

SE Business
HD **Arrium boss puts faith in grinding media's growth potential**

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WC 435 words

PD 25 November 2014

SN The Age

SC AGE

ED First

PG 23

LA English

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Arrium chief executive Andrew Roberts says a partial mothballing of his **iron ore operations** remains a possibility as he urged investors to look past the under-fire **mining** business at the growth potential in grinding media.

Amid concerns about its debt levels, the steel, **iron ore** and **mining** consumables group hosted an investor day on Monday to talk up the quality and stability of its consumables division.

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Despite a \$754 **million equity** raising, Arrium's balance sheet remains stretched and its steel and **mining** earnings are under pressure due to the collapse in **iron ore** prices and depressed steel margins.

"We have to look to continue to pay down debt," Mr Roberts said.

"[But] this business [grinding media] is a very good business. We have strong market positions with very good customer relationships. Investors need to look at the value of the three different [business] segments."

Arrium's **mining** consumables business also supplies rail wheels and **mining** ropes, but the core of its earnings comes from grinding media. **Mining** companies use grinding media to crush **ore** and extract minerals. When grinding balls wear out they are replaced.

In the wake of the capital raising Arrium shares crashed to record lows. The stock rebounded 10 per cent on Monday to 26.5¢ amid a market-wide recovery in **iron ore** stocks, possibly linked to **Chinese** stimulus measures.

But based on Monday's close price, Arrium has a market value of \$778 **million**, compared with the near \$1 **billion** paid for the Moly Corp grinding media business alone in 2010.

"The valuation of the **company** reflects the challenges in **mining** and steel," Mr Roberts said.

"We need **mining** consumables to continue to improve its earnings and cash, and we need steel to improve its earnings and cash."

Arrium expects that the volume of **copper** and **gold ore** milled in the grinding business's core North and South American markets to grow at 9 per cent a year to 2018-19.

The **company** also points to declining head grades in **gold** and **copper** as indicators of strong demand for grinding media. Lower grade ores have lesser amounts of minerals and more unwanted rock and thus require more grinding.

Arrium said it had scale and customer advantages because Moly Corp is four times larger than its next biggest competitor and has strategic locations in key **mining** regions. Critically, Arrium points to its stable margins as a sign of earnings reliability.

Iron prices remain near five-year lows at around \$US70 a tonne.

CO onestl : Arrium Limited

IN i22 : Primary Metals | i222 : Steel Products | ibasicm : Basic Materials/Resources

RE austr : Australia | apacz : Asia Pacific | ausnz : Australia/Oceania

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AN Document AGEE000020141124eabp00046