

**HD**      **UPDATE 2-**iron ore slump drives Australia's Arrium to raise \$680 mln

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**LP**

\* Arrium warns outlook uncertain for iron ore recovery

\* Plans to more than double share base to help pay down debt

**TD**

\* Share sale priced at 26 pct discount (Adds investor comment)

By Sonali Paul

MELBOURNE, Sept 15 (Reuters) - Australian iron ore miner and steel maker Arrium Ltd launched a huge share sale to shareholders and institutions on Monday, aiming to raise A\$754 million (\$680 million) to pay down debt following a collapse in iron ore prices.

Iron ore prices have dived 40 percent this year to their lowest levels since 2009, hurting all but the world's four biggest iron ore producers, who have flooded the market with new supply just as demand growth has slowed in China.

"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 5-year lows and there is increased uncertainty over the extent and timing of recovery," Chairman Peter Smedley said in a statement.

Arrium's main customer for its 13 million tonnes a year of iron ore is China, where demand growth has slowed as the housing market has cooled. Manufacturing, power generation, retail and property investment data on the weekend reinforced fears the economy is at risk of a sharp slowdown.

Investors said it made sense for Arrium to raise the funds to pay down debt, as there had been concerns about how it would manage its net debt of A\$1.7 billion, as of June 30, with iron ore prices likely to remain under pressure for some time.

"I don't see iron ore prices going up in a hurry. We've got to start seeing a recovery in the Chinese building market. We're not seeing that yet," said Robert Hook, a portfolio manager at SG Hiscock & Co, whose SGH20 high conviction fund sold its stake in Arrium before iron ore prices plunged.

"We just felt it had reached a good valuation point and we also took the view that growth rates in China were probably going to start slowing - and I emphasise growth rates not demand - and there would be a huge (iron ore) supply coming on the market."

Arrium, Australia's fourth-largest iron ore producer, said it was seeking to raise A\$98 million through an offer of shares to institutional investors and A\$656 million from existing shareholders, more than doubling its share base.

The offer is being pitched at A\$0.48 a share, an unusually large discount of 26 percent to Arrium's last trade.

Arrium is the biggest iron ore miner to take drastic action in face of the iron ore slump. Last week fledgling producer Western Desert Resources called in administrators after failing to reach a deal with bankers to pay down debt.

The capital raising will help the **company** cut its gearing to around 18 percent from 31 percent, which Smedley said would position the **company** well for when **iron ore** prices and steel volumes improve and the Australian dollar falls.

Arrium exported 12.5 **million** tonnes of **iron ore** in the year to June 2014. Its shares have plunged 63 percent this year, slightly more than other smaller **iron ore** miners, to value the **company** at A\$888 **million**.

The **company** was the target of a A\$1.2 **billion** takeover offer two years ago led by South Korean steel giant POSCO but rejected it as too cheap.

Arrium's shares were on a trading halt on Monday ahead of the institutional bookbuild.

(1 US dollar = 1.1096 Australian dollar) (Reporting by Sonali Paul; Editing by Richard Pullin)

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**CO** onestl : Arrium Limited

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