

BHP Billiton shares surge 3.7pc despite iron ore price dropping to lowest level since 2008

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John Dage Herald Sun



Iron ore has hit a new low.

BHP Billiton has shrugged off a new low in the iron ore price to stage its biggest rally since the Samarco dam disaster.

Shares in the nation's biggest company surged 3.7 per cent yesterday, breaking a six-day losing streak which had seen its Australian share price plumb a decade-long low.

Investors poured into the Melbourne-based miner despite the price of iron ore dropping below \$US43 a tonne to its lowest level since the daily spot price was introduced in 2008.

"It appears investors are starting to try to pick a bottom for BHP," Peak Asset Management executive director Niv Dagan said. "We think the bad news has largely been factored into the price."

The dip in the price of the key steelmaking ingredient came as a 289m bulk carrier to be loaded with the first iron ore from Gina Rinehart's Roy Hill mine arrived off the West Australian coast.

The \$10 billion Roy Hill mine will push another 55 million tonnes of iron ore annually into a heavily supplied market, which is already under pressure from a slowing China.

BHP headed a wider rally in mining stocks yesterday with iron ore rivals Rio Tinto and Fortescue Metals also posting healthy gains. And it proved the spark for a strong day for the benchmark ASX 200 index, which surged 1.9 per cent to 5266.1 points.

The world's biggest miner has endured a horror year, with commodity price falls in all of its core pillars — iron ore, petroleum, copper and coal.

It is facing a multi-billion dollar damages claim from the Brazilian Government in relation to last month's deadly Samarco iron ore dam burst, and investors are increasingly pricing in a cut to its highly prized dividend.

The company's share price has shed more than a third of its value over the past 12 months, including a near 20 per cent fall since the November 5 disaster in Brazil.

JP Morgan last week became the second major investment bank to slap a sell rating on BHP amid predictions it will be forced to cut its dividend by 50 per cent.

Sixteen of the 18 brokers covered by Bloomberg have maintained their hold or buy recommendations on the stock. Pengana Capital senior fund manager Tim Schroeders told *Business Daily* he was adopting a wait-and-see approach with a host of unknowns hanging over the mining giant.

These include the clean-up bill at Samarco, the mine's future, ongoing weakness in commodity prices and the sustainability of BHP's commitment to never let its US-priced dividend fall, he said. "There are a lot of different cross currents blowing across BHP at the moment, which investors need to work their way through," Mr Schroeders said.

BHP shares closed at \$18.75.

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