FINANCIAL REVIEW

SE Companies and Markets

HD **Private investors capitalise on coal woes**

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WC 729 words
PD 16 May 2014
SN The Australian Financial Review
SC AFNR
ED First
PG 20
LA English

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With several Australian coalmines virtually on their knees at current commodity prices, it seems some investors are sniffing the winds of opportunity.

It's a buyer's market out there, according to former Gloucester Coal chief executive Barry Tudor, who expects to take his pick from several opportunities as he goes about building a metallurgical coal business across Australia, New Zealand and Indonesia, backed by $US200 million ($213 million) from US private equity firmDenham Capital.

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At the larger end of the spectrum, former Xstrata boss Mick Davis is in the picture for BHP Billiton's thermal coal assets in Australia with his new private equity vehicle X2 Resources that is backed by up to $US3.75 billion of funding.

Judging by his $US70 million deal to buy Peabody Energy's Wilkie Creek thermal coalmine in Queensland this week, Nathan Tinkler hasn't lost his enthusiasm for coal, despite the pain his earlier investments have inflicted on his finances and his reputation.

With the next-best bid for the mothballed mine said to be just $US20 million in cash, there are plenty of doubters around as to the merits of Tinkler's latest bet on coal, which is valued at up to $150 million when freight obligations and other liabilities are included.

But, as he sees it, we're in the "value" part of the cycle even though we may not be at the bottom, as he told the Financial Times.

Even so, there is little sign of much interest in merger activity by the Japanese and Korean buyers so evident during better times for coal. Rather, it is the Chinese who are helping fill the gap.

The number of deals being done is down on a few years ago but there's plenty of activity below the surface, reckons Morgans Financial resources analyst Tom Sartor.

The difference this time around is that much of the activity is being driven by necessity rather than by exuberantly priced offers.

The coal-rich MDL 162 permit in Queensland, which Macarthur Coal paid more than $334 million for in 2010, changed hands earlier this year for just $70 million when Wesfarmers took it from Macarthur buyer Peabody.

At an IHS coal seminar in Sydney this week, Sartor revealed he's having a hard job trying to convince equity investors that this low point in the cycle is the smartest time to be sinking funds into undervalued assets.

While sharemarket investors aren't ready to believe it, privately funded parties think there are bargains to be had despite the grim price outlook.

IHS puts spot prices for quality metallurgical coal at $US115 a tonne, and while that's up from a low of about $US110 four or six weeks ago, prices are down from a peak toward $US400 quoted at times in the wake of the 2011 floods in Queensland.

With the June quarter benchmark only slightly higher than spot at $US120, IHS reckons most local producers are under water financially.

However, cutbacks in production have been meagre as miners on the east coast struggle under onerous rail freight contracts that fix their transportation costs no matter how much they actually move.

US miners have also been slow to pare back output, deterred by the costs of keeping permits idled. Some are betting that may change if third-quarter prices are fixed at roll-over prices, so around $US120.

IHS says the pressure will build over this year for more cutbacks or closures if, as it expects, Chinese demand growth starts to wane. So far, Chinese imports of Australian coal have been holding up despite some reductions in Russian, American and Canadian imports but that isn't expected to last.

In short, China, which has so far been the saviour of the Australian coal sector, can't be counted upon to continue in that role.

Vale's Carborough Downs in Queensland, which is already struggling with the collapse of the mine roof, as well as its Integra operation in the Hunter Valley, were floated at the Sydney seminar as among those sites at risk. Peabody is also expected to make more tough decisions at some Queensland sites.

It points to more merger and acquisition opportunities for those who have the nerve.

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CO cenim : Gloucester Coal Ltd | denhc : Denham Capital Management LP | pbdy : Peabody Energy Corp | lehbro : Lehman Brothers Holdings Inc | yankua : Yankuang (Group) Corp | yaptyl : Yancoal Australia Limited | ynzmn : Yanzhou Coal Mining Co Ltd

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AN Document AFNR000020140515ea5g0002q

