

Pressure on magnetite projects

Resources

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Many of Australia's emerging magnetite iron ore miners are likely to see their projects fall over due to rising costs, tightening funding conditions and weakening commodity prices, according to analysts.

There are 33 significant magnetite projects under development with the potential to add a total of 28 billion tonnes of resources, Royal Bank of Scotland estimates.

It is more difficult to treat magnetite ore to make it suitable for steel making and most of the iron ore exported from Australia has traditionally been the higher quality hematite variety.

RBS analyst Todd Scott estimates processing costs for magnetite can be twice as expensive and that most of the magnetite projects in Australia will not see the light of day.

This could spell bad news for the likes of OneSteel, Atlas Iron and Iron Ore Holdings as they have early stage magnetite projects.

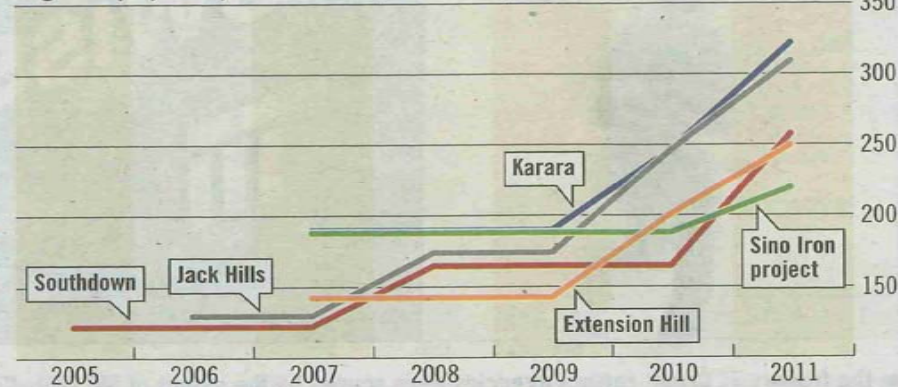
"I think the escalation of capex [capital expenditure] intensity has caught many developers and investors by surprise," Mr Scott said.

What he found was that capital costs had surged 76 per cent over the past four years across five magnetite projects and he believes that costs will continue to rise.

Magnetite projects are particularly sensitive to changes in costs and iron ore prices. Even a relatively small percentage change in capex will have big ramifications for the industry as capital costs for such projects run into the billions,

Forces of attraction

Magnetite project capex escalation (\$/tonne of capacity)



Notable Magnetite projects and owners

Project	Owner	>1bn tonne resource	Access to port & rail	Development partner
Jack Hills	Murchison Metals	✓	✗	✗
Balmoral South	Australasian Resources	✓	✓	✗
Southdown	Grange Resources	✗	✓	✗
Mount Forest	Mindax	✓	✓	✗
Fusion project	Centrex Metals	✗	✗	✓
Central Eyre	Iron Road	✓	✗	✗
Ridley	Atlas Iron	✓	✗	✗

SOURCE: RBS

and that stands in sharp contrast to the relatively modest market capitalisation of these project owners.

For instance, the total capex of the four advanced magnetite projects that have completed or updated detailed construction estimates in the past year have come in at \$14.5 billion and none of projects have a capital cost below \$2.5 billion each.

In contrast, the combined market capitalisation of the owners of these projects — being Gindalbie Metals,

Grange Resources, Iron Road and Murchison Metals — only stand at about \$1.37 billion.

Argonaut analyst Troy Irvin sounded a similar warning for the industry and noted that the upbeat sentiment towards the iron ore market had prompted many miners to embark on marginal projects that were also under threat from falling iron ore prices, as they could take years to complete.

"You've got BHP Billiton, Rio Tinto and Vale adding significant tonnages of hematite output [in the

coming years]," Mr Irvin said. "If iron ore prices were to come down there will be a flight to quality."

The iron ore price has collapsed by about 28 per cent since the market sell-off began on April 11, according to the Credit Suisse commodities index.

However, investors should not write off all magnetite projects. RBS believes that first mover advantage is key and those with projects that are already in or nearing production are best placed to benefit from relatively high iron ore prices and strong margins for the next few years.

Only two miners have projects that fit this bill and they are Gindalbie, with its Karara project fast approaching first production; and Grange, as it is the only magnetite-focused stock in Australia that has a large-scale project (Savage River) in production.

The broker is encouraging investors to buy both stocks with a price target of 57¢ and 62¢, respectively.

While other magnetite miners do not quite check all the boxes, there are other notable projects that are worth keeping an eye on, according to Mr Scott.

The key things to look for in a project are a large resource base of more than one billion tonnes, access to port and rail, and whether a development partner has been found.

Australasian Resources' Balmoral South project and Mindax's Mount Forest project are two examples.

These projects have between 1.4 billion and 1.6 billion tonnes of resources and access to port and rail. If they can secure a development partner, it could spark a re-rating of the stocks.

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