

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

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* Private funds look for bargains in struggling **mining** sector

* Say they can cut costs on promising projects

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* But analysts warn could be difficult to make robust returns

By Sonali Paul

MELBOURNE, Nov 28 (Reuters) - 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**.

"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 Billiton executive 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. (Editing by Joseph Radford)

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