

Labrador Iron Mines Holdings Ltd.

LIR : TSX : C\$5.00

BUY

Target: C\$8.75 ↑

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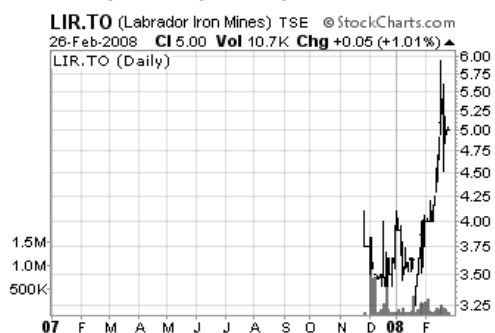
COMPANY STATISTICS:

52-week Range: C\$3.25-5.95
 Market Cap (M): C\$177.4

EARNINGS SUMMARY:

FYE Mar	2009E	2010E	2011E	2012E
Iron ore fine (US\$/tonne):	NA	92	91	70
Iron ore lump (US\$/tonne):	NA	114	113	87
Adj. fd EPS:	(0.19)	0.72	1.50	1.51
P/Adj. fd EPS (x):	NM	7.0	3.3	3.3
Oper. CFPS:	(0.14)	0.72	1.51	1.53
P/Oper. CFPS (x):	NM	6.9	3.3	3.3
Free CFPS:	(0.14)	0.72	1.50	1.52
P/FCF (x):	NM	6.9	3.3	3.3

SHARE PRICE PERFORMANCE:



COMPANY SUMMARY:

Labrador Iron Mines Holdings Ltd plans to re-activate the Schefferville iron ore project in north-western Labrador, Canada. The project includes eight separate deposits which contain historical resources of 91 million tonnes of hematite ore. Processing requirements are minimal, and transportation infrastructure is largely in place. The company expects first production in 2009.

All amounts in C\$ unless otherwise noted.

Metals and Mining – Base Metals and Minerals

INCREASING IRON ORE PRICE FORECASTS; RAISING PRICE TARGET TO C\$8.75

Event

With Vale having now announced 2008 iron ore fines contract prices +65% with 10 Asian and European steelmakers, we have increased our iron ore price forecast profile. For Labrador Iron Mines, we have increased our FY2010 (start-up) and FY2011 price forecasts by 22%, FY2012 forecasts by 12% and FY2013 and beyond forecasts by 8%. Our long-term price forecasts for Vale are 40% lower than 2008 contract prices, and roughly the same as 2007 contract prices.

Action/Valuation

We recommend investors BUY Labrador Iron Mines Holdings for exposure to continued strength in iron ore markets. We expect LIR to be in production with iron ore prices still at elevated levels. Given industry-low capital intensity of US\$22 per annual tonne, we expect payback of initial capital within the first full year of production. Our NPV valuation of C\$8.74 (up from C\$6.81) is based on a 10% discount rate. Following its December 2007 IPO, Labrador Iron Mines is in our view fully financed. Based on a 5-6x multiple of forecast earnings and operating cash flow, we see the potential for a C\$11.00-12.00 price range on a two- to four-year view.

Investment risks

In addition to the usual mining industry risks, we highlight: i) permitting risks, with end-2008 probably the critical time for construction permits – should start-up be delayed one year, our NPV10 would be down about 21% to C\$6.88 and ii) resources and reserves risks, as LIR's resources are not yet NI 43-101 compliant.

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Figure 1: Labrador Iron Mines' financial summary, FYE March

Table 1: Financial summary, FYE Mar	26-Feb	2008E	2009E	2010E	2011E	2012E	2013E	2014E
Sales revenue	<i>C\$million</i>	-	-	77.6	157.7	186.4	173.2	173.2
Operating expenses	<i>C\$million</i>	3.8	7.3	30.1	58.9	89.2	106.3	105.6
EBITDA	<i>C\$million</i>	(3.8)	(11.3)	47.5	98.8	97.2	66.9	67.7
Net income								
Net earnings	<i>C\$million</i>	(3.1)	(6.6)	33.1	69.2	69.8	50.4	51.7
EPS (basic)	<i>C\$ps</i>	(0.17)	(0.19)	0.93	1.95	1.97	1.42	1.46
EPS (diluted)	<i>C\$ps</i>	(0.17)	(0.19)	0.72	1.50	1.51	1.09	1.12
Shares on issue - diluted	<i>million</i>		46.3	46.3	46.3	46.3	46.3	46.3
Cash	<i>C\$million</i>	42.9	28.7	39.7	109.3	179.9	208.7	253.9
Net debt (cash)	<i>C\$million</i>	(42.9)	(28.7)	(39.7)	(109.3)	(179.9)	(208.7)	(253.9)
Capex	<i>C\$million</i>	(0.0)	7.5	22.6	0.4	0.4	22.9	7.9
Cash flow from operations	<i>C\$million</i>	1.1	(6.6)	33.4	69.6	70.6	51.4	52.7
CFPS (diluted)	<i>C\$ps</i>	0.05	(0.14)	0.72	1.51	1.53	1.12	1.15
Table 2 : Key input variables		2008E	2009E	2010E	2011E	2012E	2013E	2014E
Production fines ore	<i>million dry tonnes</i>	-	-	0.6	1.3	1.9	2.2	2.2
Production lump ore	<i>million dry tonnes</i>	-	-	0.2	0.3	0.5	0.6	0.6
Total product production	<i>million dry tonnes</i>	-	-	0.8	1.6	2.4	2.8	2.8
Fines sales	<i>million dry tonnes</i>	-	-	0.6	1.3	1.9	2.2	2.2
Lump sales	<i>million dry tonnes</i>	-	-	0.2	0.3	0.5	0.6	0.6
Total product sales	<i>million dry tonnes</i>	-	-	0.8	1.6	2.4	2.8	2.8
Fines price (per Fe%)	<i>UScents/dmtu</i>			143.4	142.0	109.0	84.4	84.4
Lump price (per Fe%)	<i>UScents/dmtu</i>			180.9	179.1	137.4	106.5	106.5
Fines price (per tonne)	<i>US\$/tonne</i>			91.8	90.9	69.7	54.0	54.0
Lump price (per tonne)	<i>US\$/tonne</i>			113.9	112.8	86.6	67.1	67.1
Average product price	<i>US\$/tonne</i>			96.2	95.3	73.1	56.7	56.7
Total operating costs (per ton dry con)	<i>C\$/dry tonne sold</i>			32.13	32.35	32.41	32.52	32.52
C\$/US\$ exchange rate				0.97	0.94	0.92	0.90	0.90

Source: Company reports, Canaccord Adams' estimates

2008 IRON ORE PRICE SETTLEMENTS

Vale (previously known as CVRD) has now announced 2008 iron ore fines contract prices with a total of 10 Japanese, Korean, European and Chinese steelmakers. For Asian customers, Southern System fines has been settled +65% at US\$1.1898 per iron unit and Carajas fines has been settled +71% at US\$1.2517 per iron unit, FOB Brazil. For European customers, Southern System fines has been settled +65% at US\$1.3441 per iron unit and Carajas fines has been settled +66% at US\$1.4060 per iron unit, FOB Brazil. Iron ore lump contract prices have not yet been settled. However, we are assuming +71%. We were assuming +30% for all Vale's 2008 iron ore contract prices.

Specifically for Labrador Iron Mines, with its mixture of lump and fines ore, we are benchmarking our prices against Vale's Carajas or Northern System lump and fines prices. Given a relative shipping freight advantage, Canadian iron ore concentrate exports sell at a small premium to Vale's fines prices, and since 2004 this premium has been 5-7% over Southern System prices and 1-3% over Carajas prices. For Labrador Iron Mines, we are forecasting this premium to close completely by 2011, from 2% during the start-up year of 2009.

Our unit price summary is presented in Figure 2, and our new versus old forecast prices for Labrador Iron Mines are presented as Figure 3.

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Our long-term price forecasts for Vale are roughly 40% below 2008 contract prices and roughly the same as 2007 contract prices. Our long-term price forecasts are roughly 3 times the 1993-2003 averages for iron ore fines and concentrates, and for iron ore lump. Conceptually, our long-term iron ore fines price forecast is based on capital intensity of US\$100 per annual tonne, a US\$26/t operating cost, capital recovery over 10 years, and a 15% required rate of return (i.e., $US\$100 \text{ pat } x (10\% + 15\%) + US\$26/t = US\$51/t$). Our capital intensity and operating cost assumptions are based on actual and forecast costs of existing and emerging producers.

For Labrador Iron Mines, we have increased our long-term average iron ore price assumption from US\$52 per dry tonne of ore to US\$57/t.

Figure 2: Iron ore price history, and our assumptions, by Asian contract year.

		2003	2004	2005	2006	2007	2008E	2009E	2010E	2011E	2012	2013E & LT
Vale southern sinter feed to Europe	US\$/dmt of Fe	31.04	36.45	62.51	74.39	81.46	134.41	134.41	134.41	104.17	80.73	80.73
Vale northern sinter feed to Europe	US\$/dmt of Fe	31.95	37.90	65.00	77.35	84.70	140.60	140.60	140.60	108.97	84.45	84.45
Vale northern lump to Europe	US\$/dmt of Fe	37.36	44.46	79.58	94.70	103.70	177.32	177.32	177.32	137.42	106.50	106.50
change in fines price	%						66%	0%	0%	-22.5%	-22.5%	0%
change in lump price	%						71%	0%	0%	-22.5%	-22.5%	0%
IOC / QCM benchmark concentrate price	US\$/dmt of Fe	31.75	38.87	66.71	78.25	86.40						
LIR fines price assumption	US\$/dmt of Fe							143.41	142.01	108.97	84.45	84.45
LIR lump price assumption	US\$/dmt of Fe							180.87	179.09	137.42	106.50	106.50
Average LIR received price	US\$/dry tonne							96.22	95.27	73.11	56.66	56.66

Source: Vale, TEX Report, Canaccord Adams estimates

Figure 3: Our Labrador Iron Mines average iron ore price assumptions, in Asian contract years (April-March) 2009-2013 (US\$/dmt of iron ore lump and fines)

Avg iron ore price (US\$/t)	Iron Ore Year (iron ore year 2009 - LIR FY 2010)				
	2009E	2010E	2011E	2012E	2013E
New	96	95	73	57	57
Old	79	78	65	52	52
% Change	22%	22%	12%	8%	8%
New - YoY % Change		-1%	-23%	-23%	0%
Old - YoY % Change		-1%	-16%	-20%	0%

Source: Canaccord Adams' estimates

OUR FORECAST CHANGES

Our new F2009-2011 adjusted EPS forecasts are as follows:

- F2009 – diluted EPS of (C\$0.19), down from previous (C\$0.17); (F2009 is the year ending March 2009)
- F2010 – diluted EPS of C\$0.72, up from previous C\$0.49
- F2011 – diluted EPS of C\$1.50, up from previous C\$1.02

Our new F2009-2011 operating cash flow before capex estimates are as follows:

- F2009 – (C\$0.14), down from previous (C\$0.13)

- F2010 – C\$0.72, up from previous C\$0.50
- F2011 – C\$1.51, up from previous C\$1.04

VALUATION

Our new NPV10 is C\$8.74 (up from C\$6.81). We are maintaining our BUY rating with an increased 12-month target price of C\$8.75 (up from C\$7.00), based on the NPV10.

Given the variability of iron ore assets and the lack of comparable direct-shipping companies once LIM Holdings is in production, we are not using comparable P/E or P/CF multiples to determine our valuation. However, we present Figure 4 as an example of potential multiple valuation. F2010 (which is April 2009 to March 2010) and F2011 are based on peak iron ore price forecasts. However, F2012 and F2013 are based on progressively lower iron ore price forecasts, and as such F2011 and F2012 earnings and cash flows would be expected to be valued at progressively higher multiples.

Based on 4x our forecast F2010 and F2011 earnings and operating cash flows, (using the same multiple for both, as depreciation charges should be extremely low), or 5x for F2012 and 6x F2013 and beyond, plus net cash, we can foresee a share price in the range of C\$11.00-12.00 on a two- to four-year view. (We note here that, as we are assuming earnings and cash flows will be fully taxed from the outset, a case could be made for using higher multiples for valuation.)

Figure 4: LIR's potential multiple valuation

Multiple valuation	FYE March	2008E	2009E	2010E	2011E	2012E	2013E	2014E
EPS		(0.17)	(0.19)	0.72	1.50	1.51	1.09	1.12
...at a multiple of				4.0	4.0	5.0	6.0	6.0
P/E valuation is				2.86	5.98	7.54	6.53	6.70
CFPS		0.05	(0.14)	0.72	1.51	1.53	1.12	1.15
...at a multiple of				4.0	4.0	5.0	6.0	6.0
P/CF valuation is				2.89	6.05	7.66	6.71	6.88
Average valuation				2.88	6.02	7.60	6.62	6.79
net cash per share, start of year			0.93	0.62	0.86	2.36	3.88	4.51
plus cash from warrants & options				1.08	1.08	1.08	1.08	1.08
multiple valuation plus the cash				4.58	7.95	11.04	11.58	12.38

Source: Canaccord Adams estimates

Investment risks

There are risks associated with the share price achieving our target price and our financial forecasts. Metals prices may not match our forecasts, and exchange rate fluctuations may impact company earnings. Further, there are operating risks involved in all mining operations. Technical, environmental, regulatory and political risks can all impact financial estimates and valuation.

Figure 5: Labrador Iron Mines – Key financial forecasts and ratios

Labrador Iron Mines	LIR.CN				FY end-March
Profit & Loss					
In CAD '000s unless otherwise stated					
Year to March	2008E	2009E	2010E	2011E	2012E
Sales Revenue	-	-	77,586	157,693	186,409
Other income	-	-	-	-	-
Gross costs	3,757	7,250	30,086	58,896	89,188
EBITDA	(3,757)	(11,250)	47,500	98,797	97,221
Deprec'n & Amort'n	-	-	393	786	1,179
EBIT	(3,757)	(11,250)	47,106	98,011	96,042
Net Interest	567	1,588	1,236	3,072	5,866
Profit Before Tax	(3,191)	(9,662)	48,342	101,083	101,907
Income Tax	(103)	(3,044)	15,228	31,841	32,101
Minorities	-	-	-	-	-
Adjusted (core) net income	(3,087)	(10,215)	32,429	68,557	69,121
EPS	(0.17)	(0.19)	0.93	1.95	1.97
Diluted EPS	(0.17)	(0.19)	0.72	1.50	1.51
Dividend per share	-	-	-	-	-
Exceptional profit after tax	-	3,596	685	685	685
Reported profit after tax	(3,087)	(6,619)	33,114	69,242	69,806

Source: Company data, Canaccord Adams estimates

Cash Flow, proforma					
In CAD '000s unless otherwise stated					
Year to March	2008E	2009E	2010E	2011E	2012E
Cashflow from operations	(3,757)	(11,250)	47,500	98,797	97,221
Net dividends from investments / to minorities	-	-	-	-	-
Exploration expensed (incl. in CF from ops.)	-	-	-	-	-
Maintenance capex	-	-	(100)	(400)	(400)
Net interest	(567)	(1,588)	(1,236)	(3,072)	(5,866)
Tax paid	56	(3,044)	15,228	31,841	32,101
Other operating c-flow	5,359	9,263	(27,984)	(57,538)	(52,470)
Operating cashflow	1,091	(6,619)	33,407	69,628	70,586
Expansion capex	29	(7,500)	(22,500)	-	-
Net acquisitions	-	-	-	-	-
Exploration capitalised	-	-	-	-	-
Other investing cash flow	-	-	-	-	-
Investment cash flow	29	(7,500)	(22,500)	-	-
Net capital raisings	45,892	-	-	-	-
Net borrowings	-	-	-	-	-
Distributions paid	-	-	-	-	-
Other financing cash flow	(4,410)	-	-	-	-
Financing cash flow	41,482	-	-	-	-
Forex	-	-	-	-	-
Net Cash Flow	42,602	(14,119)	10,907	69,628	70,586

Source: Company data, Canaccord Adams estimates

Balance Sheet					
In CAD '000s unless otherwise stated					
As at 31-March	2008E	2009E	2010E	2011E	2012E
Cash & equivalents	42,865	28,747	39,654	109,282	179,868
Other current assets	51	51	51	51	51
Property, plant & equipment	133,406	140,906	163,113	162,727	161,947
Exploration	-	-	-	-	-
Other assets	-	-	-	-	-
Total assets	176,322	169,704	202,818	272,060	341,867
Current liabilities	1,416	1,416	1,416	1,416	1,416
Non-current liabilities	-	-	-	-	-
Minorities	-	-	-	-	-
Other liabilities	-	-	-	-	-
Net assets	174,906	168,288	201,402	270,644	340,451
Total equity	127,006	120,387	153,501	222,744	292,550
Gearing (nd/nd+e) %	-51%	-31%	-35%	-96%	-160%
Working capital	41,500	27,382	38,289	107,918	178,503
Net debt	(42,865)	(28,747)	(39,654)	(109,282)	(179,868)

Source: Company data, Canaccord Adams estimates

Ratios					
In percentage points unless otherwise stated					
Year to March	2008E	2009E	2010E	2011E	2012E
Profitability					
Return on equity	-2.4%	-8.3%	23.7%	36.4%	26.8%
Return on assets	-1.8%	-5.9%	17.4%	28.9%	22.5%
Return on invested capital	-1.8%	-6.0%	17.5%	29.0%	22.6%
Return on capital employed	-2.4%	-8.3%	23.7%	36.4%	26.8%
EBITDA margin	na	na	61.2%	62.7%	52.2%
EBIT margin	na	na	60.7%	62.2%	51.5%
Net profit margin	na	na	41.8%	43.5%	37.1%
Effective tax rate	na	na	31.5%	31.5%	31.5%
Leverage					
Net Interest Cover (times)	na	na	na	na	na
Current Ratio (times)	30.3	20.3	28.0	77.2	127.1
Other					
Shares in issue (diluted)	23,203	46,306	46,306	46,306	46,306
Free Cashflow (\$ / share)	0.05	(0.14)	0.72	1.50	1.52
Cashflow after capex (\$ / share)	0.05	(0.30)	0.24	1.50	1.52
Cashflow before capex (\$ / share)	0.05	(0.14)	0.72	1.51	1.53
Dividend yield	0.0%	0.0%	0.0%	0.0%	0.0%

Source: Company data, Canaccord Adams estimates

Source: Company reports, Canaccord Adams estimates

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Site Visit: An analyst has visited the issuer's material operations in Labrador. Partial payment or reimbursement was received from the issuer for the related travel costs.

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(as of 1 February 2008)

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	#	%	#	%
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Sell	16	3.1%	3	6.3%
	519	100.0%		

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Company	Disclosure
Labrador Iron Mines Holdings Ltd.	1A, 2, 3, 7

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