THE AUSTRALIAN

Business

Atlas, MinRes unite as discount takes toll

PAUL GARVEY, MINING
612 words
10 April 2018
The Australian
AUSTLN
Australian
19
English

Persistently weak prices for lower-grade iron ore have pushed former high-flyer Atlas Iron into the arms of Chris Ellison's Mineral Resources, formally bringing to an end one of the most prominent boom-and-bust stories to emerge from the last resources cycle.

Atlas will disappear into Mr Ellison's sprawling resources empire under a friendly deal that will see long-suffering Atlas shareholders pick up one MinRes share for every 571 Atlas shares they own. Those terms implied an initial value on Atlas of just over 3c per share or $280 million and a premium of 59 per cent, although MinRes shares fell almost 7 per cent yesterday after the deal was announced.

The Atlas assets will significantly increase MinRes's hold on capacity at the Utah Point berth in Port Hedland while also delivering the large but stranded Pilbara iron ore deposits needed to underpin its long-planned lightweight Pilbara rail network.

The Atlas acquisition will also strengthen MinRes's position in the red-hot lithium space, with much of Atlas's expansive Pilbara landholdings also considered prospective for the key battery ingredient.

MinRes also stands to benefit from picking up more than $500m of deferred tax losses sitting on Atlas's balance sheet, which if realised could effectively cover the cost of the acquisition.

Atlas almost collapsed under the weight of its debts back in 2016, and has been living an almost hand-to-mouth existence since then.

Atlas managing director Cliff Lawrenson told The Australian that the widening discount for lower grade iron ore over the past year and the volatility in the market had helped make the MinRes union a more attractive option.

"The thing that has made a big difference for us, if I am to point to anything, is the ongoing discount for lower-grade iron ore," Mr Lawrenson said.

"As much as I've hoped it would go away and as we've tried to find ways and means to improve our underlying product quality, it's just a big weight on Atlas." Lower-grade ores from the Pilbara have typically traded at a 10 per cent discount to higher-grade material, but that gap has blown out to around 40 per cent in the past year on the back of regulatory changes in the Chinese steel industry.

Mr Lawrenson said the operational and balance sheet strength of MinRes, which has a substantial mining services arm and profitable lithium, manganese and iron ore operations, could finally unlock the upside value in Atlas's asset base.

"We've been trying to put diversification into the business and we've done a few deals in that area, but they're not game-changers.

So (Atlas shareholders) get to choose whether they want to go from the Atlas model, which is still heavily reliant on low-grade ore, and step into a company that is already diversified, which has the means to liberate the assets which they get as part of the deal." Perth-based Atlas was in many ways the quintessential mining company of the China-inspired mining boom. It started life as a dime-a-dozen gold exploration play in 2004, before switching its focus to iron ore as the China boom took hold.

The shares that originally listed at 20c each eventually soared to well above $4 a share by 2008, with the company boasting a market capitalisation in excess of $3bn and being admitted to the prestigious ASX 100 index.But the iron ore downturn of 2015-16 coincided with a peak of debt within Atlas, forcing a dilutive recapitalisation.

Document AUSTLN0020180409ee4a0003q

