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HD **China unlikely to fund Australian magnetite projects**

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China is unlikely to fund any new magnetite projects in Australia for at least five years after the current crop of projects have struggled to commission successfully and faced cost overruns, PCF Capital Group Managing Director Liam Twigger said at a conference in Sydney Thursday, according to a company statement.

China has invested heavily in magnetite projects in Western Australia through the Karara joint venture project between Ansteel and Australia's Gindablie and CITIC Pacific's Sino Iron project. "Until these projects actually get up and deliver, there will be no more Chinese backing for magnetite projects either in Australia or overseas," Twigger said.

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Karara has struggled with commissioning problems since magnetite output began in January 2013. But Gindablie recently said it completed works at Karara's tailings circuit and was now producing at 75% of the project's 8.8 million mt/year capacity.

CITIC Pacific operates the $6 billion Sino Iron project in Western Australia, which loaded it first magnetite concentrate shipment in December — three years later than originally planned.

Production began in early October at the first 4 million mt/year line at Sino Iron, where commissioning had been underway since July. Progress at the second production line has been hampered by problems with the motor that powers the ore grinding mill.

Sino Iron is expected to eventually comprise six lines, each of which will produce 4 million mt/year of magnetite concentrate for a total of 24 million mt/year. Output will be sent to CITIC's mills in China and also sold into the market. "The only ones with any chance of success in attracting capital will be those with a measurable pathway to production and some relativity between the sponsor's market cap and the amount of capital needing to be raised," Twigger said.

While magnetite projects might struggle to attract equity, funding for potential gold, copper and nickel projects would now be sought as investment swings toward those commodities.

He also said global competition for exploration funding would raise the specter of "shadow bank" operatives becoming a temporary force in mine project funding, which holds higher risk than conventional bank based debt.

Since 2009, there has been a change in the mix of capital access, from 70% equity and 30% debt to now around 50:50 equity and debt, he said. "Within this, we have seen shadow banks emerge — basically metal trading and offtake parties as well as metal streamers which don't have to operate within regulatory and prudential constraints of traditional banks," Twigger said.

"They operate quickly and can provide large chunks of cash in return for offtake and marketing rights. The big unknown, however, is how these trading houses will act when things get tough — as they increasingly are — and that should worry projects owners going down that route or considering such a credit line possibility."

Marnie Hobson

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IN i8396 : Diversified Holding Companies | ibcs : Business/Consumer Services

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