SE MarketWatch

HD **Heavy lifting's not over yet for iron ore miner**

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Atlas Iron (AGO) 68.5c

THE bad news is that the Chinese iron ore market is oversupplied by 400 million tonnes — more than the annual output of Rio Tinto and Fortescue Metals combined.

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The good news?

These high-cost tonnages won't be in the market for too much longer if the iron ore price continues to sag.

With Chinese demand remaining robust, this creates a theoretical undersupply of — you guessed it — 400 million tonnes.

Atlas chief Ken Brinsden yesterday aired the number at a Sydney briefing, to support the popular argument that high-cost producers will withdraw from the market. The main culprits are private Chinese producers churning out ore at a cash cost as high as $US145 a tonne, which does not make sense when Chinese mills can buy the seaborne stuff for $US92 a tonne ($99 a tonne in Australian dollars).

In the meantime, users are migrating to the higher quality (62 per cent ferrous content) output, putting further pressure on suppliers of the 58 per cent grade ore such as Atlas.

Brinsden's prezzo wasn't intended to spook what's already eggshell-fragile sentiment surrounding the steel ingredient.

He notes that reduced pricing has also opened up new markets, with Atlas selling for the first time into China and with "opportunities being progressed into other Asian and European destinations''.

Brinsden last week said iron ore demand had not materially changed and he was confident the price could stay at $US100-$US125 a tonne in the longer term.

While Atlas is suffering from the price hit at least it is shipping the stuff at record levels — 1.25 million tonnes in May with guidance of 10.2-10.7 million tonnes for the full year.

Atlas cites cash-cost guidance of $49-$52 a tonne. But UBS recently had Atlas as a less comfortable all-in cost of $US82 a tonne ($88 a tonne).

The iron ore price has fallen 30 per cent since the start of the year and Atlas shares have retreated 40 per cent in sympathy.

While we acknowledge the miner's long-term prospects — especially with the Mount Webber mine in development — we will avoid this one pending clarity on the Chinese supply and demand dynamics.

There are 400 million reasons we could be right — and 400 million reasons why we could be to wrong.

Cochlear (COH) $60.15 “CONTOUR Advance” sounds more suited to a Gillette ad than a moniker for an implantable hearing device. But it sure sounds better than “the rehashed version of the faulty device we had to recall’’.

Cochlear readily admits its Profile with Contour Advance Electrode (CI-512) is based on the CI-500s that were recalled in September 2011 at a cost of $150 **million**. With the authorities happy the manufacturing problem has been rectified, CI-512 will be relaunched in Europe and Japan.

Just as some Beetle and Mini owners swear by the originals, the rebadged C1-500s retain the advantage of being the thinnest implants in the market.

Just as aftermarket accessories can trick up the aged (or ageless) cars, the implant is paired with a more efficient receiver. Another benefit is that the reimbursement procedures are already in place.

While Cochlear tackled the fallout, competitors moved on and the **company** has been losing global market share (on Credit Suisse estimates, from 62 per cent in 2011-12 to 57 per cent in 2012-13).

Fellow broker CIMB is concerned that Cochlear’s implied full year profit guidance of $107m-$117m requires a bonzer second half of $70m-$80m. The **company** is ripe for an earnings shave and we maintain our sell call.

Retail Food Group (RFG) $4.20 BARRING a slight earnings per share hiccup last year, the franchisor has enjoyed seven years of earnings and dividend growth since listing in 2006.

The owner of brands including Donut King, Michels, Brumbys and The Coffee Guy expects to stretch this uninterrupted record to eight years, yesterday confirming full year net profit growth of about 15 per cent (to $36.8m).

Caffeine-crazed and fuelled by sugar, RFG’s customers remain oblivious to the consumer confidence crisis elsewhere. Or perhaps they’re drowning their budget sorrows in donuts and Boston buns.

To maintain its historic growth rate, RFG needs to open franchises — which have grown from 332 on listing in 2006 to 1374 as of December 2013 — at a steady clip.

RFG’s performance tables also neglect to mention return on **equity**, which on JPMorgan estimates has declined from 24 per cent five years ago, to 13 per cent.

This is because two **equity** raising totalling $116m haven’t created incremental returns through promised acquisitions.

Valuation-wise RFG has never enjoyed the same growth multiples as its peer Domino’s Pizza. In our view RFG remains a bite-sized buy for its 7 per cent yield.The Australian accepts no responsibility for stock recommendations. Readers should contact a licensed financial adviser. The author does not hold shares in the companies mentioned.

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