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HD **Cliffs Natural Resources: Setting the Bar High -- Barron's Blog**

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When a company has been beaten down as much as Cliffs Natural Resources (CLF), you would think it would want to set easy-to-hit targets. Cliffs Natural Resources' CEO Lourenco Goncalves chose the opposite route. Wells Fargo's Sam Dubkinsky explains:

The new CEO was pretty bold on the earnings call, expecting to either sell a stake in high cost Canadian operations or shutdown the asset with minimal recourse to parent. Cliffs also believes it can lower its cash production cost per ton in U.S. operations to the low $50's/ton vs. about $59 in Q3 2014 over the next few years, as well as maintain its dividend (investors have been expecting a cut). The company also still wants to sell coal operations and Australia, though is waiting it out for an attractive offer.

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We're cautious on shares due to our bearish stance on spot iron ore pricing (incremental supply outpacing incremental demand by 3x), as well as concerns that Cliffs' ASPs will head lower next year regardless due to a portion of contracts resetting to the seaborne index. In terms of Canada, we give the company the benefit of the doubt in our model, but the jury is still out on whether CLF can shed the asset without recourse. Cost targets are not an easy feat based on historical figures and we don't think it makes sense for the board to approve a dividend given the high debt loads...In our view, there is too much uncertainty in both the macro backdrop and Cliffs' strategy to change our rating, though we would have an open mind if China accelerates or mgmt executes.

Dubinsky maintained his underperform rating on Cliffs despite--or because of-- yesterday's 22% gain. Shares of Cliffs Natural Resources have dropped 1.2% to $11.15 at 9:59 a.m. today, while BHP Billiton (BHP) has risen 0.5% to $59.92 and Rio Tinto (RIO) has dipped 0.1% to $49.22.

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