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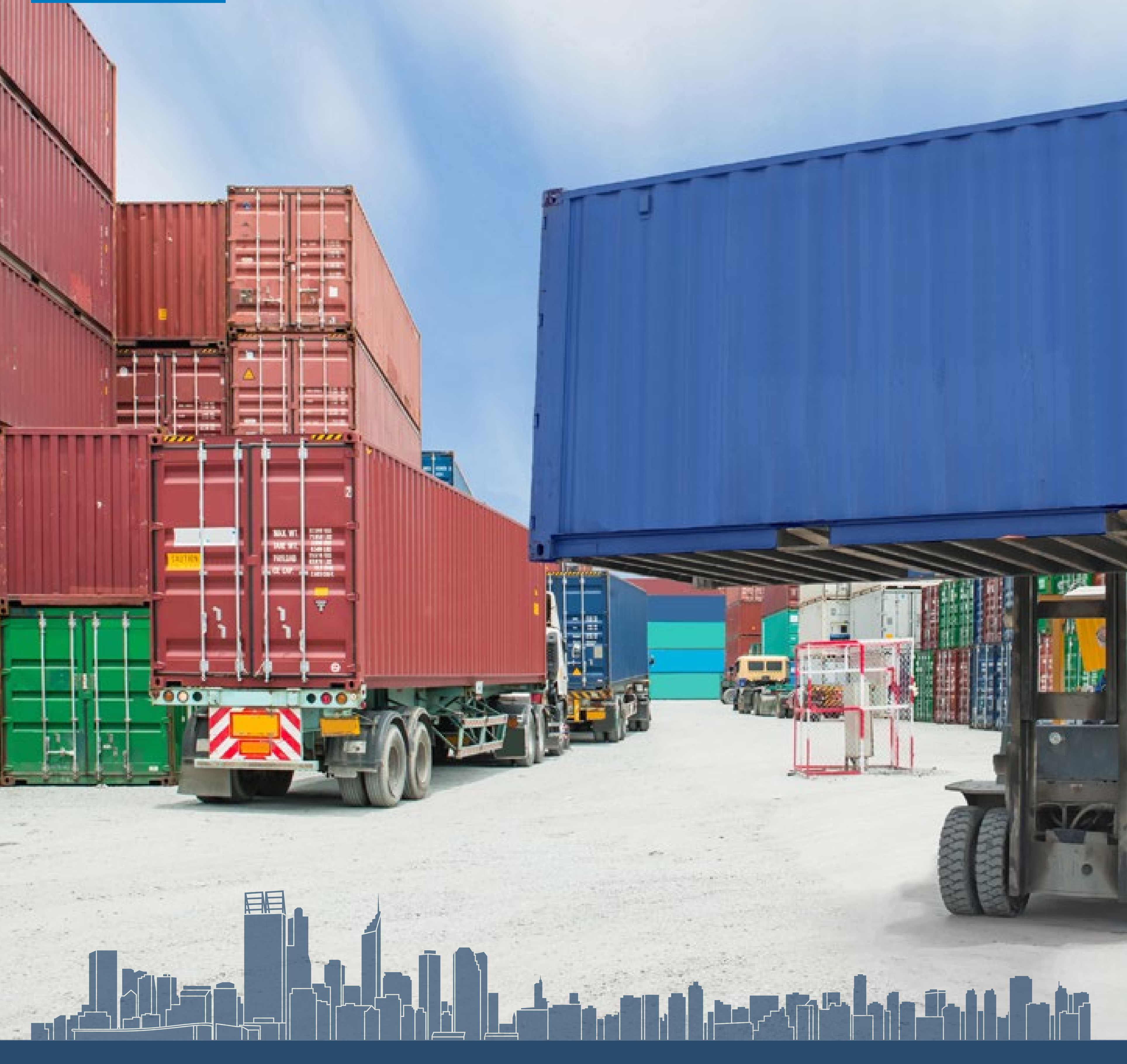
SPECIAL REPORT



BN FEATURE

EXPORTERS

Key takeaways

- Big iron ore miners continue dominance of rankings, mid-tier companies reshuffling
- Top 10 exporters increase revenue about 18 per cent
- Gold Corporation rising after accounting change
- Chevron, Roy Hill lift as production ramps up

PUMPING: Wheatstone's second LNG production train came online in June. **Source: Chevron**

Exports jump as outlook improves

Gold Corporation, Alcoa, Roy Hill and Chevron have all posted higher revenue numbers in *Business News'* annual analysis of WA's biggest exporters.

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6-PAGE FEATURE

WESTERN Australia's ten biggest export operators are pumping out about $113.6 billion of overseas sales annually between them, according to the latest BNiQ Search Engine data.

That represents an 18 per cent jump on the 2017 figure of $96 billion, driven by production ramp-ups, improving prices, and in one case, a major change in accounting policy.

This year's total includes about $64 billion of outbound trade by the four biggest iron ore miners, and $18.7 billion by the top two oil and gas exporters (see list, page 24).

Those numbers compare with $60 billion among the big four iron ore players and about $18.4 billion for oil and gas producers in the 2017 list.

The list is ranked by operator, and all revenue is attributed to the business in control of day to day operations.

Top-placed Rio Tinto reported $US18.1 billion ($23.6 billion) of revenue from Pilbara iron ore sales in the 2017 calendar year, with the company selling 271 million tonnes of the steel-making commodity.

But total production at Rio Tinto's operations was about 330mt, meaning exports across the operation were valued at $28.8 billion.

That additional portion includes sales by Gina Rinehart's Hancock Prospecting, which holds a 50 per cent beneficial ownership of the Hope Downs joint venture.

Rio also earns export revenue from Argyle Diamonds and Dampier Salt.

Diamond sales were worth about $729 million in calendar 2017, up from about $610 million in 2016, as diamond production increased about 20 per cent.

Dampier Salt earned about $280 million.

Rio's total export figure increased about $5 billion, mostly driven by a strong iron ore price in 2017, which reached highs of more than $US90 per tonne in March of that year.

BHP, which ranks second on the list of biggest exporters, has a different reporting period, operating on a financial year ending in June, and consequently the impact of stronger iron ore prices in 2017 has already washed through its figures.

The big Australian had total sales of $23.8 billion in the 12 months to June, up slightly from $23.2 billion in the 2017 financial year.

Iron ore exports through its operations were about $22.2 billion, with the company having an 85 per cent equity share of about $18.9 billion.

The bigger impact on BHP's export numbers came from the Nickel West division, where revenue increased $US348 million ($450 million) to be $US1.3 billion as the market for that metal, used in electric batteries, rallied by as much as 75 per cent.

For comparison, in the 2013 biggest exporters list, BHP's iron ore revenue was about $21.1 billion, at a time when the iron ore price was trading around $US120/t.

It has fallen about 40 per cent since, to be about $US73/t, reaching lows below $US40/t in the intervening period.

The price drop has been balanced by a depreciating exchange rate and increase in production – up 50 per cent to be 280mt in 2018.

Deloitte chief economist Matt Judkins said WA had entered the third phase of the mining boom, with higher production volumes from big capacity expansions hitting the market, both in iron ore and gas.

"That's also been supported by robust pricing as well, at least compared to what it was (a few years) ago," Mr Judkins said.

Now, miners were focused on building replacement production as older deposits depleted, he said, through projects such as BHP's South Flank.

That means the big miners will be likely to maintain their places in the list's top two spots.

In Rio Tinto's case, it has held first place since 2010.

The biggest mover in 2018 was state government-owned Gold Corporation, which runs the Perth Mint and the gold refinery at Perth Airport.

Revenue for Gold Corporation was $18.9 billion, rising from $7.9 billion in last year's list.

That was enough for the entity to lift two places into third position.

But the big increase was not

driven by increased production or a price change, rather a change in accounting policy, adopting the AASB 15 standard, according to the corporation's annual report.

The new rules mean the mint reports revenue, including unallocated metals credits received from customers, matched by a corresponding increase in costs of sale.

The upshot is that revenue in the 2017 financial year was restated as $18.3 billion in the company's most recent annual report, meaning underlying growth was 3.3 per cent.

Significant discounting in prices for lower-grade iron ore impacted on Fortescue Metals Group's revenue substantially, reducing it about 20 per cent to be $8.9 billion.

Fortescue dropped one place to rank fourth (see page 22 for analysis on iron ore sector).

The state's two alumina producers both lifted revenue, with Alcoa rising about 37 per cent to $4.1 billion, while Worsley Alumina owner South32 lifted 29 per cent to $2.2 billion.

> **The longer-term positive view on what the market is going to look like in terms of demand is starting to stimulate investment** – James Arnott

Gas movers

Gas producers are likely to move up the list in coming years.

US-based energy giant Chevron has continued a slow progression up the rankings, settling in sixth place this year, with revenue of $4.4 billion, *Business News* estimates.

Chevron reported Australian revenue of $US3 billion ($3.9 billion) in the 2017 calendar year, which comes from three sources – its Gorgon and Wheatstone operations, and its 16.7 per cent share of the North West Shelf Venture, the five-train LNG plant in Karratha operated by Woodside Petroleum.

Woodside, which also holds a 16.7 per cent stake in NWS, reported revenue from the venture at $US1.3 billion.

Assuming all partners have similar contract pricing, that indicates total NWSV revenue of about $US7.8 billion ($10.2 billion).

Woodside owns a 13 per cent stake in the Chevron-operated Wheatstone project, with Woodside reporting revenue of $US36 million ($47 million) from Wheatstonein the 2017 calendar year, after the first LNG shipment in October of that year.

Again assuming similar contract prices across all owners, Wheatstone revenue (attributed to operator Chevron) would total $360 million.

Extrapolating from these numbers *Business News* estimates total 2017 revenue from Chevron's Gorgon project would be about $US3 billion.

For Chevron, 2019 will be the first full calendar year with all five trains from the Gorgon and Wheatstone projects in full operation, so the company's total will likely increase.

Woodside's recently announced plan to build a second train at the Pluto LNG facility, would double its capacity and add about $US2.4 billion of annual revenue, although the project is not expected to begin shipping gas until well into the next decade.

Shell is expected to join the list next year when its Prelude floating LNG facility begins production, although it is not yet clear exactly when that will be.

Prelude will have 5.3 million tonnes per annum of capacity, a third of the level of Gorgon.

Both Prelude and Inpex's Ichthys project have been in the commissioning stage for some months.

KPMG management consulting partner James Arnott told *Business News* operators were keen to ensure they got projects exactly right when starting up.

"There's a consideration that says … there's a lot of first-time operators," Mr Arnold said.

"(Some) are commissioning new types of technology, we have others that are commissioning assets in a new jurisdiction or for themselves, it's a first-time operatorship into a new country.

"Everybody wants to make sure that in the commissioning process, it always has a focus on safety … on environmental impact and is done in a way that there is no negative impact to the asset."

Regarding new projects, he said some operators would seek to get the most out of existing assets, while others would have been encouraged by the more buoyant oil price.

"Five or six years ago we were talking about $US40 or $US50 (per barrel) as the new normal," he said.

"(Now), the longer-term positive view on what the market is going to look like in terms of demand is starting to stimulate investment."

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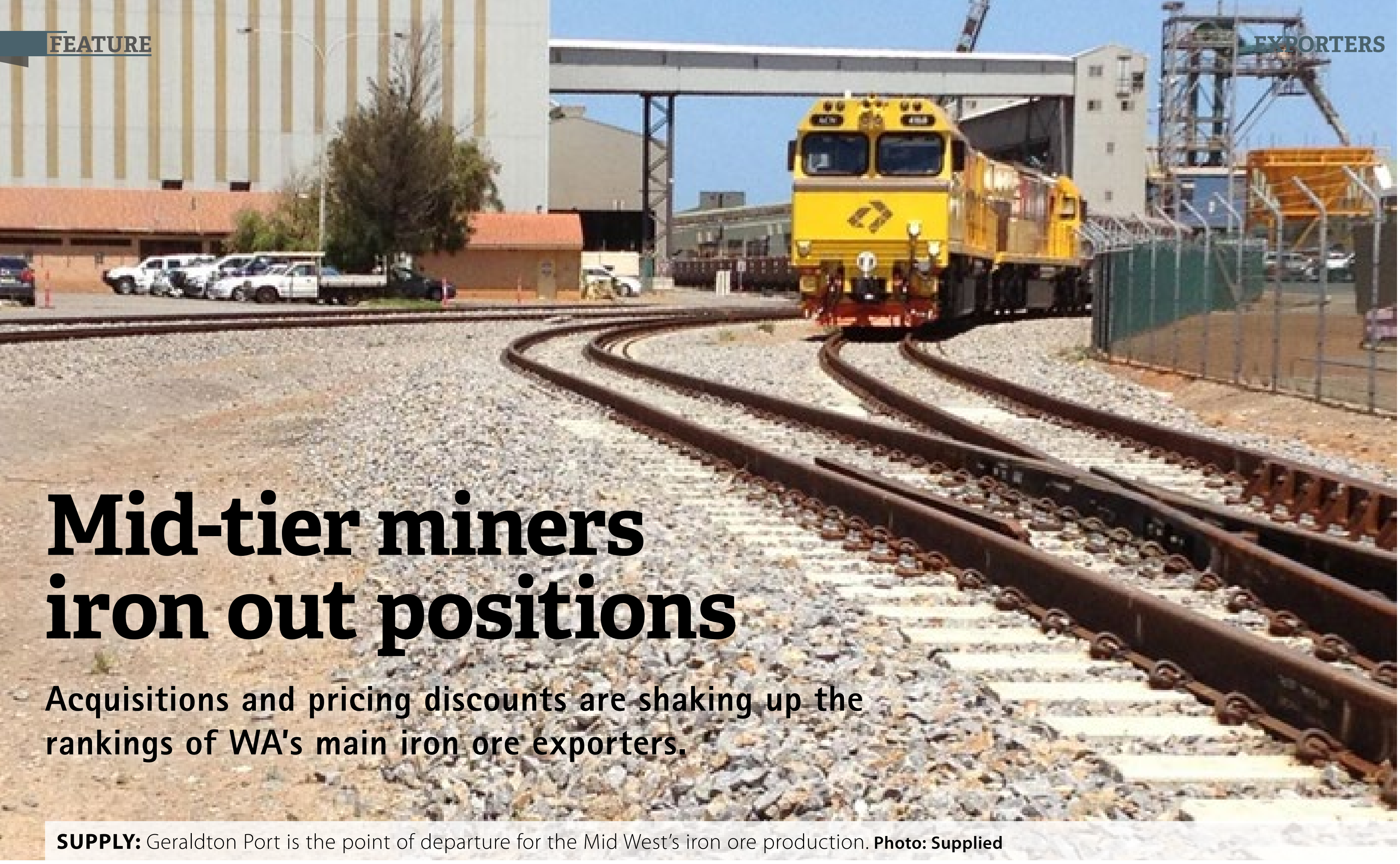

Mid-tier miners iron out positions

Acquisitions and pricing discounts are shaking up the rankings of WA's main iron ore exporters.

SUPPLY: Geraldton Port is the point of departure for the Mid West's iron ore production. **Photo: Supplied**

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WHEN it comes to multi-billion dollar iron ore projects, the recent action has been driven by majors Rio Tinto and BHP, with announcements about new mines such as Koodaideri and South Flank in the Pilbara.

But as projects designed to produce tonnes to replace depleting mines, those big investments will help cement the two companies at the top of the BNiQ biggest exporters list, rather than reshuffle the rankings.

It is among second-tier miners where most of the movement is taking place.

Gina Rinehart-controlled Roy Hill Holdings, for example, strengthened its revenue in the 12 months to June to be about $3.8 billion, after a year of production at full capacity of around 55 million tonnes per annum.

Roy Hill's majority owner, Hancock Prospecting, would be expected to feature on the list next year, with the company completing its acquisition of 17th-ranked Atlas Iron.

Atlas is one business that has struggled with the impact of large discounts for lower-grade iron ore.

Revenue for Atlas fell from $871 million to $547 million, with discounts for 58 per cent grade ore hitting as much as 30 per cent.

A combined Roy Hill and Atlas, under the control of Hancock, would be expected to have revenue of at least $4.3 billion, assuming price discounts for lower-quality ore continue.

Hancock has a range of other interests, including 50 per cent ownership of dairy Bannister Downs, 67 per cent of the Kidman livestock business and further pastoral holdings.

The company's most notable holding is a 50 per cent share of the Hope Downs mine, through a joint venture with Rio Tinto.

Mineral Resources, which had initially bid for Atlas, will likely score a much stronger export number next year as a result of its acquisition of Koolyanobbing mine from US-based Cliffs Natural Resources.

> We're a very small fish in a very big sea, a small price taking economy at the bottom the world
>
> – Alan Langford

Koolyanobbing was slated for closure in June, a victim of low-grade ore price discounts, but MinRes stepped in to buy the operation.

Cliffs' 2017 annual report showed revenue of about $600 million (adjusted to Australian dollars) from the Koolyanobbing mine.

Assuming a similar performance after the mine is restarted, that would put MinRes' export revenue at $1.5 billion next year.

Part of MinRes's existing export revenue stream is generated by lithium sales, with about 3.5 million tonnes of direct ship ore from its Wodgina mine in the year to June, and 382,000 tonnes of processed spodumene from its Mount Marion mine.

MinRes has an additional revenue stream of about $750 million from mining contracts, although that is not deemed export revenue by *Business News*.

One iron ore miner that flies under the radar is Karara Mining, controlled by Chinese business Ansteel.

As a foreign-owned, private company, revenue data is difficult to find, and minority stakeholder Gindalbie Metals does not report revenue from the mine.

$600m
KOOLYANOBBING REVENUE IN 2017

But data from the Mid West Ports Authority annual report acts as a guide.

During the 2018 financial year, Karara exported 8.3 million tonnes of iron ore through the Geraldton port, out of a total 11.3mt of the steelmaking commodity shipped through the facility.

Using this figure and a rough estimate of iron ore prices gives a calculation of around $800 million for Karara.

Bankwest chief economist Alan Langford told *Business News* that although the iron ore price had recovered from the deep lows of early 2016, there were potential risks to the market from overseas hazards.

One that might be particularly painful for iron ore would be an escalation of the trade war between China and the United States, because the commodity's price would be sensitive to a slackening of demand or any negative impact on the steel market.

Further factors would be if the global economy reacts badly to the normalisation of interest rates, and/or a property market crash in China.

If the Chinese currency depreciates faster than the Australian dollar, that might lead Chinese steelmakers to substitute their lower-quality local iron ore for WA product, he said.

"We're a very small fish in a very big sea, a small price-taking economy at the bottom of the world," Mr Langford said.

Nonetheless, he said the latest modelling forecast Australian iron ore exports would grow this calendar year and in 2019, as would Brazilian exports.

Both would be through increasing market share, rather than a big rise in demand, he said.

BNiQ SEARCH Mineral Resources

*There are **18,708** results from our index of **96,421** articles, **9,569** companies and **34,637** people*

OFFSHORE: Much of WA's grain exports flows through CBH's Kwinana terminal. **Photo: Gabriel Oliveira**

Agribusiness chews on challenges

The state's agriculture sector has been ruffled by falling exports and revenues, coupled with growing animal welfare concerns and international competition.

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WESTERN Australia's biggest agriculture exporters, including CBH Group, Plum Grove and Wellard, all experienced a fall in sales last year as the state's two biggest farm sectors – grain and livestock – seek to resolve challenges.

The market has been particularly difficult for businesses in the live export market, with a further threat looming from community criticism of the sector.

Both **Wellard** and **International Livestock Export** posted big reductions in revenue.

ASX-listed Wellard said revenue was $291 million in the 2018 financial year, down 41.5 per cent on the previous period.

Part of that revenue is from processing and vessel chartering.

The core segment of the business, sales, had a 54.8 per cent decline to $199 million.

That drop was enough to take Wellard out of the BNiQ Search Engine's biggest exporters list, down from 17th last year.

The most recent publicly available numbers for cattle trader ILE show revenue of $185 million for the year to June 2017, down from $247 million the prior year.

The numbers could be worse.

Earlier this year, the state government suspended two live sheep export licences, to **Emanuel Exports** and a subsidiary, after community concerns about animal cruelty and deaths on voyages.

That led federal Labor in May to commit to phase out live sheep exports.

A report prepared for WAFarmers by Victorian consultancy Mercardo forecast a live sheep ban would cost WA as much as $150 million, with the additional supply to reduce local prices up to 35 per cent.

More recently, the federal government issued a notice to ILE about its own export program.

Grain exporters face a comparatively simpler challenge: reducing costs to fight competition from Ukraine and Russia.

Local growers have flagged a strong season ahead, with the Grains Industry Association of WA predicting production of 14.2 million tonnes.

CBH Group general manager of trading Jason Craig said prices would be near record highs because of the drought on the east coast.

The 2017/18 season was also a strong one for the grain handler, with export revenue of about $3 billion, a slight decrease on the 2016/17 performance.

"We had about 52 per cent market share in WA," Mr Craig said.

He said the biggest threat was increasing production from the Black Sea countries of Ukraine and Russia, which are grabbing market share in South-East Asia.

Production costs, particularly for wheat, were much lower for Black Sea countries, Mr Craig said.

That was because yields were much higher.

In WA, farmers might expect two to three tonnes of wheat from every hectare of land.

For Black Sea countries, with much richer soil, the number was closer to nine tonnes per hectare.

One saving grace for Australia would be rising freight costs, which would disproportionately hit countries such as Ukraine, which are further away from markets.

CBH is going to significant efforts to lower its own supply chain costs, with a network investment strategy worth around $700 million across five years.

> **"It's a very significant challenge for the industry ... (we) need a whole of industry approach, being more cost efficient, improving productivity**
>
> – Andrew Young

About 1.5 million tonnes of extra capacity has been added to CBH's network in the past year, through around 20 projects.

Another major grain handler is **Plum Grove**, which had revenue of $500 million, compared with $527 million in the previous season.

Plum Grove managing director Andrew Young said there was an "extreme" level of competition from Black Sea countries into South-East Asian markets.

"It's a very significant challenge for the industry ... (we) need a whole of industry approach, being more cost efficient, improving productivity," Mr Young said.

He said this year would be particularly unique in that a large amount of grain would probably flow from WA to the east coast, perhaps in excess of 2 million tonnes.

Australian Export Grains Innovation Centre business analysis manager Ross Kingwell said there was still plenty of opportunity in the region despite competition.

"Indonesia towards 2050 is going to become probably the fifth-most rich country on the globe, it is experiencing huge per capita increases each year in its income," Mr Kingwell told a recent Committee for Economic Development of Australia lunch.

"As people get richer, they consume more dairy products, fruit, meat, they also switch away from rice into wheat-based products, and they consume more bread, cakes and pastries."

That meant more demand for local grain, he said.

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1 Rio Tinto

	LATEST $	PREVIOUS $
	29.8bn	25bn
IRON ORE	28.8bn	24.1bn
ARGYLE DIAMONDS	729m	610m
DAMPIER SALT	280m	348m

2 BHP

	LATEST $	PREVIOUS $
	23.8bn	23.2bn
IRON ORE	22.2bn	22bn
NICKEL WEST	1.7bn	1.3bn

3 GOLD CORPORATION — THE PERTH MINT AUSTRALIA

LATEST $
18.9bn

PREVIOUS $**
18.3bn

4 Woodside

	LATEST $	PREVIOUS $
	14.3bn	15.1bn
NWSV*	10.2bn	11bn
PLUTO	3.1bn	3.3bn
AUSTRALIA OIL	1bn	805m

5 FMG Fortescue

The New Force in Iron Ore

LATEST $
8.9bn

PREVIOUS $
11.2bn

1 2 3 4 5 6 7 20 19

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OPERATORS RAN
ANNUAL EXPORT

Sources: BNiQ, annual reports

* North West Shelf Venture

** 2017 (i.e. previous) number restated after change in accounting policy

All information compiled using surveys, publicly available data and contact with industry sources. Other companies may be eligible for inclusion. If you believe your company is eligible, please email claire.byl@businessnews.com.au.
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8 9 10 11 12 13 14 15 16 17 18

		Latest $	Previous $
Chevron		4.4bn	2.9bn
Alcoa (australia's aluminium)		4.1bn	3bn
Roy Hill	Iron ore	3.8bn	3bn
CBH Grain		3.0bn	3.1bn
South32	Alumina	2.2bn	1.7bn
CITIC Pacific Mining	Iron ore	2bn	1.2bn
Mineral Resources	Lithium, iron ore	867m	534m
Karara Mining Ltd	Iron ore	800m	n/a
Iluka	Mineral sands	604m	311m
Sandfire Resources NL	Copper	596m	513m
Talison Lithium		550m	423m
Atlas Iron Limited	Iron ore	547m	871m
Plum Grove	Grain	500m	527m
Tronox	Mineral sands	452m	352m
MMG	Copper	398m	603m

WND: Would Not Disclose, NFP: Not For Publication, N/A: Not Applicable or Not Available.

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Aust mining exports to hit record $252bn
02 Oct 2018 by AAP

Iron ore exports are expected to increase to 878 million tonnes in 2019-2020. AAP Mining The ... federal government expects the nation's resources and energy exports to hit a record $252 billion in ... However, a report by the Department of Industry said the value of such exports would edge back to around ...

Northern ready to export first rare earths shipment
20 Aug 2018 by Matt Birney

ASX listed Northern Minerals has brought its Browns Range pilot plant project in W.A.'s Kimberley region to mechanical completion and has produced about 100 tonnes of xenotime concentrate for commissioning into the hydrometallurgical plant. The company can ...

Govt suspends second live export licence
12 Jul 2018 by Tayler Neale

costs of up to $70 million.   Emanuel Exports Alannah MacTiernan ...

Gorgon leads way as LNG exports pass $30bn
17 Jul 2018 by Matt Mckenzie

A doubling of production at Chevron's Gorgon LNG plant has helped boost national exports of the fuel 38 per cent to $30.8 billion in the year to June 2018, according to consultancy Energy Quest. ...

Iron ore drives record Pilbara exports
10 Jul 2018 by Tayler Neale

Pilbara Ports Authority has reported a record annual throughput for the 2018 financial year, with nearly 700 million tonnes of cargo passing over its docks, on the back of an uptick in activity at Port Hedland. ...

WA may still ban sheep exports in summer
17 May 2018 by AAP Business News

The federal government has endorsed changes to the livestock export industry designed to improve animal welfare but the WA government says it may still try to ban live sheep exports to the Middle East during the northern hemisphere summer. ...

Labor likely to phase out live sheep exports
03 May 2018 by Matt Mckenzie

WA represents 85 per cent of national live sheep exports. Matt Mckenzie Agribusiness Politics ...

Live export ban cost up to $150m
20 Apr 2018 by Matt Mckenzie

The cost to Western Australian farmers of a ban on live sheep exports could be more than 10 times previous estimates, as much as $150 million, according to a report released today. ...

WA minister wants live export summer ban
09 Apr 2018 by AAP Business News

Alannah MacTiernan has also called for the phasing out of older live export ships. AAP Business ...

Johnston in defence export role
09 Apr 2018 by Matt Mckenzie

Former defence minister and senator for Western Australia David Johnston has been appointed Australia's first defence export advocate, after the federal government committed to spend an additional $20 million every year to support the sector. ...

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