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HD Private **equity**'s quest for mines stumbles as commodities slide

WC 623 words

PD 11 September 2014

SN Cape Times

SC CAPTIM

ED E1

PG 17

LA English

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THE PUSH by private **equity** funds to buy **mining** assets is slowing as investors struggle to land major deals while commodity prices slide.

The funds have raised \$1.1 **billion** (R12bn) for investments in **mining** and metals this year, compared with about \$8.8bn last year. Less than \$2bn has been spent by the funds on **mining** assets in the past two years, according to Bloomberg Intelligence research.

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"When private **equity** makes an investment they say they want to be out in three to five years," David Williams, the managing director of corporate adviser Kidder Williams, said at Bloomberg's "Beyond The Boom: **Mining** to Dining" seminar in Melbourne.

Making bets on producers of commodities from **coal** to almonds was less certain, he said. "What I see in **mining** is a risk in pricing."

Funds, including those led by former Xstrata chief executive Mick Davis and ex-Barrick **Gold** boss Aaron Regent, are said to have examined targets from Peru to South Africa. Few have completed major deals even as **mining** firms sold \$53bn of assets in the past 12 months.

Price declines in commodities from **copper** to **iron ore** might be leaving investors wary over opportunities for returns, Simon Mawhinney, a portfolio manager at Allan Gray Australia, said.

"Private **equity** funds are opportunistic and most of the assets that have made their way to market so far in the resources space are assets that don't generate positive free cash flow at current commodity prices," Mawhinney said. "For anyone to buy them is risky."

Iron ore has slumped 38 percent this year as producers have increased output.

BHP Billiton plans to spin off a collection of **operations** from South African thermal **coal** to an Australian silver mine into a new **company** next year rather than pursue asset sales. Broker valuations for the new **company** range from \$8bn to \$17bn.

"Trade sales probably didn't eventuate at the prices they thought were fair value," said Michelle Lopez, an executive at Aberdeen Asset Management. "I'd assume there were buyers out there, but what they were willing to pay wasn't in line with what BHP Billiton wanted."

Davis's X2 Resources was said in April to be studying some BHP Billiton thermal **coal** and nickel assets, while Regent's Magris Resources was said last year to have been considering a bid for Glencore's Las Bambas. A consortium led by **China** Minmetals agreed in April to pay \$5.85bn for the **copper** development project in Peru.

"Private **equity** hasn't been able to put its hands on anything significant in **mining**," said Alberto Calderon, a board member of Orica, which supplies **mining** explosives, and a former BHP Billiton executive. "It hasn't happened and I wouldn't think that it's going to happen in any material way."

Calderon was speaking before the Bloomberg seminar in Melbourne on Tuesday, which he also addressed.

While private **equity** investors might have concerns over weaker commodity prices "contributors to these funds are unlikely to wait much longer to see their investments put to use", auditing **firm** E&Y said last month. **Mining** acquisitions might increase in the next 12 months as investors sought assets when valuations were at their lowest, it added.

QKR, a **mining** investor founded by former JPMorgan Chase banker Lloyd Pengilly, agreed in February to a \$110 **million** deal for AngloGold Ashanti's Navachab mine in Namibia. Calderon invested in May in Gulf **Alumina**, which is developing bauxite projects in Australia.

"For small deals, there's a role for private **equity**," Calderon said on Monday. "In deals between \$10m and \$30m, in this current environment, there [will] be interesting opportunities." - Bloomberg

CO bkhlp : BHP Billiton Ltd | bltpcl : BHP Billiton PLC

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