



Labrador Iron Mines Holdings Ltd.

LIM-TSX: \$6.55

Target Price: **\$14.25** (from \$15.50)

Recommendation: **BUY**

COMPANY BULLETIN

November 16, 2011

Price	\$6.55	Market cap. (\$mm)	\$ 353.8
Shares O/S (mm)	54.0	Net debt	(85.5)
Avg. daily vol.	257,157	Enterprise Value	\$ 268.3

	2010	2011	2012E	2013E
EPS (fully diluted)	0.03	(0.09)	(0.38)	1.24
CFPS	(0.07)	(0.08)	(0.33)	1.40
Book value / share	3.25	3.23	4.82	6.10

P/E	na	na	na	5.3
EV/EBITDA	na	na	na	2.3

Revenues	\$0.0	\$0.0	\$0.0	\$261.4
EBITDA	0.0	0.0	0.0	115.1
Net earnings	1.2	(4.0)	(20.1)	68.6

EBITDA margin	na	na	na	44.0%
Net margin	na	na	na	26.2%
Return on equity	1.0%	-2.8%	-7.8%	20.3%

Note: March 31st Fiscal Year-End; Currently in Fiscal Q3/12

	Revised Nov 15/11	Previous Sep 23/11	Change
EPS			
Q1/12a	(0.09)	(0.09)	0.000
Q2/12e	(0.13)	(0.01)	(0.119)
Q3/12e	(0.08)	0.34	(0.422)
Q4/12e	(0.08)	0.04	(0.117)
2012e	(0.38)	0.29	(0.669)
2013e	1.24	1.43	(0.264)
CFPS			
2012e	(0.33)	0.35	(0.677)
2013e	1.40	1.66	(0.264)



Labrador Iron Mines Holdings Ltd. is a mineral resource company focused on exploring, developing, and mining direct-shipping ore (DSO) from its iron ore properties in western Labrador and north-eastern Québec.

Fiscal Q2/12 results

Event

Labrador Iron Mines Holdings reported a fiscal Q2/12 loss of \$7.0 million or \$0.13 per share for the three months ending September 30, 2011, compared to a re-stated loss of \$1.2 million or \$0.03 per share in fiscal Q2/11. The fiscal Q2/12 loss was higher than our forecast of \$0.6 million or \$0.01 per share; there was no Bloomberg consensus forecast. The Company has not scheduled an investor conference call; however, we have reviewed the results with Management and have revised our estimates accordingly.

As well, we have lowered our iron ore price forecasts following the recent steep decline and moderate recovery in spot prices in the Chinese market, which has had a negative impact on our valuation and resulted in us lowering our 12-month target price to \$14.25 from \$15.50.

Impact and revision to estimates

Slightly negative. The Company's Schefferville project is still in start-up mode and has yet to declare commercial production. The higher-than-expected loss was mainly a result of a \$5.6 million charge for start-up expenses related to non-refundable transportation costs that we did not forecast. Exhibit 1 shows the variances between the reported fiscal Q2/12 results and our forecasts and the previous and year-ago quarters.

A more important consideration is the recent sell-off and subsequent partial rebound in spot iron ore prices in China, the principal market for the Company's products. Management indicated that the initial shipment of 64.8% Fe iron ore received pricing, CFR China, of US\$176 per tonne and the second shipment of 64.9% Fe received US\$124 per tonne. Management expects a third shipment to depart towards the end of November and we would expect this to be priced in the context of the current spot market at approximately US\$140 per tonne, with potential upside. Because commercial production won't likely be declared until March 31, 2012, the net revenue from these sales will be credited to capital expenditures and the Company won't record revenues, cost of sales, etc. We had already anticipated this for fiscal Q2/12 and have revised our estimates for the remainder of the fiscal year accordingly. As well, we have included the impact of our lower iron ore price forecasts as detailed below.

Management also provided guidance for the remainder of this year and next. A total of 600,000 tonnes of iron ore products is expected to be railed to the Port of Sept-Iles this year and sold to Iron Ore Company of Canada (IOC), subject to weather conditions. This is moderately below our forecast of 700,000 tonnes. However, the guidance for unit operating costs of US\$65 per tonne this year and US\$62 per tonne next year is lower than our forecast of US\$80 per tonne, which includes the marketing and other fees charged by IOC. Management doesn't quantify these charges and indicated that these are a reduction in revenue as opposed to a cost item. As such, we have revised our estimates to include a sales commission as well as lower unit cost of sales in line with guidance. Nonetheless, we believe that we had been somewhat conservative in our cost estimate, which has served as a moderate cushion to the lower-than-forecast shipments in revising our estimates. Exhibits 2 and 3 show our revised iron ore prices and financial estimates, respectively.

Exhibit 1: Income statement variances

Income Statement Variances (CAD; FYE Mar 31)	Reported Fiscal Q2/12	Octagon Fiscal Q2/12	Reported Fiscal Q1/12	Reported Fiscal Q2/11	Reported vs. Octagon Fiscal Q2/12	Reported Fiscal Q1/12 vs. Q1/12	Reported Fiscal Q1/12 vs. Q2/11
Expenses:							
Administrative	479,331	600,000	566,478	531,512	-20.1%	-15.4%	-9.8%
Corporate Expenses	0	0	0	405,511	na	na	na
Management Costs	229,522	100,000	103,525	60,773	129.5%	121.7%	277.7%
Professional Fees	133,058	50,000	26,160	44,870	166.1%	408.6%	196.5%
Director's Fees	30,000	25,000	30,750	23,000	20.0%	-2.4%	30.4%
Interest Accretion	59,696	55,000	55,827	0	8.5%	6.9%	na
Asset Retirement Accretion	16,521	20,000	18,532	10,220	-17.4%	-10.9%	61.7%
Depreciation	384,463	0	374,073	39,330	na	2.8%	877.5%
Stock-based Compensation	231,911	150,000	232,577	186,903	54.6%	-0.3%	24.1%
Startup Expenses	5,646,390	0	3,452,865	0	na	63.5%	na
Total Expenses	7,210,892	1,000,000	4,860,787	1,302,119	621.1%	48.3%	453.8%
EBIT	(7,210,892)	(1,000,000)	(4,860,787)	(1,302,119)	621.1%	48.3%	453.8%
Interest Earned	217,611	150,000	191,010	82,668	45.1%	13.9%	163.2%
Interest Expense	0	0	0	0	na	na	na
EBT	(6,993,281)	(850,000)	(4,669,777)	(1,219,451)	722.7%	49.8%	473.5%
Income Taxes Paid	0	(297,500)	0	0	na	na	na
Future Income Tax Recovery	0	0	0	0	na	na	na
Net Income (Loss)	(6,993,281)	(552,500)	(4,669,777)	(1,219,451)	1165.8%	49.8%	473.5%
Per Share							
Basic	(0.13)	(0.01)	(0.09)	(0.03)	1161.9%	40.8%	362.0%
Fully-Diluted	(0.13)	(0.01)	(0.09)	(0.03)	1161.9%	40.8%	362.0%

Source: Octagon Capital Corp., Company reports

Exhibit 2: Revised iron ore prices for LIM

	Revised Nov 15/11	Previous Sep 23/11	
Iron Ore Pricing - 65% Fe FOB Sept-Iles			
Q1/12a	144.68	144.68	0.00
Q2/12e	144.68	144.68	0.00
Q3/12e	107.98	149.92	(41.94)
Q4/12e	118.47	149.92	(31.45)
2012e	109.25	149.92	(40.67)
Q1/13e	128.95	139.44	(10.48)
Q2/13e	128.95	134.19	(5.24)
Q3/13e	128.95	139.44	(10.48)
Q4/13e	134.19	149.92	(15.73)
2013e	129.68	139.36	(9.68)
2014e	135.57	137.45	(1.88)
2015e	134.40	134.40	0.00
2016e	115.32	115.32	0.00

Source: Octagon Capital Corp.



Exhibit 3: Revised financial estimates for Labrador Iron Mines

Revisions to Estimates			
	Revised Nov 15/11	Previous Sep 23/11	
EPS			
Q1/12a	(0.09)	(0.09)	0.00
Q2/12e	(0.13)	(0.01)	(0.12)
Q3/12e	(0.08)	0.34	(0.42)
Q4/12e	(0.08)	0.04	(0.12)
2012e	(0.38)	0.29	(0.67)
Q1/13e	0.40	0.40	0.01
Q2/13e	0.43	0.38	0.05
Q3/13e	0.43	0.42	0.01
Q4/13e	(0.02)	0.23	(0.26)
2013e	1.24	1.43	(0.19)
2014e	1.79	2.14	(0.35)
2015e	2.56	2.92	(0.36)
2016e	2.16	2.49	(0.34)
CFPS			
Q1/12e	(0.08)	(0.08)	0.00
Q2/12e	(0.11)	(0.01)	(0.11)
Q3/12e	(0.07)	0.37	(0.44)
Q4/12e	(0.07)	0.05	(0.11)
2012e	(0.33)	0.35	(0.68)
Q1/13e	0.45	0.46	(0.01)
Q2/13e	0.48	0.44	0.04
Q3/13e	0.48	0.49	(0.01)
Q4/13e	0.00	0.28	(0.28)
2013e	1.40	1.66	(0.26)
2014e	2.17	2.52	(0.35)
2015e	2.98	3.33	(0.35)
2016e	2.67	3.00	(0.33)
EBITDA			
2012e	0	35,253,591	(35,253,591)
2013e	115,123,605	134,712,646	(19,589,041)
2014e	173,209,783	202,074,480	(28,864,697)
2015e	239,841,866	268,607,411	(28,765,546)
2016e	189,641,955	217,725,137	(28,083,182)
10% NAV			
2012e	11.70	13.55	(1.85)
2013e	14.32	15.49	(1.17)
2014e	16.82	18.09	(1.27)
8% NAV			
2012e	13.72	15.40	(1.68)
2013e	16.25	17.22	(0.97)
2014e	18.47	19.51	(1.04)
Gross Revenue			
2012e	0	80,883,591	(80,883,591)
2013e	261,423,605	350,694,646	(89,271,041)
2014e	429,117,283	457,981,980	(28,864,697)
2015e	546,545,366	575,310,911	(28,765,546)
2016e	533,580,455	561,663,637	(28,083,182)
Note: These are fiscal year estimates ending March 31			

Source: Octagon Capital Corp.



Valuation

We believe LIM shares are attractively valued, trading at a 54% discount to our 2012E (fiscal 2013E) 10% DCF NAVPS of \$14.32 and at 5.3x, 4.7x, and 2.8x multiples to our 2012E (fiscal 2013E) EPS, CFPS, and EV/EBITDA estimates, respectively, compared to our peer group market-cap-weighted averages of 11.4x, 7.1x, and 6.4x, respectively.

Our revised \$14.25 target price is based upon 50/50 weightings of the average of our 2012E and 2013E 10% DCF NAVPS of \$14.32 and \$16.82, respectively, and the 2012-2013 average of our comparable peer group market-cap-weighted multiples applied to our estimates for the Company. Exhibits 4-7 show our target price calculations.

Recommendation

We believe that LIM continues to offer investors attractive exposure to the global iron ore market, which is steadily recovering from the steep 30% correction last October. This year has been a start-up year for LIM, but we believe that most of the operational and logistics challenges are behind the Company.

As well, we believe that the iron ore stockpiles that have built up at the Silver Yards plant in Schefferville bode well for a robust start next spring when the plant resumes processing and the Company declares commercial production. In the interim, the Company remains well-financed and will benefit from its sales this year.

As such, we are maintaining our **BUY** recommendation and have lowered our target price to \$14.25 based on our lower iron ore price assumptions and peer group valuations.

Iron ore market update and revised prices

The recovery in iron ore prices during November has continued, with CFR spot prices in China bumping up against US\$140 per tonne on November 14, up approximately 20% since October 28, when prices bottomed after the rapid sell-off that began after the first week of September.

The sell-off was largely driven by the desire of Chinese steelmakers to force a change in the market pricing mechanism from quarterly pricing based on the trailing quarter average price to monthly pricing based on spot market prices. In effect, there was significantly reduced demand under the old pricing mechanism after prices had averaged between US\$170-US\$180 per tonne in Q3/11. As deliveries of contracted volumes were deferred by buyers in both China and Europe, producers, led by industry leader Vale SA (VALE-NYSE), were forced to sell cargoes that had already been loaded onto ships into the thin spot market in China, exacerbating the decline in spot prices.

Recent reports indicate that producers have begun switching more customers, especially in China, into monthly pricing mechanisms, which has caused Chinese spot demand to increase as steelmakers re-stock inventory. The Chinese spot market is currently tight due to this rebound in demand as well as fewer deliveries now that the global seaborne delivery chain has largely been purged of excess cargoes searching for a market. Coupled with the ongoing decline in Indian exports, the Chinese spot market appears to have at least stabilized in the near-term, with the potential to move higher towards the end of the



year. For 2012, we believe that the European debt crisis will continue to restrict growth in those markets and that the U.S. presidential elections will result in tepid U.S. economic growth as Americans await the outcome.

China should continue to drive global iron ore demand even while it strives to ramp up domestic iron ore production, which reached record levels at 127.5 million tonnes during September, up 41.8% compared to September, 2010.

Year-to-date, Chinese domestic iron ore production is up 24.5% compared to 2010, while iron ore imports are up 11.1% to the end of September. However, during October, China's reported iron ore imports were 49.9 million tonnes, as steelmakers deferred deliveries even as spot prices were rapidly declining. Chinese iron ore imports have been robust during November as inventories are re-stocked, and we expect China to continue to underpin this market as its domestic demand for steel remains strong.

Nonetheless, we have revised our iron ore price forecasts as shown in Exhibit 2 in our belief that the move towards monthly pricing mechanisms should cap prices over the near to medium term as the global economy recovers from the European debt crisis and Chinese domestic iron ore production ramps up.

Exhibit 4: Labrador Iron Mines comparables universe

Iron Ore Comparables		Nov 15/11 Closing Price (CAD)	Basic Shares O/S (MM)	Market Cap (CAD MM)	Net Debt (CAD MM)	EV (CAD MM)
Company	Symbol					
Atlas Iron Limited ¹	AGO	3.30	889.036	2,930.7	(407.3)	2,523.3
Bellzone Mining PLC ²	BZM	0.51	721.324	370.6	237.2	607.7
Gindalbie Metals Limited ¹	GBG	0.60	1,135.565	684.9	(383.0)	301.9
Grange Resources ¹	GRR	0.53	1,153.937	609.2	(179.6)	429.6
Labrador Iron Ore Royalty	LIF.UN	35.09	64.000	2,245.8	(69.2)	2,176.6
MMX Mineracao e Metalicos SA ³	MMXMY	4.00	619.761	2,476.1	244.3	2,720.3
Mount Gibson Iron Limited ¹	MGX	1.62	1,082.571	1,756.2	(353.2)	1,403.0
Northland Resources SA	NAU	1.19	226.549	269.6	(121.2)	148.4
Labrador Iron Mines⁴	LIM	6.55	54.020	353.8	(36.0)	317.8
Totals - ex-LIM				11,342.9	(1,032.1)	10,310.9
Totals - incl LIM				11,696.8	(1,068.1)	10,628.7
¹ Listed in Australia						
² Listed in London						
³ Listed in the U.S.						
⁴ LIM's 2012 and 2013 estimates are for fiscal 2013 and 2014, respectively .						
⁵ "na" indicates less than 3 analysts' estimates						

Source: Bloomberg, Octagon Capital Corp., Company reports



Exhibit 5: Consensus estimates

Iron Ore Comparables ⁵	2012E EBITDA (CAD MM)	2012E EPS (CAD)	2012E CFPS (CAD)	2013E EBITDA (CAD MM)	2013E EPS (CAD)	2013E CFPS (CAD)
Company						
Atlas Iron Limited ¹	415.8	0.32	0.42	569.7	0.41	0.55
Bellzone Mining PLC ²	125.6	0.05	na	142.5	0.07	na
Gindalbie Metals Limited ¹	39.3	0.02	(0.02)	315.9	0.12	0.24
Grange Resources ¹	249.2	0.10	0.12	220.6	0.06	0.10
Labrador Iron Ore Royalty	222.3	4.54	3.57	277.7	5.73	4.90
MMX Mineracao e Metalicos SA ³	321.5	0.23	0.40	666.2	0.44	0.64
Mount Gibson Iron Limited ¹	748.2	0.42	0.53	919.2	0.51	0.63
Northland Resources SA	(16.3)	(0.10)	(0.09)	75.5	0.06	0.16
Labrador Iron Mines⁴	115.1	1.24	1.40	173.2	1.79	2.17

¹ Listed in Australia
² Listed in London
³ Listed in the U.S.
⁴ LIM's 2012 and 2013 estimates are for fiscal 2013 and 2014, respectively .
⁵ "na" indicates less than 3 analysts' estimates

Source: Bloomberg, Octagon Capital Corp., Company reports

Exhibit 6: Labrador Iron Mines comparable forecasts

Iron Ore Comparables ⁵		2012E EV/EBITDA	2012E P/E	2012E P/CF	2013E EV/EBITDA	2013E P/E	2013E P/CF
Company							
Atlas Iron Limited ¹	AGO	6.1	10.5	7.9	4.4	8.0	6.0
Bellzone Mining PLC ²	BZM	4.8	10.7	na	4.3	7.8	na
Gindalbie Metals Limited ¹	GBG	7.7	35.5	na	1.0	4.9	2.5
Grange Resources ¹	GRR	1.7	5.3	4.6	1.9	8.5	5.6
Labrador Iron Ore Royalty	LIF.UN	9.8	7.7	9.8	7.8	6.1	7.2
MMX Mineracao e Metalicos SA ³	MMXMY	8.5	17.2	10.0	4.1	9.1	6.2
Mount Gibson Iron Limited ¹	MGX	1.9	3.9	3.1	1.5	3.2	2.6
Northland Resources SA	NAU	na	na	na	2.0	19.8	7.3
Labrador Iron Mines⁴	LIM	2.8	5.3	4.7	1.8	3.7	3.0
Mkt Cap-Weighted Averages - ex-LIM		6.4	11.4	7.1	4.2	7.2	5.5
Mkt Cap-Weighted Averages - incl LIM		6.2	11.2	7.0	4.1	7.1	5.4

¹ Listed in Australia
² Listed in London
³ Listed in the U.S.
⁴ LIM's 2012 and 2013 estimates are for fiscal 2013 and 2014, respectively .
⁵ "na" indicates less than 3 analysts' estimates

Source: Bloomberg, Octagon Capital Corp., Company reports

Exhibit 7: Target price calculation

LIM ¹ Target Price Implied By Cap-Weighted Average Multiples - ex-LIM						
		Ave. ex-LIM Multiples				
2012E EPS:	1.24	11.4	14.09			
2012E CFPS:	1.40	7.1	9.98			
2012E EV/EBITDA:	115.1	6.4	14.22			
			12.76			
2013E EPS:	1.79	7.2	12.98			
2013E CFPS:	2.17	5.5	11.98			
2013E EV/EBITDA:	173.2	4.2	14.04			
			13.00			
Target Price Weighting:	50%		12.88			
		2012E 10% DCF NAVPS:	14.32	2013E 10% DCF NAVPS:	16.82	
Target Price Weighting:	50%	Share Price:	6.55	Share Price:	6.55	
Implied Target Price:	14.23	Discount to NAVPS:	54.3%	Discount to NAVPS:	61.1%	
Target Price:	14.25					
Implied Return:	118%					

¹ LIM's 2012 and 2013 estimates are for fiscal 2013 and 2014, respectively .

Source: Bloomberg, Octagon Capital Corp., Company reports





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