Price rise spurs demand for Brazilian iron ore

Jonathan Wheatley

Long before Vale and the world’s other big iron ore miners agreed price rises of 100 per cent or more with their steelmaker customers last month, Brazil’s mining sector had been gearing up to meet rising demand from China and other fast growing markets.

But the price rises and the prospect of a tight market for iron ore over at least the next two or three years have given added impetus to several projects in the sector.

“There has never been a better moment to sell iron ore assets,” says Pedro Montenegro, an analyst at Banco Brascan in Rio de Janeiro. “Ore is worth a lot of money, the market is very tight and the new prices mean there’s an even greater chance that projects will go ahead.”

At the top of the agenda is a proposal by CSN, Brazil’s third-biggest steelmaker, to spin off its iron ore and logistics assets.

CSN declined to comment, saying capital market regulations prevented it from doing so while negotiations were under way.

However, Benjamin Steinbruch, chief executive, said at a recent presentation that the company was opening talks with bankers on how to structure the operation.

The central issue will be whether to sell CSN’s iron ore assets separately or together with its logistics assets.

On the iron ore side, CSN owns Casa de Pedra, one of the biggest iron ore mines in Brazil, which last year produced 17.1m tonnes of ore.

It also owns Namisa, a company created in 2007 that owns a collection of mines and last year produced 5.5m tonnes of ore.

A consortium of Japanese and Korean steelmakers owns 40 per cent of Namisa, and they would have to be persuaded to go along with any spin-off plan.

In logistics, CSN has 32 per cent of MRS, a rail company, and other rail and port facilities.

CSN has long argued that the value of its non-steel assets is not reflected in its share price and that putting them into a separate company and either floating it or selling it to a strategic investor would help realise unrecognised value.

It says that Casa de Pedra alone would be able to produce more than 70m tonnes of ore a year after planned investments of $3bn.

That would make it a significant competitor to Vale, which is currently producing about 300m tonnes. Mr Steinbruch said he hoped the operation would be completed this year.

At a less advanced stage are plans by Usiminas, Brazil’s biggest maker of flat steel products, to spin off its mining and logistics assets. It bought four iron ore mines in February 2008 for $925m.

Usiminas’s logistics assets include a 20 per cent stake in MRS and a planned port due to enter operation in 2014. Usiminas aims to complete a spin-off this year and then look for a strategic investor to buy 20 per cent of the new company. Later, the company would be floated.

“They need a partner that knows the market well and can add value to their mining assets, as this isn’t their main area,” says Mr Montenegro.

He says there is no shortage of potential partners, including big miners such as BHP Billiton, Rio Tinto or Anglo-American, or big steel makers with mining assets such as Arcelor or one of the big Asian producers.

At the same time, other miners are appearing on the scene in Brazil. MMX, created in 2005 by Eike Batista, a billionaire entrepreneur, raised $509m when it floated in June 2006.

Last November, Wuhan Iron and Steel of China bought 21.5 per cent of the company for R$1.2bn ($682m), guaranteeing MMX at least one big customer.

Other recent arrivals include Ferrous Resources of the UK and German-backed Steel do Brasil, which last month bought mining assets in northern Brazil for $245m.

Fonte: Financial Times, Apr. 12th 2010, Companies, online.