

13 September 2011

Anglesey Mining

Year End	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
03/10	0.0	(0.6)	(0.4)	0.0	N/A	N/A
03/11	0.0	(1.7)	(1.1)	0.0	N/A	N/A
03/12e	0.0	6.3	3.8	0.0	12.3	N/A
03/13e	0.0	18.1	10.9	0.0	4.3	N/A

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

Investment summary: Start up begins

Labrador Iron Mines (LIM), 33% owned by Anglesey Mining, began operations at the Silver Yards plant in June 2011. It is now operating at 7,000t per day, above the planned initial rate of 6,000t per day and should process 850,000t of ore this year to produce 580,000t of product. The company has forecast total product of between 750,000t and 1Mt being shipped to the port at Sept-Iles before winter. The balance will be met by Direct Shipping Ore (DSO). This total expected shipment of c 875,000t is lower than the earlier planned figure of around 1.4Mt, partly due to a delayed start. Also the ramp up to 10,000t per day has been slow due to problems with ultra-fine material. This should be solved with the commissioning of Phase 2 in September.

Heavy exploration programme this year

LIM is undertaking its largest ever exploration programme (14,500m of drilling), aiming to confirm and extend its resources at its Stage One and Stage Two. Ongoing exploration programmes, including trenching and air-borne geophysics, will also be completed this year. In the past this has led to substantial additions to its resources. The company is concentrating its early drilling at the Houston deposit, where it is hoping to develop a new operation to be brought into production in 2013 (FY14) at a cost of C\$50m. Production is projected at an eventual rate of 2.5-3.0Mtpa.

Iron ore price remains strong

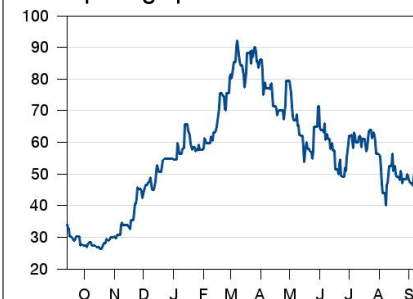
The iron ore price for Fe 65% fines is currently around US\$185/t. LIM will expect to receive a price below this level because of transport, lack of size and commission. Our forecasts are predicated upon an average iron ore price of US\$95/t. However, at US\$130/t our earnings forecasts for FY13 rise to C\$178m and £37m for LIM and Anglesey, or C\$3.31/share and 22p/share, putting them on forward earnings multiples of 2.5x and 2.1x respectively.

Valuation: Price at 59% discount to valuation of 115p

At an iron ore price of US\$95/t 65% Fe fines, LIM's NPV of C\$664m (at 10%) gives Anglesey's 33% holding a valuation of £135m (81p/share). To this has to be added our valuation for the 100% owned Parys Mountain deposit of 34p/share. Together with LIM's 81p, this values Anglesey at 115p/share, to which Anglesey's shares are currently trading at a 59% discount.

Price 46.8p
Market Cap £78m

Share price graph



Share details

Code AYM
Listing FULL
Sector Mining
Shares in issue 166.5m

Price

52 week High 92.0p Low 23.8p

Balance Sheet as at 31 March 2011

Debt/Equity (%) N/A
NAV per share (p) 21.7
Net cash (£m) 3.7

Business

Anglesey Mining (AYM) has a 33% interest in Labrador Iron Mines, following a full take-up of LIM's recent public offering. LIM is redeveloping a mine that operated for 28 years to 1982. Commercial production began in June 2011. Anglesey also owns 100% of the Parys Mountain zinc-copper-lead deposit in North Wales.

Valuation

	2011	2012e	2013e
P/E relative	N/A	113%	46%
P/CF	N/A	N/A	4.0
EV/Sales	N/A	N/A	N/A
ROE	N/A	15%	30%

Revenues by geography

	UK	Europe	US	Other
N/A	N/A	N/A	N/A	N/A

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Silver Yards commissioned

Phase One of the processing plant at Silver Yards, 1km north of the James Mine, is currently moving up from 6,000t per day, the level initially planned, to its full production target of 10,000t per day (around 2.1-2.4Mtpa). This has been slower than anticipated primarily due to a larger percentage of fine material than originally forecast. Much of this ultra-fine material passes through the screens, leading to lower than expected recovery. This should be solved with the implementation in early September 2011 of Phase Two at Silver Yards. A hydrosizer and pan filter will be installed and they are designed specifically for this problem. Planning for the Phase Three extension is well underway and is expected to be in place by mid-2012, treating between 2.6-2.8Mtpa. In FY13 this should yield around 2Mt of iron ore. Also with a density separator, a further filtering process and equipment to produce ultra fines or pellet feeds being installed, the overall recovery rate should rise to around 78-79%, from the current expected level of 75%. This project will cost C\$41m.

Difficulties leading to late production now being overcome

The company will now process 850,000t this year to produce 580,000t of product. The company has forecast total product of between 750,000t and 1Mt being shipped to the port at Sept-Iles before winter. The balance will be met by DSO. This figure, which is lower than our previous forecast of 1.45Mt, comes after a number of difficulties. These included:

- Slippage in the original plan two years ago to commence production at the Silver Yards processing plant before the end of the 2010 season. Production finally began in June 2011.
- The peaceful blockade of the facilities by the Innu (in which the company was an unwilling on-looker) was effectively a battle against both the Federal and Provincial authorities. An understanding has now been signed, though final ratification is still awaited.
- The time taken by the authorities to provide all the required permits was longer than that anticipated by the company.
- The transport facilities were hampered by the authorities deciding to order further reinforcement of the trucks. The company is now a long way through this process.
- Finally, the company has not yet completed port loading arrangements with the port authorities. For this year the company has therefore announced an Iron Ore Sale Agreement with the Iron Ore Company of Canada (IOC) for the sale and shipping of all of LIM's 2011 iron ore production. The details of this decision are confidential, but it takes away from LIM the pressure on its current negotiations with the port authorities at Sept-Iles. The company remains confident that an agreement will be reached before 2012 production commences around April.

On 6 September 2011 LIM announced that the second train had begun operating. This was a little ahead of schedule and eases the difficulties in moving ore to the port. With further carriages coming on stream, a third train may be available by the end of September. Also the production has increased by 6,000t to 7,000t per day.

It is expected that the first Cape-size vessel filled with LIM direct raitling ore will depart from Sept-Iles during the middle of September.

Heavy exploration programme this year

The company is undertaking its largest ever exploration programme of 14,500m of drilling before winter, with a view to confirming and extending resources associated with its Stage One and Stage Two developments. The company is planning to drill 14,500m before winter. Ongoing exploration programmes, including trenching and air-borne geophysics, will also be completed this year. In the past this has led to substantial additions to its resources. In February and March 2011 LIM announced a new NI 43-101 based resource estimate for the Houston deposit. This increased the resource from 9.1Mt to 22Mt. At the same time a new Denault resource estimate of 6.4Mt was 74% higher than its original 3.7Mt. Figures at the James and Redmond deposits followed a similar tale, where the move from historical resource estimates (based on figures produced by the IOC) to NI 43-101 standard showed a rise in estimated resources from 5.3Mt to 11.1Mt. These increases came partly from the inclusion of high silica ore deposits – deposits that were not used by the IOC as it had no washing facilities – and partly from land not previously covered by the IOC. In common with previous experience, we believe that resources will rise considerably when the results are known.

Houston project

The company has concentrated the early stages of its current drilling programme at Houston. It is also continuing to evaluate the development of a new separate Stage Two operation for the Houston deposit, sited at Redmond, which would be brought into production in 2013 (FY14) at a cost of C\$50m, subject to environmental assessment, permitting and detailed engineering. Production is projected at an eventual rate of 2.5-3.0Mtpa, similar to Silver Yards.

Iron ore price remains strong

The iron ore price for Fe 65% fines is currently around US\$185/t. LIM will expect to receive a price below this level because of transport, lack of size and commission. At US\$130/t, LIM would earn C\$178m, or C\$3.31/share, to give a P/E ratio of 2.4x. Anglesey would earn £37m; earnings of 22p and a P/E ratio of 2.1x. For this review, we have taken a price of US\$95/t for fines and a 15% premium for lump.

Parys Mountain

Parys Mountain in Anglesey, 100% owned, is a zinc-copper-lead project that has been on care and maintenance since 2008. However, following the rise in commodity prices, the company has begun work on the resources and development options. The review, to be completed this year, will include a re-appraisal of the White Rock project. Targeting near surface resources as a first stage development might lead to the development of the deeper lying resources. The review will also include identification of drilling targets close to White Rock to increase the near surface resources. Parys has in excess of 7Mt of historical resource at over 9% combined copper, lead and zinc.

Sensitivities and risks

The company has yet to complete port loading arrangements with the port handling authorities and further problems with the Innu are still possible as not all treaties have been ratified. A further risk is variations in the price of iron ore. A 10% move in the ore price from \$95/t 65%Fe fines would result in a $\pm 25\%$ change in earnings for both LIM and Anglesey.

Valuation: Price at 59% discount to valuation of 115p

Using our iron ore price of US\$95/t 65% Fe fines, LIM's NPV of C\$664m (at a 10% discount rate) gives Anglesey's 33% holding a valuation of £135m (81p/share). To this has to be added the valuation for the 100% owned Parys Mountain deposit of US\$95m (£57m) equivalent to 34p/share. This is based on an estimated NPV made by the management with zinc at US\$1,915/t and copper at US\$6,485/t. Together with LIM's 81p, this values Anglesey at 115p/share, to which Anglesey's shares are trading at a 59% discount.

Financials: Cash flow ramps up with production

Following net equity funding of £1.58m in 2010/11 Anglesey has net cash of around £3.7m as at 31 March 2011. From 2014 on, as production ramps up, net cash inflows will accelerate to over £20m annually (excluding any dividends).

Exhibit 1: Financials

Year end 31 March	£'000s	2009	2010	2011	2012e	2013e
		IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS						
Revenue		0	0	0	0	0
Cost of Sales		(496)	(282)	(476)	(500)	(525)
Gross Profit		(496)	(282)	(476)	(500)	(525)
EBITDA		(496)	(282)	(476)	(500)	(525)
except.)		(496)	(282)	(476)	(500)	(525)
Intangibles Amortisation		0	0	0	0	0
Exceptionals		698	8,788	295	0	0
Associates		(254)	(203)	(1,104)	6,854	18,632
Operating Profit		(52)	8,303	(1,286)	6,354	18,107
Net Interest		(77)	(99)	(160)	(15)	(29)
Profit Before Tax (norm)		(827)	(584)	(1,740)	6,340	18,078
Profit Before Tax (FRS 3)		(129)	8,204	(1,446)	6,340	18,078
Tax		0	0	0	0	0
Profit After Tax (norm)		(827)	(584)	(1,740)	6,340	18,078
Profit After Tax (FRS3)		(129)	8,204	(1,446)	6,340	18,078
Average Number of Shares Outstanding (m)		153	153	153	167	167
EPS - normalised (p)		(0.5)	(0.4)	(1.1)	3.8	10.9
EPS - FRS 3 (p)		(0.1)	5.4	(0.9)	3.8	10.9
Dividend (p)		0.0	0.0	0.0	0.0	0.0
Gross Margin (%)		N/A	N/A	N/A	N/A	N/A
EBITDA Margin (%)		N/A	N/A	N/A	N/A	N/A
Operating Margin (before GW and except.) (%)		N/A	N/A	N/A	N/A	N/A
BALANCE SHEET						
Fixed Assets		27,762	35,986	35,300	42,154	40,704
Intangible Assets		13,617	13,793	13,901	13,901	13,901
Tangible Assets		205	205	205	205	205
Investment in associates		13,821	21,868	21,073	27,927	26,478
Unquoted investments		120	121	121	121	121
Current Assets		153	2,774	3,694	3,219	22,788
Stocks		0	0	0	0	0
Debtors		3	8	22	24	25
Cash		150	2,766	3,671	3,195	22,763
Other		0	0	0	0	0
Current Liabilities		(609)	(818)	(791)	(831)	(872)
Creditors		(609)	(818)	(791)	(831)	(872)
Other creditors		0	0	0	0	0
Short term borrowings		0	0	0	0	0
Minority interests		0	0	0	0	0
Long Term Liabilities		(1,803)	(2,002)	(2,119)	(2,119)	(2,119)
Long term borrowings		(1,761)	(1,960)	(2,077)	(2,077)	(2,077)
Other long term liabilities		(42)	(42)	(42)	(42)	(42)
Net Assets		25,504	35,941	36,083	42,422	60,500
CASH FLOW						
Operating Cash Flow		(80)	(50)	(634)	(476)	19,568
Net Interest		4	0	19	0	0
Tax		0	0	0	0	0
Capex		(192)	(176)	(108)	0	0
Acquisitions/disposals		0	2,730	0	0	0
Financing		0	12	1,573	0	0
Dividends		0	0	0	0	0
Other		0	(1)	(62)	0	0
Net Cash Flow		(268)	2,515	788	(476)	19,568
Opening net debt/(cash)		1,258	1,610	(806)	(1,594)	(1,118)
HP finance leases initiated		0	0	0	0	0
Other		(85)	(99)	0	0	0
Closing net debt/(cash)		1,610	(806)	(1,594)	(1,118)	(20,686)

Source: Company accounts/Edison Investment Research

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