Update

Edison investment research

28 January 2010

Anglesey Mining

Year End	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
03/09	0.0	(0.8)	(0.5)	0.0	N/A	N/A
03/10e	0.0	(1.8)	(1.2)	0.0	N/A	N/A
03/11e	0.0	6.9	4.5	0.0	4.8	N/A
03/12e	0.0	13.3	8.7	0.9	2.5	4.2

Note: *PBT and EPS are normalised, excluding goodwill amortisation and exceptional items.

Investment summary: Resource grows

The acquisition of 50Mt of direct shipping iron ore from Hollinger North Shore Exploration Inc will increase the estimated resources of Labrador Iron Mines (LIM) by around 50% from 99Mt to 150Mt. It should allow LIM to increase its production rate to 6Mt pa by FY14, three years earlier than planned. It will also allow the company to reorganise its production plan by leaving Astray and Sawyer untouched for longer and by promoting Howse to Phase Two.

Phase One production extended

Since our initiation report of 1 October 2009, the resource estimate for iron ore available for Phase One has grown from c 18.5Mt to c 40Mt; this recent acquisition has helped with a further 5Mt. This allows production for Phase One at 3Mtpa to continue until around 2023, delaying the C$40m capex required to bring in the Sawyer and Astray deposits 30km away.

Howse deposit may become Phase Two

At the Howse deposit, which was planned to be part of Phase Three, the original reserve estimate of 28Mt rose to 31Mt with 3Mt from a swap with New Millennium. A further 10Mt has been added to the Howse deposit area by this recent acquisition. We believe that LIM will now bring the Howse deposit into production as soon as its cash flow from Phase One is sufficient to pay the expected $40m capital cost. On our estimates we believe that site preparation will begin in FY12 with production commencing two years later in FY14.

Valuation: Potential future P/E of c 3x

Following the delays in the granting of permission, we have reduced our production forecast for FY11 from 1.5Mt to 1.0Mt. However, due to lower tax from higher capex, our earnings estimates for FY12 have increased by C$4m. Assuming mining goes to plan, we expect LIM to report earnings of C$48m in FY12, putting it on a P/E of just 3.3x. As such, its current market value is just 33% of its potential NPV of C$479m (using a discount rate of 10%). Anglesey's 50% of LIM's earnings is worth £14m, (at C$1.71/£), for effective earnings of £13.3m or 8.7p per Anglesey share. At LIM's current share price (C$4.31), Anglesey's holding is worth £45m, or 30p per Anglesey share.

Price	21.5p
Market Cap	£33m

Share price graph

Share details

Code	AYM
Listing	FULL
Sector	Mining
Shares in issue	152.86m

Price

	High	Low
52 week	29.5p	3.13p

Balance Sheet as at 31 March 2009

Debt/Equity (%)	6.9
NAV per share (p)	16.7
Net borrowings (£m)	1.76

Business

Anglesey Mining has a 50% interest in Labrador Iron Mines, which is redeveloping a mine that operated for 28 years to 1982. Much of the development and infrastructure is in place. Anglesey also owns 100% of the Parys Mountain zinc-copper-lead deposit in North Wales.

Valuation

	2009	2010e	2011e
P/E relative	N/A	13%	5%
P/CF	N/A	N/A	2.8
EV/Sales	N/A	N/A	N/A
ROE	N/A	22%	31%

Revenues on geography

UK	Europe	Canada	Other
0%	0%	0%	0%

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Increase in production rate

A potential increase in production rate and life of mine

The acquisition of 50Mt of direct shipping iron ore (DSO) from Hollinger North Shore Exploration Inc will increase LIM's estimated resources by around 50% from 99Mt to 150Mt. It should allow LIM to increase its production rate and to lengthen its life. The ore, mainly situated in the Province of Quebec, is all located in the same general vicinity as LIM's planned DSO iron ore operations in Western Labrador. 5Mt of iron ore are located close to the planned Phase One operations, near the town of Schefferville. It is announced that a further 10Mt are in the Howse deposit area. The balance of 35Mt is 35km north of Kivivic and might well become the basis for a fourth phase.

Phase One production stretched further out

Since our initiation report of 1 October 2009, the resource estimate for iron ore available for Phase One has grown from c 18.5Mt to c 40Mt. The NI 43-101 compliant estimate for James and Redmond (both within Phase One) added 5.8Mt. The swap of resources with New Millennium Capital Corp (NMCC) added 10Mt (see our update note of 27 November 2009). This recent acquisition adds a further 5Mt. This allows production for Phase One at 3Mtpa to continue until around 2023. It also allows Phase Two (the Sawyer and Astray deposits) to be brought into production around 2023, approximately six years later than originally planned, and delays the consequent C$40m capital expenditure programme.

Exhibit 1: Current resources

Note: * Subject to approval from the Government of Quebec.

Deposit	'000t	Comment
James (Phase One)	8,100	Including an extra 4.1Mt from NI 43-101 resource estimate
Redmond (Phase One)	3.000	Including an extra 01.7Mt from NI 43-101 resource estimate
Houston (Phase One)	9,090	
Knob Lake (Phase One)	3,662	
	12,500	New Resources from New Millennium Capital Corp distributed between James, Redmond, Houston and Knob Lake
	5,000*	Acquired from Hollinger North Shore
Sawyer (Phase Two)	12,000	
Astray (Phase Two)	7,818	
Howse (Phase Three)	28,288	
	3,000	Resources from New Millennium Capital Corp from Kivivic
	10,000*	Acquired from Hollinger North Shore
Kivivic (Phase Three)	26,258	
	(13.000)	Resources given to New Millennium Capital Corp from Kivivic
Phase Four	35,000*	Acquired from Hollinger North Shore

Source: Labrador Iron Mines, Edison Investment Research

Howse deposit may become Phase Two

Meanwhile at the Howse deposit, which was planned to be part of Phase Three, the original reserve estimate of 28Mt has now risen to 41Mt. 3Mt was added by the swap of resources with NMCC and now there is a further 10Mt from this recent acquisition which is in the Howse deposit area. We believe that this figure may rise further when a NI 43-101 resource estimate is undertaken. This is due to high silica content, similar to the James and Redmond deposits. Previously these areas had been ignored by the IOCC, as they had no washing facilities to remove the unwanted silica. We believe that LIM will now bring the Howse deposit into production as soon as its cash flow from Phase One is sufficient to finance the expected $40m capital cost. On our estimates we believe that site preparation will begin in FY12 with production commencing two years later in FY14. The resources at LIM were delineated before the NI 43-101 compliance regulations were instigated so are non-compliant. Currently only resource estimates for the James and Redmond deposits are NI 43-101 compliant.

Exhibit 2: Production estimate over the early years

Note: Previous estimate in brackets.

Year to 31 March	2011e	2012e	2013e	2014e	2015e	2016e
Iron ore produced Phase I, Mt	1.0 (1.5)	2.5 (2.5)	3.00 (3.0)	3.0 (3.0)	3.0 (3.0)	3.0 (3.0)
Iron ore produced Howse, Mt				1.0	2.0	3.0
EBITDA, C$m	27.8 (40.0)	64.0 (64.0)	74.6 (75.0)	89.5 (75.0)	106.8 (79.0)	116.2 (79.0)
Capital expenditure, C$m	3.0 (3.0)	18.0 (3.0)	28.0 (3.0)	3.0 (3.0)	3.0 (3.0)	3.0 (18.0)

Source: Edison Investment Research

Because of the earlier delays in getting approval, we have reduced our production forecast in FY11 from 1.5Mt to 1.0Mt. Meanwhile, the life of the mine will be around 25 years.

Capital expenditure plans changed

With Phase One now planned to continue until 2023 and Howse expected to begin production in FY16, the need to spend C$40m for Phase Three has been put back until around 2022. However, the C$40m for Phase Two will come in FY12, around two years earlier than originally planned.

Price of iron ore

We remain confident that our figure of $62/t 63% Fe is realistic, and possibly conservative. However, any 10% change in the iron ore price would move earnings for LIM by ±20%.

Valuation figures improve

Following the delays in the granting of permission, we have reduced our production forecast for FY11 from 1.5Mt to 1.0Mt. Nevertheless on the basis of a successful execution of this plan, we forecast LIM (current price C$4.31) to report earnings for FY12 of C$48m, an increase of C$4m, due to lower tax following higher capex, putting it on a P/E of 3.3x. As such, its current market value is just 33% of its potential of C$479m (using a discount rate of 10% and assuming no residual value at the end of 15 years). Anglesey's 50% interest in these earnings will therefore amount to £13.9m (at C$1.71/£), less £0.6m annual expenses, for effective earnings of £13.3m, or 8.7p per share.

Exhibit 3: Financials

£'000s	2009	2010e	2011e	2012e
Year end 31 March	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS				
Revenue	0	0	0	0
Cost of Sales	(496)	(530)	(557)	(584)
Gross Profit	(496)	(530)	(557)	(584)
EBITDA	(496)	(530)	(557)	(584)
Operating Profit (before GW and except.)	(496)	(530)	(557)	(584)
Goodwill Amortisation	0	0	0	0
Exceptionals	698	0	0	0
Associates	(254)	(1,163)	7,555	14,037
Operating Profit	(52)	(1,693)	6,998	13,453
Net Interest	(77)	(101)	(133)	(172)
Profit Before Tax (norm)	(827)	(1,794)	6,866	13,281
Profit Before Tax (FRS 3)	(129)	(1,794)	6,866	13,281
Tax	0	0	0	0
Profit After Tax (norm)	(827)	(1,794)	6,866	13,281
Profit After Tax (FRS3)	(129)	(1,794)	6,866	13,281
Average Number of Shares Outstanding (m)	153	153	153	153
EPS - normalised (p)	(0.5)	(1.2)	4.5	8.7
EPS - FRS 3 (p)	(0.1)	(1.2)	4.5	8.7
Dividend (p)	0.0	0.0	0.0	0.9
Gross Margin (%)	N/A	N/A	N/A	N/A
EBITDA Margin (%)	N/A	N/A	N/A	N/A
Operating Margin (before GW and except.) (%)	N/A	N/A	N/A	N/A
BALANCE SHEET				
Fixed Assets	27,762	26,599	34,154	43,710
Intangible Assets	13,617	13,617	13,617	13,617
Tangible Assets	205	205	205	205
Investment in associates	13,821	12,658	20,213	29,769
Unquoted investments	120	120	120	120
Current Assets	153	3	3	1,382
Stocks	0	0	0	0
Debtors	3	3	3	3
Cash	150	0	0	1,378
Other	0	0	0	0
Current Liabilities	(609)	(984)	(1,673)	(705)
Creditors	(609)	(639)	(671)	(705)
Other creditors	0	0	0	0
Short term borrowings	0	(345)	(1,002)	0
Minority interests	0	0	0	0
Long Term Liabilities	(1,803)	(1,908)	(1,908)	(1,908)
Long term borrowings	(1,761)	(1,866)	(1,866)	(1,866)
Other long term liabilities	(42)	(42)	(42)	(42)
Net Assets	25,504	23,710	30,576	42,479
CASH FLOW				
Operating Cash Flow	(80)	(500)	(657)	3,759
Net Interest	4	5	0	0
Tax	0	0	0	0
Capex	(192)	0	0	0
Acquisitions/disposals	0	0	0	0
Financing	0	0	0	0
Dividends	0	0	0	0
Other/Divs paid	0	0	0	(1,378)
Net Cash Flow	(268)	(495)	(657)	2,380
Opening net debt/(cash)	1,258	1,610	2,211	2,868
HP finance leases initiated	0	0	0	0
Other	(85)	(106)	(0)	0
Closing net debt/(cash)	1,610	2,211	2,868	488

Source: Company accounts/Edison Investment Research