

July 29, 2009

Iron Ore Miners

Moving With Spot, Yet Some Caution Warranted

CLF Market Perform

Price: \$26.44 Target Price: \$25.00

CLM Outperform(S)

Price: C\$4.07 Target Price: C\$4.50

FMG Market Perform

Price: A\$4.16 Target Price: A\$4.50

FXPO Market Perform

Price: £1.41 Target Price: £1.50

KIO Market Perform

Price: R198 Target Price: R200

MMX Outperform

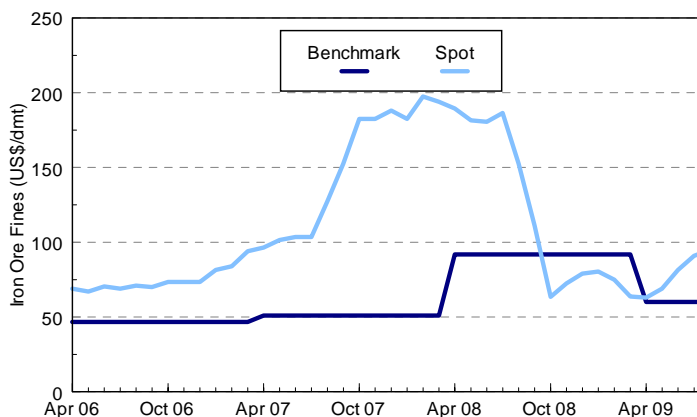
Price: R\$6.61 Target Price: R\$8.50

Share prices as at 28 July 2009. (S) in rating denotes Speculative.

On average, BMO Research's universe of iron ore miners has gained 35% in the last two months. Interest has returned to the sector yet the macro picture is far from clear, with China sending conflicting signals.

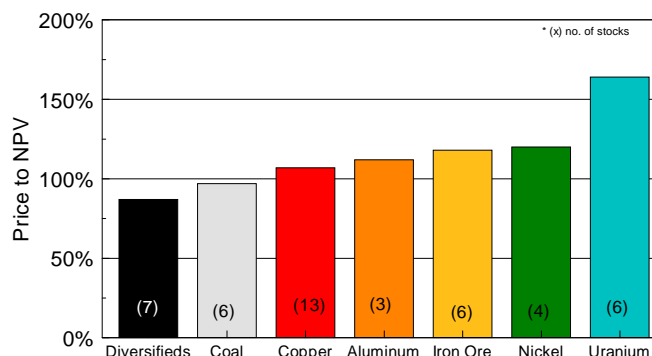
- 1: Spot-delivered iron ore prices in China have risen sharply to US\$95/t CIF, implying prices of US\$81/t FOB for Australian producers, above the Japanese/Korean benchmark of US\$60/t. Hence, the Chinese hard-line negotiation strategy is confusing.
- 2: The downside of high spot prices is that marginal domestic Chinese production (50-200Mt) could re-enter the market.
- 3: The implied price for the independent producers is US\$67/t, ~10% higher than benchmark. Preferred exposure remains through CLM and MMX although FMG and FXPO offer high leverage.

Fig 1: Iron Ore Contract vs. Chinese Spot Prices



Source: BMO Capital Markets * Note Chinese spot is landed price CIF.

Fig 2: Iron Ore Stocks Trading in Line on Valuations (%)



Source: BMO Capital Markets

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1. Implying ~10% Price Premium

Conflicting signals in iron ore market.

The iron ore market continues to receive mixed signals with the Chinese still “negotiating” benchmark prices and as such the majority of sales to China are on a spot basis. Positively, it appears some index/quarterly negotiated contracts have been signed but significant volumes (e.g., 47% for BHP) remain unsettled. The rising spot price should provide the excuse CISA (China Iron Ore & Steel Association) needs to agree to the Japanese benchmark. However, the arrest of RIO employees sends disquieting signals.

Diversifieds currently offer better value and more defensive exposure.

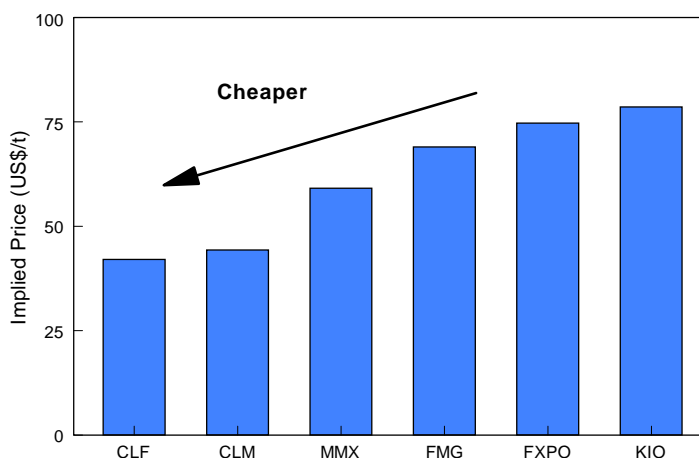
BMO continues to rate CLM and MMX as preferred names of the listed pure iron ore miners. BHP is the preferred large cap diversified recommendation (Outperform; £16.50 target). Overall, the diversified names currently offer slightly better value and a more defensive exposure to the sector.

Market Factoring Long-Term Price Some ~10% Above Benchmark

After appreciating by around a third over the last two months, the listed iron ore stocks are now implying a long-term iron ore price in the order of ~10% above the recent benchmark settlement of US\$60/t. CLF and CLM appear to offer better value, against a premium price for KIO and FXPO.

Fig 3: BMO Research Iron Ore Universe – Implied Price (US\$/t)

Implied long-term iron ore prices range from approximately US\$40/t to US\$80/t.



Source: BMO Capital Markets * BMO Research calculates the implied price as the required long-term benchmark price for NPVs to equal market capitalizations.

Fig 4: BMO Research Iron Ore Price Assumptions – Nominal Dollar Terms

Company	Rating	Share Price	Shares O/S	Market Cap	Net Present Value	Share Price/ NPV	2010E P/E	2010E EV/ EBITDA	2010E Div Yield	2010E NPAT Growth	Target Price	Total Return
			M	US\$M		%	X	X	%	%		
Cliffs	Mkt	\$26.44	132	3,481	\$56.03	47%	12.7	5.2	0.6%	>100	\$25.00	-5%
Consol. Thompson	OP(S)	C\$4.07	194	710	C\$9.80	42%	13.5	6.7	0.0%	>100	C\$4.50	11%
Ferrexpo	Mkt	£1.41	603	1,391	£1.11	127%	15.7	9.9	1.0%	98%	£1.50	7%
Fortescue *	Mkt	A\$4.16	3,102	10,527	A\$3.31	126%	20.6	11.5	0.0%	>100	A\$4.50	8%
Kumba	Mkt	R198	320	7,457	R148	133%	10.3	5.4	6.5%	19%	R200	8%
MMX	OP	R\$6.61	305	1,029	R\$8.22	80%	n/a	42.8	0.0%	61%	R\$8.50	29%
Total/Average				24,595		113%	15.0	9.8	2.1%			7%

Source: BMO Capital Markets * Annualised to December year end.

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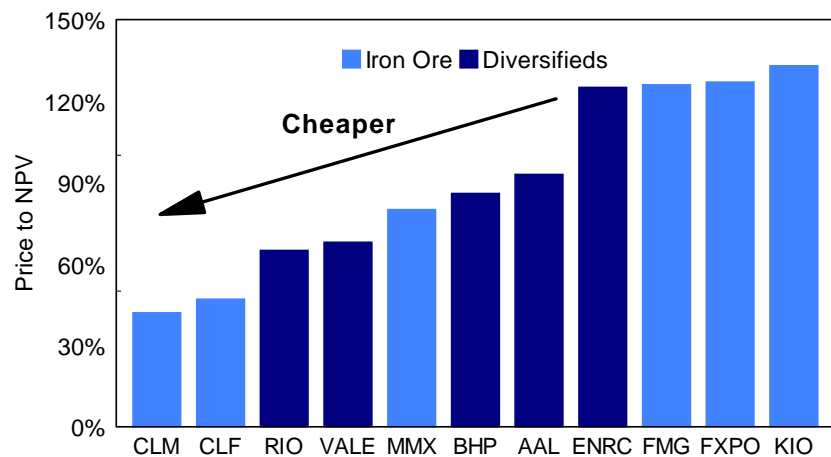
2. Diversified Offer Better Value

Independents up a third in two months.

The independent iron ore stocks are now trading at an average 1.1x NPV. KIO and FXPO are trading at the greatest premium of the group and CLM remains the cheapest on an NPV basis. Overall, the diversified producers appear to currently offer the better value, with RIO the best of the group. Likewise, the diversified producers offer on average lower prospective EV/EBITDA multiples with BHP trading on 6.5x 2010E.

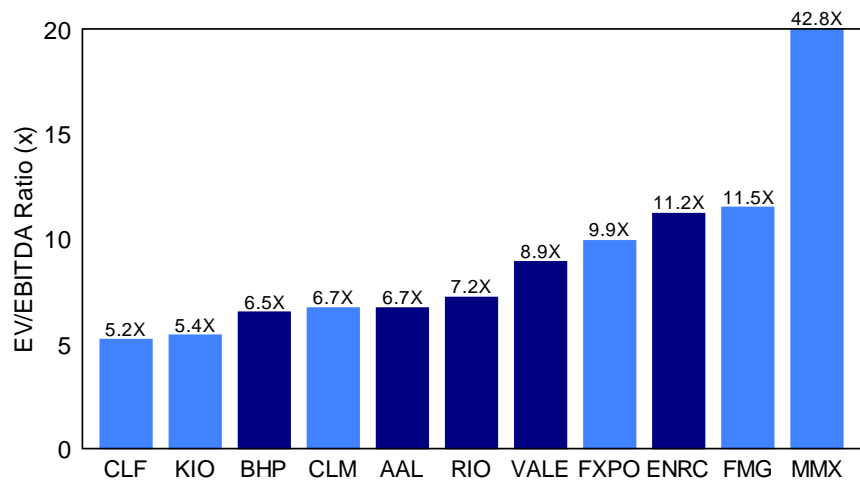
BMO Research universe of Iron Ore miners trades at 0.8x NPV or ~1.1x NPV for the independents alone.

Fig 5: Price to NPV for BMO Research Iron Ore Universe (%)



Source: BMO Capital Markets

Fig 6: Iron Ore Sector – 2010E EV/EBITDA (x)



Source: BMO Capital Markets * June year FY companies earnings have been adjusted

BMO Research universe of Iron Ore miners trade at average of ~7x 2010E EV/EBITDA.

On average, specialist iron ore miners trade at a premium to the diversifieds.

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3. Chinese Imports Remain High

Chinese iron ore import rates remain at high levels.

June saw more record-breaking imports of commodities into China, despite high prices and the perception that the current restocking phase may be running out of momentum. Chinese iron ore imports remained near peak levels up 46% y/y to 55.3Mt.

However, high spot prices might allow the restart of marginal Chinese domestic production.

Higher Spot Prices Could See Marginal Production Return

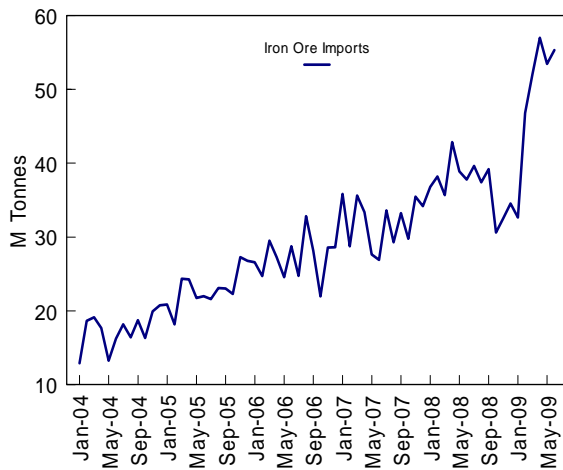
Higher Chinese spot iron ore prices might not be all good news for the market. Previously, BMO Research has estimated some 50-200Mt of marginal Chinese domestic production to have costs of US\$80/t or more. With spot prices now above this level, this might open the way for higher Chinese domestic production rates reducing some pressure for import volumes.

In the short term, spot charter rates have also flattened.

Charter Rates Have Eased in the Short Term

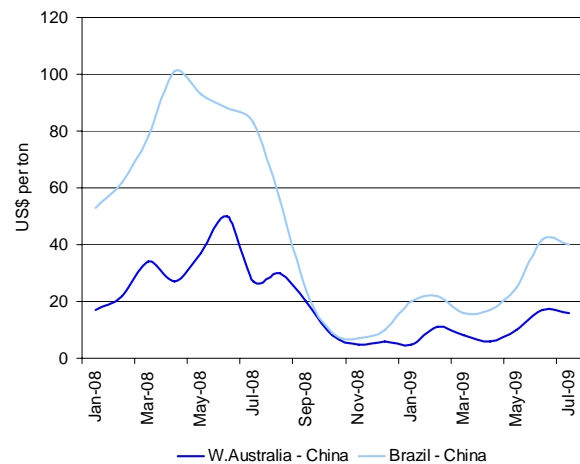
Over the first half of 2009, Capesize shipping charter rates have doubled, yet remain half of levels from a year ago. Rates have moderated somewhat in the last few weeks with the Tex Report quoting recent charters from Brazil to China of US\$35/t and from Australia to China of US\$14/t.

Fig 7: Chinese Iron Ore Imports



Source: BMO Capital Markets, Bloomberg

Fig 8: Capesize Shipping Charter Rates (US\$/t)



Source: Adapted Tex Report

Fig 9: BMO Research Iron Ore Price Assumptions – Nominal Dollar Terms

		2005	2006	2007	2008	2009E	2010E	2011E	2012E	2013E	L/T
Hamersley Lump	US\$/dmu	80.0	95.2	104.3	201.7	112.0	123.2	141.7	121.8	121.8	123.7
Vale SSF	US\$/dmu	56.2	66.9	73.3	119.0	101.0	111.1	116.0	99.8	99.8	101.3
Vale Pellets	US\$/dmu	115.5	112.0	118.0	220.2	113.8	125.2	155.3	133.5	133.5	135.5
Robe River Fines	US\$/dmu	47.9	57.0	62.5	115.3	77.3	85.1	88.9	76.4	76.4	77.6
Cliffs Pellets	US\$/t	58.77	63.99	66.01	92.23	82.56	95.16	110.42	105.36	106.43	109.20
Iron Ore Fines	Percent	71.5%	19.0%	9.5%	65.0%	-33.0%	10.0%	15.0%	-14.0%	0.0%	n/a
Iron Pellets (CVRD)	Percent	86.7%	-3.0%	5.3%	87.0%	-48.3%	10.0%	24.0%	-14.0%	0.0%	n/a

Source: BMO Capital Markets

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Cliffs Natural Resources		CLF
As at	29-Jul-09	
Rating	<u>Market Perform</u>	Analyst Tony Robson BMO Capital Markets
Share Price (US\$)	\$26.44	
Target Price (US\$)	\$25.00	
NPV (US\$)	\$56.03	
Ordinary Shares (M)	131.7	
Options + Notes (M)	0.0	
Market Cap (US\$M)	\$3,481	

PRICE ASSUMPTIONS		2008A	2009E	2010E	2011E	2012E
(Dec Year End)						
Exchange Rate	A\$/US\$	0.85	0.76	0.85	0.86	0.84
Exchange Rate	BRL/US\$	1.84	2.08	2.06	2.20	2.34
CLF Realized Pellet P US\$/t		92.2	75.7	84.4	98.5	94.0
IOCC Pellets	USc/%Fe	228.8	118.3	130.1	161.4	138.8
Pellets CVRD	USc/%Fe	220.2	113.8	125.2	155.3	133.5
CLF Realized Coking	US\$/ston	93.0	99.1	100.9	104.3	102.5
BHP Hard Coking	US\$/Tonne	253.3	173.0	141.0	148.7	146.2
Coal (Thermal)	US\$/Tonne	107.7	85.3	74.7	75.6	72.8

FINANCIAL SUMMARY		2008A	2009E	2010E	2011E	2012E
(Dec Year End)						
NPAT (pre-Abs)	(US\$M)	745	-122	275	618	573
EPS	(\$ps)	6.99	-0.96	2.09	4.69	4.35
PER	(x)	3.8	n/a	12.7	5.6	6.1
EPS Growth	(%)	>100.0	n/a	>100.0	>100.0	-7
EBITDA	(US\$M)	1223	145	677	1209	1152
EBITDA per Share	(\$ps)	11.50	1.14	5.14	9.18	8.75
EV/EBITDA	(x)	6.0	25.4	5.2	2.4	2.0
Dividend	(\$ps)	0.35	0.21	0.16	0.16	0.16
Yield	(%)	1.3	0.8	0.6	0.6	0.6
Franking	(%)	0	0	0	0	0

PROFIT AND LOSS STATEMENT - US\$M		2008A	2009E	2010E	2011E	2012E
(Dec Year End)						
Group Sales Revenue		3336	2030	2757	3635	3620
Other Revenue		336	176	243	286	309
Consolidated Revenue		3672	2206	3000	3921	3930
Operating Costs		2189	1890	2119	2427	2496
Gross Operating Profit		1483	316	881	1494	1434
Depreciation		170	237	247	251	264
Exploration		25	25	26	26	26
Corporate/Royalties/Other		242	155	187	260	256
EBIT (Subsidiaries & JV)		1046	-102	420	958	887
Less Net Interest Expense		14	25	25	29	12
Pre-Tax Profits		1032	-127	395	929	876
Less Tax		230	-34	138	325	306
Less Minorities		21	0	0	0	0
NPAT (pre-Abs)		745	-122	275	618	573
Net Abnormals		-194	0	0	0	0
Reported Profit		551	-122	275	618	573

DIVISIONAL VALUATION			
NPV US\$M			
North American Pellets	65%	4,923	
ITmk3 Iron Nugget Plant	51%	128	
Pinnoak Coal	100%	577	
Australian Iron Ore	100%	985	
Sonoma Coal	45%	480	
Amapa	30%	578	
Corporate and Other		-297	
Net Cash/(Debt) incl JV		2	
TOTAL NPV (US\$M)		7,376	
NPV per Share (US\$)		\$56.03	

CASH FLOW ANALYSIS - US\$M		2008A	2009E	2010E	2011E	2012E
(Dec Year End)						
Cash Flows From Operating Activities						
Receipts From Customers		3672	2206	3000	3921	3930
Payments To Suppliers		(2189)	(1890)	(2119)	(2427)	(2496)
Net Interest		(14)	(25)	(25)	(29)	(12)
JV Divs, Tax and Other		(578)	(335)	(326)	(585)	(562)
Cash Flows From Investing Activities						
Acq. of Property, Plant and Equip.		(835)	(132)	(152)	(140)	(130)
Exploration Expenditure		0	(25)	(26)	(26)	(26)
Other		39	0	0	0	0
Cash Flows From Financing Activities						
Net Change in Borrowings		77	0	0	0	0
Dividends Paid		(37)	(29)	(22)	(21)	(21)
Other incl Share Issue or Buy Back		(75)	248	(75)	(75)	(75)
Net Increase In Cash Held		61	18	255	619	608
Cash At End of Year		217	235	489	1108	1715

BALANCE SHEET ANALYSIS - US\$M		2008A	2009E	2010E	2011E	2012E
(Dec Year End)						
Current Assets						
Cash and Liquids		179	197	452	1070	1678
Other		683	685	688	690	693
Non-Current Assets						
Investments		305	305	305	305	305
Fixed Assets		2456	2376	2307	2222	2114
Other		488	488	488	488	488
Current Liabilities						
Borrowings		0	0	0	0	0
Creditors		235	141	192	251	251
Other		610	610	610	610	610
Non-Current Liabilities						
Borrowings		525	525	525	525	525
Other		987	987	988	988	988
Minority Interest						
		3	8	13	18	23
SHAREHOLDERS FUNDS						
Net Debt/Equity %		19.7%	18.3%	3.8%	-22.7%	-39.7%
Net Debt/(Cash)		346	328	73	-545	-1153

DIVISIONAL EARNINGS (EBIT) - US\$M		2008A	2009E	2010E	2011E	2012E
(Dec Year End)						
North American Pellets		804	-32	399	850	819
ITmk3 Iron Nugget Plant		0	0	0	-4	9
Pinnoak Coal		-46	-123	38	107	120
Australian Iron Ore		317	98	59	141	98
Sonoma Coal		53	49	52	58	53
Amapa		-30	-8	30	21	6
EBIT Total, before eliminations		1098	-17	577	1173	1104

PROJECT/DIVISION		2008A	2009E	2010E	2011E	2012E
Group Totals After Eliminations						
Lump Iron Ore	Mt	3.6	3.3	4.2	4.2	4.2
Fines Iron Ore	Mt	4.5	6.0	6.2	6.2	6.2
Total Iron Ore	Mt	8.1	9.3	10.4	10.4	10.4
Pellets	Mt	23.1	15.9	20.4	23.2	23.4
Iron Ore Nugget	Mt	0.0	0.0	0.0	0.0	0.1
Hard Coking Coal	Mt	3.3	2.0	4.0	5.4	6.3
Thermal Coal	Mt	0.6	1.0	0.9	0.9	0.9
Total Coal	Mt	3.9	3.0	4.9	6.3	7.2

Source: BMO Capital Markets

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Consolidated Thompson Iron Mines Ltd.		CLM	
As at	28-Jul-09	Analyst	
Rating	<u>Outperform (S)</u>	Tony Robson	
		BMO Capital Markets	
Share Price (US\$) Equiv	\$3.66	Share Price (C\$)	\$4.07
Target Price (US\$) Equiv	\$4.05	Target Price (C\$)	\$4.50
NPV (US\$)	\$8.82	NPV (C\$)	\$9.80
Ordinary Shares (M)	193.7		
Options + Notes (M)	0.0		
Market Cap (US\$M)	\$710	Market Cap (C\$M)	\$788

PRICE ASSUMPTIONS		2008A	2009E	2010E	2011E	2012E
(Dec Year End)						
Exchange Rate	C\$/US\$	0.943	0.865	0.940	0.960	0.940
Iron Ore Fines SSF	USc/%Fe	107.3	93.8	91.8	97.1	87.9
Iron Ore Fines SSF	US\$/t	70.79	61.92	60.61	64.12	58.01

FINANCIAL SUMMARY		2008A	2009E	2010E	2011E	2012E
(Dec Year End)						
NPAT (pre-Abs)	(C\$M)	-13	-4	59	105	81
EPS	(\$ps)	0.00	-0.02	0.30	0.54	0.42
PER	(x)	+>50.0	n/a	13.5	7.5	9.7
EPS Growth	(%)	>100	n/a	>100	80	-23
EBITDA	(C\$M)	0	-9	103	177	140
EBITDA per Share	(\$ps)	0.00	-8.96	103.30	177	140
EV/EBITDA	(x)	50.0	na	6.7	3.8	5.2
Dividend	(\$ps)	0	0	0	16	25
Yield	(%)	0.0	0.0	0.0	3.9	6.1
Franking	(%)	0	0	0	0	0

PROFIT AND LOSS STATEMENT - C\$M		2008A	2009E	2010E	2011E	2012E
(Dec Year End)						
Group Sales Revenue		0	0	336	504	464
Other Revenue		0	0	0	0	0
Consolidated Revenue		0	0	336	504	464
Operating Costs		0	0	191	260	270
Gross Operating Profit		0	0	146	244	194
Depreciation		0	0	30	36	36
Exploration		0	0	0	0	0
Corporate/Royalties/Other		21	9	6	6	6
EBIT (Subsidiaries & JV)		-21	-9	110	202	152
Less Net Interest Expense		-9	-4	-4	-2	-5
Pre-Tax Profits		-13	-5	114	205	157
Less Tax		0	-1	35	63	49
Less Minorities		0	0	20	36	27
NPAT (pre-Abs)		-13	-4	59	105	81
Net Abnormals		0	0	0	0	0
Reported Profit		-13	-3	59	105	81

DIVISIONAL VALUATION		
NPV US\$M		
Bloom Lake Project		1,288
Quinto Assets		68
Corporate and Other		-54
Net Cash/(Debt) incl JV		408
TOTAL NPV (US\$M)		1,709
NPV per Share (US\$)		\$8.82
NPV per Share (C\$)		C\$9.80

CASH FLOW ANALYSIS - C\$M		2008A	2009E	2010E	2011E	2012E
(Dec Year End)						
Cash Flows From Operating Activities						
Receipts From Customers		0	0	336	504	464
Payments To Suppliers		(10)	(0)	(191)	(280)	(270)
Net Interest		0	4	4	2	5
JV Divs, Tax and Other		0	(8)	(41)	(69)	(55)
Cash Flows From Investing Activities						
Acq. of Property, Plant and Equip.		(137)	(480)	(48)	(156)	(156)
Exploration Expenditure		0	0	0	0	0
Other		(48)	161	32	10	0
Cash Flows From Financing Activities						
Net Change in Borrowings		0	0	0	0	0
Dividends Paid		0	0	0	(15)	(43)
Other incl Share Issue or Buy Back		173	149	0	0	0
Net Increase in Cash Held		(22)	(174)	92	16	(54)
Cash At End of Year		169	(5)	88	104	50

BALANCE SHEET ANALYSIS - C\$M		2008A	2009E	2010E	2011E	2012E
(Dec Year End)						
Current Assets						
Cash and Liquids		180	6	99	115	60
Other		16	86	89	91	94
Non-Current Assets						
Investments		0	0	0	0	0
Fixed Assets		395	714	700	810	930
Other		54	154	154	154	154
Current Liabilities						
Borrowings		0	0	0	0	0
Creditors		40	60	100	150	138
Other		0	0	0	15	37
Non-Current Liabilities						
Borrowings		0	0	0	0	0
Other		52	52	52	52	52
Minority Interest		0	150	155	160	165
SHAREHOLDERS FUNDS						
Net Debt/Equity %		-32.4%	-0.7%	-11.1%	-12.1%	-6.0%
Net Debt/(Cash)		-180	-6	-99	-115	-60

DIVISIONAL EARNINGS (EBIT) - C\$M		2008A	2009E	2010E	2011E	2012E
(Dec Year End)						
Bloom Lake Project		0	0	116	208	158
EBIT Total, before eliminations		0	0	116	208	158

PROJECT/DIVISION		2008A	2009E	2010E	2011E	2012E
Lump Iron Ore	Mt	0.0	0.0	0.0	0.0	0.0
Fines Iron Ore	Mt	0.0	0.0	5.5	8.0	8.0
Pellets	Mt	0.0	0.0	0.0	0.0	0.0
Total	Mt	0.0	0.0	5.5	8.0	8.0

Source: BMO Capital Markets

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Ferrexpo Plc		FXPO	
As at Rating	29-Jul-09	<u>Market Perform</u>	
		Analyst David Radclyffe BMO Capital Markets	
Share Price (US\$) equiv	\$2.31	Share Price (£)	£1.41
Target Price (US\$)	\$2.45	Target Price (£)	£1.50
NPV (US\$)	\$1.81	NPV (£)	£1.11
Ordinary Shares (M)	603.4		
Options + Notes (M)	1.7		
Market Cap (US\$M)	\$1,391	Market Cap (£)	£851

PRICE ASSUMPTIONS						
(Dec Year End)						
		2008A	2009E	2010E	2011E	2012E
Exchange Rate	GBP/US\$	0.545	0.640	0.556	0.562	0.568
BFP Pellets	US\$/%Fe	220.2	113.8	125.2	155.3	133.5

FINANCIAL SUMMARY						
(Dec Year End)						
		2008A	2009E	2010E	2011E	2012E
NPAT (pre-Abs)	(US\$M)	292	45	88	213	141
EPS	(\$ps)	0.48	0.07	0.15	0.35	0.23
PER	(x)	4.8	31.1	15.7	6.5	9.8
EPS Growth	(%)	>100.0	-85	98	>100.0	-34
EBITDA	(US\$M)	451	103	157	310	214
EBITDA per Share	(\$ps)	0.75	0.17	0.26	0.51	0.35
EV/EBITDA	(x)	3.6	15.6	9.9	4.5	6.0
Dividend	(\$ps)	0.03	0.01	0.02	0.05	0.04
Yield	(%)	1.4	0.5	1.0	2.3	1.5
P/FCF	(x)	14.7	64.6	25.9	7.6	9.8
FCF Yield	(%)	6.8	1.5	3.9	13.1	10

PROFIT AND LOSS STATEMENT - US\$M						
(Dec Year End)						
		2008A	2009E	2010E	2011E	2012E
Group Sales Revenue		1117	579	678	840	797
Other Revenue		0	0	0	0	0
Consolidated Revenue		1117	579	678	840	797
Operating Costs		618	464	509	518	572
Gross Operating Profit		499	115	169	322	225
Depreciation		29	28	30	30	33
Exploration		0	0	0	0	0
Corporate/Royalties/Other		77	12	12	12	12
EBIT (Subsidiaries & JV)		393	75	127	280	180
Less Net Interest Expense		18	18	15	11	2
Pre-Tax Profits		375	57	112	269	179
Less Tax		63	10	20	48	32
Less Minorities		21	2	4	8	6
NPAT (pre-Abs)		292	45	88	213	141
Net Abnormals		0	0	0	0	0
Reported Profit		292	45	88	213	141

DIVISIONAL VALUATION		
NPV US\$M		
GLP		1,265
Yeristovskoye		104
Corporate and Other		-80
Investments		22.6
Net Cash/(Debt)		-218
TOTAL NPV (US\$M)		1,094
NPV per Share (US\$)		\$1.81

CASH FLOW ANALYSIS - US\$M						
(Dec Year End)						
	2008A	2009E	2010E	2011E	2012E	
Cash Flows From Operating Activities						
Receipts From Customers	1117	579	678	840	797	
Payments To Suppliers	(618)	(464)	(509)	(518)	(572)	
Net Interest	(18)	(18)	(15)	(11)	(2)	
JV Divs, Tax and Other	(109)	(10)	(20)	(48)	(32)	
Cash Flows						
Acq. of Property, Plant and Equip.	(276)	(65)	(80)	(80)	(50)	
Exploration Expenditure	0	0	0	0	0	
Other	(12)	0	0	0	0	
Cash Flows From Financing Activities						
Net Change in Borrowings	103	(75)	(45)	(85)	(100)	
Dividends Paid	(40)	(20)	(7)	(13)	(32)	
Other incl Share Issue or Buy Back	(75)	0	0	0	0	
Net Increase In Cash Held	70	(73)	2	84	10	
Cash At End of Year	88	14	16	101	110	

BALANCE SHEET ANALYSIS - US\$M						
(Dec Year End)						
	2008A	2009E	2010E	2011E	2012E	
Current Assets						
Cash and Liquids	88	14	16	101	110	
Other	203	184	184	184	184	
Non-Current Assets						
Investments	19	19	19	19	19	
Fixed Assets	412	450	500	550	567	
Other	132	118	118	118	118	
Current Liabilities						
Borrowings	75	0	0	0	0	
Creditors	35	18	21	26	25	
Other	35	39	45	61	72	
Non-Current Liabilities						
Borrowings	231	231	186	101	1	
Other	20	20	20	20	20	
Minority Interest	12	14	18	27	32	
SHAREHOLDERS FUNDS	446	463	546	736	848	
Net Debt/Equity %	48.9%	46.8%	31.0%	0.0%	-12.9%	
Net Debt/(Cash)	218	216	169	0	-110	

DIVISIONAL EARNINGS (EBIT) - US\$M						
(Dec Year End)						
	2008A	2009E	2010E	2011E	2012E	
GLP	454	85	137	290	190	
Yeristovskoye	0	0	0	0	0	
EBIT Total, before eliminations	454	85	137	290	190	
FINANCIAL MULTIPLES						
ROA (%)	46.01	9.61	15.17	28.86	18.09	
ROE (%)	65.5	9.6	16.1	28.9	16.6	
ROIC (%)	52.2	10.9	17.3	33.5	21.3	

PROJECT/DIVISION						
		2008A	2009E	2010E	2011E	2012E
HG Iron Ore Pellets	Mt	4.0	4.0	4.2	4.2	4.6
LG Iron Ore Pellets	Mt	5.0	4.6	5.1	5.1	5.6
Total Pellets	Mt	9.0	8.6	9.3	9.3	10.2
Cash Cost*	US\$/t	68.4	54.0	55.0	56.0	56.0
*Includes Distribution and G&A						

Source: BMO Capital Markets

Iron Ore Miners

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Fortescue Metals Group Ltd		FMG	
As at	29-Jul-09	Analyst	
Rating	<u>Market Perform</u>	David Radclyffe	
		BMO Capital Markets	
Share Price (US\$) equiv	\$3.39	Share Price (A\$)	A\$4.16
Target Price (US\$)	\$3.67	Target Price (A\$)	A\$4.50
NPV (US\$)	\$2.70	NPV (A\$)	A\$3.31
Ordinary Shares (M)	3,102.2		
Options + Notes (M)	2.0		
Market Cap (US\$M)	\$10,527	Market Cap (A\$)	A\$12,905

PRICE ASSUMPTIONS					
(June Year End)					
	07/08A	08/09E	09/10E	10/11E	11/12E
Exchange Rate A\$/US\$	0.897	0.746	0.835	0.859	0.854
Iron Ore Fines (Yandi) USC%/Fe	93.8	132.7	99.4	107.9	107.6
Iron Ore Lump (Ham.) USC%/Fe	127.4	179.3	114.8	127.8	136.7

FINANCIAL SUMMARY					
(June Year End)					
	07/08A	08/09E	09/10E	10/11E	11/12E
NPAT (pre-Abs) (US\$M)	-2256	951	302	602	952
EPS (\$ps)	-1.39	0.34	0.10	0.19	0.31
PER (x)	-2.4	10.1	34.8	17.5	11.1
EPS Growth (%)	0	+>100.0	-71	99	58
EBITDA (US\$M)	-2894	1738	761	1187	1685
EBITDA per Share (\$ps)	-1.79	0.59	0.25	0.38	0.54
EV/EBITDA (x)	-2.7	6.9	16.0	9.5	6.1
Dividend (\$ps)	0.00	0.00	0.00	0.00	0.00
Yield (%)	0.0	0.0	0.0	0.0	0.0
P/FCF (x)	NM	NM	45.5	12.0	10.9
FCF Yield (%)	NM	NM	2.2	8.3	9.2

PROFIT AND LOSS STATEMENT - US\$M					
(June Year End)					
	07/08A	08/09E	09/10E	10/11E	11/12E
Group Sales Revenue	116	1755	1903	2567	3261
Other Revenue	64	194	0	0	0
Abnormal Revenue	0	0	0	0	0
Operating Costs	102	728	928	1101	1221
Gross Operating Profit	78	1221	975	1466	2040
Depreciation	5	52	76	90	110
Exploration	59	30	15	29	50
Corporate/Royalties/Other	2972	-518	213	279	354
EBIT (Subsidiaries & JV)	-2899	1686	686	1097	1575
Less Net Interest Expense	326	327	236	220	198
Pre-Tax Profits	-3224	1359	450	877	1378
Less Tax	-968	395	135	263	413
Less Minorities	0	0	0	0	0
NPAT (pre-Abs)	-2256	964	315	614	964
Net Abnormals	0	0	0	0	0
Reported Profit	-2256	951	302	602	952

DIVISIONAL VALUATION	
NPV US\$M	
Chichester	11,189
Corporate and Other	-356
Solomon	303
Leucadia	-733
Shipping Contract	-171
Net Cash/(Debt)	-1,841
TOTAL NPV (US\$M)	8,390
NPV per Share (US\$)	\$2.70

CASH FLOW ANALYSIS - US\$M					
(June Year End)					
	07/08A	08/09E	09/10E	10/11E	11/12E
Cash Flows From Operating Activities					
Receipts From Customers	147	1755	1903	2567	3261
Payments To Suppliers	(160)	(728)	(928)	(1101)	(1221)
Net Interest	(217)	(132)	(236)	(220)	(198)
JV Divs, Tax and Other	(1691)	(189)	(213)	(279)	(767)
Cash Flows					
Acq. of Property, Plant and Equip.	(0)	(1020)	(284)	(79)	(96)
Exploration Expenditure	0	(11)	(10)	(10)	(10)
Other	135	251	0	0	0
Cash Flows From Financing Activities					
Net Change in Borrowings	0	(64)	0	0	(250)
Dividends Paid	0	(0)	(6)	(13)	(13)
Other incl Share Issue or Buy Back	511	568	2	3	0
Net Increase in Cash Held	(1275)	429	227	869	705
Cash At End of Year	172	601	828	1697	2402

BALANCE SHEET ANALYSIS - US\$M					
(June Year End)					
	07/08A	08/09E	09/10E	10/11E	11/12E
Current Assets					
Cash and Liquids	172	601	828	1697	2402
Other	190	190	190	190	190
Non-Current Assets					
Investments	0	0	0	0	0
Fixed Assets	3024	3740	3949	3938	3924
Other	1256	1256	1256	1256	1256
Current Liabilities					
Borrowings	321	321	0	0	0
Creditors	147	147	147	147	147
Other	34	34	34	34	34
Non-Current Liabilities					
Borrowings	2226	2161	2483	2483	2233
Other	3384	3384	3384	3384	3384
Minority Interest	0	0	0	0	0
SHAREHOLDERS FUNDS					
Net Debt/Equity %	-1470	-261	174	1032	1974
Net Debt/(Cash)	2375	1882	1655	786	-169

DIVISIONAL EARNINGS (EBIT) - US\$M					
(June Year End)					
	07/08A	08/09E	09/10E	10/11E	11/12E
Chichester	56	806	721	1132	1610
EBIT Total, before eliminations	56	806	721	1132	1610
FINANCIAL MULTIPLES					
ROA (%)	NM	29	11	15	20
ROE (%)	NM	NM	173	58	48
ROIC (%)	NM	76	26	31	37
Interest Cover (x)	NM	5	3	5	8

PROJECT/DIVISION						
		07/08A	08/09E	09/10E	10/11E	11/12E
Iron Ore Lump	Mt	0.0	0.0	0.0	2.5	10.0
Iron Ore Fines	Mt	1.6	26.7	37.8	42.5	45.0
Iron Ore Rocket	Mt	0.0	0.6	0.0	0.0	0.0
Total Iron Ore	Mt	1.6	27.3	37.8	45.0	55.0
Cash Cost	US\$/t	31.3	26.7	24.6	24.5	22.2

Source: BMO Capital Markets

Iron Ore Miners

July 29, 2009

Kumba Iron Ore Limited		KIO	
As at Rating	29-Jul-09 Market Perform	Analyst Tony Robson BMO Capital Markets	
Share Price (US\$) equiv	\$23.29	Share Price (R\$)	\$R198.00
Target Price (US\$)	\$23.53	Target Price (R\$)	\$R200.00
NPV (US\$)	\$17.46	NPV (R\$)	\$R148.38
Ordinary Shares (M)	320.1		
Options + Notes (M)	2.2		
Market Cap (US\$M)	\$7,457	Market Cap (R\$M)	\$R63,385

PRICE ASSUMPTIONS						
(Dec Year End)						
	2008A	2009E	2010E	2011E	2012E	
Exchange Rate	Rand/US\$ (ZAR)	8.27	8.85	8.82	9.26	9.72
Iron Ore Lump	US\$/%Fe	176.9	134.4	120.4	137.1	126.8
Fines (Robe)	US\$/%Fe	102.5	86.8	83.1	87.9	79.5

FINANCIAL SUMMARY						
(Dec Year End)						
	2008A	2009E	2010E	2011E	2012E	
NPAT (pre-Abs)	(R\$M)	7206	5159	6135	7724	7792
EPS (fully diluted)	(Reps)	2256	1608	1916	2413	2434
PER	(x)	8.8	12.3	10.3	8.2	8.1
EPS Growth	(%)	+>100.0	-29	19	26	1
EBITDA	(R\$M)	14028	10202	11279	14108	14068
EBITDA per share	(Reps)	4386	3187	3523	4407	4394
EV/EBITDA	(x)	4.4	6.2	5.4	4.1	4.0
Dividend	(Reps)	2100	1079	1286	1619	1633
Yield	(%)	10.6%	5.4%	6.5%	8.2%	8.2%

PROFIT AND LOSS STATEMENT - R\$M					
(Dec Year End)					
	2008A	2009E	2010E	2011E	2012E
Gross Sales Revenue	21358	20477	23128	25784	26266
Other Revenue	0	0	0	0	0
Consolidated Revenue	21358	20477	23128	25784	26266
Operating Costs	7896	10034	11475	11239	11752
Gross Operating Profit	13462	10442	11654	14545	14515
Depreciation	389	398	489	489	517
Exploration	0	0	0	0	0
Corporate/Royalties/Other	-566	241	375	437	447
EBIT	13639	9803	10790	13619	13551
Less Net Interest Expense	247	58	50	99	-89
Pre-Tax Profits	13392	9746	10740	13521	13640
Less Tax	4311	3243	3007	3786	3819
Less Minorities	1875	1343	1597	2011	2029
NPAT (pre-Abs)	7206	5159	6135	7724	7792
Net Abnormals	0	0	0	0	0
Reported Profit	7206	5159	6135	7724	7792

DIVISIONAL VALUATION	
NPV US\$M	
Sishen Mine 74%	5,766
Thabazimbi 74%	2
Net Cash	-45
Corporate and Other	-95
TOTAL NPV (US\$M)	5,627
NPV per Share (US\$)	\$17.46

CASH FLOW ANALYSIS - R\$M					
(Dec Year End)					
	2008A	2009E	2010E	2011E	2012E
Cash Flows From Operating Activities					
Receipts From Customers	21358	20477	23128	25784	26266
Payments To Suppliers	(7896)	(10034)	(11475)	(11239)	(11752)
Net Interest	(247)	(58)	(50)	(99)	89
JV Divs, Tax and Other	(3408)	(3243)	(3007)	(3786)	(3819)
Cash Flows From Investing Activities					
Acq. of Property, Plant and Equip.	(2563)	(2248)	(3233)	(3235)	(3237)
Exploration Expenditure	0	0	0	0	0
Other	76	0	0	0	0
Cash Flows From Financing Activities					
Net Change in Borrowings	328	0	0	0	0
Dividends Paid	(4870)	(6393)	(3071)	(4585)	(5255)
Other incl Share Issue or Buy Back	80	0	0	0	0
Net Increase in Cash Held	2858	(1500)	2292	2840	2293
Cash At End of Year	3810	2310	4603	7443	9735

BALANCE SHEET ANALYSIS - R\$M					
(Dec Year End)					
	2008A	2009E	2010E	2011E	2012E
Current Assets					
Cash and Liquids	3810	2310	4603	7443	9735
Other	4688	4688	4688	4688	4688
Non-Current Assets					
Investments	275	375	475	575	675
Fixed Assets	7911	9761	12505	15252	17972
Other	19	19	19	19	19
Current Liabilities					
Borrowings	2881	2762	3120	3478	3543
Creditors	1655	1655	1655	1655	1655
Other	310	310	310	310	310
Non-Current Liabilities					
Borrowings	977	977	977	977	977
Other	2374	2374	2374	2374	2374
Minority Interest	1647	1815	2771	3836	4846
SHAREHOLDERS FUNDS	6859	7260	11083	15346	19384
Net Debt/Equity %	0.6%	15.7%	-3.7%	-15.6%	-21.5%
Net Debt/(Cash)	48	1429	-506	-2988	-5215

DIVISIONAL EARNINGS (EBIT) - R\$M					
(Dec Year End)					
	2008A	2009E	2010E	2011E	2012E
Sishen Mine	14019	9999	10774	13618	13551
Thabazimbi	16	16	16	1	0
EBIT Total, before eliminations	14035	10015	10790	13619	13551

PROJECT/DIVISION - Production (attributable)						
(Dec Year End)						
		2008A	2009E	2010E	2011E	2012E
Sishen Mine						
Lump Iron Ore	Mt	18.8	21.0	26.0	26.0	27.5
Fines Iron Ore	Mt	12.4	14.0	17.0	17.0	18.0
Thabazimbi						
Lump Iron Ore	Mt	0.9	1.4	1.2	0.1	0.0
Fines Iron Ore	Mt	1.0	0.9	1.2	0.1	0.0

Source: BMO Capital Markets

Iron Ore Miners

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MMX		MMXM3	
As at Rating	29-Jul-09	Outperform	Analyst Tony Robson BMO Capital Markets
Share Price (US\$) equiv	\$3.38	Share Price (BRL)	R\$6.61
Target Price (US\$)	\$4.34	Target Price (BRL)	R\$8.50
NPV (US\$)	\$4.20	NPV (BRL)	R\$8.22
Ordinary Shares (M)	304.9		
Options + Notes (M)	0.0		
Market Cap (US\$M)	\$1,029	Market Cap (BRLM)	\$2,000

PRICE ASSUMPTIONS					
(Dec Year End)	2008A	2009E	2010E	2011E	2012E
Exchange Rate C\$/US\$	0.943	0.865	0.940	0.960	0.940
Exchange Rate BRL/US\$	1.84	2.08	2.06	2.20	2.34
Fines Carajas SFCJ US\$/%Fe	140.6	101.0	111.0	116.0	99.8
Iron Ore Fines SSF US\$/%Fe	107.3	93.8	91.8	97.1	87.9
Pellets Tubarao BFP US\$/%Fe	220.2	113.8	125.2	155.3	133.5
Pig Iron US\$/Tonne	629.4	299.3	350.0	350.0	350.0
Steel US\$/Tonne	697.9	391.0	550.0	650.0	650.0

FINANCIAL SUMMARY					
(Dec Year End)	2008A	2009E	2010E	2011E	2012E
NPAT (pre-Abs) (US\$M)	-156	-97	-38	71	29
EPS (\$ps)	-0.51	-0.32	-0.12	0.23	0.10
PER (x)	n/a	n/a	n/a	14.6	35.2
EPS Growth (%)	40	37	61	>100.0	-59
EBITDA (US\$M)	-62	-37	58	267	264
EBITDA per Share (\$ps)	-0.20	-0.12	0.19	0.88	0.87
EV/EBITDA (x)	-26.9	-56.8	42.8	11.0	11.2
Dividend (\$ps)	0	0	0	0	0
Yield (%)	0.0	0.0	0.0	0.0	0.0
Franking (%)	0	0	0	0	0

PROFIT AND LOSS STATEMENT - US\$M					
(Dec Year End)	2008A	2009E	2010E	2011E	2012E
Group Sales Revenue	390	301	535	1010	1256
Other Revenue	7	0	0	0	0
Consolidated Revenue	397	301	535	1010	1256
Operating Costs	214	299	362	593	842
Gross Operating Profit	184	2	173	417	414
Depreciation	19	34	30	44	76
Exploration	2	0	0	2	0
Corporate/Royalties/Other	243	30	115	148	149
EBIT (Subsidiaries & JV)	-81	-62	28	223	189
Less Net Interest Expense	58	65	80	108	126
Pre-Tax Profits	-139	-127	-52	115	63
Less Tax	11	-27	-16	35	19
Less Minorities	6	-3	1	10	15
NPAT (pre-Abs)	-156	-97	-38	71	29
Net Abnormals	-335	-26	0	0	0
Reported Profit	-491	-123	-38	71	29

DIVISIONAL VALUATION		
NPV US\$M		
Bom Successo Iron Ore Mines	100%	1,026
Serra Azul Iron Ore Mines	100%	674
Corumba Iron Ore Mines	70%	203
Corumba Pig Iron Plant	100%	-12
Chile	100%	100
Corporate and Other		-122
Net Cash/(Debt) incl JV		-588
TOTAL NPV (US\$M)		1,280
NPV per Share (US\$)		\$4.20

CASH FLOW ANALYSIS - US\$M					
(Dec Year End)	2008A	2009E	2010E	2011E	2012E
Cash Flows From Operating Activities					
Receipts From Customers	392	301	535	1010	1256
Payments To Suppliers	(247)	(299)	(362)	(593)	(842)
Net Interest	(23)	(65)	(80)	(108)	(126)
JV Divs, Tax and Other	(242)	(30)	(115)	(148)	(149)
Cash Flows From Investing Activities					
Acq. of Property, Plant and Equip.	(479)	(279)	(363)	(620)	(159)
Exploration Expenditure	0	0	0	0	0
Other	(189)	(50)	0	0	0
Cash Flows From Financing Activities					
Net Change in Borrowings	450	400	276	504	0
Dividends Paid	0	0	0	0	0
Other incl Share Issue or Buy Back	193	0	0	0	0
Net Increase in Cash Held	(144)	(22)	(110)	45	(20)
Cash At End of Year	56	34	(75)	(30)	(50)

BALANCE SHEET ANALYSIS - US\$M					
(Dec Year End)	2008A	2009E	2010E	2011E	2012E
Current Assets					
Cash and Liquids	145	124	14	59	39
Other	162	164	167	169	172
Non-Current Assets					
Investments	0	0	0	0	0
Fixed Assets	618	913	1246	1824	1908
Other	71	70	70	70	70
Current Liabilities					
Borrowings	299	299	299	299	299
Creditors	39	30	53	100	124
Other	212	212	212	212	212
Non-Current Liabilities					
Borrowings	485	885	1161	1665	1665
Other	7	8	8	8	8
Minority Interest	0	5	10	15	20
SHAREHOLDERS FUNDS	-45	-167	-245	-176	-140
Net Debt/Equity %	-1409%	-653%	-614%	-1186%	-1609%
Net Debt/(Cash)	638	1060	1446	1904	1925

DIVISIONAL EARNINGS (EBIT) - US\$M					
(Dec Year End)	2008A	2009E	2010E	2011E	2012E
Serra Azul Iron Ore Mines	129	-35	103	255	164
Bom Successo Iron Ore Mines	0	0	0	0	35
Corumba System Iron Ore Mines	29	-12	4	48	71
Corumba Pig Iron Plant	-11	-3	0	0	0
EBIT Total, before eliminations	147	-51	108	303	269

PROJECT/DIVISION						
		2008A	2009E	2010E	2011E	2012E
Lump Iron Ore	Mt	2.2	3.1	3.0	4.0	6.7
Fines Iron Ore	Mt	2.4	3.9	7.7	12.8	16.7
Total Iron Ore	Mt	4.6	6.9	10.7	16.8	23.4
Pellets	Mt	0.0	0.0	0.0	0.0	0.0
Pig Iron & Crude Steel	Mt	0.2	0.1	0.0	0.0	0.0

Source: BMO Capital Markets

Iron Ore Miners

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Disclosure**Analyst's Certification**

I, Tony Robson, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities or issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

I, David Radclyffe, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities or issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

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* Reflects rating distribution of all companies where BMO Capital Markets has received compensation for Investment Banking services.

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