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HD **Back then Xstrata, now meet X2**

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There is a compelling, circular logic in the idea that Mick Davis might have expressed a keen interest in BHP Billiton's sprawling, occasionally world-class, thermal **coal business**.

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Davis, after all, is attempting something akin to a commercial reincarnation of Xstrata, the **mining** empire created by his canny opportunism and unique management model but that was ultimately lost in 2013 in a merger with its financial godfather, Glencore.

History tells us that Xstrata took wings in the first place only because Glencore could not pursue the planned US IPO of its **coal** assets after the twin towers were brought down by Osama bin Laden's lunacy on September 11, 2001. Instead, Glencore put the assets into an internal vehicle of longstanding called Xstrata, appointed Davis to run them and took the **business** to investors through the UK market in 2002.

By the end of 2003, Davis had taken out an unloved Australian gem in the form of MIM Holdings and in 2006 he captured a Canadian icon of similar standing, namely Falconbridge. These deals left Xstrata a serious force in global **mining** ahead of the broader recognition of the **mining** boom triggered by **China**'s economic revolution. Which says only that Davis knows what, where and when to **buy** the things he knows best.

That Davis is bent on repeating history has seemed clear from the moment he named his new private **equity** X2, and the supporters that helped him raise $US3.75 **billion** included his friends at Noble **Group**.

Noble is a **Hong Kong** commodities house that likes to think of itself as a mini, regional Glencore; that has a very positive, long view on **coal**; that was one of the original backers of Xstrata; and that has spent time, effort and money on building positions in the Australian thermal **coal** sector.

Reports out of London suggest Davis is ready to make hard reality of the potential that **coal** will once again be his springboard to minerals industry relevance. It is said Davis has mandated JPMorgan to raise $US8 **billion** of debt and that the South African once in line to run BHP has now approached the Global Australian's thermal **coal group**.

The $US10 **billion** question is whether BHP is a seller.The timing is perfect

The timing is perfect. Not only is thermal **coal**'s local benchmark price stuck below $U80 a tonne and the industry in the throes of one of its traditional cyclical crises, but BHP is heading to D-Day on a proposal to demerge a basket of its lesser performers as it trims from growth beyond 2017. The BHP plan is being prepared under the banner Project River and there is some expectation that the **board** could be called to make a decision on a proposition as early as the May **board** meeting.

Project River is about unbundling the assets that BHP is currently running for cash, and that either cannot secure further funding for want of better internal options for capital or whose markets have been left uncertain by structural change. So BHP's aluminium, nickel, manganese and zinc operations have become fodder for the Project River team.

Now, from what we understand, thermal coal was always part of the original Project River plan (which is why we have always talked about a $US20 billion proposition).

But that appears to have changed with the market apparently coming to a conclusive and probably well-informed consensus on value that meant only that thermal coal was not now part of the SpinCo assets. What Davis has to be hoping is that this shift represents an opportunity for X2 rather than a recovery of BHP's interest in thermal coal on the back of Andrew Mackenzie's pretty positive view on the longer term dynamics of the thermal coal business.

There are those in the market who believe Mackenzie will hold on to thermal coal both because he is wedded to the idea that the next wave of profitable disconcert in supply and demand is going to come in all things that generate energy, and because BHP's thermal asset portfolio includes at least one tier 1 asset (Mt Arthur in the Hunter Valley) with the potential for at least one other (Caroona).

BHP got close to sign-off on an IPO of its Hunter Valley thermal coal business a couple of years back and pulled back, in part, because of the shifting mood of equity and coal markets. Back then the potential for both Mt Arthur and Caroona was as apparent as it is right now. Oh, and what was the price they were talking about then? About $US10 billion.

It is not often that an 18 per cent share price spike can be described as underwhelming. But that is exactly where apparently doomed Goodman Fielder finds itself right now.

The equity market's brutally controlled response to news that Goodman had received and rejected a $1.8 billion bid from a shareholder of standing acting in partnership with another of Asia's growing food giants says that no one should expect a contest for the trans-Tasman bread and dairy play and that a defence built around substantial hidden premium is going to be a hard call.

Within no time of Goodman's enforced announcement of an indicative approach by Singapore-listed Wilmar International and its new partner in regional growth, Hong Kong's First Pacific, the share price of the local food and milk maker had matched the rejected price of 65¢ a share. But it budged not a full cent from there the rest of the trading day.

That says no one is prepared to believe that this offer will flush out richer alternatives, and neither do investors seem prepared to back the promise of better days ahead that underscores the Goodman view that 65¢ does not reflect value. It also says the market reckons that an offer that represents a multiple of near eight times expected FY14 earnings seems substantial enough to justify the sort of meaningful engagement requested by the joint-venture bidders.

Wilmar has paused at the Rubicon of takeover before. It acquired just over 10 per cent of Goodman more than two years ago and immediately opened discussions about what might be a price acceptable to company and other major shareholders. Back then the views on value were poles apart, so Wilmar decided to sit and wait. That looks like paying dividends. The Goodman board has said it remains open to further discussions and the company's other two major shareholders, Perpetual and the Packer-controlled Ellerston Capital, are said to be far less wedded to their position than they were two years ago.

The way Goodman people tell it, this is a story of opportunism and undervaluation. The takeover has been launched at the opening stages of a recovery plan aimed at generating acceptable earnings from a bread business ever in the pincer grip of global commodities prices and a contained Australian retail market.

The way to margin enhancement in bread, apparently, is going to be improving logistics. Like the milk business, bread is all about freshness and the constraints that come with limited shelf life. Getting the bread to the customer makes up about 40 per cent of the price; the raw materials account for only 30 per cent. As a result, Goodman has trimmed the head count and started on a plan to a more profitable path to market.

Goodman reckons the narrative of this approach is even more readily illustrated by its New Zealand dairy business. It turns a guaranteed share of New Zealand's milk supply into domestic and export income. And, in times better than these, it routinely generates an EBITDA of something close to $55 million. And, given the multiples paid recently for regional milk-makers, that should value Goodman's dairy business at something north of $500 million.

That Goodman's share price appears not to account for valuations anything like that has apparently inspired the **company** to review options to better capture and enhance full value from its **dairy operations**.

The problem for Goodman is that progress will be shaped as much by the past as the future. And that is not a story coloured by either excessive competence or good fortune. So a defence built on a suddenly brighter outlook is going to be a tough call.

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