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HD	**Mining giants may hoard cash as iron ore prices sag**
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* Iron ore prices at 5-year lows reduces flexibility

* BHP, Rio best-placed to withstand weak prices

TD

* Anglo American, Atlas, Cliffs under pressure - S&P

By Sonali Paul

MELBOURNE, Sept 17 (Reuters) - Sagging iron ore prices raise the prospect the world's biggest miners will shelve plans to return excess cash to shareholders in February, despite promises to investors who had hoped to reap the benefits of two years of austerity.

Stung by slower growth in China, global miners have reined in expansion plans and brought in new management to sell assets and drive their mines harder, raising hopes that BHP Billiton alone could hand back up to $8 billion to investors.

In the August reporting season, Glencore kicked off the expected party with a $1 billion share buyback, world No. 2 iron ore miner Rio Tinto flagged it would be in a strong position to return capital in February, and BHP said a move was "close".

But iron ore prices have collapsed to five-year lows since then, thanks to the major miners flooding the market with new supply and high-cost miners in China continuing to produce, defying expectations the market would bottom around $90 a tonne.

If prices remain below $90 for the rest of the year, BHP and Rio, both looking to keep their single 'A' credit ratings, would be hard-pressed to return capital to shareholders, beyond raising their dividends, debt and equity analysts said.

"At the moment, there's a lot of cash flow at risk relative to history because of commodity price volatility, not just in iron ore, any spot price exposure. You can't pre-emptively give back cash in this environment," said Paul Phillips, a partner at fund manager Perennial Growth Management.

BHP and Rio would be focused on maintaining conservative balance sheets, he said, with both companies slashing costs, cutting project spending and paring debt to help weather the downturn in the price of iron ore and other commodities.

Iron ore has fallen nearly $50 a tonne so far this year. Every $1 drop in price would wipe $135 million off BHP's bottom line for the year to June 2015.

"We're not pressuring them for capital returns per se. It's got to be sensible given the environment we're in," said Ross Barker, managing director of Australian Foundation Investment Co, one of the top five investors in BHP's Australian shares.

BHP CEO Andrew Mackenzie conceded after releasing annual results in August that the board had decided not to endorse a share buyback as it was being cautious in the face of volatile commodity markets.

"Looking forward with our current configuration today, our desire to remain a solid 'A' credit rating business and our view of future markets, we think it would be premature to start right now, but we are getting close," he told reporters in London.

But with iron ore prices having fallen 8 percent since then to hover near five-year lows, BHP and Rio may be even less likely to start handing back excess cash in February, Standard & Poor's analyst May Zhong said.

"The lower iron ore prices will reduce their flexibility to do any significant capital return," Zhong said.

She still expects a small recovery in iron ore prices in 2015, but not above $100, and sees BHP and Rio being in the strongest position to withstand the tough market.

DEBT WORRIES

The prospect of buybacks is a luxury only the major miners can consider with iron ore in the doldrums.

At the other end of the spectrum, investors and S&P are concerned about more heavily geared miners like Anglo American , for whom iron ore is the biggest earner, as well as Australia's no.5 producer, Atlas Iron Ltd and U.S. miner Cliffs Natural Resources Inc.

Anglo American is close to completing its long-delayed $8.8 billion Minas Rio mine in Brazil, which is expected to produce 11-14 million tonnes next year. The company declined to comment on whether it is looking at ways to shore up its balance sheet in light of the weak iron ore market.

In Australia, investors are most worried about Australia's fifth-largest iron ore producer, Atlas Iron Ltd, the most heavily shorted stock on the Australian market with close to 16 percent of its shares sold short.

Rival Arrium Ltd moved to raise $680 million through a share sale this week, and analysts and investors said Atlas may consider selling stakes in its mines or holding back on planned expansions to ease pressure on its balance sheet.

"I dare say they'll come up with some sort of joint venture solution," said Phillips. "They've got a bit of room to move."

Atlas, which analysts estimate is producing at a loss with iron ore prices below $86, declined to comment on what impact the weak iron ore price is having on its balance sheet.

One company still weathering the downturn is world no.4 iron ore producer Fortescue Metals Group, which is in a much stronger position than it was two years ago, when iron ore prices briefly dipped below $90 a tonne.

Once carrying more than $10 billion in debt, Fortescue took advantage of a spike in iron ore prices to accelerate its debt repayments and expand its output to 155 million tonnes a year, slashing its operating costs.

"We're pretty comfortable with where Fortescue sits at the moment," said Fitch credit rating analyst Vicky Melbourne. (Reporting by Sonali Paul; Editing by Richard Pullin)

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