

**HD** Cliffs Natural Resources 'Living on a Prayer' as **Iron Ore** Plunges, Axiom Capital Says -- Barron's Blog

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Today's been a lousy day for Cliffs Natural Resources ( CLF).

It's shares have dropped 4.7% to \$17.78 at 2:31 p.m. today, joining a selloff that has caused Rio Tinto ( RIO) to fall 2.4% to \$52.11, BHP Billiton ( BHP) to decline 2.8% to \$64.82 and Vale ( VALE) to drop 3.2% to \$12.62.

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The reason: **China's** export data was tres terrible and commodity prices have dropped across the board--especially **iron ore**. And the one thing Cliffs Natural resources can't afford is lower prices for **iron ore**.

Axiom Capital's Gordon Johnson and James Bardowski explain why:

In summary, given our view on 2014 **iron ore** prices, we believe [Cliffs Natural Resources] will likely blow through its debt covenants in 2014, further cut its dividend, and likely need to do a very large dilutive **equity** deal (if the **company** is not able to execute these options, we see acute liquidity risk in the offing). While we recognize [Cliffs Natural Resources] has recently replaced its senior management team (CEO/Chairman & CFO), providing a new, more risk-averse approach to allocating capital, given our view on **iron ore** prices (anchored by what we see as structurally slower growth in **China**), we view the issues plaguing the **company** currently as structural. While we see a turnaround as possible, \$114 **iron ore** suggests bankruptcy is a growing reality, inspiring our report's title "Living On A Prayer".

The sad thing is that it didn't have to be this way, Johnson and Bardowski say. Cliffs Natural Resources once had a steady business selling **iron** to non-coastal companies but wanted to get in on the **China** play. So it purchased other mines, culminating in the **acquisition** of Consolidated Thompson. Now it's paying for it.

Shares of Cliffs Natural Resources have plunged 32% so far this year, while Rio Tinto has fallen 7.7%, BHP Billiton has dropped 4.9% and Vale has declined 17%.

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