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Gina Rinehart's highlights from Roy Hill's first year of operation

Gina Rinehart at Roy Hill Holdings' pink truck launch in October. **Supplied**

by **Tess Ingram**

What a difference a year makes.

In the weeks leading up to the first shipment from Gina Rinehart's $10 billion Roy Hill iron ore mine, there was no shortage of analysts willing to bet the Pilbara project Mrs Rinehart had worked toward for decades could struggle to be a profitable venture.

The iron ore price had plummeted to $US40 per tonne and was expected to persist at that level well into 2016.

Mrs Rinehart's triumph realising the Hancock dynasty's longstanding dream of owning and running its own mine was overshadowed by the very real threat of red ink.

The first shipment of iron ore from Roy Hill was on December 10, 2015. **Philip Gostelow**

But, so far, the sceptics have been proved wrong. The iron ore price has staged a surprise recovery to over $US80 a tonne and Roy Hill has ramped-up production faster than many expected.

According to CRU iron ore cost analyst Adrian Doyle, there is now "no doubt they are making money" at current prices.

Mrs Rinehart is understandably chuffed, revealing to *AFR Weekend* her highlights from the 12 months since Hancock Prospecting, Roy Hill's 70 per cent owner, and its partners farewelled the project's first shipment from Port Hedland on December 10, 2015. "Starting with our inaugural shipment last December, from our mega project being within budget – a big feat for major projects – and within the joint venture planned timescale, with above industry safety standards, [to] then making shipment to all our partners and customers," Mrs Rinehart said.

Many milestones

Tad Watroba, Gina Rinehart and Barry Fitzgerald at Roy Hill Holdings' pink truck launch. **Supplied**

The eight awards the project won and the recent implementation of the world's first pink fleet of mining trucks, in support of women in the industry and those suffering from breast cancer, rank among the project's "many milestones", as does achieving lenders' practical completion under its financing agreement earlier this month.

Her big year was not limited to achievements in iron ore; Hancock, in joint venture with Shanghai CRED, won the bidding for the S.Kidman & Co empire with a $386.5 million offer waved through by Treasurer Scott Morrison on Friday. Hancock also struck a $US300 million deal with London fertiliser group Sirius Minerals and, individually, Mrs Rinehart was the biggest single financial supporter of Australia's Olympic efforts.
But for Roy Hill, which has an initial 17-year mine life, there is still a long way to go.

Mrs Rinehart, who remains critical of the regulatory burden on the industry, labelling it "horrific and expensive", said the major goal for Roy Hill in 2017 "is to remain cost competitive, including by driving efficiencies and leading industry best practice".

Roy Hill Holdings CEO Barry Fitzgerald at the official opening of its ROC-ED learning centre. **Stefan Gosatti**

While it didn't rate a mention in the highlights reel, it is here the iron ore price comes back into play.

This year's price strength, largely driven by better than expected demand from Chinese steel mills and speculative trading, has been robust enough to support the higher-cost tonnes analysts were tipping to exit the market as well as a net increase in supply of about 60 million tonnes over the course of the year, according to Wood Mackenzie iron ore markets analyst Paul Gray.

About 25 million tonnes of that increase is estimated to come from Roy Hill as it ramps up production to its nameplate capacity of 55 million tonnes a year.

In 2017, the progress of that ramp-up remains critical, perhaps even more so.

Cost focused

The more tonnes the project produces, the lower its unit cost. In a market where many analysts are sceptical about the ability for current prices to be sustained, the faster Roy Hill can increase production, lower costs and repay its $US7.2 billion ($9.6 billion) debt, the better.

In the face of the falling price last year, Roy Hill set an aggressive ramp-up target of the end of 2016 which was adjusted in September to early 2017.
CRU's Mr Doyle is optimistic Roy Hill will come close, expecting the mine to produce 45 million tonnes in 2017, which means hitting full capacity somewhere in the first quarter.

"You could initially look at that delay as negative but when you consider that that was actually a stretch goal for them and compare them to other operations it is pretty remarkable," Mr Doyle said.

"Fortescue Metals Group's Solomon Hub took 11 quarters to produce full capacity whereas Roy Hill we think will hit in eight."

Wood Mackenzie is more conservative, tipping a 55 million tonne run rate by the end of the year, but Mr Gray said even then, a year ago he had been expecting the project "to be producing much less, much later than that".

Roy Hill chief executive Barry Fitzgerald told reporters this week the project's ability to capture the higher prices while it ramped up had "absolutely" been beneficial for the project.

Debt repayments

"We have always said we need to ramp up as soon as possible to get the cash flow to average down our fixed costs and obviously ... getting the price tick-up is beneficial for us," he said.

There is a broad range of views on Roy Hill's "break-even price" – the price at which it is neither making nor losing cash – because public information about the private business is scarce.

Wood Mackenzie has pegged the project's current cost of production at about $US40 a tonne while a second analyst said it would be between $US45 and $US50 a tonne.

Both of these estimates would decline as the project ramps up. A third analyst put Roy Hill's break-even price once ramped up at $US38 a tonne.

While none of these break-evens account for interest costs, even adding an interest cost per tonne would leave it well below the $US81.78 a tonne spot price.

Reaching the "lenders' practical completion" milestone with its financiers this month means the Roy Hill team has been able to prove the project's infrastructure has been built to design capacity and is a step towards final completion, expected in 2017, which is understood to be reliant on demonstrating the project can run at that design capacity for an agreed period.

But it also heralds the likely commencement of debt repayments in early 2017 and, once final completion is achieved, the bulk of its debt covenants kicking in.

Hancock Prospecting accounts showed the company capitalised $563 million of interest costs in fiscal 2016 which, if expensed, would have slashed the $634 million profit before tax Hancock reported for the year. Hancock stopped capitalising costs on September 1.
Cue a returned focus on the price.

UBS, Barclays and Citi expect lower prices in 2017, with Citi tipping the price to average $US48 a tonne in the second half.

Mr Fitzgerald also expects prices to decline, but he isn't locking in any estimates.

"The forecasts for next year remain still to be low and I think I probably would see that to be more likely rather than unlikely," he said.

"But I certainly don't hold myself out to be an expert and I think the definition of an expert in this is someone who has probably been wrong three times in the last year."

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