

# FINANCIAL REVIEW

SE Companies and Markets  
HD **Grinding media has potential: Arrium**  
BY Tim Binsted  
WC 599 words  
PD 25 November 2014  
SN The Australian Financial Review  
SC AFNR  
ED First  
PG 16  
LA English  
CY Copyright 2014. Fairfax Media Management Pty Limited.  
LP

Arrium chief executive Andrew Roberts said a partial mothballing of his **iron ore operations** remains a real possibility, as he urged investors to look past Arrium's struggling **mining** business to the growth potential in its grinding media division, which supplies miners with grinding balls and rods.

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.

TD

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 come 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-Cop 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 less minerals and more unwanted rock and thus require more grinding.

Arrium said it has scale and customer advantages because Moly-Cop 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.

Contrarian fund manager Allan Gray has stepped into the recent Arrium sell-off to build an 8.3 per cent **stake**. But Allan Gray portfolio manager Simon Mawhinney said one big risk to his investment case is if the grinding media business is not as "bullet-proof" as Arrium claims it is.

"They've gone to great lengths to make sure this business is appreciated," he said. "The **company** still has a lot of debt, considering where it is in the cycle. We think it offers long-term value [but] the concerns about debt are well founded."

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

Mr Roberts said the sustained weakness in **iron ore** proves the timing of the capital raising was "prudent".

He also said the option to **wind** back or mothball Arrium's higher cost Southern **iron mining** operation remains on the table.

He refused to comment on Credit Suisse analyst Michael Slifirski's belief that Arrium may need to sell a **stake** in the grinding media business.

**IN** i211 : Metal Ore Mining | i2111 : Iron Ore Mining | i22 : Primary Metals | i221 : Iron/Steel/Ferroalloys  
| ibasicm : Basic Materials/Resources | imet : Mining/Quarrying

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

**PUB** Fairfax Media Management Pty Limited

**AN** Document AFNR000020141124eabp0000o