NIKKEI

HD **China resumes global mineral hunt**

WC 1,122 words

PD 17 June 2014

SN Nikkei Report

SC NKRP

LA English

LP

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China is again on the hunt for global mineral assets after a five-year hiatus, but this time it is taking a smarter approach.

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Over the past three months, different state-owned enterprises have launched bids of more than $1 billion each to gain control of mines in Peru, Australia and Laos. This comes as prices for two of the main commodities produced by those mines are tumbling.

Copper prices, as measured by the benchmark London Metal Exchange three-month contract, hit a three-year low in March though they have recovered a little since. Iron ore prices, however, are still falling and are down by a third since the start of the year.

Chinese companies have announced $8.8 billion in overseas mining acquisitions so far this year, making it the fastest pace of investment since 2008, according to financial data provider Dealogic. Over the same period last year, investments were only $1.7 billion. Mining is the most active area for Chinese overseas acquisitions this year, accounting for a quarter of the amount spent on such deals.

Sharper focus

Big offers for profitable mines are the outward manifestation of a major change in the way China is approaching investments in the sector.

Gone is a seemingly scattergun approach of investing in a wide range of projects, many at the high-risk early investment or startup phase. Many such projects have factored in the $226 billion in global resource investments made by Chinese companies since 1995, according to Dealogic data.

While on the outside the new deals appear to be a resumption of business as usual by China Inc., the latest bids are part of a more sophisticated strategy taking shape in Beijing.

State companies have moved away from early-stage and smaller capital projects, said John Allen, a lawyer with four decades of experience in Asian mining deals and executive director of investment bank Carlisle Partners in Sydney. "They now want mature, established, low-risk businesses," he said.

Chinese state companies are prepared to pay more for good assets, Allen said, citing the $5.8 billion a consortium of state-run companies led by Australia-listed MMG agreed in April to pay Swiss miner Glencore Xstrata for its Las Bambas copper mine in Peru. MMG is 74% owned by China Minmetals, which mining industry insiders believe Beijing is grooming into a top-tier, diversified mining conglomerate in the mold of BHP Billiton, Rio Tinto and Glencore.

The Las Bambas deal, assuming it closes, will be the largest Chinese mining investment since Aluminum Corp. of China, or Chinalco, paid $14 billion in 2008 for a 9% stake in Anglo-Australian companyRio Tinto, the world's second-largest mining group. The deal also stands as the largest overseas acquisition announced by a Chinese buyer so far this year, according to Dealogic. MMG's consortium partners include state-controlled Gouxin International Investment and Citic Group.

Glencore originally agreed to put Las Bambas up for sale to win China's approval of its merger last year with Xstrata to form the world's fourth-largest mining company. The mine's valuation though, came in near the top of the range that analysts expected.

Another element of China's new acquisition strategy is a willingness to launch hostile bids. On May 5, Shanghai-based Baosteel Group launched an unsolicited 1.4 billion Australian dollar ($1.32 billion) bid for Australian iron ore miner Aquila Resources through a consortium with Australia's Aurizon Holdings. A week later, Guangdong Rising Assets Management offered the same amount for Australia-listed PanAust, which has an operational copper mine in Laos and promising prospects in Papua New Guinea and Chile.

Both Baosteel and Guangdong Rising were already major shareholders in their targets, but the targets' boards have yet to endorse the bids, sensing a possible bigger payday in the offing. Shares of Aquila were suspended from trading on Monday after the company said it and rival Mineral Resources planned to announce a deal. This followed Mineral Resources' buying a 12.8% stake in Aquila at a 10% premium to Baosteel's offer. Baosteel insisted on June 13 that it would not raise its offer.

Buying it all

The new bidding approach comes after Chinese state companies racked up billions of dollars in losses on past mining investments. Soaring development costs and mounting delays have plagued Australian investments by both Sinosteel and Citic Pacific, a Hong Kong-listed unit of Citic Group.

Citic Pacific has put more than $10 billion into its Sino Iron mine in Western Australia, but analysts now question the mine's ability to generate enough cash to cover interest payments. Sinosteel spent A$1.4 billion to acquire Australian iron ore producer Midwest Resources in 2008, but the low grade of the company's ore has since led Sinosteel to shelve plans to dig further.

Chinalco's abortive $19.5 billion bid to double its stake in Rio Tinto in 2009 was a different kind of stumble. It came unstuck when the Chinese company refused to increase its bid in the face of rising prices for iron ore that had sent Rio's shares soaring.

Kevin Hobgood-Brown, managing director of China-centric consultancy Riverstone Advisory, said that Chinese state companies are now "using external expertise in the form of both Chinese and offshore investment banks, lawyers and consultants."

"What Chinese companies have come to understand in recent years is that they cannot do everything by themselves," he said.

In this respect China Minmetals has shown the way. After buying Australia's Oz Minerals in 2009 to form MMG, the company retained its takeover target's management team, led by Andrew Michelmore. Five years on, the Australian remains chief executive, managing MMG's growing roster of producing assets in Australia, Laos, the Democratic Republic of Congo and soon, Peru.

Private Chinese companies, while interested in the sector, have so far largely sat out the latest round of mining deals partly, analysts say, because they have less access to cheap loans from major state-run banks.

"At times the Chinese authorities have picked winners," Allen said.

Analysts expect more acquisitions by state miners. Many hold a portfolio of minority stakes in mines or miners across the globe and will look to move to a controlling position. "China's strategy is now a return to the days of 'We have to take 100%,'" Allen said.

In addition, the world's two biggest miners, Rio and rival BHP Billiton, have signaled they are considering the sale of assets to streamline their businesses. Chinese companies will be obvious bidders for these resources should they be put on the block, analysts say.

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IPC EG001000

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