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HD **Big miners rein in costs while strapped juniors face wilderness**

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A wrap-up of the quarterly production reports of Australia's **mining** industry

MARCH-quarter exploration and production reports from the resources sector flooded in last week to meet the end-of-April deadline. And as is normally the case, the reports contained the usual mix of the good, bad and ugly.

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The good news was around the industry's success in reining in costs in response to lower commodity prices, and the absence of wet season-related impacts that have dogged the industry in past years.

The bad news was pretty much limited to some ongoing shortcomings at **operations** where the lower price environment, or specific operational difficulties, were at play. But nothing too serious, except perhaps the concern with the Pacific island **operations** of **gold** producer St Barbara.

The ugly news was the alarming growth on the ASX in the number of "zombie'' exploration companies — those that have had to stop exploring because they are running low on cash.

And because their chances of being able to tap the market for fresh funding are next to nothing in the current climate — one where investors have an aversion to risk and a preference for yield — they face a prolonged time in the wilderness.

Analysis of the last 200 March quarter cash reports that were to be lodged by the pure explorers ahead of the ASX deadline last Wednesday showed that more than 50 per cent of them do not have sufficient cash to cover their administration costs beyond six months, let alone actually conduct some exploration.

The solution for companies inside Joseph Gutnick's stable has been to get by with personal loans from the **mining** entrepreneur, one who it was said back in the roaring **mining** market in the 1980s could make share prices "dance''.

Mr Gutnick told The Australian that for four years it had been "tough, tough, tough" for juniors seeking to raise **equity** funds. "I have never seen it like this. It is almost like a graveyard,'' he said.

But ever the optimist, Mr Gutnick said things wouldchange. "It is a cycle." And as for his stable, Continued on Page 23 Continued from Page 19 diamond **company** Merlin is turning to Asia to support a planned $10 **million** capital raising to get things moving.

His advice to the cashstrapped explorers is to "keep on fighting because eventually the market will turn." Today the Resources Team at The Australian dissects the March quarter reports, identifying the key themes to emerge, and where to next for an industry in transition from super-cycle to one where the productivity agenda dominates.

COAL 'Surprisingly strong' THE short-term pain being felt by Australia's **coal** miners grappling with high costs and low commodity prices was surprisingly not the theme of the March quarterly reports.

While most warned of continued tough conditions in the short term, production levels remained strong with minimal seasonal weather impacts hitting output levels.

Deutsche Bank analyst Paul Young said results from the major miners' coal divisions were "surprisingly" strong.

"Part of that is we didn't have a big wet season in Queensland in January and February, or in NSW," he said.

The senior resources analyst said BHP was one of the standouts with its results from its coal division following its Daunia mine in Queensland reaching full capacity and Caval Ridge starting its ramp-up.

"BHP has done a great job at maximising utilisation rates across their big coal mines," he said.

"They lifted their production guidance. They are doing a great job in Queensland and are running above their target and have been for the last six months.

"The fact that Caval Ridge has come on six months early and under budget means its volumes will increase further." He added that Rio Tinto was doing a good job in NSW's Hunter Valley region, with robust production.

China-backed Yancoal and Whitehaven are both also pushing to expand production given they have take or pay contracts, meaning they pay for infrastructure capacity even if they do not use it. Continuing to ramp up volumes is their best strategy in a market of depressed prices and higher costs.

Mr Young said it is a two-part market in the coal sector.

"There is the take or pay market, where miners that are running at losses would run at even bigger losses if they stopped producing, so they have to keep running," he said.

"And then there is the part that is new production and that is the majority of the growth, which is the ramp up of new low cost mines." He added that the general perception in the market is that exports out of Australia have to decline considering the prices are under pressure but he outlined that wasn't the case.

"It is actually the opposite. Exports will continue to decline because the number of big, low-cost mines are being brought online," he said.

Mr Young said given the next quarter will not be hit with any seasonal weather impacts, production results should continue to remain strong.

SARAH-JANE TASKER

IRON ORE 'BHP a standout'

THE March quarter is traditionally the trickiest time of year for Australia's iron ore miners as cyclones and the wet season play havoc with mines and ports in Western Australia's Pilbara.

And this year was no different, with most iron ore miners battling to cope with the conditions.

The standout performer from the space was mining giant BHP Billiton, which managed to defy the weather conditions and post a record quarter. So good was the quarter that the heavyweight upped its annual iron ore guidance by 5 million tonnes to 217 million tonnes. That increased guidance will add an estimated $US250m to the company's earnings.

In contrast, Rio Tinto served up its worst quarter of iron ore production in a year, with output down six per cent from the December quarter. Expansions carried out over the past year, however, meant the 66.5 million tonnes produced by it and its minority partners was 8 per cent higher than a year earlier.

Andrew Forrest's Fortescue Metals Group also battled to cope with the tough seasonal conditions, and now faces an uphill battle to meet its full-year production target.

After only managing to ship 31.5m tonnes in the March quarter, Fortescue now needs to produce almost 42m tonnes in the current quarter if it is to meet its full year guidance of 127m tonnes.

Fortescue chief Nev Power admitted the target would require the company to run its operations at sprint capacity but insisted the guidance was still realistic.

Of the smaller iron ore players, the quarter's star performer was Atlas Iron. Atlas' record shipments for the quarter, coupled with the potential upside from its recent Corunna Downs discovery, caught the attention of the market and sent its shares upwards despite worsening investor sentiment towards the sector.

Production figures aside, the key driver of the share prices in the sector continues to remain the iron ore price. The benchmark spot iron ore price is now down more than 21 per cent since the start of the year.

ANZ's commodities desk said on Friday that the recent weakness in iron ore prices was looking overdone.

"Reports of a crackdown on Chinese iron ore inventory financing activity and the partial reinstatement of iron ore exports from India has seen iron ore prices fall 10 per cent or $US13 a tonne in the past two weeks." "However, our analysis suggests the volume impact will be modest and that the market has reacted too negatively to the news. We think, together with the onset of stronger seasonal demand and additional Chinese stimulus, prices should rebound back up to the $US115-120 a tonne range over the coming months," the analysts said. The share price beatenup iron ore producers will be hoping that proves to be the case.

PAUL GARVEY

GOLD Producers bulk up Gold producers had another busy quarter adjusting to the lower gold price environment.

And according to James Wilson, Morgans' senior resources analyst in Perth, the hard work has been paying off.

"From what I saw, everyone seemed to be punching above their weight. The overall theme was all of the companies are under-promising and over-delivering," Wilson said.

"There was no one coming in and saying that they will be at the lower end of guidance - everybody was at the middle to the top of their forecasts. That's what the market wants to see," he said.

"Everyone is out to impress at the moment on costs. Cash costs have been tracking sideways, or downwards. But all in sustaining costs are much the same," Wilson said after reviewing the reporting period.

"That suggests that there is still a lot of capital being deployed. So the gold producers are still having to invest to achieve outperformance of their guidance. So money is being thrown in to get these results." The March quarter reports confirmed an all-in sustaining cost for the local industry of about $A1,050 an ounce, with cash costs generally knocking around $A800 an ounce. So despite the smashed equity values in the sector, the industry is still enjoying about a $A300 an ounce margin.

Wilson identified a move by producers to bulk-up in an effort to extract economies of scale as an offset to on-going gold price pressure.

"It is not about being a 60,000 ounce-a-year producer any more, it is about being a 300,000 ounce producer. That's where investors want to be because of the ability to maximise cash flow through economies of scale." The push became more evident after the end of the quarter with the since aborted merger talks between North American gold giants Newmont and Barrick.

It was suggested that as much as $US1 billion in savings could be made. A huge gap continues to exist in the local market between Newcrest with its 2.3m ounces of annual gold production and the next biggest producers. So while there has yet to be merger and activity on the scale seen in North America, M & A activity has picked up.

Examples were Northern Star and Saracen buying assets, and the Chinese-backed Norton making a takeover bid for Bullabulling.

More activity is tipped as the pressure to bulk-up from investors intensifies. BARRY FITZGERALD

OIL & GAS Smooth going AS the Australasian region's raft of LNG projects under construction heads toward completion, making us the world's biggest LNG exporter, more and more focus is being put on quarterly updates from their owners.

For investors and those hoping boom-time delays and cost-blowouts are over, March quarter results provided good news.

The Papua New Guinea LNG plant, run by Exxon and in which Oil Search and Santos also have an interest, performed the rare feat of flagging an early start, potentially this month, which will provide extra 2014 production and cashflows for all involved.

There were also no signs the three LNG projects being built to export coal seam gas through Gladstone from the December quarter of this year at a combined $70 billion cost were having any problems, despite a huge amount of market scepticism.

BG Group, Santos and Origin Energy all said their plants were running on time and budget and that drilling of the thousands of CSG wells needed to fill them was going as or better than expected.

If that is the case, it's welcome news. But Shell provided some hints there may be struggles filling the plants without more deals, which its chief financial officer indicating there is time pressure on other parties to buy gas from Shell's Arrow venture, which is no longer planning its own separate plant.MATT CHAMBERS

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