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 HD Chinese rush to buy mining resources

AU [amanda saunders](#)
 BY Amanda Saunders
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LP A rush of takeovers of Australian mining resources by their Chinese shareholders is being driven by a change in political leadership and a desire to take control of strategic assets including operating mines and ports, industry experts say.

In the past two weeks, Chinese steel giant Baosteel has joined forces with local rail haulage provider Aurizon to offer \$1.42 billion for Perth coal and iron ore play Aquila Resources, and Guangdong Rising Asset Management has put \$1.46 billion on the table for copper miner PanAust.

TD In both cases the bidders were existing major shareholders in the targets.

China Merchant's winning \$1.75 billion bid in a consortium with Hastings for Port of Newcastle was as much a resources play as an infrastructure play. Meanwhile a \$178 million tilt by China's Landbridge Energy for ASX-listed coal seam gas play WestSide turned hostile this month.

Industry players say a shift in attitude to investment from the once-in-a-decade change to Chinese leadership is seeing state-owned enterprises (SOEs) with major shareholdings in Australian resources companies take a more proactive approach to their investments.

With commodity prices in the doldrums – particularly coal and iron ore – and equity market valuations depressed for many miners, it is an opportune time to launch takeovers.

The head of PwC's Asian deals desk, Andrew Parker, said there was a "discernable" change of attitude to investment in Australian resources companies, driven in part by the change in Chinese leadership.

"There were a series of investments, made under the last leadership, that haven't gone as well as China would have liked," he said. "What we are seeing now from our businesses' point of view is a resurgence in Chinese interest in the past six or eight weeks.

"They are the early signs that the [Chinese leadership] transition has been bedded down and now companies are out, actively looking for those investment opportunities."

The change in government had also meant changes in strategy and executive teams of SOEs. "The changes are occurring not just within the management teams of companies, but also within the agencies that administer the companies," he said.

PwC Australia's mining leader, Jock O'Callaghan, said Chinese investors were starting to grow more impatient.

"The Chinese want their supply coming on a bit faster; they are driven by development and supply imperatives, not by investment imperatives," he said. "There is a bit of an uptick in impatience and a desire to have more influence over development cycles." China more open to advice

A wariness about hostile takeovers after a series of failed or disappointing attempts had seen the Chinese become more passive investors, but that stance had not allowed the Chinese to have sufficient influence over development speed, Mr O'Callaghan said.

Key takeover targets were those that granted the major Chinese shareholder control of project development – especially in situations where they were looking for offtake. Also appealing were takeovers that allowed the suitor to gain control and tidy up in very cheap equity markets.

Australia is China's third-largest investment destination.

The Chinese government has also sent a clear signal that if it considers a takeover strategic enough it will wave it through the regulatory approvals process.

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