

HD **UPDATE 2-Guangdong Rising bids \$1 bln for copper miner PanAust**

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* Guangdong already owns 23 percent of PanAust

* Second Chinese A\$1 billion resources takeover bid in a week

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* PanAust not recommending bid but allows due diligence

* CEO says bid doesn't reflect outlook for copper prices

* PanAust shares up more than 30 pct but below offer price (Recasts, adds comments from CEO and market participants)

By Byron Kaye and Sonali Paul

SYDNEY/MELBOURNE, May 13 (Reuters) - China's Guangdong Rising Assets Management has proposed a A\$1.1 billion (\$1 billion) takeover offer for copper and gold miner PanAust Ltd, the second bid for an Australian resources firm by a Chinese state-owned company in two weeks.

PanAust rejected the unsolicited bid from its biggest shareholder as too low but agreed to allow it to conduct due diligence in the hope of getting a better offer.

The takeover proposal comes amid a slew of interest in Australian mining assets from Chinese firms eager to secure global resources.

Steel giant Baosteel Resources and an Australian partner last week offered A\$1.1 billion for Aquila Resources Ltd. In December, Chinese miner Shenzhen Zhongjin Lingnan Nonfermet Co, in which Guangdong Rising has a controlling stake, bought Australian base metals explorer Perilya Ltd.

Guangdong Rising, which owns 23 percent of the Australian firm, offered A\$2.30 per share. That represents a 46 percent premium to its most recent close and values the whole company at A\$1.5 billion. Shares in PanAust jumped 34 percent to close at A\$2.12 - its highest level in nearly three months.

PanAust Chief Executive Gary Stafford told Reuters the Chinese firm needed to pay a bigger premium to reflect the outlook for copper prices, which he said are unlikely to stay as low as \$3 a pound if copper supplies move into deficit within the next two years as analysts expect.

Stafford added that recent sales of copper mines and projects at rich premiums highlighted the big gap between the valuations of mines and the shares of mid-tier copper miners like PanAust.

"There's a big disconnect between what people are paying for the assets and the overlying equity," he said.

PanAust produces copper in Laos, has undeveloped projects in Chile and Thailand, and is in the process of buying a majority stake in the undeveloped Frieda River copper-gold project in Papua New Guinea from Glencore XStrata Plc.

Market participants noted, however, that undeveloped projects also carried big risks.

"One of the issues where the market has struggled has been how to value Frieda River. A lot of people in this region see it as a very big resource with lots of potential but a fair bit of risk for someone like PanAust to take on," said CLSA **mining** analyst David Radclyffe.

"This is the second **Chinese M&A** deal in Australia in the last two weeks and with both of those companies the market is discounting the large greenfield options," he added.

Aquila has a 50 percent **stake** in the \$7 **billion** West Pilbara **Iron Ore** project.

ATI Asset Management portfolio manager Ben Lyons said Guangdong Rising risked overpaying since Frieda River and PanAust's Inca de Oro project in Chile were untested.

"One has to take a view on some very early stage projects which in my opinion have some questionable financial viability," he said.

PanAust said Guangdong Rising had offered A\$2.20 per share in April before revising the bid higher. (\$1= 1.0685 Australian Dollars) (Editing by Edwina Gibbs)

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