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HD **Rinehart tying up finance as Roy Hill gets head of steam**

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There are already 1700 workers on the Roy Hill site

GINA Rinehart is not tuning in to the noise about **China**'s slowing growth and the volatile **iron ore** price as she reaches the final stages of securing a debt package for her $10 **billion**Roy Hill project, which could be the last of its kind to be built in Australia.

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Market jitters, a gloomy outlook for **mining** contractors and falls in the **iron ore** price are causing pain for some, but the new **iron ore** mine, which will be the biggest single-pit **mining** operation in Australia, is full steam ahead.

There are 1700 workers on site in Western Australia's Pilbara region, working on the port, rail and mine. That number will swell to 2000 at the end of the month and peak at 3600 by October.

It is well known Rinehart still needs to sign off on a $7bn funding package for her share of the joint venture but that hasn't stopped work accelerating -- proving that high-quality, low-cost projects will still go ahead in this market.

``It's up and running -- it's not sitting around waiting for finance to go through,'' one insider said.

Roy Hill is 70 per cent owned by Rinehart's Hancock, with the rest split between South Korea's Posco, Japan's Marubeni and Taiwan's **China** Steel Corporation.

The Roy Hill team moved into its $50 **million** corporate headquarters and remote **operations** centre in Perth in November. It has been drawing on the **equity** contribution from its partners and has pushed ahead with the massive project while market concern about the outlook for resources and the **iron ore** price gains momentum.

**Iron ore** prices have recently fallen to seven-month lows and are about 10 per cent down across the past year. On present projections for Australian exports in 2014, it would represent a collective revenue hit for the industry of $US10bn ($11.1bn) if sustained.

The **mining** services sector also has been feeling some pain and Forge Group became the high-profile victim this week when it fell into the hands of receivers and administrators.

It may seem bleak out there for some but figures from the latest **China** Resources Quarterly report show that Australian **iron ore** mines increased imports into **China** last year. The research, based on collaborative research from Westpac and Australia's Bureau of Resource and **Energy** Economics, also tipped that Australian **iron ore** miners would continue to increase their market share of imports of the steelmaking ingredient into **China**.

Huw McKay, senior international economist at Westpac, says a project with a quality resource, on a favourable part of the cost curve, can come to market and produce profitably.

``Imports are only 40 per cent of Chinese ore supply -- it's remarkable to think how much imports have grown over the last decade but they are still only 40 per cent,'' he says. ``I don't think it's ridiculous to think that what is a 60-40 market -- Chinese home supply versus imports -- can be 40-60. Australian exports will continue to grow. Even if China's total steel production never grew again and was flat, you could still have strong growth in export volumes out of Australia as we take market share off inefficient Chinese producers.''

Roy Hill is notoriously media shy about its project and very little leaks out, but it is well known in the industry that the project is one of high-quality ore and will be a low-cost producer. The project, which is 34km long and 17km wide, has had 13,000 holes drilled to prove up the resource and the Roy Hill team is confident of its mine plan.

The quality of the ore is said to be comparable to what BHP Billiton and Rio Tinto produce and it is expected to be in the lower 25 per cent quartile of the cost curve.

``It is the last of one of the very big high-grade deposits,'' according to one source.

The project has been accelerating with an enormous amount of momentum and already has a 2000-person camp built, which includes a 1200-seat dining room.

Qantas operates five flights each week to Roy Hill's airport, which will increase to seven flights by the end of the month.

The target of 55 million tonnes of ore a year from the site means the project will have one of the biggest processing plants in the country and will see the biggest movement of ore from one mine in Australia.

While the mine will be profitable from day one, its biggest cost will obviously be to repay the $7bn in debt.

The financing is said to be at the pointy end, with key terms agreed in principle. There was keen interest from commercial banks, with a consortium understood to have tipped in $3bn.

As Roy Hill has progressed through the pre-development phase, costs for Australian projects have blown out and schedules have been pushed back.

This has led to financiers taking a closer look at project metrics and analysing risks. The company has been exposed to a high level of scrutiny.

One insider says that to go through that you need to have a solid project that stacks up, which Roy Hill clearly does.

And that's despite the iron ore price bears.

Tim Murray, managing partner of J Capital Research, says iron ore is on its way down and won't be coming back up again.

``There are some fundamental changes there,'' he says. ``No one is predicting high steel growth in China, the consensus is 3 to 4 per cent growth in steel production. That limits the growth potential for the iron ore market.''

Even so, Murray says, if a producer could bring on low-cost iron at a reasonable capital cost per tonne, it is still a good idea, proved by Rio Tinto's push to add 70 million tonnes to its annual output.

``Roy Hill's costs will possibly be similar to Rio and BHP, which would put it at the bottom of the quartile for costs,'' Murray says.

``So by bringing that mine on they will push high-cost producers out and be part of the process of bringing prices down.''

Murray, an expert on China, says Rinehart has always had good-quality resources, so it isn't a surprise that it has attracted equity partners.

``The Japanese and Korean steel mills are in the longer-term game and you don't get many opportunities except in the down cycle to get access to the resources, which could be the game they are playing,'' he says.

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