Iron Ore Holdings

22/02/2012 **FAT-MIN-311**

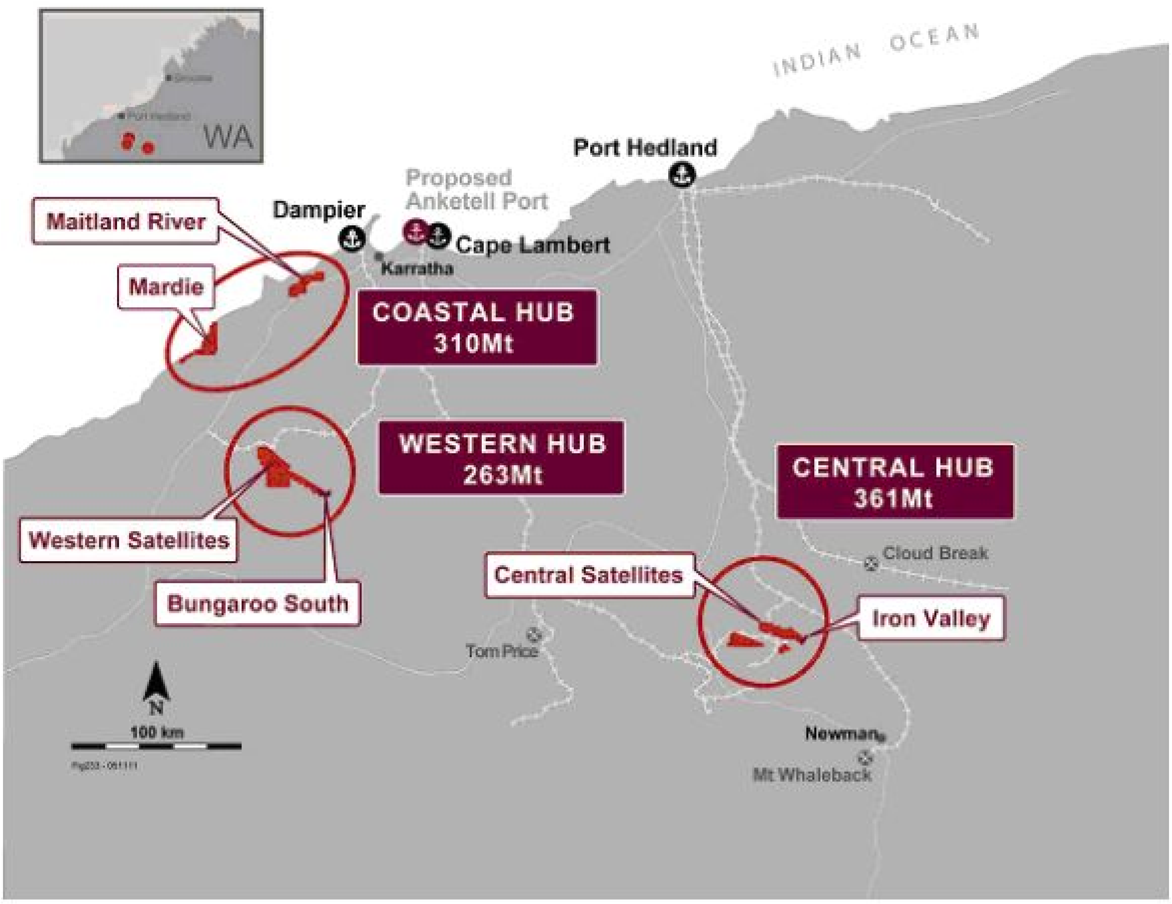
IOH

AUD $1.700 Spec. **HIGH** **B**

Getting some 'major' attention....

Iron Ore Holdings owns 6 iron ore projects in the Pilbara region of WA. Its resources have increased from 60mt in 2008 to approximately 1 billion tonnes currently.

One aspect that is paramount to any bulk commodities project is location. The more remote and inaccessible it is the larger the resource needs to be in order to justify the massive capital expenditure always involved in bringing such assets into production. **One of the key attractions of Iron Ore Holdings is that all key projects are in close proximity to existing mines and infrastructure.**



A successful track record in exploration.... In the period from November 2010 to November 2011 Iron Ore holdings increased its resource base by 75%, from 447mt to around 934mt currently. The stated strategy of IOH is a) monetise current assets and to, b) acquire undervalued assets. The results of this strategy of late have been gathering momentum as the highest quality assets in the best locations translates into faster development with lower capex and hence cash flow is derived sooner.

Consolidation in the Pilbara

We have seen many iron ore players in the Pilbara with well located assets disappear over the last couple of years. Atlas Iron which is now a sizable producer has been a consolidator of well placed juniors, in addition to Flinders Mines, Brockman Resources and Ferraus which have all been taken over at significant premiums to where IOH is currently trading in terms of enterprise value (EV) per tonne of resource. In late 2011, Flinders Mines was bid for by Russian steel producer Magnitogorsk at a 90% premium to its 30 day average price but more importantly at an EV/contained Fe of $1.02. This contrasts with IOH's current EV per tonne of Fe at around $0.34!

The three most recent commercialisation deals highlight to us how undervalued IOH is at current prices. The investment case is further underpinned by the remaining quality assets in the pipeline and importantly the cash to further develop them and ready them for sale/JV or similar. **The recent IOH deals.........**

a) The sale of Koodaideri south was sold to Rio Tinto for $32m PLUS 2% FOB royalty,

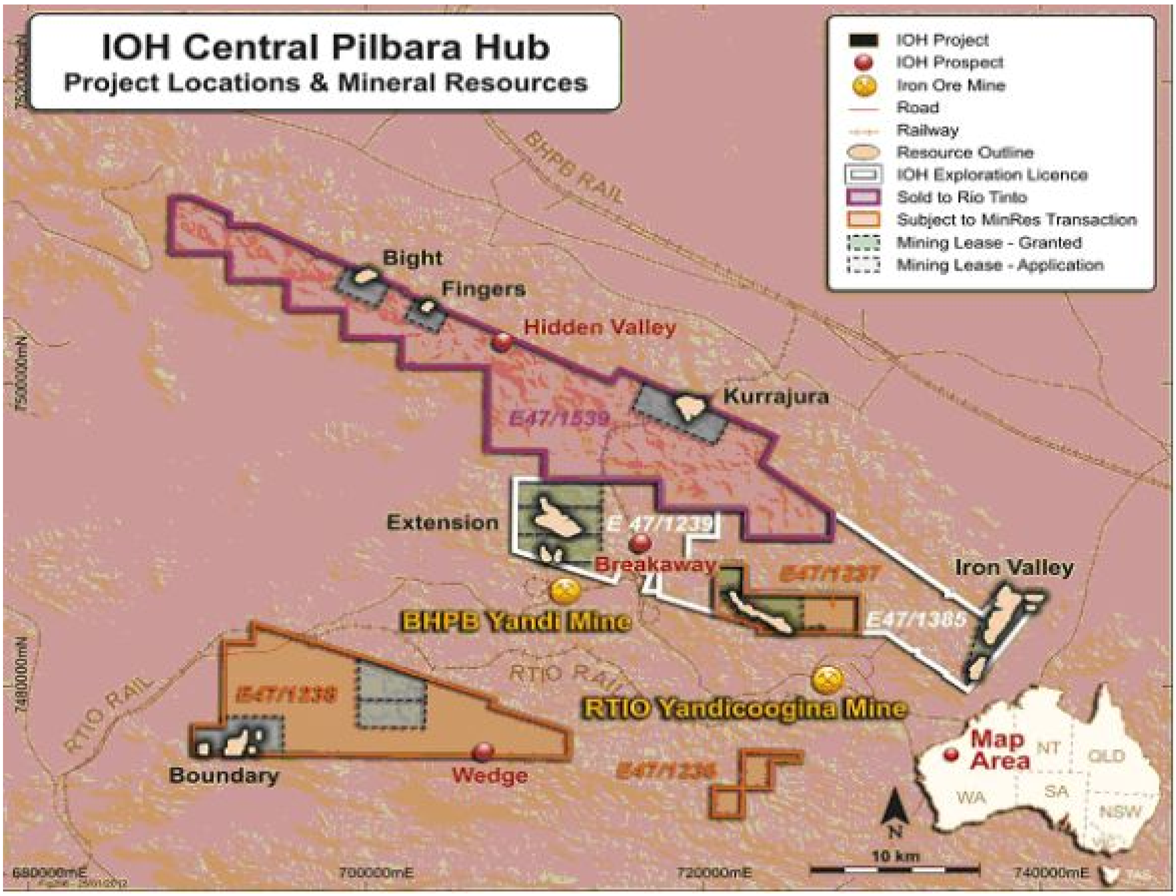
b) Three tenements in the central Pilbara sold to Mineral Deposits for $42m,

c) The sale to Fortescue of Iron Valley which is contiguous to FMG's Nyidinghu deposit for a 20m cash payment PLUS 2% to 5% cash royalty based on revenue realised by Fortescue.

Importantly, a mine pre-feasibility has been completed at **Iron Valley has confirmed the technical viability of a conventional open pit mine development with a production rate of 12Mtpa for up to 15 years. If we assume a long term iron ore price of $70 per tonne, (approx half current price), a 3% royalty on a 12Mtpa operation with the addition of two cash payments due, we estimate a net present value (NPV) based valuation of approximately $200m.**

The deal with Rio Tinto, as detailed by the company, is potentially 4mt pa over 15 years, has on our conservative estimates a NPV of approximately $70m.

All of these deals are of based on assets in IOH's central hub as seen in the following diagram. Proximity to existing rail is also visible from the diagram.



Where will further growth come from? With a healthy cash balance, IOH will have the funding to advance its portfolio and bring about more deals similar to the ones we have already detailed.

A bullish moving average cross has recently formed, which is suggestive of momentum to have swung to the upside. Support below is expected at the confluence of the 50 day moving average and prior breakout level, which will now act as support at the $1.44 region.

With reference to the weekly chart, the MACD is above the zero line, signalling longer term momentum to favour the upside. Resistance is expected at $1.80, followed by the 78.6% Fibonacci retracement level of $2.07, being the longer term price target.

Western Pilbara

On the 5th of December last year IOH announced a large magnetite iron ore discovery at Mt Dempster in the western Pilbara. As with its many other projects is close to infrastructure and existing mines, being within 10km of API's planned railway to Anketell Port, and also 10km from Rio Tinto Mesa J mine. IOH estimates the resource for Mt Dempster could be as large as 2bn tonnes.

The other key asset in western Pilbara is Bungaroo South which is currently defined as 242mt and importantly does hold strategic value. It is only 35km from Rio Tinto's Robe River Mesa J operation and 50km from the proposed rail to Anketell port.

'Major' plans......

The major Iron ore producers in the Pilbara (BHP, RIO, FMG and API) are ramping up production as fast as possible to take advantage of current iron ore pricing which is in the range of $140 - $150 per tonne. At these prices, margins are extremely robust as we can see from Rio Tinto' recent numbers where its **net** profit margin in its iron ore division is just over 40%!

Management and share buyback

We have met with Alwyn Vorster, the MD of IOH. Alwyn is a 25 year veteran of the mining industry with much experience in iron ore as regional manager for Rio Tinto Iron Ore. He also has experience in the infrastructure space as a director of Oakajee port and rail where he was responsible for development of rail and port access terms and pricing. This experience is critical when negotiating with the likes of Fortescue and Rio Tinto as not only does he know many of the people he is dealing with but knows precisely how to deal with them given he used to sit on the other side of the desk.

IOH is 53% owned by a group of entities controlled by Kerry Stokes. There is an acute awareness by the board and its major shareholder that IOH's current share price does not reflect the fair value of its assets and that is the reason for the buyback of up to $10m is currently in action.

Investment Thesis

The attraction to us is the deals that IOH have closed more than underpin the current market capitalisation of the company. **Hence we are really getting the remainder of the portfolio for free.** The current market cap is approximately $300m fully diluted. **The current cash balance is $69m which will soon rise to approx $130m as a result of recent deals.** This results in an enterprise value of $170m. Importantly, the value of the royalty streams which may commence as soon as 2013 are worth $270m combined, based on our conservative NPV assessment. This assessment is based on an iron ore price that is half current market price. In addition, the cash balance will help drive further asset monetisation and thus further enhance the investment case in our view. The cash plus the value of royalty stream totals $400m, which is 33% higher compared to the company's current market capitalisation.

We recommend IOH as a buy with a limit of $1.70 to all Members.

Snapshot IOH

Iron Ore Holdings

BC Iron has a new name effective from 6 December 2017, the company's name will be BCI Minerals Ltd. The ASX code will remain unchanged.

BCI Minerals holds a 75% interest in and operates the Nullagine iron ore mine in the Pilbara, Western Australia. The mine has a nameplate capacity of six million tonnes of iron ore per annum, all of which is exported. The mine commenced operations in October 2010 and had an initial life of mine of 8.5 years. BCI Minerals is also advancing the Bungaroo South iron ore project in the Pilbara. This project is in the advanced study stage of its development. BCI Minerals is in a 50:50 alliance with Cleveland Mining to evaluate, with an emphasis on iron ore, exploration projects in Brazil. BCI Minerals holds a 5% interest in Cleveland Mining. With the acquisition of Iron Ore Holdings in 2014, the company secured two advanced iron ore projects in the Pilbara. Iron Valley was the prized asset with a 20 year mine life and was, at the time of the acquisition, about to commence direct shipping ore shipments at an annual run rate of six million tonnes. While the Buckland project, with a mine life of 15 years is in the advanced study stage of its development.

Market Capitalisation:A$277.4m