At a time when the mining industry is being rocked by the ill winds of falling metal prices and sagging investor support, it is encouraging to find the occasional nugget of good news, which is what Australia’s Roy Hill iron-ore project represents.

Rather than retreating, currently the preferred tactic of most big mining companies, the owners of Roy Hill have opted to move forward, taking on board the advice of one of the most successful investors, Warren Buffett.

Nicknamed ‘the Sage of Omaha’, it was Buffett who coined the expression: “Buy when others are selling, and sell when others are buying.” This is harder to accomplish than it sounds because it means going against the herd.

But being different is not something that the woman behind Roy Hill, with its US$10 billion price tag, finds difficult because Gina Rinehart is unlike any other leader in the world of mining.

Cynthia Carroll, the former chief executive of Anglo American plc, might have been the first female head of a large mining company, but Rinehart actually owns a large mining company, and there is a world of difference between being an employee and being an employer.

Drive, of a sort that would make most high flyers envious, is another trait of Rinehart. Perhaps, that’s not surprising, given her early training alongside her pioneering father, the late Lang Hancock. Rinehart is one those people with an absolute conviction that she knows what’s best, not only for the family business she heads, but the country where she lives.

Marry the exceptional qualities of her early experience, and those gained in the masculine world of mining, and you end up with a powerful force propelling the Roy Hill mine towards first production in about two years.

But, to ship that first tonne over a wharf at Port Hedland on Australia’s north-west coast, Rinehart needs to finalise a complex financing deal that involves a syndicate of banks and a separate syndicate of government export credit agencies.

Reports in Australia last week hinted that she is within sight of shepherding the two banking groups towards an agreement that will see the government agencies provide around US$4 billion and the commercial banks around US$3 billion.

Rinehart, who owns 70% of Roy Hill via her family company, Hancock Prospecting, will contribute the lion’s share of the residual US$3 billion, with assistance from minority Korean, Japanese and Taiwanese steel mills, which have acquired a 30% stake in the mine.

Missing from that list of Roy Hill investors are any Chinese companies, probably a deliberate decision, given her hard-line, right-wing political views.

Disregarding the minority investors, it is fascinating that an individual has the financial firepower to personally provide several billion dollars to co-fund a major new iron-ore project with capital coming from the fortune she has already amassed, courtesy of an inherited royalty and a half-share in the highly profitable Hope Downs iron-ore mine which Rio Tinto operates, but which is named after Rinehart’s mother.

Whether she is worth US$17 billion (Forbes magazine) or US$20 billion (Business Review Weekly magazine) is irrelevant in terms of how she is spending her
fortune. In a nutshell, Rinehart is doing something that most big mining companies aren’t doing: reinvesting at a faster pace than withdrawing capital at a time of plummeting commodity prices.

**Still a firm favourite**

Iron ore remains a favoured investment target of BHP Billiton (BHPB) and Rio because the profit margins remain much higher than for most other minerals. However, hard times mean both have been trimming their exposure: BHPB by mothballing a proposed new port; and Rio by seeking to sell its stake in the Iron Ore Company of Canada.

Hancock Prospecting, on the other hand, is pushing ahead with Roy Hill, a mine designed to grow to an annual output of 55Mt, valued at more than US$6.8 billion.

Located 277km south of Port Hedland in the Chichester Ranges, the first phase of the Roy Hill development (named Roy Hill 1) contains an indicated and inferred resource of 2,400Mt of low-impurity ore grading between 50% and 55% iron.

Today, Roy Hill is back in the news as financial closure on the crucial banking deal is said to be near.

A spokesman for Hancock Prospecting told the Australian Financial Review that the company was confident of completing it by the end of the year.

What makes that comment significant is not just that the funding deal involves several layers of debt (government credit agencies and commercial banks), but that the organisations involved are prepared to make big loans to a new project at a time when finance for mining is scarce, and mine closures have been more in vogue lately than mine openings.

Roy Hill has been close to clinching a funding deal before. Last year, there was speculation that the transaction had been agreed, only to be derailed by a sharp fall in the price of iron ore.

The project could still be undermined by external shocks such as another slump in the iron-ore price, or a hard landing in China. But at the end of the day, there is little to stop Rinehart from achieving (at some point) what she regards as the destiny of the House of Hancock – to be a major mineral producer, something her father tried to do, but failed.

**Determined re-investment**

Her determination to build a business memorial to Lang Hancock has seen his daughter plough back a large portion of her royalty and Hope Downs cash flow into early work on Roy Hill.

While the major funding package is still required, it is estimated that Rinehart and her minority partners have already invested around US$1.3 billion in Roy Hill. Funds have been set aside for site works that include:

- Dredging at the Port Hedland wharf;
- Building a runway with the capacity to host a Boeing 737;
- Early clearing and marking-out of a railway route; and
- A purpose-built head office in Perth that will mimic the high-tech automated control centres operated by the iron-ore divisions of Rio and BHPB.

More work is needed before an official go-ahead is given to Roy Hill, but the signs are positive as the financing talks, especially with the ultra-cautious government agencies, move into their final phase, with a targeted end-of-year signing ceremony.

When, more so than if, Rinehart edges the bankers across the finish line, she will have chalked up a monumental personal achievement and started the next phase of building her fortune, which could one day make her the richest person in the world.

While she hates calculations (well, let’s be honest and call them guesses) about what her assets could be worth if they were liquidated tomorrow, the Roy Hill numbers are fascinating as this exercise shows.

Assuming a 55Mt/y steady-state output fetching US$100/t (a discount on the current iron-ore price of US$125/t) and Roy Hill will generate US$5.5 billion in revenue.

Given a low expected cost-of-mining and relatively straightforward rail and port system which will be similar in many ways to Rio’s nearby iron-ore mines, the cost of production is probably around US$40/t.

On that basis, the annual gross profit of Roy Hill will be around US$2.2 billion and Rinehart’s 70% share will be around US$1.5 billion, and that’s US$1.5 billion in profit, not a revenue share – and it’s hers, not money that has to be shared with thousands of other stakeholders, as is the case with most other mining companies.

When the Roy Hill profit is combined with the royalty and Hope Downs income, it is estimated Rinehart would be earning more than US$3 billion a year in clear, personal profit, which implies a net worth (should she sell everything at a 10-times multiple) of US$30 billion, or much more if a higher multiple is used.

There are two other points to consider about the importance of the Roy Hill financing deal and the likely start of full-scale construction next year:

- Rinehart has made that modest change in the name of the project by adding the numeral 1, inferring that there is a Roy Hill 2 to be added in the future, something easy to imagine as the region in which she is working is littered with undeveloped orebodies;
- Securing finance for Roy Hill will be a significant confidence booster for the mining industry, which has spent the past two years in the sin bin as metal prices have contracted.

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