

HD PanAust bid fires up copper stocks

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A POTENTIAL \$1.4 billion-plus takeover bid for PanAust from a Chinese state-owned company has sent the mid-tier copper stocks soaring.

PanAust soared 54c, or 34 per cent, to \$2.12 in response to the disclosure that GRAM — the company's major shareholder with a 23 per cent interest — had initially proposed a \$2.20-a-share takeover bid, then increased it to \$2.30 a share.

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The proposal was rejected by PanAust on the basis that the higher offer was still "materially below" the level at which the board would be prepared to recommend to shareholders.

The 45 per cent premium suggested by the higher offer highlighted the willingness of yet another Chinese state-owned enterprise to pay up big to secure copper assets. It follows last year's \$850 million acquisition by Chinese interests of the Northparkes copper mine in NSW, and the more recent deal for MMG to acquire the Las Bambas copper project in Peru for \$US5.8bn.

There was an immediate effect of the GRAM move on the market value of other ASX-listed copper producers. OZ Minerals surged 10 per cent to \$4.10 and its 19 per cent-owned Sandfire gained 7.5 per cent to \$6.02.

While the GRAM offer remains only a proposal, Brisbane-based PanAust has agreed to give it access to due diligence information (upon execution of a confidentiality agreement), to "assist it to materially improve its indicative offer price".

"At this stage, there is no takeover offer from GRAM that is capable of acceptance by the company's shareholders and there is no certainty that one shall eventuate," PanAust warned.

The bid comes as the group's long-serving and founding managing director, Gary Stafford, has flagged his retirement sometime within the next 18 months.

He said that the ball was now in GRAM's court. "I wouldn't choose to call it hostile. They want it to be a friendly transaction, if indeed there is a transaction," Mr Stafford said.

PanAust is a copper/gold producer in Laos and recently secured a stake in the big Frieda River copper/gold deposit in Papua New Guinea. The company has previously issued production guidance for (calendar) 2014 of 65,000-70,000 tonnes of copper and 160,000-165,000 ounces of gold from its operations in Laos.

After heavy capital investment in recent years, the group's flagship operation in Laos is set to increase annual copper production to more than 90,000 tonnes, which would provide cashflow to help develop Frieda River, and possibly a development project in Chile.

Frieda River is one of the world's biggest undeveloped copper resources, with PanAust only picking up its 80 per cent interest earlier this year in an \$US80m deal with Glencore Xstrata, due to be completed in September.

China's strategic interest in gaining a foothold in one of the world's next generation of big copper producers like Frieda River is cited by analysts as one of the reasons why GRAM has decided to make a pitch for control of PanAust.

GRAM first came on to the share register in 2009, taking up the shares at a modest discount to the market price when the then post-financial crisis **equity** markets were normally demanding 50 per cent discounts or more.

Last month analysts at Citi — in the absence of takeover talk — upgraded their price target for PanAust to \$1.67 a share.

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