

HD Corporate News: Arrium Sets \$681 Million Share Sale To Pare Debt

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SYDNEY-- Arrium Ltd. decided two years ago to branch out into the **iron-ore** market to offset waning demand for its core product, steel.

Now, with **iron-ore** prices tumbling, the Australian **company** says it will seek to reduce debt by issuing 754 **million** Australian dollars (US\$681 **million**) in new shares.

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The shares will be issued at 48 Australian cents each. That is 26% below the stock's closing price of 65 Australian cents a share on Monday. The amount of cash raised will nearly match the **company's** market value of A\$888 **million**. The **company** had A\$1.71 **billion** in net debt on June 30.

"While the **company** last month reported it had achieved significant progress with debt reduction, **iron-ore** prices have fallen significantly in the last month to five-year lows and there is increased uncertainty over the extent and timing of recovery," Arrium Chairman Peter Smedley said in a written statement Monday.

Prices for **iron ore**, which is used to make steel, have fallen as supply rises and **China's** growth slows. Spot prices are around US\$82 a metric ton, less than half the high of US\$190 reached in 2011, but still more than five times the level of 2004.

Big **mining** companies such as Rio Tinto and BHP Billiton continue to increase production because efficiencies of scale allow them to profit. That makes it harder for smaller operators such as Arrium to break even.

Mining costs at Arrium's Southern **Iron** operation in Western Australia are around US\$89 a metric ton, exceeding the current spot price, Credit Suisse estimated this month. Contractual commitments to customers and costs associated with idling the mine could pressure the **company** to keep producing.

"I'm surprised they didn't raise capital earlier," said Tim Schroeders, a fund manager at Pengana Capital, which doesn't hold Arrium stock.

"It is probably a forgone opportunity by the board to raise **equity** at a much higher A\$1.40 to A\$1.50 per share," he said.

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