



HD Gindalbie shares fall further after \$640 million impairment announcement of Karara stake

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Gindalbie Metals has seen the value of its stake in Karara Mining cut by about \$640 million.

Shares in the company were placed in a trading halt on July 31, pending the announcement.

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They fell nearly 19 per cent when trading reopened on the back of the \$640 million impairment.

The announcement was part of an evaluation of Gindalbie assets presented to its board today.

The company says the drop in value is attributed to lower than forecast production levels at the mine, the lower than forecast iron ore price and a higher than anticipated Australian dollar.

Gindalbie owns a 48 per cent stake in Karara Mining, which is a joint venture with Chinese steel maker Ansteel to develop the Karara Iron Ore project.

earlier this year.

Gindalbie's major asset is its stake in Karara but the mine has been plagued with problems including production delays.

The company's shares have fallen from a trading high of \$1.30 in the last quarter of 2011, to 4.5 cents at 4pm AWST today.

Morningstar Equity Research senior analyst Gareth James has questioned the viability of the Karara project.

"This project has had a string of problems," he said.

"It cost around \$3 billion to build the project and there's a high degree of debt in the project as well, about \$2 million worth of debt, so it's pretty highly leveraged.

"The real problem with this project is that the costs are quite high and that's largely to do with the type of iron ore that they're mining, which is magnetite which needs to be processed.

"It's very energy intense and requires a lot of capital equipment which means the production costs are pretty high.

"With the iron ore price coming down, it looks like it's going to be a real struggle for this mine to operate profitably and to repay interest and capital that's been borrowed."

Mr James said the project's future was in the hands of the Chinese.

"It's really up to Chinese banks what they want to do, whether they want to continue to fund this project or not," he said.

"There's been talk of expanding the project in order to try and gain some economies of scale and reduce the production costs a bit but I think that's going to be a hard ask to get the Chinese to pour more money into this thing after they've already put \$3 billion into it."

CO gingol : Gindalbie Metals Ltd

IN i211 : Metal Ore Mining | i2111 : Iron Ore Mining | i221 : Iron/Steel/Ferroalloys | i22 : Primary Metals |
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IPD Gindalbie

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