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HD **FTA with China just in time**

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More mining takeovers could be on the way

I MIGHT be clutching at straws here, but it seems that the China-Australia Free Trade Agreement (ChAFTA) was a ray of light for the beaten-up resources sector.

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Nothing stunning, mind you, but helpful on the edges at least. The standout was the removal of the 3 per cent tariff on coking coal and the 6 per cent tariff on thermal coal imports into China.

Both were imposed only from October 15, so it is more a case of being thankful for something not being introduced for the long run rather than an impost being immediately lifted.

Clarke Wilkins, director of equity research at Citi, noted that with the longer fuse on the thermal coal tariff being lifted (it was a measure to protect China's equally beaten-up coal producers), the ChAFTA measure has more impact on the coking producers in the near term.

China consumes about 25 per cent of Australia's thermal and coking coal exports, and Citi lists the beneficiaries of the tariff measure as BHP Billiton, Rio Tinto and Whitehaven. However, as Australian coal represents only 3 per cent of BHP and Rio's earnings, and Whitehaven sold only 7 per cent of its coal to China this year, any benefits are minor.

Removal of the 3-8 per cent tariffs on diamonds will also benefit Rio as it coincides with the ramping up of the underground mine at its Argyle site in Western Australia, and recently stepped-up marketing efforts for the glittering stones in China.

Another Citi analyst, Trent Allen, who is VP metals and mining, reckons the removal of the import tariff (up to 10 per cent) on "transformed resources" such as copper, nickel and zinc should encourage Chinese consumption of Australian base metals.

"But most miners (such as OZ Minerals, Sandfire, Independence and Newcrest) sell tariff-free mineral concentrates rather than refined metal to China, so the change could be of limited direct benefit,'' Allen said.

Perhaps more interesting than all that is the increase in the screening threshold required by the Foreign Investment Review Board for inbound funds from $248 million to $1.07 billion, for private Chinese investors.

It goes without saying that the distressed market values of a host of ASX-listed iron ore, coal, gold, uranium, mineral sands, and to a certain extent, oil and gas, companies means that a threshold of a little more than $1bn is not particularly challenging.

"Such investments could range from joint ventures at the asset level through to ASX acquisitions. The resources downturn means that many high-quality Australian resources companies have valuations of less than $1bn, even allowing for a reasonable takeover premium,'' Allen said.

What is also true is that the Chinese have demonstrated a willingness to snap up hard mining assets when they can in this market. A bunch of gold and base metals operations have gone their way and — who knows? — the distressed iron juniors might now have some appeal.

Their interest was on display in a small way yesterday with the deal for Chinese private equity fund HOPU Clean Energy to take up a 19.9 per cent stake in ASX-listed African uranium producer Paladin, with its first 15 per cent stake coming in a $61m placement at 42c a share.

This is not in the ChAFTA territory, but it's indicative of the longer-term view of the resources industry taken by the Chinese, who know more than most that the challenge of meeting even modest demand growth in decades to come is as tough as ever.

Taking shine to nickel IT has been a roller-coaster ride for nickel prices this year, in keeping with nickel's historical status as the most price volatile of all of the metals.

Everyone got excited at the start of the year when Indonesia followed through with its exports ban on unprocessed ores, driving nickel prices sharply higher to $US9.50 a pound.

But since peaking in May, the price has been under attack from the China slowdown, a build-up in stockpiles, and export replacement by The Philippines of the material withdrawn by Indonesia.

A recent rally — the price is up 11 per cent this month to $7.50 a pound — reflects several things, not least China's latest stimulus attempt with its first interest rate cut in two years.

More telling, though, has been a recognition that the seemingly alarming growth in LME stockpiles reflects only the cautionary shifting of nickel from Chinese to LME warehouses. That followed the Qingdao financing scandal in May, which involved the multiple pledging of metal in support of bank loans.

Macquarie's commodity desk has taken a look at just what has been going on in the nickel market this year. It reckons that once prices are perceived to have bottomed, there could be another rush to buy the metal. The next boom may not be too far away, Macquarie said.

More to the point, it reckons nickel has got the greatest price leverage to the structural move of all metals into long-run supply deficits because of the global industry slashing and burning on the capital expenditure front. Macquarie reckons nickel's upside from here is 68 per cent by 2018.

It is against that backdrop that interest is starting to build in the nickel explorers, as distinct from the nickel producers with their established leverage to nickel prices taking off.

The recently floated Duketon Mining (DKM) is a case in point. Its shares shot up 29c or 207 per cent yesterday to 43c on its report of potentially high-grade nickel/copper hits at its Nariz prospect in Western Australia. Assays results will say just how high the high- grade hit is.

Today's real interest is in Talisman Mining (TLM), which picked up the Sinclair nickel project and its regional exploration potential from Glencore last month for all of $8m, with an additional $2m payable on the mine being returned to production.

Because it is still cashed up from its well-timed sale of its iron ore interests back in 2011, and because of its interest in a joint venture with Sandfire Resources on finding the next high-grade DeGrussa deposit in Western Australia, Talisman's current market cap of $22m (16.5c a share) is not challenging in that it could be argued the Sinclair interest comes for nothing.Getting Sinclair back in to production (it stopped in August last year) when nickel prices were really hurting is not without its challenges. But the acquisition gives Talisman everything that could be hoped for in a junior nickel explorer-developer at this level of market capitalisation.

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