The New Zealand Herald

HD **Gina's GIANT gamble**

WC 879 words

PD 28 November 2014

SN The New Zealand Herald

SC NZHLD

PG C012

LA English

LP

Plunging mineral prices aren't enough to deter Australia's $18.7 billion woman from taking a punt on iron ore

Gina Rinehart, the richest woman in the Asia-Pacific region, is set to start exports in September from her new A$10 billion iron ore mine, undeterred by prices near five-year lows and forecast to fall even further.

TD

"We don't like the ore price going down, but we're in the lower quartile of production costs," Rinehart said last week in an interview at the Roy Hill mine in Western Australia's iron-rich Pilbara region.

The chairwoman of Hancock Prospecting was talking just hours after Andrew Mackenzie, chief executive of giant miner BHP Billiton, called an end to the era of "massive expansions of iron ore".

BHP and its rivals, Rio Tinto and Vale, are flooding the global market with ore after a US$120 billion spending spree to boost the capacity of their mines from Australia to Brazil.

"I don't think next year would be ideal to be adding new supply," says Daniel Morgan, a Sydney-based analyst at UBS.

"The market is pretty well supplied for the next few years."

Shares in BHP have fallen 16 per cent this year, while Rio shares are down by 17 per cent. The share price of Fortescue Metals, the country's third-biggest shipper, has fallen by 40 per cent.

The largest producers are aiming to ship record amounts of ore, betting that the increase in volume will offset plunging prices and in the process force less competitive mines to close, including some in China, the largest buyer of seaborne supplies.

"Our view is there's a sustainable long-term iron ore demand," Barry Fitzgerald, chief executive of Roy Hill Holdings, told reporters. "Market economics will always demonstrate ultimately the high-cost producers will need to exit the market and leave us among the other low-cost producers as one of the last people standing."

Rinehart, who also owns stakes in iron ore mines operated by Rio Tinto, has sold 30 per cent of Roy Hill to a group including South Korea's Posco, Japan's Marubeni and Taiwan's China Steel. The overseas partners will take a share of production from Roy Hill, says the company website.

"It's probably been a long-held goal to get something she controls into the market," says UBS' Morgan. "She's obviously got a high exposure to the iron ore market through her other business interests. This is the first time she gets to control an asset."

More than 2 million tonnes of iron ore has already been stockpiled at Roy Hill, Rinehart told reporters. Project construction was 67 per cent complete, said the company.

"Given we're already an aggressively scheduled, fast-scheduled project, major project, really complicated project, and to be ahead of schedule has been fantastic," said Rinehart, whose net worth is valued at US$14.6 billion ($18.7 billion), according to the Bloomberg Billionaires Index.

While sticking with iron ore, Hancock Prospecting is also diversifying. One of its operations, Hope Dairies, this month announced a A$500 million expansion into infant formula to supply China, with plans for a farm and dairy herd in Queensland.

The price of iron ore, delivered to the Chinese port of Qingdao, has fallen by 47 per cent this year. Last week the price was under US$71 a tonne and some forecasts have it falling even further. The price will average US$65 a tonne next year, dropping into the US$50s in the third quarter as global supply increases and demand remains weak, Citigroup said in a report this month.

“The worst is yet to come,” says Liang Ruian, a fund manager at Shanghai-based Jianfeng Asset Management.

“Not only will we see increased supply from Brazil and Australia, also there’s an element of collapsing demand which hasn’t been reflected in the price yet.”

Iron ore at “$70 is not a bottom and I’m not even sure it can stand above $50 next year”, says Liang. “What people haven’t realised is the vanishing demand for commercial real estate here.”

Roy Hill’s break-even cost is US$56 for ore landed in China, a figure confirmed by Morgan. Rio’s break-even cost is US$45, BHP’s is US$49 and Vale is at US$67, according to UBS.

The slowdown hasn’t discouraged Vale, the biggest exporter, which is investing US$37 billion in iron ore mining and logistics projects, seeking to boost its output capacity to about 450 million tonnes by 2018.

In the long term, the market won’t be oversupplied all the time, Claudio Alves, Vale’s global director of ferrous marketing and sales, said this month.

The global seaborne market needs to absorb a surplus of about 110 million tonnes next year, almost double the 60 million tonnes this year, according to Goldman Sachs. The bank declared the “end of the Iron Age” in a September report, as a Chinese-led surge in demand ended.

“The decline next year will be driven mainly by new supply from the majors in Western Australia,” says Gerard Burg at National Australia Bank. — Bloomberg

RF bbiron

CO hkpros : Hancock Prospecting Pty. Ltd.

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

NS reqrmm : Suggested Reading Metals/Mining | redit : Selection of Top Stories/Trends/Analysis | reqr : Suggested Reading Industry News

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

PUB W & H Newspapers Limited

AN Document NZHLD00020141127eabs0002t

