

Iron Ore Holdings Ltd (IOH.ASX)

Satellite deal No.2 delivers another win for shareholders

Event:

- Sale of additional Central Pilbara Satellite tenements to Mineral Resources Ltd (MIN.ASX).

Details:

- Tenements sold include Phil's Creek and Lamb Creek for a total of 54.8Mt at a grade of 56.7% Fe (31.1mt contained Fe).
- Total consideration is \$42m to be paid over the next 90 business days.
- Transaction subject to low risk conditions.

Analysis:

- **Sale achieves 100% cash consideration of \$42m.** Deal announced with MIN values the 31M Fe tonnes sold at \$1.35/t for a total cash consideration of \$42m. This is another cracking deal for shareholders given the resources at Phil's Creek and Lamb Creek are smaller and of a lower quality than Koodaderi South tenement sold to RIO in recent weeks. We valued the RIO deal of \$32m in cash plus a 2% royalty at \$1.16/t contained Fe.
- **Financial close pending low risk conditions.** We view the conditions associated with the sale to be low risk, namely Ministerial consent for the transfer of the mining tenements and approval of the Phil's Creel 'Mining Proposal' on terms reasonably acceptable to MIN. Parties have 45 days to satisfy these conditions.
- **Satellite commercialisation process has delivered \$74m in cash and royalties.** IOH management continue to deliver value for shareholders with the second transaction in as many weeks. It is likely the market placed no value on the Central Satellite tenements, however the commercialisation process has so far realised \$74m in cash (\$0.45/sh) plus a royalty we value at \$41m (\$0.23/sh). Cash increases to \$112m leaving IOH well funded for the continuation of exploration, project studies and new asset opportunities.

Recommendation:

- **We reiterate our BUY recommendation with an increased price target of \$3.30/sh.**
- Our valuation has been revised to account for the cash to be received from the deal with MIN, increasing to \$112m or \$0.67/sh. Cash now represents ~50% of the current market cap.
- If we take IOH's remaining resources of 444Mt of contained Fe and apply the latest metric of \$1.35/t we derive an asset value of \$583m. Adding in the cash would give a value of \$695m, or north of \$4/sh.
- We remain confident that any future deal on either the flagship Iron Valley (259Mt) asset in the Central Pilbara or the emerging Bungaroo South (242Mt) in the West Pilbara would command a sizeable premium to the transaction metrics recently achieved. In our view, IOH's current EV multiple of just \$0.18/t contained Fe remains deeply discounted to recent deal metrics and potential transactions to follow.

Rating	BUY
Previous	BUY
Price target	\$3.30
Previous	\$3.15

Share Price	\$1.31
52 week low - high (\$)	0.85 - 2.40
Valuation (\$/share)	3.28
Methodology	DCF/In situ
Risk	High

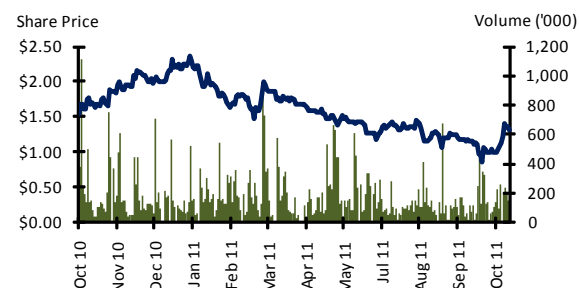
Capital Structure	
Shares on Issue (m)	166.1
Market Cap (\$m)	217.6
Net Debt/(Cash) (\$m)	-112.0
EV (\$m)	105.6
Options on issue (m)	10.6
12mth Av Daily Volume ('000)	0.0

Directors	
Hon. Richard Court AC	Chairman
Alwyn Vorster	Managing Director
Mal Randall	Non Executive Director
Ryan Stokes	Non Executive Director
Brian O'Donnell	Non Executive Director

Major Shareholders	
Wroxby Pty Ltd	50.5%
Sumisho Iron	4.2%
Directors	2.1%

Key Milestones	
Central Satellites Strategic Review	4QCY11
Iron Valley Mine PFS - Phase 2	2QCY12
Iron Valley DFS	4QCY12

Share Price Graph



Analyst	
Martin Carolan	+61 2 99938168 martin.carolan@fstock.com.au

Foster Stockbroking acted as Lead Manager & Underwriter to the \$40m rights issue conducted in May 2011 by IOH and received a fee for this service.

DEAL WITH MINERAL RESOURCES (MIN.ASX) CONTINUES REALISATION OF VALUE FOR SHAREHOLDERS

Latest deal is at a premium to the RIO transaction achieving \$1.35/t contained Fe delivering \$42m cash.

Satellite commercialisation process has delivered \$74m in cash to shareholders for assets viewed by the market as little or no value, plus future royalties.

- **Latest deal is the second in as many weeks realising value in the Central Satellites.** The previous RIO deal for the Koodaideri South tenements was for \$32m in cash plus a 2% royalty on 107Mt of resources for 62Mt of contained Fe. Our valuation on that deal, using a conservative \$62/t for 62% Fe long term iron ore price was \$1.16/t. The latest deal with MIN for 55Mt (31Mt contained Fe) has achieved \$42m in cash or \$1.35/t. We view this as another cracking deal for IOH shareholders given the resources at Phil's Creek and Lamb Creek are of a lower quality and smaller in size than Koodaideri South.
- **MIN deal continues to achieve significant premium to the value applied by the market.** The MIN deal continues the success of the company's commercialisation of the satellites and on terms that far exceed market valuations with \$74m in cash raised from the sale (plus future royalties). Many in the market believed that the company would not be able to obtain a reasonable price for the deposits given the quality and size of the resources, their limited infrastructure access and poor equity market conditions. The realisation of the healthy cash deals is a credit to the management's ability to realise value for shareholders.
- **Any deal for Iron Valley and Bungaroo South should attract a premium.** Figure 1 below outlines recent valuation metrics of Pilbara transactions. While IOH's transactions rank on the low end of the multiples, it is important to note the lower quality and small size of the resources sold. Should a deal materialise for Iron Valley and/or Bungaroo South, we would expect a transaction metric closer to previous deals given Iron Valley and Bungaroo South are both standalone projects that will deliver 15Mtpa in excess of 12 years. Such projects will command a premium to metrics achieved for the Central Satellites, in our view.

Figure 1: Recent Pilbara Transactions

Target	Aquirer	Type of Deal	Value (\$m)	Tonnes (mt)	Grade	Cont. Fe (mt)	EV\$/t
UMC NL	BHP	Acquisition	\$197	158	58.0%	92	\$ 2.15
Giralia Resources	Atlas Iron	Acquisition	\$770	398	56.1%	223	\$ 3.45
BC Iron	Fortescue	JV	\$315	51	54.1%	28	\$ 11.41
Feraus	Atlas iron	Acquisition	\$260	329	56.8%	187	\$ 1.39
Iron Ore Holdings	Rio Tinto	Asset sale	\$73	107	58.6%	63	\$ 1.16
Iron Ore Holdings	Min Res	Asset sale	\$42	55	56.0%	31	\$ 1.35

Source: FSB Research

Completion of the latest deal moves cash to \$112m within 90 days pending settlement.

- **Cashed up for the future.** The latest deal will increase the cash to \$112m within 90 days. With such a sizeable cash balance, the company will have sufficient financing in place to continue with exploration drilling across the portfolio and project studies at Iron Valley and Bungaroo South. We also expect IOH to review new business opportunities to grow the asset portfolio and/or review capital management alternatives.

VALUATION & PRICE TARGET

Risked Discounted Cash Flow (DCF) and Sum of Parts - \$579m, \$3.28/share

Price Target - \$3.30/share

Our revised risked valuation has increased to \$579m or \$3.28/sh.

- Our updated IOH price target of \$3.30/share is set broadly in line with our consolidated DCF/Sum of parts valuation of \$579m, equivalent to \$3.28/share as outlined in Figure 2 below. Our previous price target for IOH was \$3.15/share.
- Our valuation has been revised to account for the Phil's Creek and Lamb Creek transactions with an increase in cash of \$42m. We account for the cash now as we believe that conditions required to close the MIN transaction have a very low risk of non-completion. Cash increases to \$112m leaving IOH well funded for the continuation of exploration, project studies and new asset opportunities.

Figure 2: Valuation Summary

Valuation Summary	(A\$m)	P/NPV (risk)	Risked (A\$m)	Risked A\$/sh
Bungaroo South	385	0.60	231	1.31
Iron Valley	243	0.70	170	0.96
Satellite projects*	26	0.70	19	0.10
Maitland River Project	65	0.25	16	0.09
Koodaideri Royalty	41	1.00	41	0.23
Net cash/(debt)	112	1.00	112	0.63
Unpaid Capital	24	1.00	24	0.14
Corporate	-34	1.00	-34	-0.19
TOTAL NPV	862		579	\$3.28
Price Target				\$3.30
		Current Price		\$1.31
		Upside		152%

* Includes both Central and Western Satellites

Source: FSB Research

RECOMMENDATION

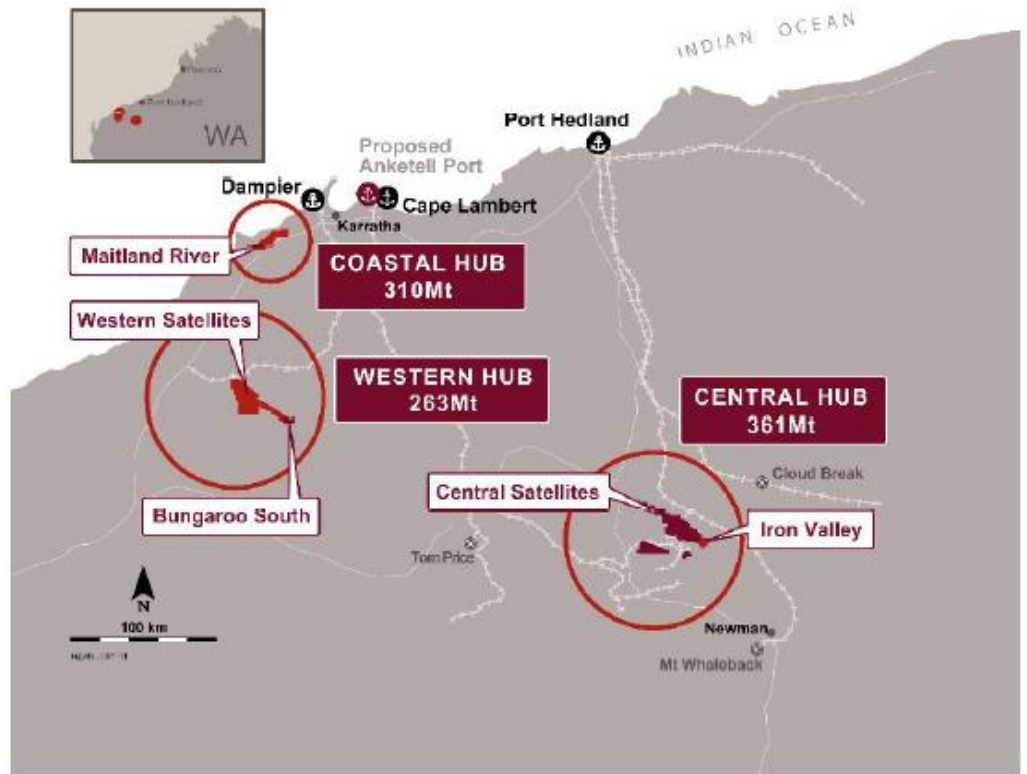
Our revised risked valuation has increased to \$579m or \$3.28/sh. IOH trades on an undemanding EV/t contained Fe of \$0.18.

- **We reiterate our BUY recommendation with an increased price target of \$3.30/sh.**
- Our valuation has been revised to account for the cash to be received from the deal with MIN, increasing to \$112m or \$0.67/sh. Cash now represents ~50% of the current market cap.
- If we take IOH's remaining resources of 444Mt of contained Fe and apply the latest metric of \$1.35/t we derive an asset value of \$583m. Adding in the cash would give a value of \$695m, or north of \$4/sh.
- We remain confident that any future deal on either the flagship Iron Valley (259Mt) asset in the Central Pilbara or the emerging Bungaroo South (242Mt) in the West Pilbara would command a sizeable premium to the transaction metrics achieve above. In our view, IOH's current EV multiple of just \$0.18/t contained Fe remains deeply discounted to recent deal metrics and potential transactions to follow.

IOH PILBARA PROJECT LOCATION & MINERAL RESOURCES

Figure 3: Pilbara Project Locations

IOH continues to progress studies on the flagship Iron Valley asset with a mine PFS due for completion mid 2012.



Source: Iron Ore Holdings

IOH MINERAL RESOURCES ACROSS 3 HUBS IN THE PILBARA

Figure 4: JORC Mineral Resources within Central, Western and Coastal Hubs

JORC Resources inventory now excludes the Phil's Creek and Lamb Creek tenements sold to MIN.

Hub	Project or Tenement	JORC Indicated Resource	JORC Inferred Resource	Fe	CaFe	SiO ₂	Al ₂ O ₃	P	LOI	Cut-off	Total
				(%)	(%)	(%)	(%)	(%)	(%)	(Fe)	
Central Pilbara	Iron Valley	216.3	42.8	58.4	63.0	5.1	3.1	0.18	7.3	50%	360.7Mt
	Phil's Creek	15.1		55.6	60.5	7.2	4.2	0.10	8.1	50%	
	Lamb Creek	15.2		60.6	64.5	4.4	2.2	0.13	6.0	50%	
	North Marillana	46.8	24.5	54.9	58.6	10.3	4.0	0.09	6.3	50%	
Western Pilbara	Bungaroo South		241.6	57.2	62.2	7.0	2.4	0.15	8.1	50%	263.1Mt
	Dragon		21.5	55.4	60.5	7.9	3.6	0.15	8.4	50%	
Coastal Pilbara	Maitland River -Magnetite		310.0	34.7	34.7	42.0	1.4	0.06	0.1	25%	310.0Mt
Total Mineral Resource		293.4	640.4	Total Resource (Indicated and Inferred)							933.8Mt

Source: Iron Ore Holdings

FOSTER STOCKBROKING DIRECTORY

Name	Department	Phone	Email
Stuart Foster	Equities Dealing	+61 2 9993 8131	stuart.foster@fostock.com.au
Kevin Massey	Equities Dealing	+61 2 9993 8130	kevin.massey@fostock.com.au
Trenton Brown	Equities Dealing	+61 2 9993 8161	trenton.brown@fostock.com.au
Alex Drysdale	Equities Dealing	+61 2 9993 8167	alex.drysdale@fostock.com.au
Tolga Dokumcu	Trade Execution	+61 2 9993 8144	tolga.dokumco@fostock.com.au
George Mourtzouhos	Trade Execution	+61 2 9993 8136	george.mourtzouhos@fostock.com.au
Martin Carolan	Equity Research Sales	+61 2 9993 8168	martin.carolan@fostock.com.au
Mark Hinsley	Equity Research Sales	+61 2 9993 8166	mark.hinsley@fostock.com.au
Craig Brown	Equities Research	+61 2 9998 8163	craig.brown@fostock.com.au
Haris Khaliqi	Equities Research	+61 2 9993 8152	haris.khaliqi@fostock.com.au

Foster Stockbroking Pty Limited

A.B.N 15 088 747 148 FSR Licence No. 223687

Level 21, 25 Bligh Street, SYDNEY, NSW 2000 Australia

Tel: +612 9221 8711 Dealing: +612 9221 8700 Fax: +612 9221 1031

Email: contact@fostock.com.au

PARTICIPANT OF ASX GROUP

Foster Stockbroking recommendation ratings: Buy = return >10%; Hold = return between -10% and 10%; Sell = return <-10%. Spec Buy = return > 20% for stock with very high risk. All other ratings are for stocks with low-to-high risk. Returns quoted are annual.

Important Notice:

Disclaimer & Disclosure of Interests. Foster Stockbroking Pty Limited has prepared this report. This document contains general securities advice only. In preparing the report, Foster Stockbroking did not take into account the specific investment objectives, financial situation or particular needs of any specific recipient. The report is published only for informational purposes and is not to be construed as a solicitation or an offer to buy or sell any securities or related financial instruments. Foster Stockbroking is not aware that a recipient intends to rely on this report and is not aware of the manner in which it will be used by the recipient. Investors must obtain personal financial advice from their investment advisor to determine whether the information contained in this report is appropriate to the investor's financial circumstances. Recipients should not regard the report as a substitute for the exercise of their own judgment. The views expressed in this report are that of the analyst named on the cover page, and no part of compensation of the analyst is directly related to inclusion of specific recommendations or views in this report. The analyst receives compensation partly based on Foster Stockbroking revenues, including any investment banking and proprietary trading revenues, as well as performance measures such as accuracy and efficacy of both recommendations and research reports. Foster Stockbroking believes that the information contained in this document is correct and that any estimates, opinions, conclusions or recommendations are reasonably held or made at the time of its compilation in an honest and fair manner that is not compromised. However, no representation or warranty is made as to the accuracy, completeness or reliability of any estimates, opinions, conclusions or recommendations (which may change without notice) or other information contained in this document and, to the maximum extent permitted by law, Foster Stockbroking disclaims all liability and responsibility for any direct or indirect loss or damage which may be suffered by any recipient through relying on anything contained in or omitted from this document. Foster Stockbroking is under no obligation to update or keep current the information contained herein and has no obligation to tell you when opinions or information in this report change. Foster Stockbroking, and its directors, officers and employees or clients may have or had interests in the securities of the instruments referred to herein, and may make purchases or sales in them as principal or agent at any time and may affect transactions which may not be consistent with the opinion set out in this report. Foster Stockbroking and its Associates state that they may earn brokerage, fees or other benefits from securities referred to in this report. Furthermore, Foster Stockbroking may have or have had a relationship with or may provide or has provided investment banking, capital markets and/or other financial services to the relevant Company.

Specific disclosure: The analyst, Foster Stockbroking and/or associated parties have beneficial ownership or other interests in securities issued by IOH at the time of this report. Diligent care has been taken by the analyst to maintain an honest and fair objectivity in writing the report and making the recommendation.

Specific disclosure: Foster Stockbroking and/or associated parties have received fees in the past 12 months for services provided to IOH in respect of the May 2011 equity capital raising.