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HD Bargain hunters waiting to pounce

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Today's plunge in **iron ore** is creating tomorrow's **acquisition** targets.

With prices at a five-year low, only a handful of companies worldwide can make money selling **iron ore**, according to UBS. Some **Chinese** mines have closed, while Australia's Western Desert Resources and British **company** London **Mining** have already failed.

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Pessimistic analysts expect the commodity to slide at least a further 14 per cent before the end of next year as a supply glut continues.

Among the most vulnerable are Atlas **Iron**, BC **Iron** and Gindalbie Metals, all based in Perth, according to financial services **company** Fat Prophets. All three are struggling with production costs that are too high for the market.

Private funds, such as X2 Resources, which has raised as much as US\$3.75 **billion** (\$4.78 **billion**) from investors, may be able to pick up bargains before an **iron-ore** rebound makes the assets viable, says Ernst & Young.

"The smaller miners in both **China** and Australia could be the collateral damage," said Freya Beamish, a **Hong Kong**-based economist at Lombard Street Research. "**Iron ore** prices are on a structural downturn that could play out over several years."

The price slide has put even the biggest producers in play. In July Glencore approached Rio Tinto with a deal that would have created the world's largest **mining company**. Rio rejected the proposal the following month.

**Iron ore** prices have almost halved this year, partly on concern that **China**'s economic slowdown will weaken demand for the steel-making material.

At the same time, BHP Billiton, Rio and Vale have increased production to bolster their market shares, creating a glut and preventing a price rebound any time soon.

"For those in the high-cost area, it's a case of survival," says Mike Elliott, Sydney-based global leader for metals and **mining** at Ernst & Young. "If you're only ever going to make money at the peak of a commodity price cycle, then you may call it quits."

London **Mining**, valued at more than US\$800 **million** in 2011, went into administration last month. Credit also dried up in September for Western Desert, which operates the Roper Bar project in Australia's Northern Territory. Receivers have started to look for potential buyers.

It's not only tumbling prices that are threatening smaller producers. Companies unable to recover their production costs also find it harder to obtain financing, while project write-downs become more likely, says Greg Smith, head of research at Sydney-based Fat Prophets.

"There are going to be plenty of assets around or mothballed **operations**, if it gets to that," says Smith.

Some miners close to breaking even at the current **iron ore** price might be able to withstand the commodity's slump by halting production until the market picks up, says Ernst & Young's Elliott. Those that can't do that might also be targets, he says.

Funds such as London-based X2 Resources, co-founded by former Xstrata chief executive Mick Davis, are logical buyers, according to Elliott. Some funds could wait years before profiting from an investment and might be able to buy the assets "relatively cheaply", he says.

Resources companies sitting on **millions** of tons of reserves, **mining** licences and other assets may also appeal to activist investors who could push for changes to boost returns. For instance, a break-up of Arrium, the **iron ore** producer that has fallen 85 per cent this year, might unlock value in the **company's** unit that makes rail wheels and metal balls, Morningstar said last month.

Shares of Atlas **Iron**, which digs for **ore** in Australia's Pilbara region, have tumbled 83 per cent this year. That's even after it cut capital expenditure and raised cost-saving targets. BC **Iron** has dropped 89 per cent and Gindalbie has plunged 76 per cent.

According to UBS estimates, Gindalbie started losing money when **iron ore** fell below US\$98 a tonne, while Atlas and BC **Iron** became unprofitable when the price dropped through about US\$80.

The stock collapses reflect doubts the companies would ride out **iron ore's** price slump, says Shannon Rivkin, a director at Rivkin Securities in Sydney.

"It's guaranteed that we'll see a lot more companies go out of business."

— Bloomberg

**RF** BBtakeover

**CO** gingol : Gindalbie Metals Ltd | lminip : London Mining plc | wesde : Western Desert Resources Limited

**IN** i211 : Metal Ore Mining | i22 : Primary Metals | i221 : Iron/Steel/Ferroalloys | ibasicm : Basic Materials/Resources | imet : Mining/Quarrying | i2111 : Iron Ore Mining

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