

SE Business
HD **Watpac profit warning as iron ore price crunch claims Pluton**

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CONSTRUCTION and mining services company Watpac has issued a profit warning after its client, iron ore miner Pluton Resources, went into administration.

The news sent Watpac shares tumbling 15 per cent before recovering in the afternoon to close down 6 per cent, or 5c, at 79c.

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Watpac's woes come as several mining services companies weather the flow-on impact of the fall in commodity prices that has wracked smaller iron ore miners.

Watpac, which counts Belgium's Besix as a cornerstone investor, was expecting revenue of between \$50 million and \$60m from the contract in 2015, which was yesterday suspended.

"Watpac is not currently in a position to estimate the quantum of any adverse impact," Mark Baker, the chief financial officer of the Brisbane-based contractor, said.

He also assured the market that it remained a viable business despite the contract being suspended.

Last week, Watpac exchanged \$3m owed to it by Pluton for the contract for a 5 per cent stake in the company and has exchanged \$13m it is owed by Pluton for a secured note.

Pluton has been embroiled in a bitter dispute with its joint venture partner at its Cockatoo Island project, Wise Energy, for several months.

The matter came to a head late last week when one of its secured creditors, China's Rizhao Port Group, called in receivers from FTI Consulting.

In an explosive statement to the Australian Securities Exchange, Pluton claims the receivership process was initiated by Wise Energy, rather than by Rizhao.

This came after Pluton is understood to have diverted a shipment of ore due to Rizhao last week.

Under the contract, Wise receives payments per shipment by Pluton. Pluton told the ASX Rizhao called in receivers without the permission of its first ranking shareholder and largest secured debt holder, China's General Nice Recursos Comercial Offshore De Macau Limitada.

Following three years of losses, Watpac was heading towards a return to profitability this year after posting a \$17.9m first-half profit and resuming dividend repayments for the first time since 2011.

The turnaround came after the company shut down its civil engineering business and wrote down much of its property last year, a move that sent the share price plummeting 40 per cent in a two-day period.

An analyst, who declined to be named, raised the prospect of Watpac further restructuring its mining services arm to focus on its construction business.

"It's a tale of two divisions. One is in one of the strongest positions its been in for the past five years. The other is in its worst position in the last five years," he said. "Contract **mining** is really tough because their counterparties are in trouble on the basis of commodity prices."

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