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India's late Aussie magnetite play

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WHAT is India's game in making an eleventh hour push into Australia's magnetite sector? Avoiding the hefty cost blowouts and delays that have dogged China's involvement in WA iron ore would be a good start. *The Metal Detective* by Stephen Bell



India is now officially a player in WA magnetite after Legacy Iron shareholders last Friday approved an \$A18.9 million share placement that will see state-run NMDC emerge with 50% of the Australian junior.

It is certainly baby steps for NMDC as it tries to avoid some of the pitfalls encountered by China in Australian magnetite.

By the *Metal Detective's* estimation, Chinese companies have spent more than \$9 billion over the past few years either buying or developing WA magnetite assets.

Yet, despite the massive spend and big promises, first shipments are still some way off: mid-2012 for Citic Pacific's Sino Iron and the third quarter of next year for Gindalbie/Ansteel's Karara.

Sinosteel's Weld Range, meanwhile, remains on hold until the Oakajee mess is resolved.

China's aggressive push into magnetite reflects its urgency to find reliable offshore supplies of the steel-making ingredient that are not in the clutches of Rio Tinto, BHP Billiton, or Vale.

The country's massive urbanisation over the past decade has seen China become the world's biggest importer of iron ore by far.

India, in contrast, remains an exporter for the time being, so buying overseas deposits hasn't been a priority up to now.

But India's thirst for steel, driven by its own urbanisation, has prompted forecasts that its exports to China may dry up in as little as five years.

During his recent visit to Australia, NMDC chairman Rana Som suggested this would make room for about 100Mt of new Australian production and potentially underpin spot prices for the future.

Som was in Perth to finalise its deal with Legacy, which has the right to earn a 60% interest in the Mount Bevan magnetite deposit near Menzies in WA's Yilgarn.

Legacy has predicted the current 617Mt resource could more than double come January, paving the way for a bankable feasibility study in mid-2012.

NMDC will bring a big balance sheet, raising hopes of securing a rail transport solution for the deposit, which needs a 120km spur to connect to the Esperance rail line.

Legacy could be the forerunner of bigger things, as the Indian company has said it proposes to use the junior as a vehicle to acquire large-scale bulk commodity projects.

NMDC – India's single largest iron ore producer at around 30Mtpa – says it has a budget of \$500 million this fiscal year for overseas acquisitions, and due diligence is on for two coal assets and two iron ore assets.

One of these is Atlas Iron's Ridley magnetite deposit in the Pilbara, which NMDC is now revisiting having gotten cold feet after the federal government unveiled its original super profits tax last year.

Atlas, which has estimated Ridley may cost up to \$3 billion to develop, has been seeking a partner since 2009.

Last week Atlas sold its Balla Balla deposit to Forge Resources for

\$40 million – evidence that there remains some appetite for Pilbara magnetite despite gloomy market conditions.

As indicated above, the Indians seem to have a bullish stance on the long-term iron ore supply-demand picture, so they may see their tentative Australian investments as simply good investments.

But NMDC does have a development strategy, one that is similar to the Chinese: exporting magnetite concentrates for further processing offshore.

The idea is to find an Asian destination with cheap power and labour for a new pellet plant that would supply the Indian steel sector.

Somewhat surprisingly, the options for NMDC may include Myanmar, which lies just across the Bay of Bengal.

The former military rogue state is opening up after elections last year and pitching itself as the next Asian growth story.

Myanmar is not the only exotic location on NMDC's radar for its downstream operations.

It is part of an Indian consortium that has proposed building a 6Mtpa steel plant in Afghanistan, after the group last month won the rights to mine three iron ore blocks.

The cost of this seemingly unlikely project would be \$11 billion over 10 years. If NMDC is serious about Afghanistan and/or Myanmar, you can see why its chairman is unfazed about Australian sovereign risk issues – namely the Gillard government's new mining tax.

Having now taken the first steps, it will be interesting to see how quickly the Indians push assets like Mount Bevan, and possibly Ridley.

As always, infrastructure is critical and NMDC is believed to be keen to pursue joint ventures with several "logistics" providers looking at penetrating the Australian iron ore market.



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