revised economic case made available 2HCY17 to support contracting, offtake and project funding discussions to become definitive.

Earnings and Valuation:

- Valuation cheap on an EV/EBITDA basis:** BCI is trading <3x our forecast group EBITDA. Iron Valley mine life is +10yrs and the company that will continue to generate positive cash flow for the near term.
- Our valuation of BCI is \$0.33 per share.** Our valuation is based on a NPV of the Iron Valley royalty of \$111m using US\$60/t Fe long term, net cash of \$30m and Corporate and other project costs -\$10m. Our valuation excludes anything for Buckland Project which could provide further upside on a revised economic study in the 2HCY17.

Recommendation:

- We recommend BCI as a BUY based on its undemanding valuation, any upside to spot Fe prices and new project development. Our price target is \$0.33, representing 140% upside with BCI a strong buy on a medium to long term value basis, highly leverage to an uplift in spot Fe sentiment.