# Rio Tinto plc

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## Is the future anything but bleak for junior iron ore miners?

Anyone hoping for relief in the beleaguered iron ore markets ought not to expect it to come any time soon.

The price dropped sharply earlier in the week from over US$60 per tonne of 62% iron to less than US$55.

And with Australian heavyweights BHP Billiton (LON:BLT) and Rio Tinto (LON:RIO) continuing to crank up production, the likelihood of even more supply hitting the markets is weighing heavily on sentiment.

"We expect low quality iron ore producers to go out of business in this environment," says SP Angel analyst John Meyer. "Most of the other iron ore companies will go into hibernation."

What that means for investors will vary on a case by case basis, but the general picture is not good.

There have already been two casualties in the past 12 months: African Minerals, the Sierra Leone producer backed by controversial entrepreneur Frank Timis, and near-neighbour London Mining.

Both companies found that financing dried up as the iron ore price dropped away from highs of close to US$120 per tonne, and profits evaporated. The appointment of receivers was then a relatively rapid process.

In the case of African Minerals, major Chinese player Shandong moved in to clean up the mess, and in the case of London Mining, Frank Timis himself moved in on the assets.

But tellingly, he acquired them through a private vehicle and there seems little likelihood of it listing any time soon.

What does seem clear is that there are others in the market looking to follow the route that Timis has taken.

"There are some people in the market who are looking to acquire assets," says Will Slack, a director of Norwegian broking house Pareto Securities, "but they have a trader's mentality. They're thinking if I can acquire an asset that's had millions of dollars spent on it and I can acquire it for cents on the dollar, then that's worth doing."

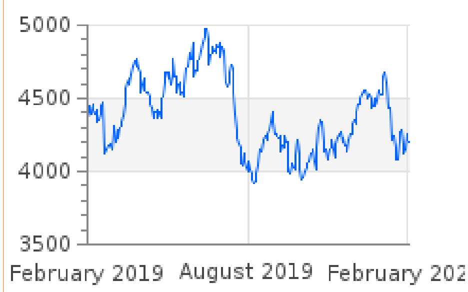
For those traders with a positive view of iron ore in the long-term, such an approach makes sense.

But it's hardly comforting for shareholders in the varied array of iron ore juniors - many of them with assets in West Africa - that now look completely high and dry.

The economics of iron ore projects are highly leveraged to transport costs, no matter what the prevailing iron ore price -

| | |
|---|---|
| **Price:** | 4230.5 |
| **Market Cap:** | £53.16 billion |

**1 Year Share Price Graph**




### Share Information

| | | |
|---|---|---|
| **Code:** | | RIO |
| **Listing:** | | LSE |
| **52 week** | **High** | **Low** |
| | **5039** | **3900.5** |
| **Sector:** | | **Mining** |
| **Website:** | | **www.riotinto.com** |

**Company Synopsis:**
*Rio Tinto is a leading international mining group that finds, mines and processes the earth's mineral resources. The Group's major products include aluminium, copper, diamonds, energy products, gold, industrial minerals (borates, titanium dioxide, salt and talc), and iron ore. Its activities span the world but are strongly represented in Australia and North America.*

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the further away a project is from its customers, the less viable it's likely to be.

But when the boom was on, high prices did for a time support the development of assets in more remote locations.

No more.

Bellzone Mining's (LON:BZM) efforts to finance its Kalia project in Guinea have foundered.

Kogi Iron (ASX:KFE) is trying but so far not succeeding in selling its Nigerian asset.

West African Minerals (LON:WAFM) has come to a juddering halt on its Lele project, and hasn't put any operational news out since February.

Sundance Resources (ASX:SDL), which was once the subject of a A$1.65bln takeover offer but is now capitalised at just A$65mln, continues with infrastructure work in Cameroon.

Sable Mining (LON:SBLM) reckons it's got "considerable" direct shipping ore potential at Nimba in Guinea, but has been promising a bankable study for over a year and has yet to deliver. The latest mooted delivery date, by the first half of 2015, has just passed. Before that the date had been set for the end of 2014.

Meanwhile, the good people at IMIC (LON:IMIC) have been making decent progress on Ntem in Cameroon, but have spent much of the spring and early summer in negotiations about refinancing debt.

And over at Equatorial Resources (AS:EQX), which has assets in the Republic of Congo, the chief executive has just resigned and the company has issued a statement about pursuing "new business opportunities in the resources sector".

There are one or two bright spots, though.

For those with ore of a better quality than the standard 62%, there is margin still on offer. In Europe, Ferrexpo (LON:FXPO) can produce pellets grading up to 65% iron, which sells at a premium.

And Zanaga (LON:ZOIC), which has a joint venture with Glencore in the Republic of Congo, remains confident that its 66% product will be viable.

Elsewhere, companies like IronRidge Resources (LON:IRR), which have ores of a type that certain steel mills particularly desire, offer glimmers of hope in an otherwise gloomy landscape.

Against expectations IronRidge managed to get its listing on Aim away earlier this year, one of the few mining companies in any commodity to list on a public market in 2015; that was thanks to the support of South African iron ore champion Assmang.

But like every other company in the sector, its share price has declined markedly, and it seems unlikely that that trend will change any time soon.

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