HD **Private equity funds see promise in Australia's battered mines**

WC 657 words

PD 28 November 2014

SN Emerging Markets Business Information News

SC EMBIN

LA English

LP

Private funds are trawling for bargains in Australia in the aftermath of a global mining boom, looking to strip the fat at companies and projects they believe hold promise but which are struggling under the weight of sagging commodity prices. Big name funds that dominate the $2.5 trillion private equity industry generally steer clear of mining which they see as too risky, but a clutch of specialist funds estimated to have at least $10 billion to invest are on the prowl for opportunities around the world. Most of those funds have focused on snaring assets in Africa and Latin America, shunning Australia due to its higher costs. But some, like Resource Capital Funds, Royalty Stream Investments and Denham Capital, say they see ways to build and run operations more tightly, reaping advantages from Australia's relative proximity to China.

TD

We're working through this landscape of broken companies and mothballed projects, said Bert Koth, managing director at Denham, an energy and mining private equity firm with more than $7 billion already invested globally which set up an office in Perth last year. Costs in Australia soared over the past decade, with mining and energy companies spending billions of dollars to build new projects as they raced to supply China, driving up prices for manpower, equipment and fuel. Miners big and small were able to afford those costs as commodity prices climbed to record highs, but most are now frantically cutting back as markets have become oversupplied and prices have tumbled. In an industry starved for capital from top to bottom, bankers and analysts agree that cashed up private funds could pick up assets cheaply and inject some extra capital to improve operations. But they warn it could be difficult to make robust returns. The question is when you put the whole package together, including the costs to export, is it going to be good enough on a total return? That's a lot more difficult, said Lawrence Grech, head of research at PhillipCapital in Sydney. NOT SO BAD Former BHP Billitonexecutive Alberto Calderon, who left the mining giant earlier this year, sees good prospects in base metals. He recently invested with Royalty Stream Investments in a Northern Territory bauxite project run by privately owned Gulf Alumina and is also eyeing investments in mining technology. In this mining environment where there is a lot of downside in most commodities, there are interesting opportunities, he said. Denham's Koth said his firm had recently backed two teams of seasoned mining executives with up to $200 million each, looking to take back the cost excesses of the mining boom step by step. One, Pembroke Resources, is hunting for metallurgical coal projects in Australia, while the other, Auctus Minerals, is scouting for non-coal assets. Pembroke and Auctus are led by executives who successfully delivered mining projects and ran mines in Australia when commodity prices were much weaker than now. Auctus Managing Director Stephen Murdoch said current prices look low to executives in charge of companies during the boom, but are far higher than when he was running mines over a decade ago with copper at 55 cents a pound, versus around $3 now. Auctus expects to seal its first acquisition within six months, said Murdoch, who rescued a costly magnetite iron ore project as chief executive of Karara Mining. Pembroke, under former Gloucester Coal chief Barry Tudor, is focused on finding high quality metallurgical coal assets in Australia, New Zealand and Indonesia. Tudor is confident he can pull off another success like he did at Gloucester, a 5 million tonnes a year coal producer that was taken over by Chinese-controlled Yancoal Australia Ltd three years ago in a deal worth about A$2 billion. But Koth said there was no rush to buy coal assets. We actually believe the market is going to deteriorate further, he said.

CO denhc : Denham Capital Management LP

IN i81502 : Trusts/Funds/Financial Vehicles | i8150203 : Private Equity | ialtinv : Alternative Investments | ifinal : Financial Services | iinv : Investing/Securities

RE austr : Australia | apacz : Asia Pacific | ausnz : Australia/Oceania

IPD Mining

PUB Info-Prod Research (Middle East) Limited

AN Document EMBIN00020141128eabs000hz

