International New York Times

SE finance

HD **Falling iron ore prices fail to dent Rio Tinto's profitability; Expanded production and cost-cutting make up for weakness in demand**

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WC 707 words
PD 8 August 2014
SN International New York Times
SC INHT
PG 14
LA English

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Rio Tinto, the London-based mining giant, said on Thursday that its first-half profit more than doubled to $4.4 billion as the company shrugged off a sharp drop in iron ore prices, and reported improvements in its smaller aluminum and copper mining businesses.

Despite evidence of a slowdown in the growth of steel production in China, Rio Tinto's crucial market, the company is sticking with plans to bolster the capacity of its iron ore mines in the Pilbara region of Western Australia by almost a quarter by the middle of next year. That follows a roughly 20 percent expansion completed this year.

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The company is betting that its low Australian mining costs will allow it to thrive and squeeze out other producers with higher expenses regardless of the price of iron ore.

Sam Walsh, Rio Tinto's chief executive, said the company was ''unapologetic'' about continuing to focus investments on its iron ore unit, which accounts for about 90 percent of its profit, even though prices have fallen nearly 30 percent over the last year.

Rio Tinto forecast that 125 million metric tons of iron ore production would leave the market in 2014, enough to offset large amounts of new supply expected from Australia and Brazil.

''High-cost producers are leaving the market,'' Mr. Walsh said during a conference call with reporters. He said that ''the fundamentals for iron ore remain strong.''

The company's net income increased 156 percent in the first six months of the year compared with the same period a year earlier. Rio Tinto's more closely watched earnings before interest, taxes, depreciation and amortization rose about 3 percent, to $10.5 billion, beating analysts' expectations, according to Paul Gait, an analyst at Sanford C. Bernstein in London.

Revenue was flat at about $24 billion. Rio Tinto also said it would increase its interim dividend by 15 percent, to 96 cents a share.

While Rio predicts that growth in Chinese steel demand is likely to slow to 3 percent to 4 percent this year, Mr. Walsh said that efforts by Beijing to cut air pollution were likely to lead low-quality iron ore producers in China to leave the market. Steel mills, he said, would buy those producers' ore only at substantial discounts — it requires more energy to prepare low-quality iron ore for use in plants.

Mr. Walsh took the top job at Rio last year with a mandate to tighten controls after an ill-timed acquisition of the Canadian aluminum maker Alcan in 2007 for $38 billion and a costly foray into coal in Mozambique.

He has been drawing on his earlier experience as a car executive as he works to turn Rio's Australian mines into highly automated, open-air factories. Rio produces iron ore for about $20 a ton, leaving plenty of room to make money even if prices fall from the current $96 a ton.

Declining commodity prices, Mr. Walsh said, shaved about $1.4 billion from earnings. That was offset by cost-cutting measures that reduced annual expenses by than $3 billion, and by higher output from the company's mines, he said.

In addition, despite efforts to expand iron-ore production, the company has cut its overall plans for capital spending for the year by $2 billion to $9 billion.

''We continue to like Rio's world-beating iron ore operations,'' Mr. Gait wrote in a note to clients. He said that Rio Tinto's Australian mines had three major advantages: proximity to Asian markets, access to rail and port facilities and good-quality ores.

On the other hand, analysts at Liberum Capital in London said that they thought that the production of iron ore would not fall as much as Mr. Walsh had forecast and that there was a risk of the market being overwhelmed by new supplies from expanded mines in Brazil and Australia, especially in 2015.

The analysts said that ''the second half of the year will be much tougher than the first for Rio with earnings impacted by lower iron ore prices.''

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AN Document INHT000020140808ea8800004

