

SE Exclusive
HD **China** pays premium for top-quality **mining** assets
BY Angela Kean
WC 1,212 words
PD 29 January 2014
SN SNL Metals & Mining Daily: West Edition
SC SNLMMDW
VOL Issue: 79041
LA English
CY Copyright 2014. SNL Financial LC
LP

China's interest in high-quality overseas **mining** assets is certainly not diminishing, according to industry commentators, but the number of deals being done is a lot lower than in other countries due to the high premium the nation is paying for these assets.

China completed just seven deals in the second half of 2013, according to data compiled by SNL Metals & **Mining**; a far cry from the 81 deals done by Canada and the 52 done by Australia, but the total value of the collective acquisitions was US\$1.78 **billion**, compared to US\$1.50 **billion** for Canada and US\$361 **million** for Australia.

TD

The largest deal in the second half of the year was **China** Molybdenum Co. Ltd.'s US\$820 **million** **acquisition** of Rio Tinto's 80% **stake** in the Northparkes **copper-gold** mine in New South Wales, Australia. The transaction was **China** Molybdenum's first and largest **acquisition** outside of **China**.

Su Aik Lim, Fitch Ratings director of metals and **mining** north Asia, told SNL that **Chinese** interest in overseas assets is continuing. "I would say all **Chinese** companies are interested in buying overseas resources and I wouldn't say it has increased or decreased, I would say there's always an ongoing interest there," he said.

Ernst & Young Asia-Pacific IPO leader Ringo Choi told SNL that it is not just state-owned companies that are showing interest.

Choi said that with **China** being the largest manufacturing base in the world, the nation needs a lot of resources, and state-owned enterprises, as well as listed and private companies, are seeking high-quality assets. "I think every choice that is economically sound **Chinese** investors will be interested in," he said.

But sellers around the world appear to have formed the opinion that **Chinese** investors have deeper pockets than most, and are more willing to pay a higher price than other buyers.

"[They think] that **Chinese** companies are cash-rich and also have high rates of resources, so naturally they will ask for a higher price," Choi said.

"If they hear about some **company** from **China** that is interested in their asset, then naturally they will think that they have bigger pockets, and so that's why the price may be higher."

Another reason **China** may be paying more for **M&A** could be that companies, particularly state-owned enterprises, have greater access to financing than miners in other countries.

"What we understand is that **Chinese** companies, not only the state-owned enterprises but in general **Chinese** companies, when they have the opportunity to make overseas acquisitions in natural resources, the **Chinese** government does have a policy in place in terms of providing help to the companies," Lim said.

Ernst & Young's Choi said the central government provides funding to **Chinese** companies to promote investment in resources to maintain a constant supply of raw material.

He added that **Chinese** firms also do not have difficulty in sourcing debt funding from domestic or overseas banks as they are viewed as "cash-rich" and **China** seen as a growing economy.

Need for greater **iron ore** investment

According to Fitch Ratings' Lim, **China** is typically short of **copper** and **iron ore**. The country's National Development and Reform Commission is calling on **Chinese** firms to raise investment in the overseas **iron ore** sector to improve the balance between **iron ore** and steel prices, The Sydney Morning Herald reported Jan. 27.

China, which imported 819 **million** tonnes of **iron ore** in 2013 — 10.2% more than it imported in 2012 — believes that large foreign miners such as Rio Tinto, BHP Billiton and Vale SA are using their position to drive up prices and reduce steel sector margins, the report said.

The NDRC wants an investment fund established to support local companies in the development of overseas **mining** projects and in building steel mills and other heavy industrial projects abroad to reduce domestic **iron ore** use, the Herald reported.

China has been working to diversify its supply sources, particularly since 2009, when it became aware of Indonesia's plan to introduce a mineral export ban, which finally came into effect Jan. 12.

Industry watchers expect the ban to have a limited impact on **China** in the short term because the nation has accumulated between eight and 12 months' worth of stocks in nickel ores and bauxite.

In terms of alternative sources, it is expected that **China** will increase its imports from the Philippines as well as other Pacific Rim nations, to reduce the anticipated gap in its nickel supplies, and it will engage with countries such as Brazil, Papua New Guinea and Australia to help boost its bauxite supplies.

Lim said the countries that are likely to be the recipients of the **Chinese** buying interest will largely depend on the availability of assets. "I wouldn't say there would be any preference," he said.

"Anywhere — be it Canada, Australia, the African continent or the South American continent — there are still resources I would say they will still be sought after by **Chinese** companies, of course at a reasonable price."

Meanwhile, Ernst & Young's Choi said Australia, South America and Africa are all "hot" places for potential **Chinese** investment. "They mostly approach a country that has more resources and is suitable to meet the needs of **China**, and then they will put effort to promote interest in that area for investment," he said.

Partnerships another option for **China**

Chinese firms will not just consider the standard merger or **acquisition** to lay their hands on much-needed resources, but will also look for potential joint venture partnerships and off-take deals.

"I think in all natural resources investments the **Chinese** are open to exploring, be it a joint venture with an off-take arrangement or being the **lead** in managing those projects, either way I think **Chinese** parties are interested," Lim said. "Essentially it's still gaining direct access to resources."

Choi said that when **Chinese** firms head overseas, they often secure joint venture arrangements to manage their investment, but the question is how much of an investment they can make in that particular partnership due to government restrictions. "Sometimes they may face obstacles from the government worrying about the **Chinese** investors buying too many assets," he said.

China Moly reiterates interest in global assets

When SNL Financial spoke with **China** Molybdenum overseas CEO Kalidas Madhavpeddi in December 2013, he said the **company** is always looking for good assets around the world. "Given that we have a presence, with a very good operation and great workforce here, we obviously would look at Australia, but we also look around the world for good assets that we can buy," he said.

While **China** Molybdenum produces mainly molybdenum and tungsten, as well as some **gold**, the **company** is targeting an expansion in base metals, specialty metals and precious metals, with a particular interest in **copper** due to the favorable outlook for long-term supply and demand.

Fierce competition for the Northparkes mine did not deter **China** Molybdenum, which has a large amount of cash and very little debt. The **company** beat possibly between three and five other bidders for the asset.

CO chmoly : China Molybdenum Co Ltd

IN imet : Mining/Quarrying | ibasicm : Basic Materials/Resources | i211 : Metal Ore Mining

NS c184 : Joint Ventures | ccat : Corporate/Industrial News | c18 : Ownership Changes | cactio : Corporate Actions | ncat : Content Types | nfact : Factiva Filters | nfcpin : FC&E Industry News Filter

RE china : China | austr : Australia | apacz : Asia Pacific | asiaz : Asia | ausnz : Australia/Oceania | bric : BRIC Countries | chinaz : Greater China | devgcoz : Emerging Market Countries | dvpcoz : Developing Economies | easiaz : Eastern Asia

IPD Industry News

PUB SNL Financial LC

AN Document SNLMMDW020140203ea1t0001b