



INVESTING

# Iron shinier than gold in stock market

There are many side players in iron ore, but few which can get moving quickly, writes **James Dunn**

**I**RON is not gold: that they are both metals is about all they have in common. But on the stock market, gold takes a back seat to iron as the metal to own. There is no better illustration of this than the spectacular growth of Fortescue Metals Group, which last month made the first shipment of iron ore from its Cloudbreak mine in the Pilbara region of Western Australia.

Since the beginning of 2006, Fortescue's stock has risen from around \$5 a share to the equivalent of \$100 (following a ten-for-one share split in December last year, Fortescue trades at \$10). That values the company at \$28 billion.

Along the way, Fortescue has faced a mountain of criticism: its ore wasn't high-grade enough, it didn't have the infrastructure, it didn't have the customers, its project used risky financing. Many Australian fund managers have chosen not to believe the Fortescue story. But in making the shipment, Fortescue has signalled that its ambitious plan to produce and export 100 million tonnes of iron ore a year within a few years is more than possible.

"It's real, it's happening and Fortescue is now too big for a fund manager not to own," says the head of house trading at an Australian investment bank. "If you didn't own it, you've under-estimated the Chinese steel mills' desire to have a new, major supplier to lessen the dominance of the big three (BHP Billiton, Rio Tinto and Vale of Brazil). It's the best-performing stock in the resources sector: you either own it, or you under-perform those that do."

But JPMorgan analyst David George says Fortescue is "getting ahead of itself," with about 200 million tonnes of iron ore production a year needed to justify the current price. "We can't justify that share price with conventional valuation work," says George. JP Morgan has an "under-weight" rating on Fortescue, with a target

price of \$4.60.

Nevertheless, institutional and retail investors are busily trying to unearth the next Fortescue. Australia's other iron ore producers are:

- Portman Mining (80 per cent-owned by US-based Cleveland Cliffs), which produces about 9 million tonnes a year from its Koolyanobbing mine west of Kalgoorlie, and the smaller Cockatoo Island mine on the Kimberley coast.

- Mount Gibson Iron, which produces about 3 million tonnes a year from its Talling Peak mine east of Geraldton, and the same amount from its Koolan Island project, in Yampi Sound near Derby. Mount Gibson is developing the Extension Hill project near Talling Peak, which is expected to produce 3 million tonnes a year.

- Territory Resources, which is shipping 2 million tonnes a year of haematite (high-grade iron ore, 62 per cent iron or more) out of Darwin, from its Frances Creek mines.

- Murchison Metals, which is producing 2 million tonnes a year from its Jack Hills haematite ore body in Western Australia's Mid-West region, and is looking to increase production to 25 million tonnes a year in Stage Two.

- Midwest Corporation, which produces 1 million tonnes a year from its Weld Range project in the WA Mid-West, and is looking to bring three further projects successively onstream, resulting in a planned production rate of 45 million tonnes a year by 2015.

Then there are the hopefuls, such as Gindalbie Metals, which has the Karara magnetite (lower-grade ore) project, west of Geraldton; Golden West Resources, which has a very high-grade haematite deposit at Wiluna West, in WA's north-eastern gold-fields; FerrAus, which owns the Robertson Range haematite project in the Pilbara; Aquila Resources, which has 11,000 sq km of iron ore tenements in the Pilbara region (the largest land-holdings in the Pilbara region



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apart from Fortescue, BHP Billiton and Rio Tinto); Atlas Iron, which has 6000 sq km of iron ore tenements in the Pilbara, including the flagship Pardoo project, 50 km inland from Port Hedland; BC Iron, owner of the Nullagine project in the Pilbara; Resource Mining Corporation, owner of the Argyle project, 120 km south of Wyndham in the north of WA; Polaris Metals, which has several projects located in the Southern Cross region of WA; IMX Resources, which has started trial mining at its Cairn Hill prospect near Coober Pedy in South Australia; and Aurox and Fox Resources, which have highly prospective Pilbara ground.

Of these, Atlas Iron is the only other Australian iron ore miner scheduled to commence exports this year.

Gavin Wendt, senior resources analyst at Fat Prophets, cautions that the window of opportunity is only open for new players "if they can get up and running and make some money in the next couple of years."

Wendt believes that only Gindalbie Resources, BC Iron and Atlas Iron have what it takes. "Even then, I'm only looking at their haematite projects. We've put a red line through all of the hopefuls' magnetite projects --- the things that need hundreds of millions of dollars of upgrading.

"These three have all got longer-term, big visions to develop magnetite projects down the track, but the profitable operations that they will have, that will give them at least a bit of a foothold in the market, will be their haematite operations. They'll be small-scale --- it might be 5-10 million tonnes a year, over a five to 10-year mine life, but that should be enough to bring in a lot of cash," says Wendt.

Peter Strachan, principal at independent research firm Stock Analysis, says Reed Resources has an interesting project at Mount

Finnerty, about 120 km west of Kalgoorlie.

"Reed has a joint venture with Portman, because of which they probably have a good chance of getting a couple of million tonnes moving within the next year or two --- that would just be an extension on the Portman railroad that goes through Koolyanobbing and south to Esperance. It's tiny tonnes, but Reed's got 20 per cent of it, it might be a million tonnes a year. It's good money for them, it's a small company and it's good solid cashflow," says Strachan.

Strachan's favourite potential iron ore producer is Venture Minerals, which is a long way from the centre of iron ore action --- it is in north-western Tasmania --- and has a magnetite deposit when haematite is all the rage. But Strachan argues that Venture's Mount Lindsay project could surprise.

"Although it's in Tasmania, and people don't associate Tasmania with iron ore, Venture is only 25 km from the Savage River mine (operated by the Chinese-owned Australian Bulk Minerals), which has very good infrastructure. It sends concentrate by pipeline to Port Latta in the northwest of Tasmania, where it's made into pellet.

"Venture could truck concentrate to Burnie and ship it from there, or send it to Port Latta, pelletise it and ship it from there. They also have tin in the magnetite: they could recover a tin sulphide concentrate, which with tin at current prices, will pay for the whole thing.

"Ultimately, Venture has mapped out enough interesting ground that given a couple of years' drilling, they could eventually come up with 70 million-100 million tonnes of magnetite, which, mining 5 million tonnes a year, that's going to give them a 20-year project life, which could turn out to be a nice, lucrative project," says Strachan.