



HD **Moody's: Negative effect of weak iron ore prices on certain Australian issuers**

WC 1,777 words

PD 18 September 2014

SN Moody's Investors Service Press Release

SC MOODPR

LA English

CY (c) 2014

LP

Moody's Investors Service says that the currently weak iron ore price will exert a direct negative impact on its rated Australian producers over the next 6-12 months with second-order effects on a host of other sectors.

"Lower prices -- combined with the general softness in prices across the whole commodities spectrum -- is exercising a flow-on negative effect on several issuers and sectors across the rated portfolio, including mining services, construction, and airlines," says Matthew Moore, a Moody's Vice President and Senior Analyst.

TD

Moore was speaking on the release of a Moody's special comment, titled "Impact on Australian Corporates of Decline in Iron Ore Price".

The report notes that iron ore prices, currently around \$84 per metric tonne (mt), are down considerably from the average for the six months to 30 June 2014 of around \$110 per mt, which is down from an average of around \$135 per mt in FY13. This is largely because of a significant rise in production capacity in Australia and, to a lesser extent, Brazil, as well as slowing demand in the key export market of China.

"To preserve margins, we expect the miners to reduce their scope of work and renegotiate contracts with the providers of mining services, which will in turn further reduce earnings and cash flows at the latter," says Moore.

Atlas Iron Limited's (B2 stable) credit profile will be the most affected, reflecting its position as a single-commodity producer with moderate cash costs. Atlas will be further impacted by widening price discounts for its iron ore, which is generally of lower quality than that from the major producers.

Of the major iron ore miners, Fortescue Metals Group (Ba1 stable) is the most affected as, unlike its peers, it is a single-commodity producer.

By contrast, the earnings and credit metrics for BHP Billiton (A1 stable) and Rio Tinto (A3 stable), while also experiencing pressure, are better positioned, given their lower cost profiles, improvements in debt levels, and benefits from product diversity.

Moreover, as part of initiatives to counter the weak price environment, the majors have been reducing their labor forces, meaning reductions in fly-in fly-out passengers. This trend is negatively impacting the airlines and airports, such as Qantas Airways (Ba1 negative) and Perth Airport (Baa2 stable).

A potential further reduction in capital expenditures for development would negatively impact the construction and engineering sectors, as companies, such as Leighton Holdings (Baa3 stable), face reduced project work.

Subscribers can access the full report at http://www.moodys.com/viewresearchdoc.aspx?docid=PBC_175517.

NOTE TO JOURNALISTS ONLY: For more information, please call one of our global press information hotlines: New York +1-212-553-0376, London +44-20-7772-5456, Tokyo +813-5408-4110, Hong Kong +852-3758-1350, Sydney +61-2-9270-8141, Mexico City 001-888-779-5833, São Paulo 0800-891-2518, or Buenos Aires 0800-666-3506. You can also email us at mediarelations@moodys.com or visit our web site at www.moodys.com.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on www.moodys.com for the most updated credit rating action information and rating history.

Matthew Moore

Vice President - Senior Analyst

Corporate Finance Group

Moody's Investors Service Pty. Ltd.

Level 10

1 O'Connell Street

Sydney NSW 2000

Australia

JOURNALISTS: (612) 9270-8102

SUBSCRIBERS: (852) 3551-3077

Terry Fanous

Associate Managing Director

Corporate Finance Group

JOURNALISTS: (612) 9270-8102

SUBSCRIBERS: (852) 3551-3077

Releasing Office:

Moody's Investors Service Pty. Ltd.

Level 10

1 O'Connell Street

Sydney NSW 2000

Australia

JOURNALISTS: (612) 9270-8102

SUBSCRIBERS: (852) 3551-3077

© 2014 Moody's Corporation, Moody's Investors Service, Inc., Moody's Analytics, Inc. and/or their licensors and affiliates (collectively, "MOODY'S"). All rights reserved.

CREDIT RATINGS ISSUED BY MOODY'S INVESTORS SERVICE, INC. ("MIS") AND ITS AFFILIATES ARE MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES, AND CREDIT RATINGS AND RESEARCH PUBLICATIONS PUBLISHED BY MOODY'S ("MOODY'S PUBLICATIONS") MAY INCLUDE MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES. MOODY'S DEFINES CREDIT RISK AS THE RISK THAT AN ENTITY MAY NOT MEET ITS CONTRACTUAL, FINANCIAL OBLIGATIONS AS THEY COME DUE AND ANY ESTIMATED FINANCIAL LOSS IN THE EVENT OF DEFAULT. CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS AND MOODY'S OPINIONS INCLUDED IN MOODY'S PUBLICATIONS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. MOODY'S PUBLICATIONS MAY ALSO INCLUDE QUANTITATIVE MODEL-BASED ESTIMATES OF CREDIT RISK AND RELATED OPINIONS OR COMMENTARY PUBLISHED BY MOODY'S ANALYTICS, INC. CREDIT RATINGS AND MOODY'S PUBLICATIONS DO NOT CONSTITUTE OR PROVIDE INVESTMENT OR FINANCIAL ADVICE, AND CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT AND DO NOT PROVIDE RECOMMENDATIONS TO **PURCHASE**, SELL, OR HOLD PARTICULAR SECURITIES. NEITHER CREDIT RATINGS NOR MOODY'S PUBLICATIONS

COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. MOODY'S ISSUES ITS CREDIT RATINGS AND PUBLISHES MOODY'S PUBLICATIONS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL, WITH DUE CARE, MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR **PURCHASE**, HOLDING, OR **SALE**.

MOODY'S CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT INTENDED FOR USE BY RETAIL INVESTORS AND IT WOULD BE RECKLESS FOR RETAIL INVESTORS TO CONSIDER MOODY'S CREDIT RATINGS OR MOODY'S PUBLICATIONS IN MAKING ANY INVESTMENT DECISION. IF IN DOUBT YOU SHOULD CONTACT YOUR FINANCIAL OR OTHER PROFESSIONAL ADVISER.

ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY LAW, INCLUDING BUT NOT LIMITED TO, COPYRIGHT LAW, AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT MOODY'S PRIOR WRITTEN CONSENT.

All information contained herein is obtained by MOODY'S from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, all information contained herein is provided "AS IS" without warranty of any kind. MOODY'S adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources MOODY'S considers to be reliable including, when appropriate, independent third-party sources. However, MOODY'S is not an auditor and cannot in every instance independently verify or validate information received in the rating process or in preparing the Moody's Publications.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability to any person or entity for any indirect, special, consequential, or incidental losses or damages whatsoever arising from or in connection with the information contained herein or the use of or inability to use any such information, even if MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers is advised in advance of the possibility of such losses or damages, including but not limited to: (a) any loss of present or prospective profits or (b) any loss or damage arising where the relevant financial instrument is not the subject of a particular credit rating assigned by MOODY'S.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability for any direct or compensatory losses or damages caused to any person or entity, including but not limited to by any negligence (but excluding fraud, willful misconduct or any other type of liability that, for the avoidance of doubt, by law cannot be excluded) on the part of, or any contingency within or beyond the control of, MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers, arising from or in connection with the information contained herein or the use of or inability to use any such information.

NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY SUCH RATING OR OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER.

MIS, a wholly-owned credit rating agency subsidiary of Moody's Corporation ("MCO"), hereby discloses that most issuers of debt securities (including corporate and municipal **bonds**, debentures, notes and commercial paper) and preferred stock rated by MIS have, prior to assignment of any rating, agreed to pay to MIS for appraisal and rating services rendered by it fees ranging from \$1,500 to approximately \$2,500,000. MCO and MIS also maintain policies and procedures to address the independence of MIS's ratings and rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold ratings from MIS and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually at www.moody.com under the heading "Shareholder Relations -- Corporate Governance -- Director and Shareholder Affiliation Policy."

For Australia only: Any publication into Australia of this document is pursuant to the Australian Financial Services License of MOODY'S affiliate, Moody's Investors Service Pty Limited ABN 61 003 399 657 AFSL 336969 and/or Moody's Analytics Australia Pty Ltd ABN 94 105 136 972 AFSL 383569 (as applicable). This document is intended to be provided only to "wholesale clients" within the meaning of section 761G of the Corporations Act 2001. By continuing to access this document from within Australia, you represent to MOODY'S that you are, or are accessing the document as a representative of, a "wholesale client" and that neither you nor the entity you represent will directly or indirectly disseminate this document or its

contents to "retail clients" within the meaning of section 761G of the Corporations Act 2001. MOODY'S credit rating is an opinion as to the creditworthiness of a debt obligation of the issuer, not on the **equity** securities of the issuer or any form of security that is available to retail clients. It would be dangerous for "retail clients" to make any investment decision based on MOODY'S credit rating. If in doubt you should contact your financial or other professional adviser.

- CO** ausdr : Ausdrill Limited | atlagd : Atlas Iron Ltd. | qntas : Qantas Airways Ltd | emecho : Emeco Holdings Ltd | leiho : Leighton Holdings Ltd | hocht : Hochtief AG | ocisa : ACS Actividades de Construcciones y Servicios SA
- IN** i211 : Metal Ore Mining | i22 : Primary Metals | i221 : Iron/Steel/Ferroalloys | ibasicm : Basic Materials/Resources | imet : Mining/Quarrying | i2111 : Iron Ore Mining | i231 : Non-metallic Mineral Mining/Quarrying | i32 : Machinery | i3254 : Construction Machinery | i502 : Heavy Construction | i75 : Airlines | i7501 : Scheduled Passenger Airlines | iairtr : Air Transport | iconst : Construction | icre : Real Estate/Construction | iindstrls : Industrial Goods | itsp : Transportation/Shipping
- NS** c174 : Corporate Credit Ratings | c314 : Pricing | npress : Press Releases | c17 : Funding/Capital | c172 : Corporate Debt Instruments | c31 : Marketing | cactio : Corporate Actions | ccat : Corporate/Industrial News | ncat : Content Types | nfact : Factiva Filters | nfcpin : FC&E Industry News Filter
- RE** austr : Australia | nswals : New South Wales | sydney : Sydney | apacz : Asia Pacific | ausnz : Australia/Oceania
- IPD** Moody's Investors Service
- PUB** Moody's Analytics, Inc.
- AN** Document MOODPR0020140918ea9i0005I