

**HD** Enigmatic former Xstrata boss seeks to build another **mining** giant

**WC** 1,159 words

**PD** 1 May 2014

**ET** 01:50

**SN** Reuters News

**SC** LBA

**LA** English

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\* Davis' **mining** venture has raised \$3.75 bln for new assets

\* Slowing **Chinese** growth adds to challenge this time

**TD**

\* Insiders say he feels keen rivalry with Glasenberg

\* Behind some of **mining** industry's most important deals

By Silvia Antonioli and Sonali Paul

LONDON/MELBOURNE, April 30 (Reuters) - Former Xstrata boss "Big Mick" Davis wants to build another **mining** giant, partly driven by what several sources say is a keen sense of rivalry with Glencore's Ivan Glasenberg, but it won't be easy even for someone with his proven track record.

Davis has been involved in some of global **mining**'s biggest and most formative deals, including the creation of BHP Billiton and its smaller rival Xstrata.

He expanded Xstrata over a decade from a \$500 **million company** to a \$46 **billion** one taken over by Glencore, which was already its largest shareholder, last year.

Now he has set up a fund, X2 Resources, which is looking to buy up mines again and is reportedly targeting some of the very assets he traded more than a decade ago.

Unlike then, when miners rode a boom powered by double-digit growth in **China, coal** prices now languish near four-and-a-half-year lows and the outlook for **coal** demand growth is uncertain.

Yet armed with \$3.75 **billion** and rising, and planning to raise three times as much in debt, Davis was reported this week to be lining up a bid for BHP's thermal **coal** assets, along with aluminium, manganese and nickel assets that BHP wants to jettison.

The PR **company** representing X2 Resources declined to comment on the newspaper report or on other details and opinions contained in this article.

Davis knows the shunned assets better than any other potential bidder, as most of them went into Australian miner BHP when it merged with Billiton in 2001, a deal he helped to engineer as finance director of the London-listed **mining firm**.

"With **coal** he is totally within his comfort zone," said Investec analyst Hunter Hillcoat.

"If he was to acquire **coal** assets at this point he'd be doing what he's got a history of doing: buying assets at the bottom of the cycle and therefore benefiting extremely when the cycle turns ... It's a classic Mick Davis tactic."

It is a tactic that some people with close knowledge of the business believe can work, despite the challenges.

"I think he's got very good chances of success. He has done it once and wants to do it again," said a London-based investment banker who has worked on various deals with Xstrata.

Others are not so sure, citing slowing growth in **China** and its likely impact on commodity prices.

"I question whether the same value creation is possible this time around," said a second investment banker involved in **mining**.

"You can create value, but whether you can create value that PE (private **equity**) investors would expect, I think that is an open question. I am not swayed by the magic dust being sprinkled on this at the moment. I am a bit of a cynic."

Private **equity** firms would expect an annual rate of return at least in the high teens but generally much higher, while **mining** companies have lower returns, the second banker said.

Anglo American, one of the largest London-listed **mining** companies, for example, posted a return on capital employed of 11 percent last year and is aiming to boost it to above 15 percent by 2016.

## FRUITS OF SUCCESS

After walking away with a 14 **million** pound payout and **millions** more in cashed-in options when Glencore swallowed Xstrata last year, Davis, now 56, could easily have retired.

Davis had originally agreed to stay at the merged group subject to a three-year retention deal for himself and his top executives, worth a total of \$220 **million**, that was eventually opposed by shareholders.

Several people who know him said his drive was as strong as ever, partly fuelled by a rivalry with Glencore CEO Glasenberg who got the top job after the Xstrata takeover.

"I think he still feels like he's got something to prove," said a former colleague who remembers Davis as intelligent and driven and also aggressive and ruthless in the business arena.

Davis has enjoyed the fruits of his success, even managing to work out a deal to use Xstrata's corporate jet for personal use for 30 hours after he had left the **company**. He is also known as a philanthropist and leader in London's Jewish community.

"He always wanted to have the biggest office. In South Africa you could have put a tennis court in his office," the former colleague said. "He did like the trappings of power and wealth."

Davis is still known as "Big Mick", despite losing considerable weight in the last couple of years. "He looks like a different character," the first banker said.

With his new, leaner image, the former accountant who qualified as South Africa's youngest professional cricket umpire, is gearing up for a fresh round of dealmaking.

## "CARDS CLOSE TO CHEST"

Davis shot up the corporate ranks as a young man, moving from an accounting **firm** to South African power **company**, Eskom, where he was made finance director in his early 30s. He quit to join miner Gencor when he missed out on the top job at Eskom.

Over seven years, he and Brian Gilbertson reshaped Gencor, bought Royal Dutch Shell's minerals business Billiton, listed it in London and then eventually merged it with BHP in 2001.

"He is very much a visionary but he plays his cards extremely close to his chest," said the first banker.

The biggest hurdle to his ambitions now could be that BHP is unlikely to sell for less than full value, especially as it is considering spinning off unwanted assets into a separately listed **company** if it does not get a satisfactory offer.

"The thing about BHP is they're in a position now where they are not forced sellers of anything," said Brenton Saunders, a portfolio manager at BT Investment Management.

"The flip side of that coin is it's going to be hard for anybody to buy (the assets) on the cheap."

Deutsche Bank values the assets expected to be on the spin-off list at \$12.3 **billion**, comprising BHP's nickel, manganese, and **alumina** assets, the Cannington silver mine and South African thermal **coal** assets.

Those who know Davis believe the element of the unexpected could have a major say in the outcome of any agreement.

"I think he'll come out with a deal that will surprise everybody," said the first banker. "Mick will come out with some sort of structure where he'll make a lot of money for his shareholders." (Editing by Mike Collett-White)

**RF** Released: 2014-4-30T16:50:12.000Z

**CO** bkhlp : BHP Billiton Ltd | bltpc : BHP Billiton PLC | march : Glencore Xstrata PLC

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