

SE Business
HD **Chinese** line up new tilt for Yancoal
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WC 625 words
PD 11 November 2014
SN The Australian
SC AUSTLN
ED Australian
PG 19
LA English
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CHINESE giant Yanzhou could finally succeed in its aim to take full control of its Australian interest, Yancoal, under a \$US2.3 **billion** (\$2.65bn) debt deal that looks set to dilute the minority shareholders of the coalminer.

Just under 10 months after Yanzhou abandoned its full takeover bid for Yancoal, the 78 per cent shareholder has agreed to take on \$US1.8bn of the subordinated capital note offer — the largest note offer in Australian corporate history — to repay a loan to itself.

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Yancoal, Australia's largest independent coalminer, said the funds raised through the notes would be used to repay existing debt and to fund **operations** as well as future growth.

As well as committing to subscribe for its full entitlements in the offer, Yanzhou will also provide up to \$1.4bn in additional financial support.

"There are multiple factors here that drive something like this, but the fundamental issue is working towards preparing our balance sheet, so it gives us the capacity to secure funding for our future growth," Yancoal chief executive Reinhold Schmidt said.

"It demonstrates Yanzhou's continued commitment to invest in Australia and the local industry ... and make sure we can ride the storm and get through really challenging market conditions." The debt issue comes at a time when the **coal** sector is deeply out of favour among investors, with prices for both thermal and coking **coal** falling on softer demand from **China**.

Shares in the **company** plunged on the announcement, closing 27 per cent lower at 16c. This time last year the share price was sitting around 70c.

The offer is likely to anger 13.8 per cent shareholder Noble Group, which also has a marketing agreement with the miner. The Australian understands that **Hong Kong**-based Noble was unaware of the offer until it was released to the market yesterday morning.

The commodities trader declined to comment until it saw the full details of the offer.

Under the offer, open to all shareholders, Yancoal will issue 2.32112 subordinated capital notes for every 100 Yancoal shares held. The notes will be treated as **equity**.

If the minority shareholders shun the offer, Yanzhou could increase its holding to around 89.5 per cent of Yancoal.

Mr Schmidt would not comment on the suggestion that the offer was a backdoor way for the **Chinese** parent to creep up Yancoal's share register.

"From an organisation point of view we see this as the best deal possible for us," he said.

"The independent board committee was tasked to consider many options and this one is the most appropriate at this stage. We are yet to hear back from the minority interests. It's in the best interest of all our shareholders and I cannot speculate what they will do, they have only seen it, so we need to give them time to consider it." Yanzhou had approached Yancoal with an indicative, non-binding takeover proposal in July 2013, but walked away from that in March this year, after Joe Hockey had relaxed foreign investment review board rules linked to previous takeovers by the **Chinese company**.

Yanzhou had beefed up its Australian interests by effectively spending more than \$5.5bn buying Felix Resources in 2009 and Gloucester **Coal** in 2012 to form Yancoal — one of the biggest publicly listed pure-play **coal** producers in the country.

With the **Chinese** giant's attempt to potentially dilute the minority shareholders out of the **company** with yesterday's offer, Mr Schmidt said they were taking a long-term view on the **coal** market, which had been suffering from tough market conditions. "We all understand the commodity business is a cyclical one," he said.

CO yaptyl : Yancoal Australia Limited | yankua : Yankuang (Group) Corp | ynzmn : Yanzhou Coal Mining Co Ltd

IN i111 : Coal Mining | i1 : Energy | ibasicm : Basic Materials/Resources | imet : Mining/Quarrying | i112 : Coal Mining Support Activities

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AN Document AUSTLN0020141110eabb0002a