FINANCIAL REVIEW

SE Market Wrap

HD **Miners' cash flow a target for yield-hungry investors**

BY Baker Philip Baker

WC 576 words

PD 14 February 2014

SN The Australian Financial Review

SC AFNR

ED First

PG 22

LA English

CY

LP

Philip Baker

The hunt for yields by investors has become so intense it has reached the resources sector. Not really known for their dividends, the miners are now under pressure to deliver something back to shareholders.

TD

The initial boom phase of **China** is over and the easy money has been made. Now there's a frugal phase hitting the miners. It's not just about blue sky and hitting pay dirt. It's cutting costs and running a tight ship.

Over the past couple of years the stand-out feature of Rio Tinto's full-year results has been the massive asset write-downs, with last year's round of $US14.4 **billion** ($16.1 **billion**) leading to the sacking of former chief executive Tom Albanese.

Now investors are hoping to get some money back.

In 2012, the **company** paid a dividend of US167¢ a share and that was an increase on 2011's payment of US145¢ a share. According to most analysts, that was going to be US181¢ in 2013 and on Thursday the **company** announced it was US192¢.

The resources sector is now delivering income yields well in excess of inflation and that has caught the attention of all investors. Resources sector not known for paying dividends

Banks and industrials have always been known for their dividends, but not the resources sector. It heralds a new era for management of these companies and analysts say it's no coincidence that Andrew Mackenzie got the top job at BHP Billiton.

Ill-conceived projects such as the Hot Briquetted **Iron** plant at Port Hedland, the Hartley Platinum mine in Zimbabwe and the Magma **Copper purchase** in the US cost the **company** nearly $14 **billion**. Paul Anderson then got the **company** back on track.

These days it's tougher for miners to develop new mines and find fresh resources and with the recent drop in commodity prices it's not as easy as it once was to make money.

But emerging markets mean that demand will continue to underpin growth over the next decade or so.

As UBS head of resources research Glyn Lawcock points out, **mining** investors have suffered through two years of sustained sector underperformance. "Most of the cash windfall of the **China**-led **mining** boom was applied to capex, ill-timed **M**&A, or captured by employees, governments and contractors.

Now, new management teams of the major **mining** houses have a simple mandate to boost returns to shareholders," he said.Incentive to keep investors happy with buybacks, dividends

According to UBS, the **mining** sector is poised to generate around $US10 **billion** in free cash flow in 2013 and potentially as much as close to $US40 **billion** in 2014. In 2012, free cash flow fell about $US10 **billion**.

There is an incentive for management of **mining** companies to keep fund managers and investors happy with dividends and buybacks.

There's a fair chance the underlying demand for yield will never change.

Indeed, some say with the growth in small self-managed super funds and the increase in contributions, along with the ageing population, it will increase. For miners, it's not just about opening new mines. In the present market, earnings and cash flow can be increased more quickly and easily by slowing the development of new mines, keeping supply tight and keeping prices as high as possible.READ NEXT:

RE austr : Australia | apacz : Asia Pacific | ausnz : Australia/Oceania

PUB Fairfax Media Management Pty Limited

AN Document AFNR000020140213ea2e0000o

