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HD **China regains its appetite**

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CHINA'S state-owned companies have rediscovered their appetite for Australian miners, with the latest multi-billion-dollar wave of acquisitions reflecting the expensive lessons of past deal failures.

Falling asset values, easing regulatory restrictions in China and an increased level of sophistication among the state-owned entities have combined to put China on track for its most acquisitive year in Australia's mining sector since 2011, when deals worth $US11.7 billion were unveiled. Chinese companies have so far launched almost $US3bn ($3.2bn) in acquisitions in the Australian mining sector this year, dwarfing the $US738 million in deals announced by this time last year.

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The revival of Chinese acquisitions suggests some of the scars from its deal frenzy at the top of the market — which saw it pay high prices for some assets which continue to sit in the ground — are beginning to heal.

China's Guangdong Rising Asset Management on Tuesday emerged with a $1.46bn takeover offer for Brisbane-based copper miner PanAust, just a week after steelmaking giant Baosteel teamed up with Australian infrastructure group Aurizon to approach coal and iron ore play Aquila Resources with a $1.4bn offer. In contrast to China's overpriced acquisitions of recent years, the current acquisition wave comes at a time when equity prices are at a fraction of their previous highs.

Shares in Aquila and PanAust were down 74 per cent and 65 per cent from their peaks at the time their Chinese suitors emerged, while deals by Chinese companies to purchase assets from Paladin Energy and Galaxy Resources came when the duo's shares had fallen by 92 per cent and 96 per cent respectively.

James Stewart, a mergers and acquisitions lawyer with Norton Rose Fulbright who has worked on deals with Chinese companies including Sinosteel and Ansteel, expects to see Chinese acquisition activity continue to increase over the rest of this year.

He said Baosteel's decision to join with Aurizon in bidding for Aquila was reflective of a broader recognition within China's state-owned companies of the need to partner with local groups to better manage risk.

"Baosteel teaming up with Aurizon would give them some confidence that they are doing a better-value deal than some Chinese companies may have done in the past," Mr Stewart told The Australian.

"PanAust also seems to be a deal that's being proposed at a better time in the commodities cycle to achieve better value." Moves within China to relax its overseas takeover laws are also expected to add further momentum to the latest acquisition wave.

King & Wood Mallesons partner Paul Schroder said a greater maturity among Chinese bidders Continued on Page 18 Continued from Page 17 and newly introduced laws that reduce the involvement of China's powerful National Development Reform Commission would help inspire more acquisitions in Australia.

"Conditions are ripe for a new wave of **Chinese** investment abroad," Mr Schroder said.

Adding to the potential for more investment, Australia's attitude towards **Chinese** acquisitions, through the Foreign Investment Review Board, has also become clearer to Beijing. he final piece in the puzzle is the NDRC rules being relaxed to make the process shorter and easier." Under rules that came in on May 8, foreign investment of $US1bn or less in nations and industries not branded "sensitive" require only registration with the NDRC, rather than approval. Neither Australia nor resources are considered sensitive.

The NDRC has also raised the limit on deals for which it is does not need to issue a "road pass" for competitive outbound bids from $US100m to $US300m.

The road pass is believed to be designed to ensure there is just one bidder for assets and prevent **Chinese** investors competing against each other to the detriment of the state.

Despite the recent developments, former Rio Tinto executive Michael Komesaroff said **Chinese** companies needed to secure more favourable deals before their overpriced purchases of recent years could be forgiven.

"I think there's still a long way for them to go. These are good signs but they still need to be proven," he said.

Mr Komesaroff said **Chinese** companies needed to learn from past disappointments such as Citic Pacific's deal with Clive Palmer to build the Sino **Iron** project in Western Australia, which has been beset by costoverruns, delays and disputes.

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