

# FINANCIAL REVIEW

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HD **Small resources sink below GFC levels**  
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Australia's small resources companies index is trading at levels below those during the depths of the global financial crisis, despite a stronger than expected **iron ore** price and positive returns from the larger resources companies.

Lower commodity prices, project financing issues and uncertain demand from **China** for raw materials helped drag the Australian Securities Exchange Small Resources Index down 41 per cent in the past year to 2209, marginally lower than where the index fell in November 2008 when the market dived during the United States subprime debt crisis.

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The index, which includes Whitehaven **Coal**, Beadell Resources, Western Areas and Oceanagold Corporation, is trading 68 per cent lower than its five-year high of approximately 7000 at the start of 2011.

However, shares in the world's largest resources companies, BHP Billiton and Rio Tinto, are trading slightly higher than at the same time a year ago.

Morningstar senior **equity** analyst Gareth James said the index performance is justified given the poor track record of many of the companies within the index, and the medium-term outlook for major commodities.

Morningstar found that more than 91 per cent of resources companies with a market capitalisation of under \$100 **million** were loss-making in the 2013 financial year. More than three-fifths of resources companies valued at between \$100 **million** and \$500 **million** failed to register a profit over the same period.

"You saw huge gains in share prices leading up to the GFC and then post GFC as well, but you didn't see the earnings per share growth at the same time," Mr James said.

"If you can't increase your earnings per share then your share price may go up in the short term, but in the long term it will be difficult to sustain those gains. You could say the index has been smashed, but the real question is have these **mining** companies cleaned up their act? Are they profitable? Are they operating viable business models?" **Gold** price a contributor

The spot **gold** price has been a major contributor to its performance given the large number of companies that comprise the index. **Gold** has fallen 26 per cent from \$US1692 an ounce in January last year to about \$US1242 an ounce on Monday, raising the risk of more write-downs by Australia's goldminers. Alacer **Gold**, Evolution **Mining** and OceanaGold Corporation were all trading more than 35 per cent down over the past 12 months. However, the spot **iron ore** price has traded much stronger than expected over the past few months at \$US135 a tonne.

**Chinese** steel mills traditionally reduce the amount of **iron ore** purchased in the second half of the calendar year, leading to a weakness in the spot price, but the steel-making material's price has traded

within a band of between \$US130 and \$US140 a tonne over the past four months. **Iron ore** hit a 12-month low of \$US110 a tonne at the end of May last year.

Most experts previously predicted the spot price to fall to \$US100 a tonne and further as additional supply hit the global market and demand waned.

CIMB research found **China's** Metallurgical Industry Planning and Research Institute is forecasting higher imports in 2014 and 4 per cent growth in steel production, which should underpin the **iron ore** price this year.

**CO** bdllrs : Beadell Resources Ltd | whcmpl : Whitehaven Coal Limited

**IN** i211 : Metal Ore Mining | i22 : Primary Metals | i221 : Iron/Steel/Ferroalloys | ibasicm : Basic Materials/Resources | imet : Mining/Quarrying | i1 : Energy | i111 : Coal Mining | i232 : Mineral Mining Support Activities

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