

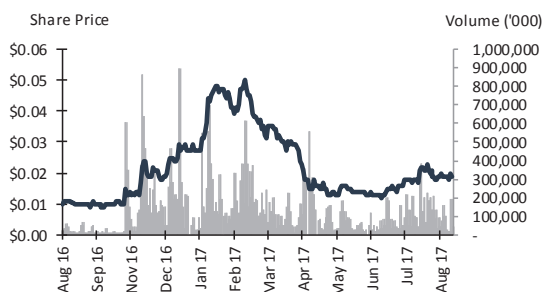


Atlas Iron Limited (AGO) – BUY, PT \$0.04

Significant debt reduction, now looking to grow

Recommendation	Buy
Previous	Buy
Risk	High
Price Target	\$ 0.040
Previous Target	\$ 0.065
Share Price (A\$)	\$ 0.019
ASX Code	AGO
52 week low - high (A\$)	0.009-0.05
Capital structure	
Shares on Issue (M)	9,264
Market Cap (A\$M)	176
Net Cash/(Debt) (A\$M)	(4)
EV (A\$m)	180
Options on issue (M)	0
12mth Av Daily Volume ('000)	127,684
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.	10.2%
Bain Capital Credit LP	6.2%

Share Price Graph



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 The analyst owns no AGO shares.

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Event:

- **FY17 result; revised assumptions; FY18e outlook.**

Analysis:

- **Result highlights:** the company reported FY17 statutory NPAT of \$48.0M, FY17 EBITDA of \$116.3M and operating cash flow of \$153.8M.
- **Strong production:** FY17 iron ore shipments of 14.4Mt as additional production at Mt Webber replaced product from Wodgina, which closed during the year.
- **Continued headway into debt reduction.** Term Loan B has been reduced to A\$103M at 30 June, down from A\$182M at the prior year end. AGO have almost arrived at a net cash position now with \$80.8M cash and \$20M cash in its reserve account.
- **Corunna Downs update:** the company plans to issue updated guidance and scheduling for the Corunna project and 'continue to advance' the project. Progress will be subject to key approvals. Corunna Downs had previously been anticipated to replenish AGO's production base; further developments on this asset are keenly anticipated.
- **Growth options:** the company has flagged a number of future iron ore opportunities including DSO from Davidson Creek Hub and Miralga Creek, and magnetite from the Ridley Project. Outside of iron ore, the company has flagged lithium and copper/gold opportunities. With long term contracted capacity at Utah Point of up to 13mtpa, the company could fill short term capacity gap with DSO opportunities for instance, lithium DSO logistics services.
- **FY18e guidance** includes 9-10Mt shipments including a higher proportion of lump product (fines product of 5.5-6.2Mt, and lump product of 3.5-3.8Mt), full cash cost range \$54-58/wmt CFR, and \$8-9M development capital (excluding Corunna Downs).

Earnings and Valuation:

- We now forecast FY18e EBITDA of \$108M and FY18e NPAT of \$32M (previously \$101M and \$6M) due to lower D&A. We have a valuation of \$0.04 based on our DCF valuation, which has decreased from our previous valuation of \$0.065. This is primarily a result of lower production due to the deferral of Corunna Downs as well as revised cost assumptions. **We view AGO as a leveraged opportunity for a constructive view of underlying commodity prices.**

Recommendation:

- We maintain a **Buy recommendation** on AGO with a revised **price target of \$0.04** (previously \$0.065), in line with our DCF valuation. We see positive catalysts for the stock include 1) updates on the Corunna Downs development; 2) monetising excess Utah Point capacity with DSO opportunities; 3) further debt reduction; 4) development updates on further growth opportunities in iron ore and other commodities.