



**HD Moody's: Australian high-yield miners face liquidity and execution challenges**

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**LP**

Moody's Investors Service says project execution challenges will pressure the credit quality of most Australian high-yield rated miners over the next 12-18 months.

"All five high-yield rated metals and **mining** companies in Australia have ongoing projects to raise production and/or reduce costs, and planned liquidity buffers are often inadequate to support these execution challenges," says Matthew Moore, a Moody's Vice President and Senior Analyst.

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Moore was speaking on the release of a special comment entitled "Liquidity and Execution Challenges Are Stressing Australian High-Yield Miners". The report ranks the five high-yield rated miners based on Moody's assessment of their project execution risk and ability to meet debt service and capital expenditure obligations over the next 12-18 months.

In addition to execution challenges, a weak price environment magnifies liquidity challenges faced by the miners. The continued decline in major commodity prices has further eroded miners' earnings and cash flow generation, with prices of many commodities having fallen by around 30% in the past 12-18 months.

"We expect prices to remain volatile, but stay around current low levels over the next 12-18 months," adds Moore.

In its ranking of the five rated miners, the report places Fortescue Metals Group Ltd (Ba1 stable) in the strongest position, with the lowest project risk and largest liquidity buffer. Production for the **iron ore** producer is expected to almost triple from FY2012 levels, which would boost cash flow and significantly reduce capital expenditure requirements.

This is followed by Atlas **Iron** Ltd (B2 stable) and Cristal **Mining** Australia Ltd (B3 negative), both of which have moderate project execution risk. St Barbara Ltd (B3 negative) and Midwest Vanadium Pty Ltd (Caa2 negative) are the weakest positioned, with high execution risk and weak liquidity profiles.

With three companies facing significant liquidity challenges over the next 3-12 months, the report states that they should take steps to preserve liquidity.

In addition, the weakening price environment has also contributed to high-yield **mining** companies often falling materially short of **company** expectations. Missed production guidance and delays to project completion and ramp-ups were also major contributors.

"High-yield miners often overestimate their ability to execute on project timetables and budgets, and hence tend to be overly optimistic when considering the impact of potential execution risks on forecast production and earnings," says Moore.

For these reasons, the report concludes that the ratings of high-yield issuers with significant execution challenges are generally constrained at the B2/B3 rating level in the absence of strong liquidity and sponsors.

Subscribers can access the report at

[https://www.moodys.com/research/Liquidity-and-Execution-Challenges-Are-Stressing-Australian-High-Yield-Miners--PBC\\_163194](https://www.moodys.com/research/Liquidity-and-Execution-Challenges-Are-Stressing-Australian-High-Yield-Miners--PBC_163194)

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