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Iron Ore Holdings Ltd (IOH)

Strategically located DSO resources

Recommendation
Spec Buy
Price
\$1.32
Target (12 months)
\$1.86 (initiation)

Expected Return

Capital growth	41%
Dividend yield	0%
Total expected return	41%

Company Data & Ratios

Enterprise value	\$177m
Market cap	\$219m
Issued capital	166m
Free float	42.3%
Avg. daily vol. (52wk)	176,304
12 month price range	\$0.85-\$2.40
GICS sector	Materials

Price Performance

	(1m)	(3m)	(12m)
Price (A\$)	1.26	1.17	2.14
Absolute (%)	7.57	15.38	-36.95
Rel market (%)	8.52	11.28	-26.69

Absolute Price



SOURCE: IRESS

Pilbara projects close to infrastructure and the majors

IOH is an explorer and developer targeting direct shipping ore (DSO) in the Central and Western Pilbara with a strategy to de-risk and commercialise its discoveries. Resources increased to 934Mt in 2011 with upside potential from planned drill programs in FY12e and 13e. IOH has no port or rail infrastructure of its own, so options for monetising assets include production JVs with partners or asset sales.

Upside from two potential major transactions

IOH's two key assets are Iron Valley in the Central Pilbara of which FMG's Nyidinghu deposit is the extension, and Bungaroo South in the Western Pilbara which is contiguous with API's (AQA/AMCI) Buckland Hills deposit. Ideally, IOH's aim is to negotiate a production JV with the respective natural owner of each deposit, or another nearby producer with port and rail access. A successful deal on either project would be a key catalyst. However, the risks to complete these transactions are high as IOH is negotiating from a position with no infrastructure access, and the deposits are high in phosphorous which limits their attraction as blending ores.

Under the leadership of new MD Alwyn Vorster, IOH successfully completed two asset sales in 2011. A Central Pilbara tenement was sold to Rio Tinto for \$32m plus a 2% FOB royalty, and another tenement package was sold to Mineral Resources for \$42m (due to close in January 2012 which will reduce the resource base to 879Mt). On completion, the cash balance should be c.\$110m, sufficient for the FY12e and FY13e exploration and study program (\$45-65m) and other growth opportunities.

Initiating coverage with a Speculative Buy rating

IOH has one of the largest resource bases of any of the Pilbara juniors, and is one of the last not yet in play. Monetising one or both of its key assets could create further upside in the next 12 months. However, being reliant on negotiations with established players is inherently risky and we rate this investment as highly speculative. We have derived a Price Target of \$1.86/sh through a combination of risked NPV scenarios and comparative transaction multiples. IOH is currently trading at an EV/t Fe contained of \$0.38/t, but could be worth \$3.18/sh unrisks based on recent transactions.

Earnings Forecast

Year end June	2011a	2012f	2013f	2014f
Sales (A\$m)	-	-	-	-
EBITDA (A\$m)	(21)	39	(33)	(7)
NPAT (reported) (A\$m)	(21)	29	(30)	(5)
NPAT (adjusted) (A\$m)	(21)	29	(30)	(5)
EPS (adjusted) (cps)	(15)	17	(18)	(3)
EPS growth (%)	-	(216)	(205)	(84)
PER (x)	(9)	7.7	(7.4)	(46.8)
FCF Yield (%)	(10)	20	(14)	(3)
EV/EBITDA (x)	(9)	5	(5)	(27)
Dividend (cps)	-	-	-	-
Yield (%)	-	-	-	-
Franking (%)	-	-	-	-

SOURCE: BELL POTTER SECURITIES ESTIMATES

Executive Summary

Summary

IOH is focused on exploring and developing tenements within the Central and Western Pilbara area, targeting direct shipping ore (DSO). The total JORC mineral resource is 934Mt, with the majority close to existing infrastructure. IOH's strategy is to add shareholder value by commercialising these assets, either through divestment, production joint ventures, or outright production. Two successful divestments were executed in 2011. The two remaining key assets are Iron Valley, the extension of FMG's Nyidinghu discovery, and Bungaroo South, contiguous with API's Buckland Hills. FMG and API are natural owners of these respective projects. IOH also has a magnetite resource at Maitland River, a new magnetite discovery Mt Dempster, and has recently acquired the Mardie project which is prospective for hematite, magnetite and salt.

Investment Strategy – Speculative Buy, Price Target of \$1.86/sh

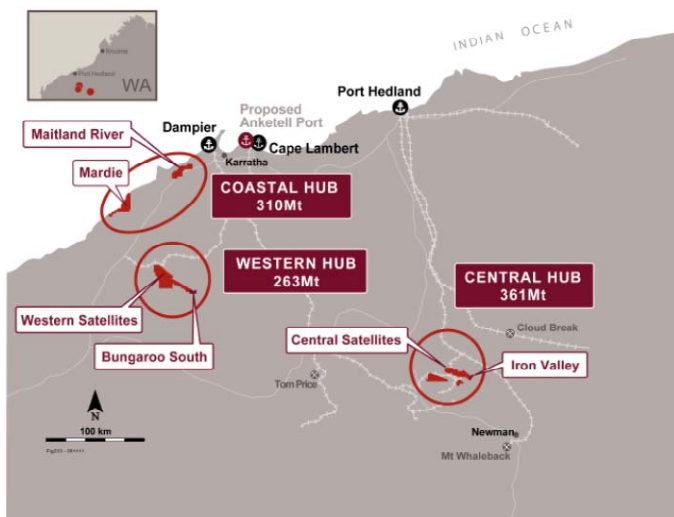
IOH is undervalued based on recent transaction multiples. However realising that value is highly speculative. IOH has no port or rail access, and therefore needs to negotiate access or a sale to generate cash from these assets. We have set a \$1.86/sh Price Target which is based on a combination of transaction multiples and risked DCF valuations.

IOH is the last independent with sizeable resources in the Pilbara not to have received a takeover offer. BCI, BRM, FMS and FRS were all in play in 2011.

Catalysts

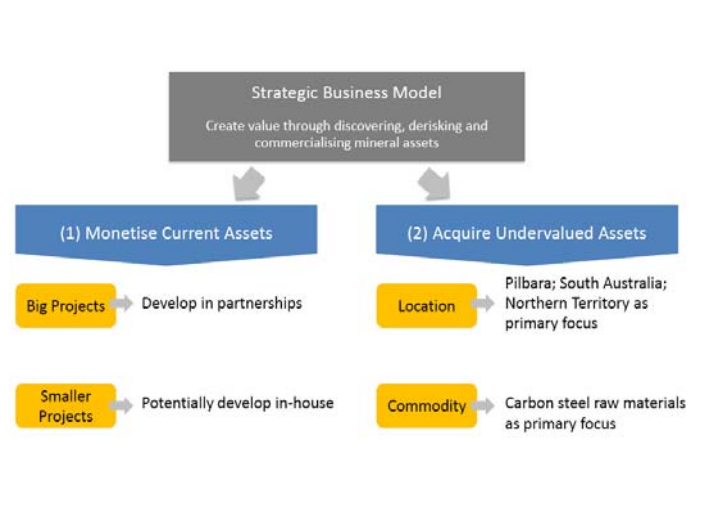
- Iron Valley Prefeasibility Study (PFS), Phase 2 – 2Q/3QCY12
- Iron Valley Definitive Feasibility Study (DFS) – CY13
- Bungaroo South PFS – 4QCY12
- Western satellites drill results and resource upgrade – 2012
- Maitland River (magnetite) drill results and resource upgrade – 2012
- Maitland River scoping study – 2012
- Mardie (magnetite) drill results – 2012
- Mt Dempster (magnetite) drill results and initial resource – 2012

Figure 1 – IOH projects



SOURCE: COMPANY DATA

Figure 2 – IOH strategy



SOURCE: COMPANY DATA

Strengths and opportunities

Large Pilbara resource base

IOH has one of the highest contained Fe hematite resource bases of the Pilbara juniors. The total JORC resource is 934Mt of which 624Mt is hematite (with 54.8Mt to be sold to MIN closing in January 2012). DSO ore is relatively high grade at 58%.

Growth of resources and new opportunities

IOH has a solid record of growing resources with an increase from 648Mt to 934Mt in CY11. There is a budget of \$45-\$65m in FY12/13 to pursue new opportunities.

Deposits strategically located next to the majors and existing infrastructure

The central and western hubs are close to existing mines and rail infrastructure. This proximity provides the opportunity for commercialisation. BHP, RIO, FMG, AGO and API all have aggressive growth aspirations, and additional resources could be required.

Successful transactions in 2011

IOH completed two transactions in 2011. The Koodaideri tenement was sold to RIO for \$32m plus a 2% FOB royalty, and a tenement package including Phil's Creek was sold to MIN for \$42m. Phil's Creek was previously the subject of a mine gate sale agreement with RIO which failed to complete in 2010.

Adequately funded for exploration and studies

Cash following the completion of the MIN transaction should be c. \$111m in January 2012. Cash will be used for further exploration and studies in FY12 and FY13.

New management has established a track record

The failure of the transactions involving Phil's Creek and Iron Valley to close with RIO in 2010 prompted a change of board and management in 2011. New MD Alwyn Vorster has considerable experience in mining, infrastructure development, and marketing. He led the negotiations for the successful 2011 transactions.

Weaknesses and Threats

No access to port or rail

Although assets are close to rail infrastructure, IOH has no rights to use it. IOH is therefore unlikely to be a developer and producer in its own right.

Timing and certainty are key risks

Lack of infrastructure means IOH is dependent on others to generate cash flow, and the timing of commercialisation is highly uncertain. FMG and API are natural owners of assets but there are limited catalysts to force a transaction.

Impurities

Iron Valley and Buckland Hills are both high in phosphorus, limiting blending options.

Management changes

Some members of the management team are on short term contracts, and change is anticipated in 2012.

Growth options are limited beyond Iron Valley and Bungaroo South

The majority of resource upside in the near term is likely to come from magnetite which is less favourable in the current market. If both key assets are divested for cash rather than a JV or royalty, IOH would become a cash box with potential upside from early stage projects.

Resources in a prime location

Substantial landholding across three Pilbara locations

IOH currently has 934Mt of resources, 624Mt of hematite, and 310Mt of magnetite, all 100% owned. Resources are located across three different regions of the Pilbara, referred to as Central, Western and Coastal. All are located within close proximity of rail solutions, either existing or proposed.

Resources have grown considerably over the past 3 years. In 2009 and 2010, resources were added for Iron Valley and Bungaroo South. In 2011 the major contribution came from the Maitland River upgrade, and there were small additions at the Central satellites, Iron Valley, and Dragon. The focus for the 2012 drilling program will be the magnetite target Mt Dempster and other satellites in the Western Pilbara, as well as Maitland River.

Figure 3 – IOH JORC Resources – December 2011

Hub	Project / Tenement	JORC	JORC	Fe	CaFe	SiO ₂	Al ₂ O ₃	P	LOI	Cut-off	Total	
		Indicated Resource	Inferred Resource									
		Mt	Mt	%	%	%	%	%	%	%	Mt	
Central Pilbara	Iron Valley	216.3	42.8	58.4	63.0	5.1	3.1	0.18	7.3	50	360.7	
	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		
				24.5	54.9	58.6	10.3	4.0	0.09	6.3		50
	North Marillana	46.8		50.0	55.8	9.5	7.7	0.05	10.4	45		
Western Pilbara	Bungaroo South		241.6	57.2	62.2	7.0	2.4	0.15	8.1	50	263.1	
	Dragon		21.5	55.4	60.5	7.9	3.6	0.15	8.4	50		
Coastal Pilbara	Maitland River - Magnetite		310	34.7	34.7	42.0	1.4	0.06	0.1	25	310.0	
Total Mineral Resource		293.4	640.4	Total Resource (Indicated and Inferred)							933.8	

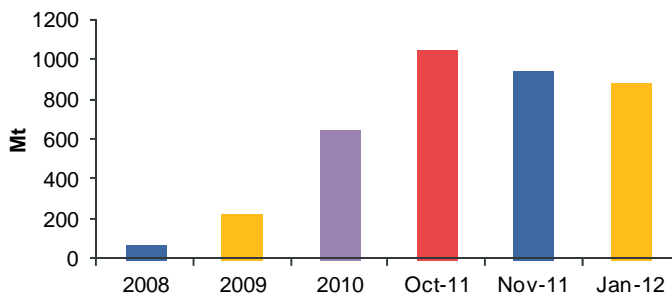
* Sold to Mineral Resources, due to close January 2012

SOURCE: COMPANY DATA

Growing tonnage profile

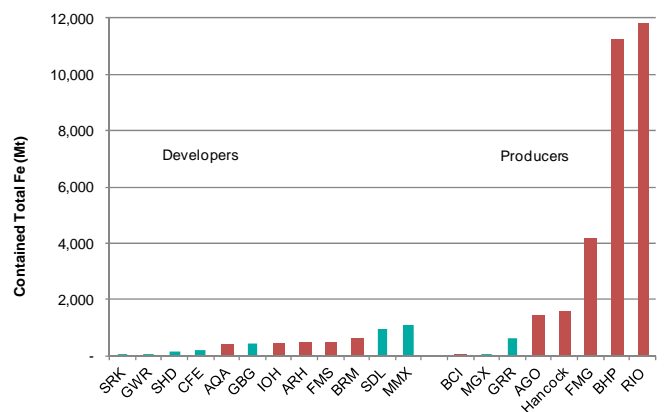
IOH has one of the largest DSO hematite resource bases of the Pilbara juniors. AGO has 1.035Bt @ 56% Fe. BRM has a large hematite resource base, although not all can be classed as DSO as Fe grades are in the 40's. The Marillana CID resource with cut-off grade of 52% is 102Mt @ 56% Fe. FMS has 917Mt @ 55%Fe. ARH is magnetite. Next is IOH with 624Mt @ 57% Fe.

Figure 4 – IOH Total Resources 2008 to Jan 2012



SOURCE: COMPANY DATA, RESOURCES ARE DUE TO DECREASE BY 54.8MT IN JANUARY 2012

Figure 5 – Total resources by company, Pilbara players in red



SOURCE: COMPANY DATA

Central Hub – strategically located

IOH's Central Pilbara Hub contains 361Mt of JORC Mineral Resources comprised of high grade Bedded Iron Deposits (BED) and Channel Iron Deposits (CID). These resources are located within a 50km radius of the existing mining operations and rail infrastructure of BHP and RIO. Other companies active in the region are FMG, BRM, Hancock and AGO. There is one core deposit, Iron Valley, surrounded by smaller satellites.

Successful divestment of four Central satellites in 2011

A strategic review of the Central Hub satellite deposits began in May 2011. IOH settled the transaction for the Koodaideri South tenement with Hamersley Iron (RIO) on 7 October 2011. The cash consideration was \$32m plus a 2% FOB royalty. On 13 October 2011, IOH announced the sale of a three satellite tenement package including South Marillana, Lamb Creek and Yandicoogina Creek to MIN. IOH is to receive \$42m cash over a 90 day period to conclude in January 2012 subject to agreed conditions. IOH is still seeking to divest the North Marillana tenement (Extension deposit) which is 3km north of BHP's Yandi mine. The deposit has a low Fe grade and is of minor value for its resource, but could have infrastructure value.

Iron Valley, the jewel of the Central Hub

The Iron Valley Project is located on the 100% owned Weeli Wolli tenement in the eastern part of the Central Hub (Figure 6). The project is within close proximity of existing infrastructure (20km from RIO's Hamersley line and 25km from BHP's Newman line), and is bordered by the tenements of FMG, RIO and BHP.

Iron Valley is IOH's largest deposit by resource, currently **259Mt @ 58.3% Fe** (indicated and inferred). It was previously the subject of an Acquisition Agreement with Hamersley Iron (RIO) which failed to close in 2010. Since that time, IOH has been seeking to create competitive tension with other potential buyers/JV partners including FMG.

The Iron Valley Project is well advanced in terms of pre-development requirements; more than 83% of the Iron Valley Mineral Resource is already in a JORC Indicated category; Native Title agreements are in place; environmental work is well progressed; and the Mining Lease has been secured.

PFS Phase 1 has been completed on the deposit with results supporting technical viability of a potential 12-15Mtpa operation for c.12-15 years. The orebody of uniform bedded Brockman Iron Ore has relatively simple geometry. The strip ratio is expected to be relatively low. PFS Phase 2, to be completed by mid 2012, will optimise mine layouts and economics, and progress long lead project development elements. Long lead DFS level activities could commence in mid 2012. Metallurgical test work has shown that alumina levels were favourable, silica and sulphur acceptable, but phosphorous was elevated.

ADJACENT TO FMG'S NYIDINGHU PROJECT

In February 2011, FMG announced the discovery of 1 billion tonnes of high grade Brockman Iron Formation at its Nyidinghu project. Nyidinghu mineralisation is contiguous with that of Iron Valley (Figure 7). Nyidinghu is 35km south of FMG's Cloudbreak operation. The resource has since been upgraded to 2.013Bt @ 57.5% Fe. The majority of the deposit is bedded iron, overlain in some areas by some channel iron deposits (CID). FMG sees Nyidinghu as offering an opportunity to extend the life of the existing Cloudbreak and Christmas Creek operations through blending. The deposit has the potential to be lower cost than Cloudbreak and Christmas Creek with a strip ratio <2:1, and sales would not be subject to the Leucadia royalty. FMG is conducting a feasibility study with a view to bringing Nyidinghu into production as soon as possible.

A sale to RIO for \$32m + royalty, and to MIN for \$42m

PFS suggested 12-15Mtpa for 12-15 years was feasible

FMG's 2Bt Nyidinghu is the extension of Iron Valley

COMMERCIALISATION POSSIBILITIES

FMG is the natural owner

The Nyidinghu project is the northern extension of the Iron Valley deposit that begins at or near surface and gently dips into the FMG tenement area. FMG is therefore the natural owner and developer of Iron Valley, which combined with Nyidinghu, has a total resource of 2.269Bt.

IOH is proposing a production JV

A joint venture structure, or a divestment for cash plus royalty, or a clean royalty, are options being proposed by IOH to nearby producers including FMG. A JV whereby IOH is a minor player would limit capex requirements but provide an ongoing cash stream. Alternatively, take or pay royalty structures are available which provide a zero risk floor with exposure to upside from production and price.

Undertaking further studies jointly has synergies

The challenge for IOH is to convince producers that Iron Valley would create synergies compelling enough for a transaction, and create some competitive tension to force a party to deal as soon as possible. IOH is well progressed with Iron Valley with a PFS already completed and a mining lease secured, and is entering a phase where further studies would be more efficiently completed by the natural owner.

However FMG has other options..

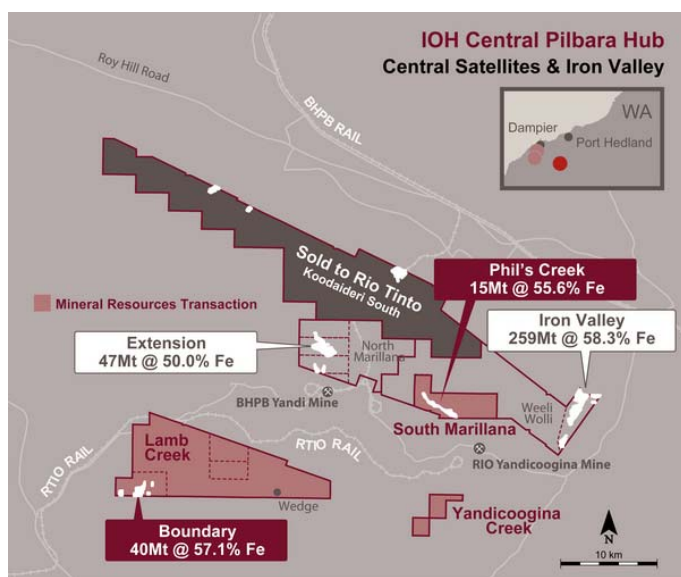
From FMG's perspective it has a large resource base and several production options, and although Nyidinghu is a high priority, and incorporating Iron Valley sooner rather than later has obvious synergies, it is not a necessity. FMG's intention is to ship Nyidinghu product from Port Hedland, but it requires the Anketell Point Port to be in place to divert Solomon ore which is currently assigned to the Port Hedland allocation. This may not be the case until 2017, so for FMG there is no rush to lock up Iron Valley.

...and Iron Valley may create an issue with blending

A further complication is that Iron Valley is high in phosphorus (0.18% compared to the Pilbara blend 0.09%). Nyidinghu is also high in phosphorus, however FMG has the opportunity to blend with other Chichester ore sources. Adding Iron Valley has the potential to make that blending more complicated.

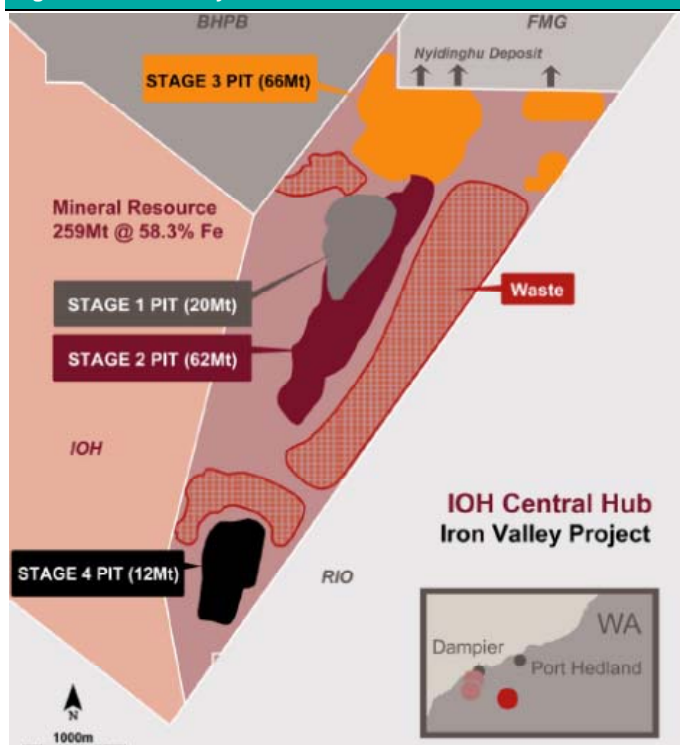
Other parties which could be interested are RIO which has looked at the deposit in the past and is in an expansion phase; BRM whose Marillana project is 20km to the north; and AGO which is expanding in the region.

Figure 6 – Central Hub



SOURCE: COMPANY DATA

Figure 7 – Iron Valley



SOURCE: COMPANY DATA

Western Hub – exposure to a growth area

The Western Pilbara Hub contains a JORC Mineral Resource of 263Mt comprising high grade Channel Iron Deposits (CID). These Resources are located 35km from the Robe River rail at Mesa J, 45km SE of Pannawonica, and 30kms from API's proposed railway to Anketell Port. There is one core deposit, Bungaroo South, a magnetite prospect Mt Dempster, and other smaller satellites.

Bungaroo South the main project

The total JORC Resource at Bungaroo South is **241.6Mt @ 57.2% Fe** consisting of CID mineralisation. A recent concept study indicated that a mine life of 15 years with peak production of 15Mtpa was conceivably possible with first production in 2015, but the study was based on Inferred Resources only. A life of mine strip ratio of 1.2:1 and a simple crush & screen process to produce a good quality fines product, could result in a relatively low cost mine compared to the average operations in the Pilbara. A PFS is currently being scoped.

ADJACENT TO API'S BUCKLAND HILLS AND BUCKLAND HILLS SOUTH EAST

The Buckland Hills CID Deposit is located in the western area of API's Mt Elvire Project (Figure 11), 30km east of the proposed railway to be constructed for the Stage 1 development of API's West Pilbara Iron Ore Project (WPIOP) (Figure 10). Mt Elvire is considered Stage 2. The resource for Buckland Hills is 149Mt @ 57% Fe and the resource for Buckland Hills South East is 46Mt @ 56.5Mt. Both are contiguous with IOH's Bungaroo South deposit (Figure 9).

COMMERCIALISATION OPTIONS

The integrated nature of Bungaroo South and Buckland Hills lends to co-development which would provide technical and financial synergies. API is the natural owner and developer given its broader WPIOP project. The combined resource is 437Mt which gives the combined deposit scale, reasonable Fe grades, but in combination would be relatively high in alumina and phosphorus. Commercialisation options being proposed by IOH are similar to the production JV and royalty options discussed above for Iron Valley. However the challenge of creating a compelling reason for another player to deal soon is similar.

A weakness of API that could be exploited by IOH is that API has aggressive growth plans which are not yet fully supported by resources. Stage 1 of the WPIOP has been permitted with mines producing up to 30Mtpa. Recent adjustments to the Anketell Port proposal sees API with 50Mtpa of capacity, but this is yet to be underwritten by resources. This was intended to come from Hardey to the south west, however the Mt. Elvire region is closer and could be more cost effective. Buckland Hills is one of the deposits in the Mt. Elvire region designated to Stage 2. Expansion to 50Mtpa may not be until 2017, but API may need additional resources soon to underpin funding requirements.

There are fewer alternative bidders for Bungaroo South. RIO's Mesa J is close by, but RIO is unlikely to want to own an asset closely integrated with an API deposit. Bungaroo South also has the issue of being high in phosphorous which limits blending potential.

Western Hub satellite deposits

Dragon (previously Ricane) has a maiden JORC Mineral Resource of **21.5Mt @ 55.4% Fe** consisting of bedded mineralisation confined to the Brockman Iron Formation and occurs at or near surface. The deposit is small and low grade and unlikely to be of interest for IOH or API to mine outright. It along with three other of the Western Hub prospects, Snake, Rabbit and Rooster, have been named to appeal to the Chinese market and could be sold as a package of small deposits.

Potential similar to Iron Valley

Contiguous with API's Buckland Hills

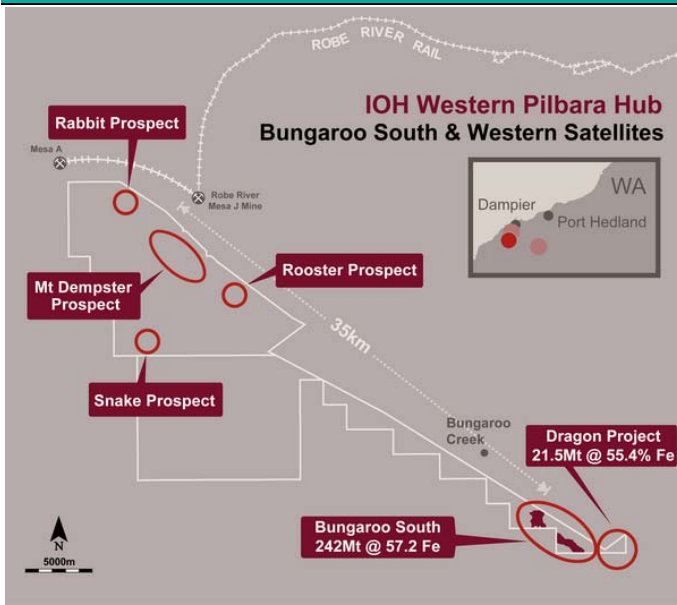
API does not yet have the resources to support 50Mtpa

Deposits are small and relatively low grade

Mt Dempster has the potential to be one of Australia's largest magnetite deposits

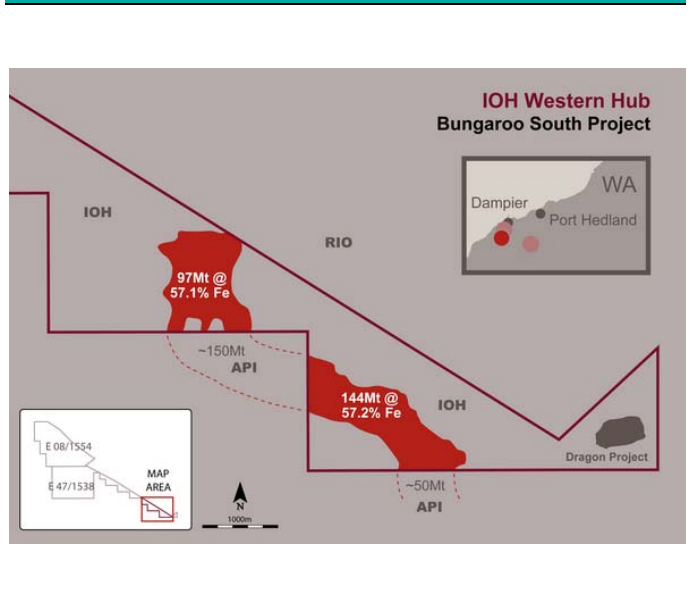
IOH recently announced a large magnetite discovery at Mt Dempster. It has the potential to be one of the largest magnetite deposits in Australia and IOH will conduct further drilling and metallurgical test work in FY12. The total Western Satellite resource base is expected to increase in 2012.

Figure 8 – Western Hub



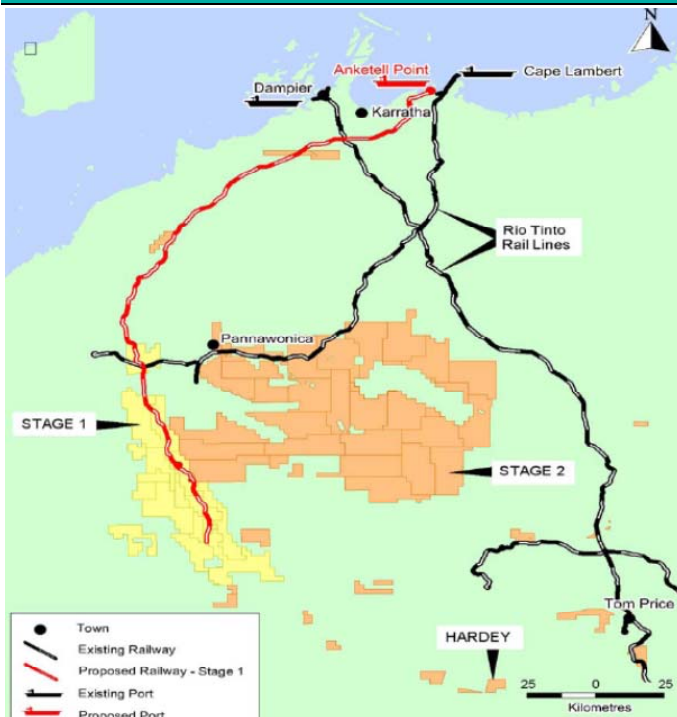
SOURCE: COMPANY DATA

Figure 9 – Bungaroo South and API's Buckland Hills



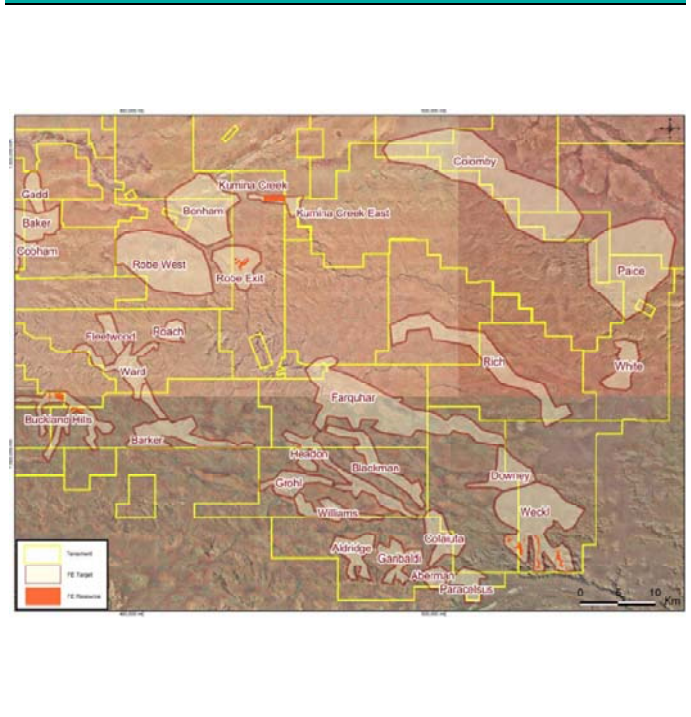
SOURCE: COMPANY DATA

Figure 10 – API's WPIOP Stage 1 and Stage 2



SOURCE: COMPANY DATA

Figure 11 – API's regional prospects at Mt Elvire– Stage 2



SOURCE: COMPANY DATA

Coastal Hub – magnetite and salt potential

The Coastal Pilbara Hub contains a JORC Mineral Resource of 310Mt at the Maitland River tenement which is located approximately 50km south west of Karratha in close proximity to the Sino Iron operations.

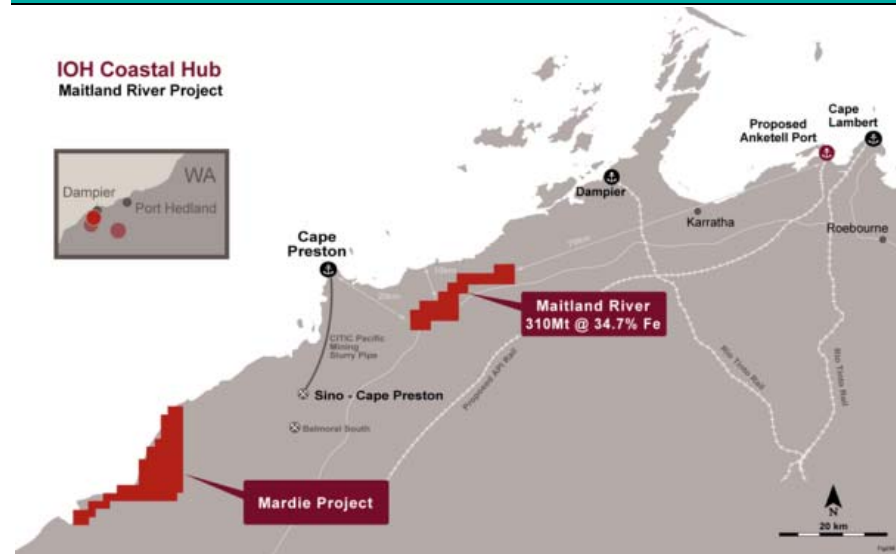
Maitland River

Maitland River deposit has a JORC Mineral Resource of 310Mt @ 34.7% Fe. It is 10km from the coast, close to the proposed Anketell Point Port, and the Balmoral deposits which are managed by Citic Pacific Mining and Australasian Resources Ltd. The resource is not yet large enough to support a high capex magnetite project. A concept study including metallurgical test work is being scoped.

Mardie

On 19 October 2011 IOH announced the acquisition of the Mardie tenement in the northwest Pilbara region from Azimuth Resources (AZH). The Mardie tenement has a 40 km coastline close to AGO's Balla Balla deposit. The tenement does not currently contain any mineral resource but presents exploration upside for both hematite and magnetite ore and has a PFS completed on a salt project. Some exploration is planned for FY12.

Figure 12 – Coastal Hub



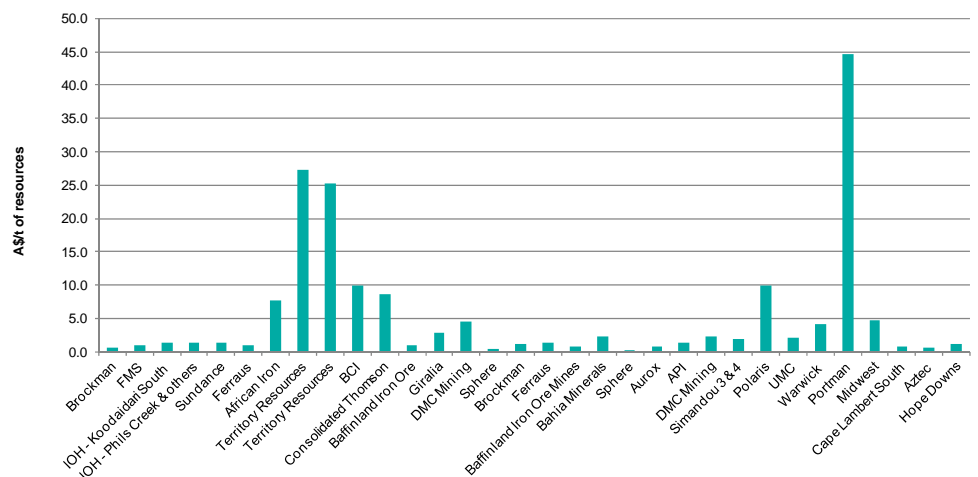
Value upside from another transaction

We have looked at recent transaction multiples and DCF valuations to assess the potential upside for IOH.

Undervalued compared to recent transactions

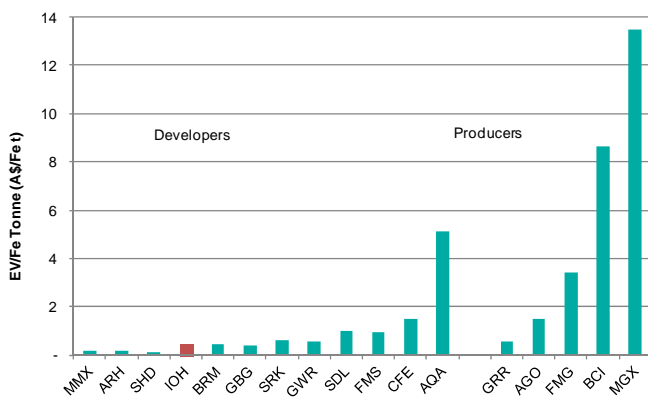
Figure 13 shows a graph of recent transactions multiples. IOH itself achieved \$1.35/t Fe contained and \$1.32/t in October 2011. Other recent transactions are at a similar level. Figure 14 shows that IOH is trading at a discount to that level based on its current resources. If we were to assume IOH could achieve \$1.33/t Fe for its hematite resources, and \$0.20 for its magnetite resources it could be worth up to \$3.18 on an unrisks sum-of-the-parts basis. However as we account for some risk to closing a transaction, our risked valuation is \$1.68/sh.

Figure 13 – Iron ore transactions by target – A\$/t contained Fe in resource



SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES, TRANSACTIONS ARE IN REVERSE CHRONOLOGICAL ORDER 12/11 TO 07/05

Figure 14 – Comparables – EV/Fe resource



SOURCE: BELL POTTER SECURITIES ESTIMATES

Figure 15 – Transaction multiple SOTP risked valuation

	Resources	Multiple	Value	Value	Weight	Risked		
	Mt	%Fe Fe Units	A\$/t Fe	\$m	\$/sh	\$/sh		
Hematite	569	57.1	325	1.33	432	2.42	50%	1.21
Magnetite	310	34.7	108	0.20	22	0.12	20%	0.02
Royalty					46	0.26	25%	0.06
Corporate					-41	-0.23	100%	-0.23
Net Cash					87	0.49	100%	0.49
Options					21	0.12	100%	0.12
Total						3.18		1.68

SOURCE: BELL POTTER SECURITIES ESTIMATES

Iron Valley and Bungaroo South DCF scenarios

Given that Iron Valley has been the subject of a PFS, and Bungaroo South a concept study, we have some idea of the key valuation parameters and we have built a DCF model for each. We have assumed a production JV scenario whereby IOH retains 25% of each asset but is free carried on the capex requirement, in exchange for infrastructure access provided by the partner. Our other assumptions are included in Figure 16. We have risked these two project DCF's at 50%, given the risks to completing a transaction. To complete a sum of the parts valuation we have used risked transaction multiples as above, or nominal values for assets without resources, as shown in Figure 17. The total SOTP risked valuation is \$2.05.

Funding position supportive of a buy-back

IOH is well funded with c.\$111m expected by end January 2012. \$45-65m has been allocated to exploration and studies in FY12 and 13, leaving sufficient for other opportunities. The board has recently deemed that the cash position can support a buy-back of up to 10% spending up to \$10m. This reinforces that they believe IOH is undervalued compared to the recent successful transactions.

Investment View – Speculative Buy rating, \$1.86 Price Target

We have used the average of the valuations from the transaction multiple and DCF methodologies as the basis of our 12 month Price Target, \$1.86. IOH is undervalued according to our analysis, however the risks are high and the upside is highly speculative, hence we have a Speculative Buy rating.

IOH has underperformed its iron ore peers over the past two years, as despite having some value accretive catalysts over that period, the market remains sceptical that a transaction with Iron Valley and Bungaroo South can be successful. There are few DSO growth options beyond Iron Valley and Bungaroo South, so if a transaction is not forthcoming in the next 12 months, catalysts will be limited to the magnetite projects.

Figure 16 – Sum of the parts DCF valuation assumptions

		Iron Valley	Bungaroo South
Production	Mtpa	15	15
Life	Years	12	12
Production Start		2017	2015
Mine Capex	A\$m	1300	1300
Production Costs	A\$/t	50	50
IOH share		25%	25%
Terms		Free carried	Free carried

SOURCE: BELL POTTER SECURITIES ESTIMATES

Figure 17 – Sum of the parts nominal value assumptions

	Mt	%Fe	Fe Units	\$/t Fe	Value \$m	Weight	Risked \$m	Risked \$/sh	Justification
Nth Marillana	46.8	50.0	23	1.33	31	5%	2	0.01	Low iron content - low value
Dragon	21.5	55.4	12	1.33	16	20%	3	0.02	Small deposit
Other Western					24	20%	5	0.03	No resources - nominal value
Mt Dempster					70	20%	14	0.08	High potential, no resources
Maitland	310	34.7	108	0.20	22	20%	4	0.02	Small for a magnetite deposit
Mardie					0	100%	0	0.00	Acquisition price
Total							28	0.16	

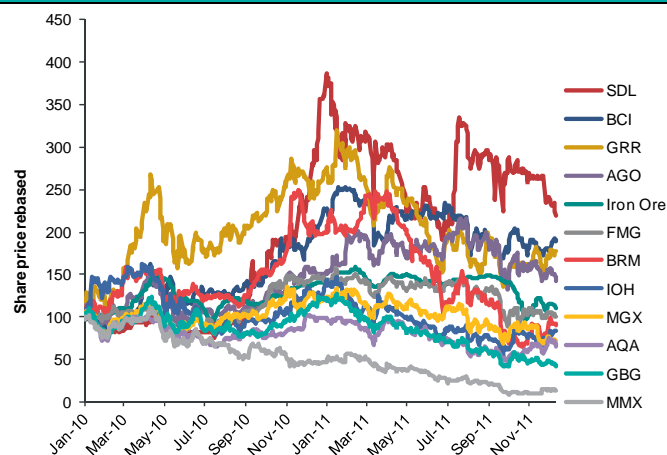
SOURCE: BELL POTTER SECURITIES ESTIMATES

Figure 18 – SOTP DCF and transaction multiple valuation

	12 month unrisked			Risked	
	A\$m	A\$/sh	Weighting	A\$m	A\$/sh
Iron Valley	274	1.54	50%	137	0.77
Bungaroo South	243	1.36	50%	121	0.68
Koodaideri Royalty	46	0.26	25%	12	0.06
Nth Marillana - Central	31	0.17	5%	2	0.01
Dragon - Western	16	0.09	20%	3	0.02
Other - Western	24	0.13	20%	5	0.03
Mt Dempster	70	0.39	20%	14	0.08
Maitland	22	0.12	20%	4	0.02
Mardie	0	0.00	100%	0	0.00
Sub Total Assets	726	4.07		298	1.67
Corporate	-41	-0.23	100%	-41	-0.23
Net Cash	87	0.49	100%	87	0.49
Options	21	0.12	100%	21	0.12
Total Equity Value	793	4.45		365	2.05

SOURCE: BELL POTTER SECURITIES ESTIMATES

Figure 19 – Iron ore stock performance



SOURCE: BLOOMBERG

Iron Ore Holdings Ltd.

Company Description

IOH owns and manages a diverse portfolio of iron ore projects within the Pilbara iron ore region of Western Australia. Since listing on the ASX in May 2005, IOH has progressed a strategy of proving up hematite and magnetite resources in its Pilbara tenements. IOH is looking to add value for shareholders through self-development, joint venture structures or divestment of these assets. The Koodaideri South tenement was recently sold to RIO, and a package of three tenements was sold to MIN. In addition to ongoing drilling, IOH is fast tracking project feasibility studies and infrastructure access options at the Iron Valley, Bungaroo South and Maitland River Projects with the aim of establishing technical and commercial development solutions for the projects. A number of new discoveries remain untested, and further exploration drilling is planned in FY12 with the aim of increasing the hematite and magnetite mineral inventory.

Investment Strategy – Speculative Buy, Price Target of \$1.86

We rate IOH a Speculative Buy with a Price Target of \$1.86/sh. IOH has a large resource base, with the two key assets Iron Valley and Bungaroo South strategically located close to existing or proposed infrastructure, and other producers with expansion plans. We classify this investment as Speculative as cash generation is dependent on agreement from other parties. IOH is unlikely to develop assets in the medium term in its own right as it has no access to infrastructure.

Valuation

We have used a combination of risk based SOTP valuations using a DCF approach and comparable transaction multiples to derive our price target. Our DCF scenarios assume that JVs are structured on Iron Valley and Bungaroo South leaving IOH with a 25% share free-carried in exchange for infrastructure access. Our risk weightings are high given that negotiations are uncertain.

We are using long term assumptions of US\$80/t for fines (2011 real FOB) and an 85¢ currency.

Shareholders

Wroxby Pty. Ltd. 50.5%, Sumisho Iron 4.2%, Directors 2.1%.

Board and Management

Directors

Hon. Richard Court AC, B.Comm, Non-Executive Chairman

Richard Court was Premier and Treasurer of Western Australia from 1993 – 2001. His Government led the LNG marketing push into new markets, the successful deregulation of the Western Australian gas markets and the successful privatisations of the SGIO, BankWest, AlintaGas, Westrail Freight and the DBNG pipeline. He was appointed Companion in the General Division of the Order of Australia in June 2003 for service to the Western Australian Parliament and to the community. Richard Court is also Chairman of Resource Investment Strategy Consultants (RISC); a Senior Adviser to KPMG; a consultant to Australian Capital Equity Pty Ltd; Director of WesTrac Holdings Pty Ltd; and, Chairman of the Channel 7 Telethon Trust. He was Non-Executive Chairman of GRD Limited until 16 November 2009 and is Chairman of National Hire Group Limited.

Alwyn Vorster BSc, MSc, MBA, Managing Director

Mr Vorster has a 25-year career in the mining industry during which he served in senior positions with global companies in both technical and commercial roles. He joined Iron Ore Holdings in late 2010 from his previous role as Director Business Development of Oakajee Port and Rail (OPR). He also acted as Chief Executive Officer of OPR for a period of five months. Prior to OPR, Alwyn was regional manager for Rio Tinto Iron Ore based in Singapore. Alwyn relocated from South Africa to Australia in the mid-1990's in a business development role with Kumba Resources. Alwyn is a current member of the Australian Institute of Company Directors (AICD) and serves on the executive committee of the Australia China Business Council (ACBC).

Malcolm Randall, Dip Applied Chem, Non-Executive Director

Mr Randall has had extensive experience in corporate, management and marketing in the resource sector including over 25 years with the Rio Tinto group of companies. His iron ore experience has included senior technical and commercial management roles in Hamersley Iron Pty Ltd and being a commercial advisor to the Hope Downs project. Mr Randall is also a current director of Thundelarra Exploration Ltd, Matilda Zircon Ltd, Royal Resources Ltd and Summit Resources Ltd. Previous Directorships: Olympia Resources Ltd (resigned 20 November 2008), Northern Mining Ltd (resigned 6 October 2008) and United Minerals Corporation NL (resigned 18 February 2010).

Brian O'Donnell B Com, FCA, Non-Executive Director

Mr O'Donnell has 25 years' experience in the finance and investment industry. He joined Australian Capital Equity (ACE) as Group Treasurer in 1996, and was appointed to the Board in 2001. Prior to joining ACE, Mr O'Donnell was employed by the Deutsche Bank Group (1991-1996), Challenge Bank (1988-1991) and Arthur Andersen (1985-1988). Among other directorships, Mr O'Donnell is currently Non-Executive Chairman of the Landfill Gas & Power Holdings Pty Ltd Group and @www Pty Ltd, a Non-Executive Director of Landis & Gyr Holdings AG and Fremantle Football Club.

Ryan Stokes B.Comm, Non-Executive Director

Mr Stokes is the CEO of Australian Capital Equity Ltd (ACE) and Executive Director of Seven Group Holdings (SGH). He has been working with ACE and Seven for the past 10 years. Prior to that, he spent 3 years working for an investment bank in New York. Mr Stokes is also Chairman of vividwireless, a Director of WesTrac, Seven Media Group (SMG), Yahoo!7, Consolidated Media Holdings (CMH), Engin (ENG), an alternate Director for Seven West Media (SWM), Director of the Perth International Arts Festival and Australian Institute of Management WA.

Management

(Acting) General Manager Finance and Corporate, Mr Bruno Seneque

Mr Seneque is a Certified Practicing Accountant with experience in executive general management, including corporate finance/accounting and administration, and company secretarial duties. Mr Seneque was employed by Fox Resources Ltd for seven years and was the Finance Director/Company Secretary (2004 - 2008), and Managing Director (2008 - 2011). Prior to joining Fox, he was the Company Secretary and Financial Controller for tantalum producer Haddington Resources Ltd. He was also previously group accountant for Titan Resources Ltd (1998 - 2002), and was employed with Ernst & Young (1996-1998).

General Manager Technical, Mr Don Best

Mr Best has over 30 years' experience in feasibility studies, engineering design and project management for major resource projects in the Pilbara region of Western Australia and internationally. The last 10 years' experience has been in managing new project studies and developments and audit review roles for various project owners, including North Ltd, and BHP Billiton. Prior to that Mr Best was with Minproc Engineers for 17 years initially as Engineering Manager and later in General Manager positions.

Chief Geologist, Mr Manohar Ghorpade

Mr Ghorpade joined IOH in 2008 and was appointed as Chief Geologist in January 2011. Mr Ghorpade has over 20 years' experience in the mining industry in senior geology and exploration roles. Prior to his IOH employment, he was responsible for identification of drilling targets, exploration supervision, interpretation of geological cross sections and resource estimation for various projects with Robe River and Pilbara Iron Ore.

Commercial Manager, Mr Christian Johnstone

Mr Johnstone has experience spanning the mining, gas and industrial sectors having previously worked for Wesfarmers Limited for over six years in its Business Development department and at its industrial gas subsidiary (Coregas) in a senior finance role. Prior to Wesfarmers, Mr Johnstone worked for KPMG Corporate Finance in Australia and Asia and KPMG in Scotland for over 10 years.

Positions of CFO, GM Business Development, and GM Projects are to be filled in January 2012.

Table 1 - Financial summary

PROFIT AND LOSS						
Year ending 30 Jun	Unit	2011a	2012f	2013f	2014f	2015f
Revenue	\$m	-	-	-	-	-
Cost of Sales	\$m	-	-	-	-	-
Other income	\$m	0	74	-	10	9
Other costs	\$m	(21)	(35)	(33)	(17)	(17)
EBITDA	\$m	(21)	39	(33)	(7)	(8)
Depreciation	\$m	(1)	-	-	-	-
EBIT	\$m	(22)	39	(33)	(7)	(8)
Net interest expense	\$m	1	2	2	2	2
PBT	\$m	(21)	41	(30)	(5)	(5)
Tax expense	\$m	-	(12)	-	-	-
NPAT from JVs	\$m	-	-	-	-	109
NPAT (reported)	\$m	(21)	29	(30)	(5)	104
NPAT attributable to MI	\$m	-	-	-	-	-
NPAT attributable to IOH	\$m	(21)	29	(30)	(5)	104
Abnormal items	\$m	-	-	-	-	-
NPAT (adjusted)	\$m	(21)	29	(30)	(5)	104

CASH FLOW						
Year ending 30 Jun	Unit	2011a	2012f	2013f	2014f	2015f
OPERATING CASHFLOW						
Receipts	\$m	-	1	-	-	-
Payments	\$m	(6)	(2)	(6)	(8)	(5)
Exploration & evaluation	\$m	(14)	(30)	(28)	(12)	(12)
Tax	\$m	-	-	-	-	-
Net interest	\$m	1	2	2	2	2
Other inc cash from JVs	\$m	(0)	74	0	11	119
Operating cash flow	\$m	(20)	45	(31)	(8)	104
INVESTING CASHFLOW						
Capex	\$m	-	-	-	-	-
Other	\$m	(0)	-	-	-	-
Investing cash flow	\$m	(0)	-	-	-	-
FINANCING CASHFLOW						
Equity proceeds	\$m	46	-	-	-	-
Debt proceeds/(repayments)	\$m	-	-	-	-	-
Dividends	\$m	-	-	-	-	-
Other	\$m	(1)	-	-	-	-
Financing cash flow	\$m	45	-	-	-	-
Change in cash	\$m	25	45	(31)	(8)	104

BALANCE SHEET						
Year ending 30 Jun	Unit	2011a	2012f	2013f	2014f	2015f
ASSETS						
Cash & short term investments	\$m	42	87	56	48	151
Accounts receivable	\$m	1	0	0	0	0
Inventory	\$m	-	-	-	-	-
Property, plant & equipment	\$m	1	1	1	1	1
Mine development	\$m	-	-	-	-	-
Capitalised Exploration	\$m	3	3	3	3	3
Other	\$m	0	0	0	0	0
Total assets	\$m	47	91	60	52	156
LIABILITIES						
Accounts payable	\$m	3	6	5	2	2
Borrowings	\$m	-	-	-	-	-
Other	\$m	0	12	12	12	12
Total liabilities	\$m	3	18	18	15	15
SHAREHOLDER'S EQUITY						
Share capital	\$m	93	93	93	93	93
Reserves	\$m	8	8	8	8	8
Retained earnings	\$m	(56)	(28)	(58)	(63)	40
Total equity	\$m	44	73	42	37	141
Weighted average shares	m	140	166	169	174	177

DCF VALUATION SENSITIVITIES						
		12 month Unrisked		Risked		% diff
		Value \$m	\$/sh	Value \$m	\$/sh	
+10% Iron ore price	Base	793	4.45	365	2.05	
-10% Iron ore price	High Fe	995	5.59	465	2.61	27%
+10% FX	Low Fe	570	3.20	255	1.43	-30%
-10% FX	High FX	599	3.37	270	1.51	-26%
Spot	Low FX	1,010	5.67	473	2.65	29%
Long Term	Spot	2,146	12.05	1,037	5.82	184%
	Long Term	508	2.85	225	1.26	-38%

FINANCIAL RATIOS						
Year ending 30 Jun	Unit	2011a	2012f	2013f	2014f	2015f
VALUATION						
Reported NPAT	\$m	(21)	29	(30)	(5)	104
Reported EPS	c/sh	(15)	17	(18)	(3)	59
Adjusted NPAT	\$m	(21)	29	(30)	(5)	104
Adjusted EPS	c/sh	(15)	17	(18)	(3)	59
PER	x	-8.9x	7.7x	-7.4x	-46.8x	2.3x
CFPS	c/sh	(14)	27	(18)	(5)	59
PCF	x	-9.6x	4.9x	-7.2x	-28.9x	2.3x
FCF Yield	%	-10%	20%	-14%	-3%	44%
DPS	c/sh	-	-	-	-	-
Yield	%	0%	0%	0%	0%	0%
EV/EBITDA	x	-8.5x	4.6x	-5.4x	-27.4x	-23.0x
PROFITABILITY RATIOS						
EPS Growth	%	-	-216%	-205%	-84%	-216%
EBITDA margin	%	0%	0%	0%	0%	0%
EBIT margin	%	0%	0%	0%	0%	0%
Return on assets	%	-	41%	-40%	-9%	100%
Return on equity	%	-47%	39%	-72%	-13%	73%
LIQUIDITY & LEVERAGE						
(Net debt) / cash	\$m	42	87	56	48	151
ND / E	%	0%	0%	0%	0%	0%
ND / (ND + E)	%	0%	0%	0%	0%	0%

EARNINGS SENSITIVITIES						
		2011a	2012f	2013f	2014f	2015f
EPS	Base	(15)	17	(18)	(3)	59
+10% Iron ore price	High Fe	(15)	17	(18)	(2)	75
-10% Iron ore price	Low Fe	(15)	17	(18)	(3)	42
+10% FX	High FX	(15)	17	(18)	(3)	44
-10% FX	Low FX	(15)	17	(18)	(2)	76
EPS Change	High Fe	0%	0%	0%	-22%	28%
	Low Fe	0%	0%	0%	22%	-28%
	High FX	0%	0%	0%	19%	-24%
	Low FX	0%	0%	0%	-24%	30%
PER	High Fe	-0.1x	0.1x	-0.1x	-0.6x	0.0x
	Low Fe	-0.1x	0.1x	-0.1x	-0.4x	0.0x
	High FX	-0.1x	0.1x	-0.1x	-0.4x	0.0x
	Low FX	-0.1x	0.1x	-0.1x	-0.6x	0.0x

ASSUMPTIONS						
Year ending 30 Jun	Unit	2011a	2012f	2013f	2014f	2015f
IRON ORE PRICES						
Fines index 62% CFR Dry	US\$/t	163	160	145	145	125
PRODUCTION						
Iron Valley - 25%	Mt	-	-	-	-	3.8
Bungaroo South - 25%	Mt	-	-	-	-	-

SOTP VALUATIONS						
DCF Valuation						
		12 month Unrisked			Risked	
		Value \$m	\$/sh	Weight	Value \$m	\$/sh
Iron Valley		274	1.54	50%	137	0.77
Bungaroo South		243	1.36	50%	121	0.68
Koodaideri Royalty		46	0.26	25%	12	0.06
Nth Murrumbidgee - Central		31	0.17	5%	2	0.01
Dragon - Western		16	0.09	20%	3	0.02
S.E. Filbara		24	0.13	20%	5	0.03
Mt Dempster		70	0.39	20%	14	0.08
Maitland		22	0.12	20%	4	0.02
Mardie		0	0.00	100%	0	0.00
Sub Total Assets		726	4.07		298	1.67
Corporate		(41)	(0.23)	100%	(41)	(0.23)
Net Cash		87	0.49	100%	87	0.49
Options		21	0.12	100%	21	0.12
Total Equity Value		793	4.45		365	2.05

Transaction Multiples Valuation						
		12 month Unrisked			Risked	
		Value \$m	\$/sh	Weight	Value \$m	\$/sh
Hematite		432	2.42	50%	216	1.21
Magnetite		22	0.12	20%	4	0.02
Royalty		46	0.26	25%	12	0.06
Corporate		(41)	(0.23)	100%	(41)	(0.23)
Net Cash		87	0.49	100%	87	0.49
Options		21	0.12	100%	21	0.12
Total		566	3.18		299	1.68

SOURCE: BELL POTTER SECURITIES ESTIMATES

Recommendation structure

Spec Buy: Expect >30% total return on a 12 month view but carries significantly higher risk than its sector

Buy: Expect >15% total return on a 12 month view

Accumulate: Expect total return between 5% and 15% on a 12 month view

Hold: Expect total return between -5% and 5% on a 12 month view

Reduce: Expect total return between -15% and -5% on a 12 month view

Sell: Expect <-15% total return on a 12 month view

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