

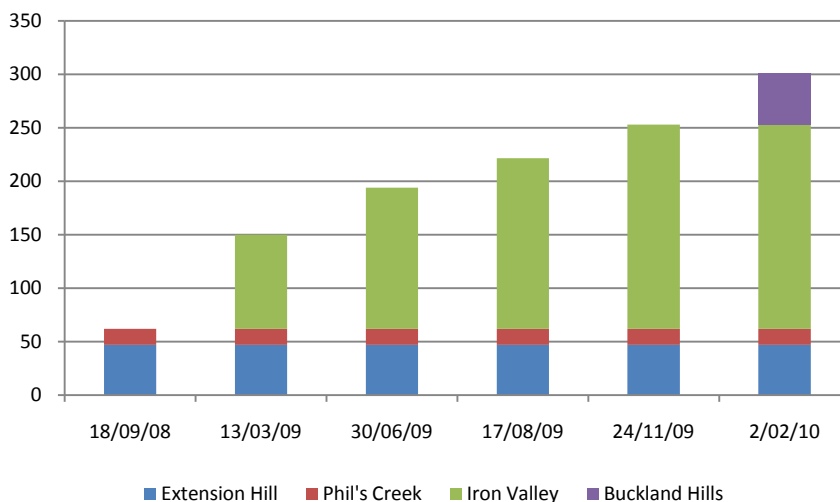
Iron Ore Holdings (IOH.ASX)

Tuesday 2 February 2010

Maiden resource at Buckland Hills – 47.9mt @ 58% Fe

Event. IOH announced a **maiden resource for Buckland Hills of 47.9mt @ 58% Fe in line with our estimate of 40-60mt in December 2009.** The Buckland Hills Resource is located 35km from established infrastructure and only 150km from the coast. Importantly, the Buckland Hills Resources increased **IOH's total Resources to more than 300mt.** A summary of the growth of IOH's resources over the last 18 months is shown below.

IOH – Resources have increased from 57mt to 301mt in 18 months (mt)



Source: Company, FSB research

Valuation. We have used BHP's bid for UMC as the key valuation matrix in determining a valuation for IOH. At \$1.30/share, the implied EV/t resource valuation for UMC is \$1.24. Applying this to IOH's 301mt, we arrive at an EV for IOH of \$373.2m and Market Cap. of \$384.3m. This implies a share price of \$3.24/share or \$2.74/share fully diluted.

However, in taking a 12 month view, we have anticipated the possible growth in IOH's resource base. We previously estimated a possible maiden resource for Buckland Hills of 40–60mt in December 2009 and believe resources at Iron Valley will continue to grow. **In any case, we estimate IOH's group resources in 12 months will be greater than 350mt. Using \$1.24/t derives a share price of \$3.70/share.**

Recommendation. We maintain our **BUY** recommendation and our price target of **\$3.50/share**. Further short term catalysts include:

- A maiden resource at Lamb Creek;
- A part or full offer for Iron Valley or the whole of IOH by RIO; &
- Positive outcomes regarding rail access at the State and Federal government levels.

Resources

Rating: **BUY**
(previous): BUY

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Share price: **\$2.17**

Price target:	\$3.50
(Previous)	\$3.50
NPV per share:	na
Risk:	High
Shares on issue (m):	118.0
Shares on issue (diluted) (m):	145.6
Free float:	100%
Average daily volume:	290,886
Market cap (\$m):	315.9
FY10 Enterprise value (\$m):	310.9
FY10 Net debt (\$m):	-5.0
FY10 Gearing (ND/ND+E):	nm
FY10 S'holders equity (\$m):	17.4
FY10 NTA per share (\$):	0.12

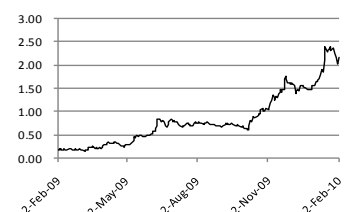
Forecast: 2010

Free cash flow (\$m):	-10.0
Return on average equity:	nm
Net interest cover:	nm

Forecast: 2011

Free cash flow (\$m):	nm
Return on average equity:	nm
Net interest cover:	nm

Share price (\$):

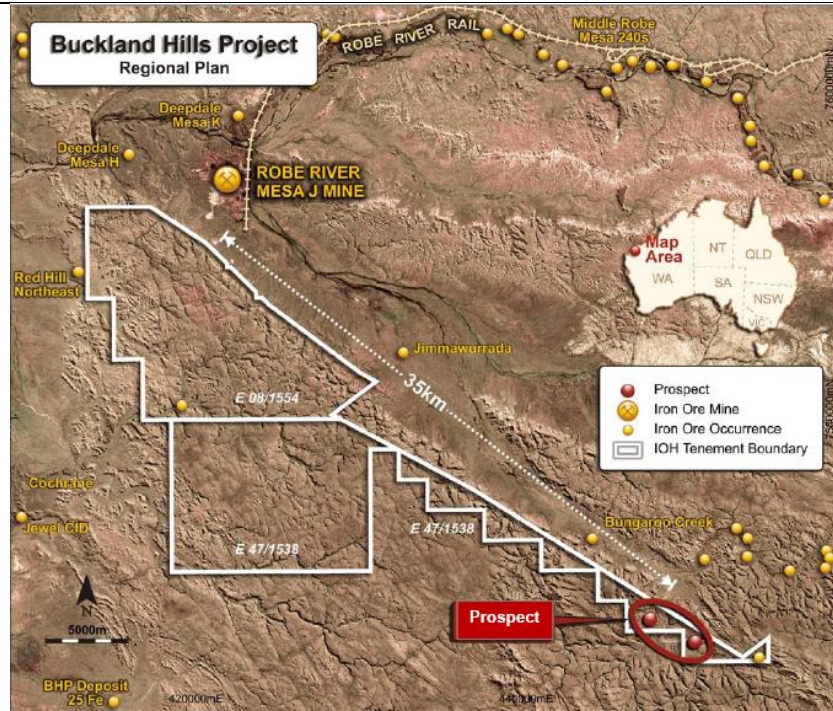


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MAIDEN RESOURCE AT BUCKLAND HILLS

Event. IOH announced a **maiden resource for Buckland Hills of 47.9mt @ 58% Fe in line with our estimate of 40-60mt in December 2009.** The Buckland Hills Resource is located 35km from established infrastructure and only 150km from the coast. Importantly, the Buckland Hills Resources increased **IOH's total Resources to more than 300mt.**

IOH – Buckland Hills location plan



Source: Company

A summary of current Resources is shown below.

IOH - Resources

Iron Valley Resources						
Classification	Mt	Fe %	SiO ₂ %	Al ₂ O ₃ %	P %	LOI %
Indicated	111.7	59.9	3.9	2.7	0.19	6.8
Inferred	79.8	58.0	5.3	3.3	0.17	7.3
Total	191.5	59.1	4.5	2.9	0.18	7.3

Phil's Creek Indicated Resources						
Various cut-off Fe	Mt	Fe %	SiO ₂ %	Al ₂ O ₃ %	P %	LOI %
+55% Fe	9.2	58.0	5.7	3.1	0.10	7.5
50 to 55% Fe	5.9	51.9	9.5	6.0	0.09	9.1
Total	15.1	55.6	7.2	4.2	0.10	8.1

Extension project Resources						
Classification	Mt	Fe %	SiO ₂ %	Al ₂ O ₃ %	P %	LOI %
Indicated	46.8	50.0	9.5	7.7	0.05	10.4
Total	46.8	50.0	9.5	7.7	0.05	10.4

Buckland Hills Resources						
Classification	Mt	Fe %	SiO ₂ %	Al ₂ O ₃ %	P %	LOI %
Inferred	47.9	58.1	6.43	2.63	0.145	7.27
Total	47.9	58.1	6.43	2.63	0.145	7.27

Group total 301.3

Source: Company, FSB research

VALUATION AND RECOMMENDATION

Valuation. We have used BHP's bid for UMC as the key valuation matrix in determining a valuation for IOH. At \$1.30/share, the implied EV/t resource valuation for UMC is \$1.24. Applying this to IOH's 301mt, we arrive at an EV for IOH of \$373.2m and Market Cap. of \$384.3m. This implies a share price of \$3.28/share or \$2.69/share fully diluted.

However, in taking a 12 month view, we have anticipated the possible growth in IOH's resource base. We previously estimated a possible maiden resource for Buckland Hills of 40–60mt in December 2009 and believe resources at Iron Valley will continue to grow. **In any case, we estimate IOH's group resources in 12 months will be greater than 350mt. Using \$1.24/t derives a share price of \$3.80/share.**

Recommendation. We maintain our BUY recommendation and our price target of \$3.50/share. Further short term catalysts include:

- A maiden resource at Lamb Creek;
- A part or full offer for Iron Valley or the whole of IOH by RIO; &
- Positive outcomes regarding rail access at the State and Federal government levels.

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