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Tarnished: Low iron prices have hurt major miners

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Falling iron ore prices and low capital expenditure have limited revenue for mining firms

The Australian Mining division has shown signs of stagnation due to falling iron ore prices

Australia is one of the largest exporters of mineral, hydrocarbon and non-mineral reserves. These reserves are generally high quality and close to the Earth's surface, allowing Australia's Mining division to be price competitive on a global scale. However, the Australian Mining division has shown signs of stagnating due to a decrease in global iron ore prices and capital expenditure on mining.

Iron ore prices significantly affect the Mining division's performance. BHP Group is one of the world's largest iron ore mining firms, and is a major producer of copper, coal, oil, gas, and other minerals. Australian iron ore accounted for 36.9 % of total company revenue in 2017-18. However, the BHP group's revenue is expected to decrease at an annualised 1.9 % over the five years through 2018-19. Although the firm has invested heavily to increase iron ore and coal production to supply ongoing demand from countries such as China and Japan, weaker iron ore prices have limited revenue. Low capital expenditure on mining can also hinder growth for Australian mining firms. Declines in mining investment may decrease mining activity across the division over the long term, affecting revenue and growth.

Rio Tinto has divested some assets over the past five years, including a 50.1 % stake in the Clermont steaming coal mine project in Queensland, which was sold in mid-2014 for over $1.0 billion to GS Coal Pty Ltd. In 2014, the company ceased alumina production at a refinery at the Gove in Northern Territory due to high costs, but continued mining and exporting bauxite. In March 2016, the company sold its 40.0 % stake in the Bengalla coal joint venture in New South Wales, and in September 2017 the firm sold its NSW coal mining business, Coal and Allied. In the first half of 2018, Rio Tinto also divested several Queensland coal mining operations. As a result of these divestments, Rio Tinto's division-related revenue is expected to decrease at an annualised 2.0 % over the five years through 2018-19.

The performance of BHP Group and Rio Tinto reflect major trends in the Mining division. Although iron ore prices are anticipated to recover slightly over the next five years, these two mining giants are unlikely to return to the growth they saw at the peak of the mining boom.

Companies mentioned in this report

Rio Tinto Plc - Rio Tinto Limited

BHP Group Limited (BHP)