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HD **BC Iron share price falls after Iron Ore takeover**

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BC Iron's $250 million acquisition of Kerry Stokes's Iron Ore Holdings has thrilled some investors yet sent others running.

The mid-tier iron ore miner launched a cash and scrip offer for the billionaire's Iron Ore Holdings in August, a deal that has the potential to give BC Iron options beyond the short mine life of its single operation – the Nullagine joint venture – and boost its cash balance.

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The transaction appeared to be received well across the board but since announcing the IOH deal on August 11, shares in the company have fallen by around 40 per cent.

According to Macquarie analyst Hayden Bairstow, this slide is predominantly due to the low iron ore price buffeting the sector, which has left few in the market unscathed.

But the share price has also been impacted by investors' reaction to the deal, with several dividend-focused institutions leaving the stock.

"There certainly would have been people who didn't like the deal who would have been selling stock, and given what has happened to the iron ore price liquidity has been pretty poor. As a result your share price moves appropriately," he said.

"All of the small and mid-tier producers are struggling at the moment with the price."

Over the past few years, BC Iron has sustained a strong share price and attracted a raft of investors based on its strong history of delivering its owners healthy dividends, most recently declaring final dividend of 15¢ per share at the time of the takeover announcement.

Future dividend payments are likely to take a hit as a result of the deal, but Macquarie has noted that longer-term gains are expected. "They have diluted their shareholders a bit by buying IOH so you do get a bit of a dilution on your dividend. But the ability from a cash perspective to pay a dividend might not change depending on how they handle these new assets," Mr Bairstow said. "Obviously it has with the iron ore price, but that was going to happen regardless of whether they did the deal or not."Five-year low

Iron ore fell to a five-year low this month, spooking investors and industry alike.

There is a clause in the IOH deal that says it can be nulled if the iron ore price falls below $A90 per tonne for 20 days. While the price has dipped below this level, a consecutive run seems unlikely to threaten the deal.

Monday is the last day for BC Iron to give notice of the status of the deal's conditions before it is due to close on September 30. The company, which is valued at around $248 million, could take its remaining six years of mine life and breathe 15 additional years into them if IOH's two assets, Iron Valley and Buckland, can be brought into production.

IOH has a 20-year mine gate deal with Mineral Resources at Iron Valley, which is expected to produce about 5 million tonnes per annum of iron ore. Buckland, while only in a feasibility stage, is the jewel in the company's crown and has been identified by BC Iron managing director Morgan Ball as a particularly strategic part of the acquisition.

However, the development of Buckland will be a future pressure point for BC Iron.

UBS highlighted in a recent note that the success of the $800 million project would be the crucial factor in determining how much value the transaction will add to BC Iron, but question marks remain around infrastructure and the cost of development.

Chinese steelmaker Baosteel and rail provider Aurizon, who recently acquired fellow iron ore hopeful Aquila Resources for $1.42 billion, are planning to splash cash on a new port and rail through the region. Westoz funds management executive director Dermot Woods said it would make sense for BC Iron to invest in Baosteel's plans rather than to develop its own infrastructure.

However, others view the cost of the exercise as out of reach for the merged entity.

Citi recently noted that it would view the deal with IOH falling over as a positive, as "BC Iron does not generate enough cash to fund Buckland at our iron ore forecasts".

Westoz used to have a position in BC Iron but now prefers Mt Gibson, Mr Woods said. "They are currently facing some difficulties, including issues with the orebody at Nullagine," he said. "It looks like costs are going up and the yield is going down – which is bad from a cost point of view."

In that sense, the timing of the IOH acquisition couldn't be better for BC Iron, presenting the company with a fresh opportunity to repeat its success.

CO ironoa : Iron Ore Holdings Ltd.

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