



Century Iron

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Century Iron Mines: World-class resource, blue-chip partners and fully funded

The market's perception of risk is ever changing and often contradictory.

A case in point is Century Iron Mines Corporation (TSE:FER), which debuted on the TSX last year valued at \$300 million.

At this point it was sitting on a resource of 850 million tonnes, but with plenty of potential to improve on this figure.

Some 12 months later it has delivered spectacularly as it has raced its assets in Canada's Labrador Trough right along the value curve.

It now it boasts a measured and indicated resource of 8.4bn tonnes, with a further 11bn in the inferred category.

Yet the market's reaction has been to strip Century's market capitalisation back to less than \$100 million. The cash on its balance sheet means the business has an enterprise value of just \$50 million.

Of course the whole risk scenario has changed as market sentiment has turned against small- and mid-cap natural resources plays.

The weakness of the iron ore price has also applied a blanket discount to exploration companies such as Century.

And with such a huge resource, the worry often is how the junior will exploit its new found good fortune. As we will see, the financial commitment is potentially massive.

That said, the Canadian junior has taken some practical steps that go a very long way to addressing these concerns.

The absurdity of the situation doesn't end with the market's assessment of risk (real or perceived).

The current valuation ignores some real value that has been added.

In WISCO (Wuhan Iron & Steel Company) and MinMetals it has brought on board two blue-chip Chinese investors with huge ambitions and the deep pockets required to unlock the potential of Century's assets.

The Chinese have taken a 30% stake in Century, WISCO has 25% and has pledged to buy 60% of the output from the mines when they are up and running.

There is also a funding package worth \$120 million (so more than the current market cap) that will allow the mine developer to take three projects to the bankable feasibility stage.

The involvement of WISCO both at an equity investment and project level, combined with Century's various joint-ventures, makes the company appear a little opaque.

The best way of understanding just what investors are getting for their money is to distil the proposition down to a single figure.

Price: C\$0.99

Market Cap: C\$94.39M

1 Year Share Price Graph



Share Information

Code: FER

Listing: TSX

Sector: General Mining

Website: www.centuryiron.com

Company Synopsis:

Century Iron Mines Corporation is a mining company with mineral exploration and development activities focused on iron ore. Listed on the TSX - stock symbol FER, it has iron ore rich mining properties in Western Quebec south of James Bay and in the well-known Labrador trough that spans North-Eastern Quebec and Western Newfoundland and Labrador.

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Century has done this by taking that giant global resource figure of close to 20bn tonnes and assessed just how much of that belongs to its investors.

It comes up with what it calls an "attributable resource" of 3.2bn tonnes (in the indicated and inferred categories).

By anyone's standards this is a huge figure.

And Century has a road map for bringing the assets into production and the financial clout to make this happen.

WISCO has agreed to find debt funding for the projects in its Century joint-venture.

So for example, Full Moon, the largest of the JV's iron projects, is expected to cost in the order of \$5bn to bring into production.

Under the arrangement with WISCO, the equity element would be \$1.5bn, with Century shareholders shouldering \$600m of that figure.

This is still a big ask. But it is a far, far smaller financial undertaking that it would have been without WISCO's help.

Understated in all of this is the fact Century's assets reside in Canada, and not some back-of-beyond, politically unstable dictatorship with no infrastructure.

There are three main projects in Quebec : Joyce Lake and Full Moon (eastern Quebec) and the Duncan deposits (western Quebec).

The largest by far is Full Moon with a measured and indicated resource of 7.3bn tonnes of taconite ore at a grading around 30% iron (with a further 8.7bn tonnes inferred).

"It is the mother lode, the company maker," says Century chief executive Sandy Chim when we meet. "We control a strike length of 11 kilometres. It is very unusual thickness it is double the thickness of our neighbour's deposit."

First into production is likely to be Joyce Lake, part of Century's Attikamagen project.

It is a high-grade direct shipping ore (DSO) deposit capable of producing at one million tonnes a year.

It is expected to be up and running in 2015 and the capex should come in at a relatively modest \$100m, based on similar projects in the region. There is also DSO potential at Hayot and Lac Fer, also part of the JV.

This is the "low hanging fruit" that will provide Century and its partners with an income until Full Moon comes on stream, says Chim.

At today's iron ore prices this early DSO production from Joyce has the potential to generate revenue in the order of \$120 million a year.

It will also provide the group with the financial wherewithal to fund a 22 kilometre rail spur from the project onto the main railroad.

Initially the iron ore from Joyce Lake will be ferried by truck and then by train to Sept-Iles.

The Quebec port will also handle the output from the giant Full Moon prospect, when it gets underway in 2017/18 with output projected to be in the order 21 million of tonnes a year initially.

As mentioned Full Moon is thicker than neighbouring taconite discoveries, meaning the economics are far more attractive.

The product will be shipped more than 600 kilometres by rail to Sept-Iles, which is currently undergoing a 50 million tonnes a year expansion in capacity.



This is designed to deal with output from properties such as Century's and neighbouring projects such as New Millennium's Tata-partnered KeMag and LabMag deposits.

The preliminary economic assessment of New Moon is expected by the second or third quarter of next year, with Century quickly moving on to a bankable feasibility study.

Before it completes the BFS it will be required to elevate a portion of the giant resource into the reserves category.

"So we are looking at a very quick and dirty figure of 2bn tonnes to reserves," says Chim. "With our resource and strike of 11 kilometres that shouldn't be too hard."

Based on other projects in the region, Full Moon should be in the lower cost quartile, meaning it doesn't have to rely on a sky high iron ore price to be economic.

The first significant piece news is expected to be the PEA on Duncan Lake (which has a 1.1bn tonne measured and indicated resource at 24-25% iron).

This is expected late this year or very early next, while the Joyce Lake resource is due at some time this quarter followed by the PEA next year.

The drill programme, meanwhile, should be in the order of 20,000 metres over the next 12 months, Chim confirms.

So 2013 is shaping up to be a pivotal year and one in which should add several more layers of value to Century's investment proposition. Let's just hope the market takes heed.

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