

SE Business
HD **Arrium's ill-fated raising 'absolutely right': Smedley**

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Steel making

Outgoing Arrium chairman Peter Smedley has defended his 14-year stewardship of the steel maker, saying his board got the group's shock \$754 **million** capital raising "absolutely right" as he bows out of life as a public **company** director.

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Mr Smedley made his name transforming Colonial from a sleepy life insurance **company** into a diversified financial services powerhouse. Colonial was worth about \$1 **billion** when Mr Smedley took charge in 1993. Commonwealth Bank snapped it up for almost \$9 **billion** just seven years later.

But this time the heavyweight businessman is not leaving with such a positive story.

Arrium stock closed at 28¢ on Friday, a record low since the **company** was spun out of BHP as OneSteel in 2000.

Mr Smedley will use much of his address at Arrium's annual meeting on Monday to explain the capital raising to his shareholders.

In August, Arrium reported record earnings and strong cash flow for 2013-14. Just weeks later the **company** had launched a major capital raising that finished with Arrium's share price mired well below the 48¢ offer price and about 20 per cent of the **company**'s shares in the hands of the underwriters.

For years analysts had said Arrium's balance sheet was stretched, but Mr Smedley disagrees that the problem was \$1.7 **billion** of net debt. He points to the rapid collapse in **iron ore** prices.

"I think the balance sheet was appropriately geared for its time. We have no control over the **iron ore** price. Perceptions of market direction changed quickly post August."

He sees the raising as an acceleration of the board's existing plan to reduce debt, although the surprised reaction from the market suggests investors and analysts did not see it that way.

The fully-underwritten capital raising was a disaster for UBS and its sub-underwriters. The underwriters had to step in and buy Arrium shares when the stock price collapsed below the offer price, leaving investors no reason to accept the offer. But Arrium got its **equity** injection and Mr Smedley said it "achieved everything we wanted to achieve".

"From a board point of view it was absolutely right. In timing it was right and it was right that it was underwritten," he said.

Extrapolating **iron ore** prices 18 months ahead and with sentiment collapsing, the board took a view it would not have enough headroom on its banking covenants.

"With the facts before the board in September ... The downturn in sentiment and the downturn in the market was so sudden that we had no choice," Mr Smedley said.

Based on Friday's 28¢ close price Arrium's market value is just \$822 million, slightly more than the \$754 million it has just raised.

In a research note published on Friday, Credit Suisse analyst Michael Slifirski said the share price collapse was a consequence of Arrium's "differentiated attitude to debt to that of equity investors". "Incoming chairman Jerry Maycock inherits a currently cash-consuming entity with a market cap well below net debt ... without an unexpected steel and iron ore recovery, we consider Arrium may have to sell an interest in its grinding media business," he said.

But Mr Smedley is proud of his legacy. He said it was essential to diversify for OneSteel to be a relevant business.

He said the strategic direction has been executed "very well" and Arrium now has three platforms: steel making, iron ore and the world's largest grinding media business.

In September 2013, Korean steel giant Posco and Hong Kong commodities trader Noble lobbed a \$1.2 billion takeover bid for Arrium at 75¢ a share.

The bidders complained at the time that Arrium refused to engage with them, but Mr Smedley dismissed the bid as "a non-offer".

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