

FINANCIAL REVIEW

SE Companies and Markets
HD **Yancoal seeks \$US2.3b as debts mount**
BY Amanda Saunders
WC 928 words
PD 11 November 2014
SN The Australian Financial Review
SC AFNR
ED First
PG 18
LA English
CY Copyright 2014. Fairfax Media Management Pty Limited.
LP

Yancoal boss Reinhold Schmidt is adamant that a \$US2.3 **billion** debt-for-**equity** swap is not a new attempt to privatise the listed Australian **coal** miner by its major **Chinese** shareholder Yanzhou **Coal**.
Yancoal's \$1.52 **billion** ASX debut in mid-2012 was the first time a state-owned **Chinese firm** operating in Australia had listed on the local exchange.

TD

But the **company**, which has seven **coal** mines in Australia, so far appears to have been a disastrous experiment for **China**, losing more than \$1 **billion** in 18 months.

Yanzhou has even been forced to guarantee that Yancoal will remain solvent, for as long as it remains a majority shareholder.

Yancoal's market capitalisation has shrunk to about \$165 **million**, from \$1.52 **billion** on listing. In a recapitalisation of sorts, Yanzhou will extend a fresh \$US1.4 **billion** loan to the troubled miner and take up \$US1.8 **billion** of a \$US2.3 **billion** subordinated capital notes offer to repay a loan to itself.

Yancoal will look to the rest of its share register to raise the \$US500 **million** shortfall, which would be invested into the business.

But the notes will be treated as **equity** and it is understood some shareholders see the deal as Yanzhou trying at privatisation by stealth.

Yanzhou, which holds a 78 per cent **stake** in Yancoal, is **China's** fourth biggest **coal company**.

But Mr Schmidt said privatisation was not on the table, and the debt-for-**equity** swap was not a means of taking the **company** private.

Yanzhou called off a privatisation bid for Yancoal in March this year, after being stymied by Noble Group, which is the **company's** second-biggest shareholder, with about 13.2 per cent of the register.

It is understood Noble Group is furious about not being sounded out about the recapitalisation, with management at the Asian commodities trading giant scrambling to get to understand the detail of the deal on Monday.

But Mr Schmidt told The Australian Financial Review that – "we could not put it to the Noble Group before announcing it, because that would be inappropriate".

Noble Group executive William Randall sits on Yancoal's board but he was "very clear there was a **Chinese** wall established between him as a director and the Noble Group", Mr Schmidt said.

Since Yancoal's listing the Australian **coal** sector has since taken a dramatic turn for the worse, with many producers struggling amid a sea of red ink, despite fierce cutting costs for the past two years.

Yancoal clocked a \$832 million loss for 2013, and lost \$192.7 million in the first half of calendar 2014.

Yanzhou has guaranteed Yancoal will remain solvent, as part of an undertaking to the Foreign Investment Review Board made in December.

Mr Schmidt said solvency was not an issue, but the recapitalisation would help ensure the "viability of the business" in a heavily depressed market.

"This [recapitalisation] is about strengthening our balance sheet and dropping our gearing dramatically."

"It is very difficult in the near term to see any signal that is going to substantially change the current outlook," he said. The Yancoal boss said take-or-pay contracts, which it is tied to for port and rail in both NSW and Queensland, had taken their toll on the miner.

Almost all Australian coalminers have take-or-pay commitments, after racing to secure capacity in the heady boom time of three years ago.

"In Australia, the problem we've got, and why there is not a bigger supply side response, is that every single company sits with take-or-pay contracts," Mr Schmidt said.

"If they were to put a mine on care-and-maintenance, then many of those contracts are written as such that it will crystallise a very large payment. "In today's environment it is better to continue operating than to crystallise that. That is why you haven't had more mines closing down, or even going on care or maintenance."

Fixed port and rail costs range from about \$US14 to \$US20 a tonne. The supply overhang in coal will remain short term, Mr Schmidt said.

Yanzhou has ploughed \$5 billion into Yancoal – acquiring Felix Resources and Gloucester Coal to build its suite of coalmines, and also injected billions through loans.

Yanzhou is understood to see the recapitalisation package as the best option to get money into Yancoal. The move could also be seen as throwing out a challenge to other shareholders to support the business.

Yancoal shares had tumbled 27.3 per cent, or 6¢, to 16¢ at the Monday close, after the deal was announced. If the \$US500 million outstanding in the subordinated notes offer gets picked up by shareholders outside Yanzhou it will be used for existing operations, and future growth.

Yanzhou has said it will not cover any of the notes offer, beyond its \$US1.8 billion commitment, which will be poured straight back into a senior loan of the same value the Chinese giant is owed. If the notes offer is a success, Yanzhou will also feed up to \$US1.4 billion in a fresh line of credit to Yancoal, to "support cash flow requirements between now and 2018".

In addition, it will fund distributions on the subordinated capital notes over a five year period, after they are issued.

If the offer proceeds, Bank of China and China Construction Bank will grant an extension on the repayment of their \$US2.6 billion syndicated facility for three years.

CO	yaptl : 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
NS	crecap : Recapitalization ccat : Corporate/Industrial News c17 : Funding/Capital c171 : Share Capital cactio : Corporate Actions ncat : Content Types nfact : Factiva Filters nfcpin : C&E Industry News Filter
RE	austr : Australia china : China apacz : Asia Pacific asiaz : Asia ausnz : Australia/Oceania bric : BRICS Countries chinaz : Greater China devgcoz : Emerging Market Countries dypcoz : Developing Economies easiaz : Eastern Asia
PUB	Fairfax Media Management Pty Limited
AN	Document AFNR000020141110eabb00018