

FINANCIAL REVIEW

SE Smart Money
HD **Big miners offer safest bet**
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Lingering uncertainty about demand weighed down resources for most of 2013 and, despite sentiment swinging the other way in the latter half, experts are still warning investors to be wary and target large diversified operators over smaller, single-commodity companies.

A refreshed political regime in **China** unsettled **equity** markets last year as analysts queried whether the ambitious growth plans of the previous leaders would be sustained. This was coupled with big write-downs across the market as commodity prices in **gold**, thermal and metallurgical **coal** and resources stocks were highly volatile for most of 2013.

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A stronger than expected **iron ore** price and successful efforts to trim debt and costs by all resources companies, saw sentiment turn towards the end of the year.

The short-term outlook, according to the two largest resources companies in the world, BHP Billiton and Rio Tinto, is volatile but the long-term fundamentals – ongoing emerging market growth fuelling demand for commodities – remain intact.

Deutsche Bank equities strategist Tim Baker says the group is overweight resources and underweight the big banks based on valuations.

Deutsche prefers the large-scale stocks including BHP and Rio, given their lower-cost **operations** and diversification, he says.

"They are cheaper than they appear if the **iron ore** price continues to hold up a bit better. So I think there's too much nervousness out there." Index falls along with **gold** price

The S&P/ASX 300 Metals & **Mining** Index fell from slightly over 3500 to below 2700 between the start of the year and June as the **gold** price fell.

But the index, which includes Sandfire Resources, Bluescope Steel, Alacer **Gold** and PanAust as well as the larger companies, rebounded from its June low by 16 per cent in mid-December last year.

Equities researcher Morningstar recommends larger, more diversified operators such as BHP, Rio and Woodside Petroleum for value.

"Commodity prices can be extremely volatile so investors should focus portfolios on miners with sustainable competitive advantages [such as] low-cost and long-life [assets] and the ability to generate good returns in almost any metal price environment," Morningstar sector head of basic materials and **energy** Mathew Hodge says.

"This is particularly relevant for miners most leveraged to the **Chinese** fixed-asset investment boom such as those which produce **iron ore** and metallurgical **coal**," he adds.

This comes after a flurry of downgrades, senior executive changes and stringent cost and debt cutting.

Rio Tinto jolted the market last January with a shocking \$US14 billion write-down on its aluminium and Mozambique coal assets and, as a result, announced the departure of then-chief executive Tom Albanese.

A month later, BHP Billiton announced Andrew Mackenzie would succeed Marius Kloppers as chief executive.

There would be a greater focus on working assets harder and selling non-core assets.

Hodge says this ongoing focus on cost-cutting and capital control has been positive for restricting supply and maximising returns from existing assets.

"There is room for optimism with miners de-emphasising the unhealthy growth fetish and increasing the focus on returning cash to shareholders."

Michael Hobbs

CO bkhlp : BHP Billiton Ltd | bltplc : BHP Billiton PLC

IN i22472 : Precious Metals | i22 : Primary Metals | i224 : Non-ferrous Metals | ibasicm : Basic Materials/Resources | i211 : Metal Ore Mining | imet : Mining/Quarrying

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