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HD **Glencore seen preparing for tilt at Rio Tinto**
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Glencore is crunching the numbers on a potential merger with Rio Tinto next year that would create the world's largest **mining company** but is likely to face opposition from regulators and the Rio board.

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Bloomberg reported on Monday that Glencore had "reached out" to Rio's largest shareholder, **Chinalco**, to gauge its interest in a potential deal. The discussions with the state-backed **Chinese company**, the biggest shareholder with a 9.8 per cent **stake** in Rio, took place in recent weeks, the report said.

The Australian Financial Review has reported Glencore chief executive Ivan Glasenberg believes a \$US160 **billion** (\$182 **billion**) combination merged **mining** giant " with market-leading position in **iron ore, copper, nickel, zinc and coal** " makes sense and that corporate advisers at Standard Chartered were doing preliminary work on a deal.

In recent weeks, Glencore executives have made no secret of the fact it is frustrated that Rio will not push ahead with negotiations over a thermal **coal** joint venture in NSW's Hunter Valley north of Sydney.

While Mr Glasenberg has made it clear in private meetings with investors that a merger with Rio is a preferred option for the Swiss miner and trader, sources said no talks are underway between the two companies, no final decision has been made and any formal approach would not take place this year.

Bloomberg reported Glencore views **Chinalco** as potentially supportive of a change in control after the **Chinese company** failed to secure a board seat at Rio Tinto and has seen little progress on a joint **iron-ore** project in Guinea.

Glencore is also gauging the views of other Rio shareholders, and studying the tactical, financial, and regulatory obstacles to the deal as it considers its next steps, the news report said.

Rio's American depositary receipts rose as much as 20 per cent in New York on Monday.

Rio's is the world's lowest cost producer of **iron ore** but a prolonged slump in the price of the key steel-making ingredient could give Glencore leverage, according to analysts at Bernstein.

"A Rio Tinto-Glencore combination would create market leading positions in **iron ore, copper, nickel, zinc and coal** as well as significant optionality around a number of lesser metals and minerals," Bernstein said in a note to clients. "Moreover, it would create the biggest and most diversified **mining company** on the planet."

Bernstein argues a more aggressive approach to borrowing against Rio's Pilbara **iron ore operations** could allow a combined **company** to return as much as \$US49 **billion** to shareholders.

"Rio shareholders currently have the delivery of the Pilbara 360 [expansion] to look forward to but what happens beyond this? No amount of growth from the non-**iron ore** elements of the Rio portfolio will be

able to compensate for the fact that **iron ore** is essentially ex-growth and that attempting to force more tonnage into the market is an increasingly zero sum (or negative sum) game," Bernstein says.

"In a combined portfolio there is a sense in which current Rio shareholders would get the best of both worlds. They get both the growth optionality that comes with the Glencore portfolio as well as Glencore's conversion of the Pilbara into the most prodigious cash machine that the **mining** world has ever seen."

IRON ORE WEAKNESS DRIVES TIMING

The arguments for a deal a deal ignore the complexities involved.

It is understood that Rio board members believe their **company** is performing better and would be unlikely to embrace a merger of equals proposal, meaning Glencore would have "to go hostile". It is also likely **Chinese** regulators, who earlier raised concerns about a potential **iron** joint venture between Rio and BHP Billiton, would oppose aspects of a deal.

Spokesmen for Glencore, Rio and **Chinalco** declined to comment.

Due in large part to falls in the price of **iron ore**, Rio's London-listed shares have declined 12 per cent this year, giving the **company** a market value of about -56 **billion** (\$102.7 **billion**). That brings it within striking distance of Glencore's -45 **billion** (\$82.6 **billion**) market capitalisation, which has risen almost 12 per cent in 2014, Bloomberg said. A combined miner would be worth about \$185 **billion**.

The agency reported that Rio's managers were not implacably opposed to a tie-up with Glencore, they believe the slump in **iron-ore** prices would put the **company** at a disadvantage in negotiations. For that reason, their first response to an offer will almost certainly be a rejection.

They're also eager to ensure Rio executives would remain in key roles in a merger that would probably be billed as a combination of equals, especially after Glasenberg largely ejected Xstrata Plc managers after Glencore agreed to buy that **company** in 2012, one of the people said.

Through a series of deals over the last decade, South African-born Glasenberg "an accountant by training" has transformed Glencore from a little-known commodity-trading house into a diversified global **mining** group.

His largest deal so far, the \$29 **billion acquisition** of Xstrata in 2012, turned Glencore into the world's fourth-largest **mining** group at the time. With significant **operations** in **copper**, nickel, and **coal**, the only major commodity it doesn't figure prominently in is **iron ore**, which Rio offers in huge quantities.

Rio's record of recent strategic decisions has been mixed. Former chief executive Tom Albanese resigned unexpectedly last year after the **company** was forced to drastically write down the value of a **coal** project it had acquired in Mozambique. Under the current chief, Sam Walsh, **company** has embarked on a cost-cutting drive and increased payouts to investors.

The time could be right for Glasenberg to move toward a deal because of persistent weakness in the market for **iron ore**, which accounts for almost half of Rio's revenue and is weighing on its share price, Bloomberg said. **Iron ore** has plunged about 41 per cent this year.

Additionally, with Rio CEO Sam Walsh likely to retire by the end of next year, Glencore sees an obvious opportunity to avoid a battle over who would run the combined **company**, Bloomberg reported two insiders as saying.

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