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HD **BHP may close Nickel West after low bidding**

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As revealed by Street Talk, the big hitters turned up in force for Nickel West, with global trading houses Glencore and Trafigura, ans privately backed investment **firm** X2 Resources, the vehicle set up by former Xstrata chief executive Mick Davis, taking a turn through the data room. Sources also pointed to the Canadian conglomerate, Sherritt International, and **China**'s MMG, a subsidiary of Minmetals Corporation, and the Jinchuan Group.

The latter, also a **Chinese company**, has been widely speculated as an obvious buyer. It holds an offtake agreement, due to expire in December, with Western Areas – a supplier of concentrate to the BHP subsidiary.

Indonesia's export ban on unprocessed laterite ores has sparked a buying surge in nickel – a key stainless steel ingredient – primarily stemming from **China**, the world's largest importer of the metal.

Glencore, regarded as the most aggressive potential buyer, has already walked from the process, although it's understood the trading house is keeping a beady eye on the process.

One source close to the **firm** claimed BHP's price expectations for the asset are "delusional". However, there are divergent views on Nickel West value with some predicting the business comprising Mt Keith, Cliffs and Leinster mines and associated concentrators, the Kalgoorlie smelter, Kambalda concentrator and the Kwinana refinery, will fetch less than $500 **million**. This bearish assessment takes into account a looming $1.5 **billion** cap ex bill; some analysts have put the figure at around $800 **million**.

An investor in BHP claimed the conglomerate has three options on Nickel West: sell it, place it under care and maintenance or shut the business entirely. He said the third option was least likely, but warned that the failure to draw a successful bid raises questions about Nickel West's fate under the restructure. Before BHP confirmed the sales process in May, most in the market assumed the business would **wind** up in a demerged entity. But a sizeable investor claimed this would place a cash strain on the spun-out vehicle and crystallise a write-down.

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While nickel's rising value has rendered it one of the best performing metals so far this year, there is widespread scepticism about the sustainability of this bull run. Uncertainty around the commodity's direction, the business's high operating costs and a hefty $1.5 **billion** capital expenditure outlay have all combined to dampen suitors' appetite, according to sources close to the process.

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HOowever

remains an interested observer.

unlikely to rush into a **purchase**

like the other

Meanwhile some of

nickel so the wider market thematic.

he line-up of contenders is understood to include two of the world's largest trading commodities houses, Trafigura and Glencore, as well as the privately backed investment **firm** X2 Resources, the vehicle set up by former Xstrata chief executive, Mick Davis.

Sources also pointed to the Canadian conglomerate, Sherritt International, and **China**'s MMG, a subsidiary of Minmetals Corporation, as well as the Jinchuan Group.

BHP Billiton declined to comment on the sales process, which is being run by Goldman Sachs, but in May the **company** confirmed Nickel West – the country's largest nickel exporter – was under review.

Part of the problem is the high cost of operating the smelter, the dearth of **ore** as well as the

BHP's president of the 100,000 tonne-a-year Nickel West business, Paul Harvey, told the workforce on Wednesday that the business of mines, concentrators, a smelter and a refinery could be sold in part or in full. "We will shortly be inviting third parties to visit our **operations**," Mr Harvey said in an internal memo.

UBS analyst Glyn Lawcock said the decision to sell was no surprise given it is a non-core asset but that the market had been expecting it to be included in the demerger option.

In that option, nickel would have been bundled off with aluminium, manganese and South African **coal** into a new **company**.

Nickel West is short of "feed stock" to go into its production assets, with Perserverance either shut or shutting down (check). Need more concentrate

- Whoever buys it needs to fix that issue. How would you do that? Need to talk to Western Areas or Sirius

- WAS has big contract with Jinchuan - due to expire next year. could have a lot of stuff up for grabs

- general interet in nickel offtake quite high at the moment

- could import production - expensive though. or lesser assets eg poisedon's **purchase** from last week shows demand for lower quality stuff

- tht poisedon one was on care and maintenance forever

- BHP also has "Venus" a huge discovery $4b odd. but it's just a discovery. that must be in there

- WSA keeping a watching brief - half their product goes to BHP

- Jinchuan - big and got hte $. but not as nimble in the decision make process - typical SOE

- glencore - nimble, could play with the market if they won. not known for paying big $ though

- winning buyer needs approval from WA state. big environemntal liabilities in there - remediation. worth more than the **purchase** price. therefore BHP dead keen to sell rather than close down

the value of nickel - a key component in stainless steel - has risen

as a long-running sales process to sell the asset failed to draw an acceptable offer.

As revealed by Street Talk, over half a dozen international contenders

A long-running sales process for BHP's Nickel West asset appears to have foundered with a strong-line up of bidders

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Buyout **firm** Apollo in bid fray for BHP's Nickel West

Edited by Sarah Thompson, Anthony Macdonald and Gretchen Friemann

BHP Billiton's Nickel West assets have lured a host of international suitors but the field lacks an obvious front-runner.

Glencore Xstrata has been touted as the logical buyer. But as Street Talk revealed last week, the commodities trading house has walked away from Nickel West, prompting many in the market to warn the assets are too complex and carry too high a capital expenditure outlay to achieve the price tag BHP is targeting.

Enter the dark horse of private **equity**. According to sources, Apollo Global Management – led by Steve Martinez in the Asia-Pacific region – was among the initial contenders for Nickel West and is sifting through due diligence materials alongside five other candidates.

The US buyout **firm** is understood to hold a positive view of nickel, although the commodity's prospects have divided the market, given the world's largest exporter of the metal, Indonesia, has banned exports of nickel core. Since then, prices have soared. The worry is a reversal of this policy will set in train a drastic decline in nickel's value.

But many view the most pressing consideration to be the $1.5 **billion** capital expenditure bill, a sum that would clearly deter private **equity**.

The question most will ask of Apollo is what is its exit route?

Some are sceptical the risk-return profile would suit the **firm**, which was last seen on a high-profile resources bid in 2013 when it tried and failed to snare Rio Tinto's Canadian **iron ore operations**.

Meanwhile, it is thought rival Jinchuan, **China**'s largest nickel **company**, may opt to just renew its contract with Western Areas and stay clear of the difficulties posed at Nickel West.

Nickel's price surge boosts Western Areas

BARRY FITZGERALD

MINING: The benefits of the 30 per cent-plus price surge for nickel in response to Indonesia's export ban on unprocessed laterite ores is beginning to show up in a telling way for Australian producers of stainless steel ingredient.

Australia's second-biggest producer of the "devil's metal" from sulphide ores, Western Areas, yesterday reported stronger nickel prices had underpinned a $55 million surge in its consolidated cash balance to $230.5m in the June quarter.

Excluding proceeds from a placement ($17.7m) and the interim dividend paid during the quarter ($2.3m), free cashflow for the period was $39.6m — the strongest quarterly cashflow in more than two years.

The West Australian producer has moved from a net debt position to a net cash position of $10.3m after using the full face value ($220.2m) of its outstanding convertible bonds. Production for the period was broadly in line with expectations, although output for the full June year of 28,686 tonnes of contained metal was 1686 tonnes ahead of guidance.

The group's shares have undergone a big recovery in response to the spike in nickel prices, rising from $2.37 at the start of the year to $5.15 yesterday, up 3.8 per cent or 19c on the day.

The company again steered clear of speculation that it was angling to be involved in the planned sale by BHP Billiton of its Nickel West division, Australia's biggest sulphide nickel producer, with downstream smelting and refinery operations as well.

But it did reiterate that whatever happened, its premium-quality nickel concentrates had strategic importance for blending purposes in the WA and Asia-Pacific nickel market. Western Areas supplies BHP and China's Jinchuan with nickel concentrates.Glencore Xstrata, and the cashed-up private equity vehicle of former Glencore and BHP executive, Mick Davis, remain the most likely to strike a deal with BHP on Nickel West. Jinchuan already has refining and smelting capacity.

Glencore backs out of BHP's $800m Nickel West race

Edited by Sarah Thompson, Anthony Macdonald and Gretchen Friemann

Glencore, the world's largest commodities trading house, has bowed out of the race for BHP's Nickel West business in a surprise move that eliminates one of the highest-profile contenders. Earlier this month, Street Talk revealed six parties had entered due diligence for the West Australian assets, which are expected to fetch between $500 million and $1 billion.

However, analysts have set the value at around $800 million.

Glencore was widely viewed as the most likely buyer and its sudden withdrawal may raise questions about whether BHP can achieve the top end of its targeted range for Nickel West.

While prices in the metal, which is used to make stainless steel, have shot up almost 40 per cent this year, investors remain wary the trend heads into a savage reversal if Indonesia unwinds an export ban seen as the main driver behind the rally. However, Glencore may also have factored in the hefty $1.5 billion capital expenditure outlay required for the Nickel West assets, which include the Mt Keith, Cliffs and Leinster mines and concentrators, the Kalgoorlie smelter, Kambalda concentrator and the Kwinana refinery. Another difficulty is the dearth of concentrate or "feed stock" used in smelting to produce nickel matte. This looming problem had fed speculation Western Areas, a supplier of concentrate to the BHP subsidiary, will find itself scooped up by Nickel West's purchaser. A neat solution like this may suit Jinchuan, China's largest nickel company, given it has a supply contract with Western Areas due to lapse next year. The Chinese rank as the biggest users of nickel and have stockpiled the metal in the wake of the Indonesian export ban.

BHP axe falls on another 500 ore jobs

Resources - Analysts lower expectations

Perry Williams, Bianca Hartge-Hazelman

BHP Billiton has slashed up to 500 jobs from its iron ore operations in Western Australia as part of continuing cost-cutting.

The company is understood to have retrenched 500 workers in the past month, including 170 roles at its Mount Whaleback iron ore operation in the Pilbara on June 9.

Earlier this month, 100 workers lost their jobs at the company's iron ore headquarters in Perth.

Further job cuts are expected, with management consultancy McKinsey & Company conducting a review of the group's iron ore division.

The West Australian reported on Tuesday that McKinsey had recommended BHP shed up to 3000 roles from its WA iron ore division.

But BHP said in a statement that no decisions on further changes had been made. "BHP BillitonIron Ore regularly undertakes improvement initiatives and organisational reviews as part of an ongoing focus on productivity and cost reduction, and we have engaged external consultants to assist with this process," the company said.

"This focus on productivity is not new. It is about continuing to safely improve our business and ensuring we are a competitive, world-class operation.

"We have been open with our employees about the work being done to improve productivity, and the review, and we hold regular all-employee town hall meetings and question-and-answer sessions with the business leaders as a matter of course."

The spot price of iron ore delivered in China recovered slightly in the past week to trade at $US93.40 on Tuesday after slumping 25 per cent since mid-April. On Tuesday Credit Suisse analysts cut their earnings expectations for the country's largest iron ore producers, despite acknowledging that the expansion plans of BHP Billiton, Rio Tinto and Fortescue Metals Group - along with Brazilian rival Vale - were likely to force the closures of many Chinese and some Canadian competitors.

The investment bank's recommendations for Rio and BHP remain unchanged at outperform and neutral, with cuts made to the major miners' earnings per share forecasts. Credit Suisse commodities research analyst Marcus Garvey expects the iron ore price to fall to $US85 a tonne in a year's time and, after 2016, sufficient supply curtailments should help to gradually bring the market back to balance.

BHP has 24,000 employees and contractors at its WA iron ore business, headed by division president Jimmy Wilson. Its board is reviewing all underperforming assets and mulling divestments, including its Nickel West operations in WA.

An abundance of iron ore at shipping ports and weak global growth are why analysts are turning increasingly bearish, downgrading their forecasts for the steel-making metal and lowering earnings expectations for the world's biggest miners.

Credit Suisse analysts are the latest to revise down their forecasts for the second half of this year in light of a structural surplus of iron ore, thanks largely to Australia's big mining companies.

It comes amid reports that BHP Billiton looks set to axe a further 3000 jobs from its iron ore division as it cuts costs in an attempt to stay internationally competitive.

Caption:

PHOTO: BHP Billiton has hired McKinsey and Company to review its iron ore division. Photo: Bloomberg

Price fall puts wrench in Nickel West sell-off

BARRY FITZGERALD

BHP Billiton's now public plan to sell off its Nickel West business in Western Australia has not got off to an ideal start, with prices for the key stainless steel ingredient falling heavily within hours of BHP informing its workforce that would-be buyers would soon visit the operations.

Nickel dived 4.7 per cent to $US9.06 a pound in overseas markets. The plunge was put down to the speculative rush into the metal running out of puff rather than BHP's sale plan indicating it was calling the top of the market in the "devil's" metal.

The price is nevertheless up by one-third on last year's (calendar) average of $US6.82 a pound. It is also up by 14 per cent on the 2012 average of $US7.96 a pound. Even so, the price remains well below the bonanza level reached in March 2007 of $US20.36 a pound — highlighting nickel's status as the most price volatile of the base metals.

That fact plays to the situation where estimates for a sale price for Nickel West vary widely from as little as next to nothing up to $US2 billion ($2.1bn). What is known is that Nickel West's earnings are highly leveraged to nickel prices.

It lost $US314 million in the 2013 financial year (nickel averaged $US7.50 a pound) but two years earlier when prices averaged $US10.90 a pound, it posted a profit before interest and tax of $US354m.

BHP's president of the 100,000 tonne-a-year Nickel West business, Paul Harvey, told the workforce on Wednesday that the business of mines, concentrators, a smelter and a refinery could be sold in part or in full. "We will shortly be inviting third parties to visit our operations," Mr Harvey said in an internal memo.

UBS analyst Glyn Lawcock said the decision to sell was no surprise given it is a non-core asset but that the market had been expecting it to be included in the demerger option.

In that option, nickel would have been bundled off with aluminium, manganese and South African coal into a new company.

"Perhaps the dynamics in the nickel market around Indonesia and the subsequent rise in the nickel price has flushed out buyers. Perhaps, given Nickel West is housed in BHP Ltd and not Billiton plc, a demerger of Billiton owned assets in the UK is easier to achieve," Mr Lawcock said.

Standard Bank said that the nickel market was looking overbought from a technical perspective.

"The metal is retracing and trying to find its feet for another push higher. During this process, however, weaker shorts are heading for the exit, while some wider profit-taking may also be having an effect," the bank's commodities desk said in a research note.Nickel's recent price strength is a result of Indonesia's ban on the export of unprocessed laterite nickel ores, a cheaper nickel unit alternative in steel production than higher grade intermediate nickel products produced from sulphide ores.

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This is largely due to a looming $1.5 billion cap ex bill.

One investor claimed BHP has three options for Nickel West: "sell it. put it under care and maintenance or shut it down completely".

He described the third option as the least palatable and said placing the business in care and maintenance would buy time for BHP. However the move would also raise questions about how Nickel West would fare in a restructure.

Before BHP confirmed the **operations** were up for **sale** the market anticipated it would **wind** up in a demerged entity.

But one of the conglomerate's sizeable investors argued this would represent a cash strain and would crystallise a write down on the assets.

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