



HD Moody's downgrades Atlas **Iron** Limited's rating to B3; Outlook Stable

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Approximately USD325 **million** of debt securities affected

Moody's Investors Service today has downgraded Atlas **Iron** Limited's (Atlas) corporate family rating to B3. At the same time Moody's has lowered Atlas' senior secured ratings to B3. The outlook on all ratings is stable.

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RATINGS RATIONALE

"The rating downgrade reflects our expectation for continued weakness in **iron ore** prices that is exerting pressure on Atlas' cashflow and margins", says Saranga Ranasinghe, a Moody's Analyst.

"We believe that the combination of the **iron ore** industry's increased production capacity and slowing demand from **China**, will keep prices suppressed into 2016. As a result, we have revised our price sensitivity for **iron ore** for the period through 2016 to a range of \$75 - \$85 per metric tonne - (62% Fe)" adds Ranasinghe who is also the **lead** Analyst for the **company**.

"The rating downgrade also considers the decrease in Atlas' margins given the further downward pressure increasing supply is placing on the 58% Fe products with significantly increased discounts to the 62% Fe index price for the lower grade".

"Moody's acknowledges the cost rationalization initiatives taken by Atlas, but the weakness in the operating environment means that credit metrics will likely be pressured for the FY15 period and will no longer sustain a financial profile that is consistent with its previous rating".

The stable outlook reflects the adequate liquidity and the diminishing execution risk and capital expenditure requirements following the scheduled completion of the Mt. Webber project development in FY 2015.

Atlas had AUD 204 **million** of cash on hand at the end of September 2014 and we expect the **company** to maintain adequate liquidity levels to offset the current weakness in **iron ore** prices.

The rating and/or outlook could face negative pressure if fundamentals for **iron ore** deteriorate further and beyond our expectations. The rating and/or outlook could also face negative pressure if there are any material cost increases and/or delays to Atlas' project delivery, leading to concerns about the **company's** ongoing production profile, liquidity, and/or credit metrics. Specifically, an inability to maintain debt-to-EBITDA below 7.0x on a consistent basis could pressure the outlook and/or rating. We would also look to the **company** maintaining an adequate liquidity buffer to cover its debt service obligations.

The rating and/or outlook would face positive pressure if there was a marked and sustained improvement in **iron ore** prices leading to an improvement in margins. Specifically, we would look to leverage improving to below 5.0x on an ongoing basis.

Atlas **Iron** Limited (Atlas), headquartered in Perth, Australia, is an **iron ore** producer and developer focused on the North Pilbara region of Western Australia. In FY14, Atlas shipped 10.9Mt of **iron ore** and generated revenues of around \$1.1 **billion**.

The principal methodology used in this rating was Global **Mining** Industry published in August 2014. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

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