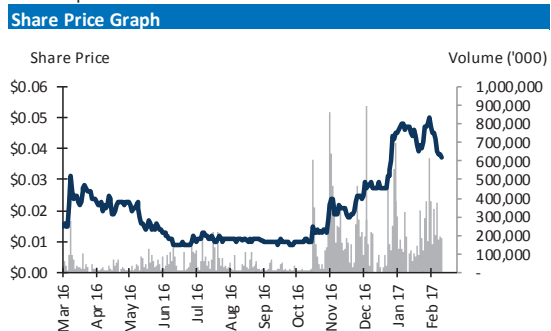




## Atlas Iron Limited (AGO) – Buy

Executing on turnaround; strong cash generation; looking ahead to Corunna Downs

Recommendation	Buy
Previous	N/A
Risk	High
Price Target	\$ 0.065
Previous Target	n/a
<b>Share Price (A\$)</b>	<b>\$ 0.036</b>
ASX Code	AGO
52 week low - high (A\$)	0.009-0.05
Capital structure	
Shares on Issue (M)	9,152
<b>Market Cap (A\$M)</b>	<b>329</b>
Net Cash/(Debt) (A\$M)	(45)
<b>EV (A\$M)</b>	<b>374</b>
Options on issue (M)	6,426
12mth Av Daily Volume ('000)	101,350
Board	
Eugene Davis	Non-Executive Chairman
Cliff Lawrenson	Managing Director
Daniel Harris	Non-Executive Director
Alan Carr	Non-Executive Director
Cheryl Edwardes, AM	Non-Executive Director
Major Shareholders	
Legg Mason Inc.	13.8%
Bain Capital Credit LP	6.2%



Analyst: Matthew Chen +61 2 9993 8130  
[matthew.chen@fostock.com.au](mailto:matthew.chen@fostock.com.au)  
 The analyst owns no AGO shares.

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### Event:

- 1HFY17 result; continued debt reduction.

### Analysis:

- The company announced its 1H17 result with highlights including underlying EBITDA of \$66M, return to profit driven by strong production and falling costs. AGO has accelerated its debt repayments.
- **Higher realised prices.** Average realised price of A\$66.35/wmt, up from A\$59.07/wmt in the pcp, and from an estimated A\$51.87/wmt in the sequential half. The company is benefitting from higher realised prices, although this is offset by the persistence of discounts from the headline 62% Fe prices in the near term.
- **Strong production.** 1H17 exports of 8.1Mt, up 17% on 6.9Mt. The company has retained production guidance for FY17 of 14-15Mt.
- **Ongoing cost savings** have enabled the company to take advantage of higher iron ore prices, and enabled a return to profitability. Full cash costs of A\$52.30/wmt, compared to \$55.75/wmt in pcp.
- **Significant cash generation.** Notable increase in net operating cash flow for 1H17 of \$94M, up 470% on pcp, and 350% on the sequential half, a result of both supportive prices, and ongoing cash cost improvements.
- **Debt reduction a very positive signal.** The significant cash generation over 1H17 enabled a \$17M reduction in debt in 1H17, with an additional \$54M paid down in the first week of 3Q17, leaving the term loan balance at \$118M. The cash balance after the recent debt repayments is \$80M, with net debt of ~\$45M.
- **Revised cash sweep terms in the loan facility:** gives AGO the ability to fund Corunna Downs. Provision has been made for cash in excess of A\$80M balance at the end of each quarter to be set aside for Corunna Downs capex. Corunna will require an estimated A\$50M capex.
- **Corunna Downs is set to replace tonnes** out of Abydos and Wodgina, which are due to shut down over the next twelve months. Estimated C1 cash cost for Corunna Downs is in the range of A\$37-43/wmt with initial production rate of 4mtpa over a 5-6 year mine life. AGO are targeting a total export rate of 12 mtpa by the June 2018 quarter.

### Earnings and Valuation:

- **Attractively valued considering the company generates significant cash at current iron ore prices:** we have a valuation of 6.2 cps based on our DCF analysis. We see significant upside if iron ore prices persist at supportive levels, and have conducted a sensitivity analysis to quantify the potential upside.

### Recommendation:

- We recommend AGO as a Buy based on its valuation and meaningful leverage to iron ore prices with a price target of \$0.065, in line with our DCF valuation.