



September 21, 2012

Dear clients and colleagues,

One of the investment themes in our portfolio is emerging countries. Demand for commodities has been resilient due to continuing infrastructure investment and robust consumption. China is the primary force in commodity markets, consuming anywhere from 20% to 65% of global production of various commodities. This week we shall profile Atlas Iron, the latest addition in the portfolio.

Why Atlas? Atlas is a high-quality company, and has the potential to become Australia's 4th largest iron ore producer, once all future projects are completed. It is a member of the ASX 100 index, a low cost producer, debt free, and generating operational cash flow in excess of \$200M per annum.

Why Now? Iron ore price fell to its lowest level in almost three years this month, having reached a record in February 2011. Atlas was a mid-cap stock in 2011. However, investor pessimism towards a slowing economy in China has pressured Atlas into our small cap arena. Atlas pays a dividend yield of 2.5% and is currently trading at 0.7x Price/Book ratio. We believe the demand for iron ore should rebound as China rolls out more stimuli. All the quantitative easing initiated by various governments should also support commodity prices.

Atlas Iron Limited (AGO AU - A\$1.57)

www.atlasiron.com.au

Business Overview

Atlas Iron is a dynamic Australian iron ore producer exporting Direct Shipping Ore (DSO) with a number of key projects held within 150Kms of the Port Hedland in Western Australia. The company operates two iron ore mines: the Pardoo mine, which opened in 2008; and the Wodgina mine, which opened in July 2010. It has 1.1 billion tonne resource base and 828 million tonne reserves. Exports are expected to double to 12 million tonnes per annum (Mtpa) by December 2013. The company targets 15 mtpa by 2015 and 46 mtpa by 2017.

History

Atlas was listed on the ASX on December 2004.

Market Data

Market Cap U\$1.4B, no net debt, cash \$415M, p/e (12/2013) 10.9x, Price/Book (12/2013) 0.7x, ev/ebitda (12/2013) 4.0x.

Competitive advantages

Atlas is a low cost producer. Another key competitive advantage is its oversized port capacity of 46.5mtpa, versus current annual production of 6mtpa. Its active operations are 80kms from port making trucking economical as compared to larger producers who need to invest in building private rail line. Western Australia

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is a highly competitive market for employees; however, Atlas has a low turnover rate by creating a safe production and family friendly environment.

Growth strategy

- New mine developments: Mt Dove, Abydos, and Mt Webber.
- M&As

Risks

- Low iron ore prices.
- A\$ appreciation.

Valuation

Target price = A\$2.53 is based on a sum-of-the-parts NPV using a real discount rate of 10%.

Have a nice weekend.

The Global Alpha Team

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