

FINANCIAL REVIEW

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HD **Rio Tinto may eclipse target**
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Rio Tinto could eclipse its own ambitious **iron ore** production target for the 2014 year after a strong September quarter, amid attacks on its expansion strategy by government and industry.

UBS analyst Glyn Lawcock said Rio will easily hit its target of 295 **million** tonnes for the year if the current quarter matches up to its September quarter performance.

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"Today is evidence from Rio, and I think you'll see similar from BHP next week with their production figures, that there is no let up in supply, with more supply to come," Mr Lawcock said on Wednesday.

"Rio's production expansion plans remain on track, so I think that is just going to weigh on the market."

On Wednesday morning, Rio posted a 12 per cent rise in September quarter production to 76.8 **million** tonnes, compared to the same time last year. UBS was betting on 76.3 **million** tonnes.

The miner also increased its **copper** production guidance for the full year but for Rio it is really all about **iron ore** - the commodity accounts for 90 per cent of its earnings.

Rio has found itself under fire this month over the price impact of its **iron ore** expansion.

The fresh production record came as Rio boss Sam Walsh hit back at West Australian Premier Colin Barnett's surprise attack on the miner and rival BHP Billiton for "acting seemingly in a concert way" to flood a depressed **iron ore** market, saying the expansions were approved by his government.

Rio is well placed to take advantage of growing demand in emerging markets, **lead** by **China**, through its expandable long life **operations**.

Rio is racing to increase annual production by about 25 per cent to 360 **million** tonnes a year, through low-cost expansions of its existing Pilbara infrastructure, which are set to be finished before June.

Analysts are tipping Rio's full-year **iron ore** output for calendar 2015 could surprise on the upside. Rio's update on Wednesday revealed it has produced 216.2 **million** tonnes in the nine months to September, a 12 per cent rise on the same period last year. Rio's **equity** share of that production is 170.3 **million** tonnes.

Spot **iron ore** has staged a modest recovery this week, reaching \$US84 a tonne on after languishing at five-year lows of about \$US80 a tonne. Spot **iron ore** has crashed about 40 per cent this year.

Glencore boss Ivan Glasenberg has been casting doubt over Rio's aggressive expansion strategy as part of his pitch to investors to entice Rio shareholders into a \$190 **billion** merger. Rio told the market last week of the merger advance, which it rejected in August.

Fortescue Metals Group boss Nev Power also attacked the strategies of Rio and BHP, saying they were "scorched earth" policies that would "result in self-inflicted wounds of the sort we are seeing playing out now".

Their new unlikely ally, WA Premier Colin Barnett, has attacked the majors saying "remember who your landlord is".

Mr Barnett has taken umbrage at the falling royalty revenue for WA caused by the drop in **iron ore** prices, which he in part blames Rio and BHP for.

Rio hit a 290 **million** tonnes run rate target in May, two months ahead of schedule, marking the completion of the first phase of its dramatic expansion from 210 **million** tonnes to 360 **million** tonnes.

Rio Tinto has increased its **copper** guidance for the year, to 615,000 tonnes of mined **copper**, up from 585,000 tonnes, and refined **copper** production of 300,000 tonnes, previously 260,000.

"The commodities that matter are tracking well," Mr Lawcock says of Rio's production figures.

"Those are **iron ore** – first and foremost – and then **copper**, while aluminium, outside of **alumina**, is just tracking along."

After a 4 per cent leap on Tuesday on the back of a rare good day for **iron ore** prices, Rio shares closed 0.4 per cent higher on Wednesday at \$60.99.

Key points Rio looks set to easily reach 295 **million** tonnes of **iron ore** for the 2014 year. The **firm** has posted a 12pc September-quarter production increase.

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