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HD Cliffs to focus on US iron ore, sell Australian mining

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New leadership at Cleveland-based Cliffs Natural Resources is tweaking the company's strategy while confronting the same challenges in the iron ore and coal markets, noted analyst Timna Tanners in a Bank of America Merrill Lynch report issued Friday.

Cliffs has already hired banks to pursue a sale of its Australia iron ore mining, US coal mines, and other operations — but not its core infrastructure, new CEO Lourenco Goncalves told Tanners during a Thursday meeting at the miner's headquarters.

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"This was a departure from initial Casablanca plans to MLP (Master Limited Partnership) the US ops, spin off international assets, and sell infrastructure," Tanners explained in her note. She added that Goncalves was cautious on iron ore prices and focused on cost cutting via modest US capital investments.

Goncalves became chairman and CEO earlier this month after activist investor group Casablanca Capital won a proxy fight for control of the Cleveland-based company's board.

"Just in the role three weeks," Tanners noted that "he was visiting US and Canada ops to focus on cost cutting and decide whether to continue expansion plans in Canada or shut down entirely."

Tanners maintained that Goncalves was keen to supply mini-mills DR pellets for direct reduced iron (DRI). "He expected an upcoming meeting with [Nucor] could result in a supply agreement" to use one million tons from Cliffs, the report stated.

Nonetheless, BofAML continues to rate Cliffs as "underperform." Tanners explained: "The story is still about iron ore where we remain cautious, and we find depressed value at current iron ore prices. We do not change our underperform rating, but would watch cost-cutting efforts and Canadian turnaround efforts."

The underperform rating assumes BofAML's iron ore price forecast of \$95/mt. Tanners summarized that the company's "new options are interesting, but don't offset iron ore oversupply concerns with new, cheap Australian and sticky Chinese supply."

Joe Innace

CO ccic : Cliffs Natural Resources Inc | zccash : Casablanca Capital LP

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