

**HD** **FED:Rio rejects Glencore merger idea**

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RIO By Greg Roberts

MELBOURNE, Oct 7 AAP - Glencore's hopes of striking a deal to become the world's largest miner remain just that, after an approach was rebuffed by Rio Tinto.

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The world's second largest miner, Rio quickly responded to reports it was being courted by Anglo-Swiss Glencore by saying publicly that it was not interested.

Glencore is now expected to seek support from Rio shareholders, with press reports suggesting it had already reached out to Rio's largest shareholder **Chinalco**.

The **Chinese** aluminium giant has a near 13 per cent **stake** in Rio, while global investors BlackRock hold more than eight per cent.

Rio said its board unanimously concluded that a tie-up with Glencore was not in the best interests of its shareholders, after consulting with financial and legal advisers.

The approach was made in July and rejected by August, according to Rio.

Its confirmation of merger interest boosted its shares, which gained \$2.48, or 4.3 per cent, to \$60.07.

Market views on the merits of a merger, which is estimated to be worth \$US160 **billion** and would create the world's largest miner, were mixed.

The theoretical advantages include the opportunity to pool each **company's** strengths: Rio Tinto in **iron ore** and Glencore in **coal** and marketing.

However there are doubts about the value of a merger to Rio, and the risk of its shareholders being short-changed given the current weakness in Rio's share price due to falling **iron ore** prices.

"I can't see it myself, it looks like it would be diluting high quality Rio assets with second-tier Glencore assets," Morningstar analyst Mark Taylor said.

"I don't think it is the sort of diversification Rio wants.

"If they were coming with really meaningful high quality **copper** assets it might have legs, but Rio have got a lot of those anyway."

Glencore may also make a hostile bid, although there are doubts it has the financial clout.

CMC Markets chief market strategist Michael McCarthy said hostile takeovers were far more expensive, and the current weak commodity environment would likely discourage such a move.

But there is strong pressure on Rio's board to get the best for its shareholders, he said, given a recent history of poor deals, including the \$US38 **billion** Alcan aluminium takeover while prices were at a peak.

"They need to make sure the next major deal they do goes very well," Mr McCarthy said.

Fat Prophets analyst David Lennox said Rio would be a good fit in a merger, creating considerable synergy savings, and with a strong balance sheet and lack of debt.

#### MASSIVE MINERS THAT MULLED A MERGER

##### RIO TINTO

\* Produces aluminium, **copper**, **energy** and **iron ore**

\* Operates in more than 40 countries

\* Listed and headquartered in Australia and UK

##### GLENCORE

\* Produces and sells metals and minerals, **energy** and agricultural products

\* Operates in more than 50 countries

\* Headquartered in Switzerland and listed in London, **Hong Kong** and Johannesburg

AAP gr/dmc/gfr

<b>CO</b>	almcor : Aluminium Corporation of China Limited   march : Glencore PLC   rtz : Rio Tinto PLC   rtzcra : Rio Tinto Group   craaus : Rio Tinto Ltd
<b>IN</b>	i211 : Metal Ore Mining   i22 : Primary Metals   i224 : Non-ferrous Metals   i2245 : Aluminum   i8396 : Diversified Holding Companies   ibasicm : Basic Materials/Resources   ibcs : Business/Consumer Services   imet : Mining/Quarrying
<b>NS</b>	c181 : Acquisitions/Mergers/Takeovers   c18 : Ownership Changes   cactio : Corporate Actions   ccat : Corporate/Industrial News   ncat : Content Types   nfact : Factiva Filters   nfcpin : C&E Industry News Filter
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