DOW JONES NEWSWIRES

HD **China's Yanzhou Abandons Planned Buyout of Australia's Yancoal -- Update**

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WC 707 words

PD 24 March 2014

ET 20:14

SN Dow Jones Newswires Chinese (English)

SC RTNW

LA English

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SYDNEY--China's Yanzhou Coal Mining Co. Monday abandoned a planned buyout of Yancoal Australia Ltd., walking away from an all-scrip proposal to take the Australian coal producer private as prices for the fuel languish at multiyear lows.

Hong Kong-listed Yanzhou, one of China's largest coal-mining companies, last July announced plans to buy out minority investors in the Australian company--in which it holds a 78% stake--and delist the stock. Other shareholders include Singaporean commodities trader Noble Group Ltd.

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Analysts said the decision by Yanzhou to drop its bid for the company was unsurprising given continued falls in the price of coal, and subsequently, in the share prices of both companies. Coal markets have been hurt by a glut of raw material, as supply rises from mining operations in hubs like Australia and demand growth in Asia eases.

Thermal-coal prices in Australia last week fell to around US$73 a metric ton--their lowest since late-2009.

"Yanzhou today notified Yancoal that [it] no longer wishes to pursue with its indicative nonbinding proposal regarding the possible privatization of Yancoal Australia," executives at Yancoal said in a statement to the Australian Securities Exchange, without elaborating further.

A spokesman for Yancoal said he couldn't provide details for why Yanzhou decided to pull the bid. A spokesperson for Yanzhou wasn't immediately available.

Support from Noble Group, which hired Goldman Sachs Group Inc. as its adviser following news of the offer last year, would have been crucial to getting the deal completed. Noble holds about 13% of Yancoal's stock.

When it proposed the buyout last year, Yanzhou said it would need to hold further talks with independent directors of Yancoal before deciding whether or not to move ahead with a formal bid, although it said it would likely be able to better manage the impact of weak coal prices if it had full control of the Australian unit.

Yancoal operates or has a stake in 10 coal mines in New South Wales, Western Australia and Queensland states.

Last December, Australian Treasurer Joe Hockey relaxed ownership restrictions on Yanzhou, which had committed in 2009 to sell down its holding so it could secure government approval for a A$3.5 billion (US$3.2 billion) takeover of Felix Resources Ltd., then the biggest Chinese investment in an Australian company. The restrictions would have forced Yanzhou to reduce its stake below 70% by the end of last year.

Mr. Hockey left the door open to takeover by saying he had "no in-principle objection" to 100% foreign ownership of the company, as long as it wasn't considered to be "contrary to the national interest."

Shares in Yancoal Australia have fallen by more than half since the company was listed in mid-2012. They slumped 9.4% Monday after Yanzhou dumped its proposal.

Yanzhou has been facing a sharp fall in the value of its own shares, which were Friday down 21% on the start of the year. On Monday, Yanzhou rose 6.7% compared with a 1.5% lift in the Hang Seng Index.

Analysts said a deal could still be resurrected in future.

"Yanzhou already owns more than 70% of the **company**, so these two are going to be inextricably linked for some time to come," said Patersons Securities Analyst Matthew Trivett. "I don't think this is the end of it."

Australia has been struggling to maintain investment in its mines, which are the biggest suppliers of **coal** to **China**. Companies like BHP Billiton Ltd. and Peabody **Energy** Corp. have been laying off workers and shelving plans for expansions after the sharp fall in prices.

As a state-owned **company**, Yanzhou has greater access to capital than the Australian unit. This gives it more firepower to expand existing mines in eastern Australia or invest in new projects.

Yancoal recorded a loss of A$832.1 **million** in 2013, compared with a profit of A$375.4 **million** the year earlier.

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24-03-14 1014GMT

CO yaptyl : Yancoal Australia Limited | ynzmn : Yanzhou Coal Mining Co Ltd | nobgrp : Noble Group Ltd | yankua : Yankuang (Group) Corp

IN i111 : Coal Mining | ibcs : Business/Consumer Services | iindstrls : Industrial Goods | i1 : Energy | ibasicm : Basic Materials/Resources | imet : Mining/Quarrying | i112 : Coal Mining Support Activities | i8396 : Diversified Holding Companies

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AN Document RTNW000020140324ea3o000a4

