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HD **Arrium plunge in wake of raising**

BY MATT CHAMBERS, BARRY FITZGERALD
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ARRIUM shares tanked by more than a third to hit a record low yesterday as investors weighed up the consequences of a $754 **million equity** raising, institutional shareholders not taking part in the rights issue and pressure on the **company**'s **iron ore** unit in the face of slumping prices.

Trading for the first time since Arrium on Monday declared it needed to raise cash to strengthen its balance sheet in the face of slumping **iron ore** prices, the shares closed down 16.5c, or 38 per cent, at 40c, their lowest close since the **company** spun out of BHP as OneSteel in 2000.

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It was also 17 per cent below their 48c-a-share underwritten renounceable rights offer price, leaving the rights trading at 1.3c each and unlikely to be taken up.

In the trading-halted three days since Arrium announced the rights issue — at a 26 per cent discount to its last traded share price — the **company** was able to convince only 79 per cent of institutional shareholders to take up the deal and keep their **stake** in the **company**, raising $465m.

“We are pleased with the support we have received from our institutional shareholders and other investors for this **equity** raising,” Arrium chief executive Andrew Roberts said.

“The raising will strengthen Arrium’s balance sheet and provide it with a more appropriate capital structure for the current environment.” The **equity** raising comes only a month after Arrium declared a dividend with its full-year result.

In that time the **iron ore** price has fallen 12 per cent. The slumping price has meant forecast cuts from many analysts, resulting in further pressure on Arrium’s earnings forecasts and valuation.

Allan Gray fund manager Simon Mawhinney said he met with management twice this week with a view to getting involved in the placement but elected not to.

“They still have $1.2bn in debt (after the raising) so they are still reasonably geared and their **iron ore** assets are marginal at this price,” Mr Mawhinney said.

He said the **iron ore** market, where supply was growing rapidly, could get worse for miners if the **Chinese** pick-up in demand most expected did not eventuate.

“We’re conscious the **iron ore** cycle is the very thing that has resulted in the drop in profitability and it may well be early into a downturn that may last a long time, so there is no need to rush into it,” Mr Mawhinney said.

The share price has fallen below analysts’ revised targets.

The average of 11 brokers that revised their forecasts after Monday’s announcement had an average target price of 57c in a range of 35c to 70c, and an average 2014-15 earnings before interest, tax depreciation and amortisation forecast of $557m.

One analyst said the falling share price and poor institutional take-up had been influenced by lack of guidance in the **mining** business and the fact there had been expressions of confidence in the balance sheet just four weeks earlier.

“It tells you something has changed dramatically in their **mining** business since their results,” he said.CRITERION P27

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