

SE Business  
HD Private **equity** outfits put on notice  
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MICK Davis made his fortune and that of Xstrata as an aggregator of unloved **mining** assets at low points of the commodity and **equity** cycles.

Since Xstrata was swallowed up by Glencore last year in a \$US29 **billion** takeover, Davis has been preparing for a repeat performance for his new resource play, which funnily enough goes by the name of X2 Resources.

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In London on Monday, Davis announced X2 had secured \$US3.75bn (\$4.04bn) from trading **company** Noble Group and US private investment **firm** TPG, among others. That X2's success in pulling in some big-time funding came the day before BHP Billiton's indirect confirmation that it could "demerge" as much as \$US15bn-\$US20bn in non-core assets is one of those happy coincidences of life.

And it was. But by not categorically denying demerger talk, BHP has effectively told any would-be buyers of the unloved assets — including X2 — that they had better get a move on and make some offers.

It has been estimated X2 and other private **equity** buyers have \$US15bn to spend on picking up discarded assets from BHP, and Rio Tinto for that matter. Some put the figure at \$US50bn.

And there is no reason to doubt that they all like the thought of potentially acquiring some of the better assets that BHP has earmarked for **sale** in aluminium, nickel, thermal **coal**, manganese as well as in silver/**lead**/zinc. But the threat that BHP might just wrap them up into one bundle and demerge the lot to shareholders, as it did with its steel interests in the early 2000s, adds a complication for would-be trade and private **equity** buyers.

To head that off, proposals need to be put forward now. To keep that pressure up on buyers, BHP will have to be at its best to convince anyone it is seriously considering bundling up its unwanted assets for a demerger.

Stand by for some lectures on the diversity of assets to be included, and their ability to offset each other at differing points in the commodity price cycle.

There will also be much discussion that the unwanted assets actually share something in common, and that is they are all knee-deep in the upstream part of the businesses: smelting and refining.

But aren't the low returns that end of the industry delivers the reason why these very assets have become unloved? BHP will have to do better than that, particularly as clinical one-off asset sales to the likes of X2 and others will remove one of the main concerns around some of the assets — their environmental legacy.

Then there is the well-held belief among investors that the \$US15bn BHP might be able to raise in one-off sales would provide a handy backstop to the promise of increased shareholder returns through dividend increases and share buybacks.

That is what BHP shareholders really want, not an over- financially engineered response to the simple fact that it is the group's big four of **iron ore**, **copper**, petroleum and coking **coal** that produce 90 per cent of its profits, a situation that looks like staying that way until the aluminium and nickel industries that **China** has built in quick fashion fall over. That's not about to happen.

**CO** bkhlp : BHP Billiton Ltd | bltplc : BHP Billiton PLC | march : Glencore Xstrata PLC

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