FINANCIAL REVIEW

SE Companies and Markets

HD **MiningM&A transactions fall to decade-low $5 billion**

BY Joyce Moullakis and Amanda Saunders
WC 943 words
PD 5 November 2014
SN The Australian Financial Review
SC AFNR
ED First
PG 17
LA English


LP

The value of miningM&A transactions so far this year has fallen to about $5 billion, the lowest level in a decade. But bankers are tipping bargain valuations could spur opportunistic deals in the next 12 months, with gold expected to be the hottest sector.

Macquarie Capital resources banker Justin Mannolini says a lack of confidence has been hampering deals, and interest from Asian buyers in the Australian mining sector is at a low ebb.

TD

"Valuations across some sectors are so compressed relative to highs that there is an increased likelihood we will see more in-market consolidation and more opportunistic M&A," Mr Mannolini said.

"If you look at the junior gold sector, valuations across the board are off upwards of 80 per cent."

The Perth-based banker tips companies with market capitalisations of about $1 billion – the "larger small cap players" – could drive the next leg of M&A activity by making opportunistic plays for smaller cap companies.

But he did not expect much activity until at least the March quarter.

"Most M&A is likely to be corporate on corporate, rather than sovereign wealth funds, or Chinese SOEs [state-owned enterprises]," he said.

"We're not seeing a huge demand out of south-east or north Asia, for investment into mining and metals in Australia just at the moment. I think there is a feeling that most commodity markets are reasonably well-balanced, so there is no particular strategic need, out of China anyway, to sponsor new greenfields developments."

Advisers in the resource sector are keeping close tabs on the availability of financing, commodity prices and the Australian dollar as the lacklustre year draws to a close.

Australia's mining sector transactions total US$4.6 billion ($5.3 billion) since January 1, the lowest such year-to-date total since 2004 when there were US$2.8 billion worth of transactions, Dealogic data shows.

The year's tally is well below the most recent peak of US$33 billion in 2011, and puts mining in fifth place as a sector behind the busiest industries of property and real estate, and oil and gas.

The value of transactions carried out since January 1 in different sectors with figures quoted in $US millions. Dealogic The sale of Glencore Xstrata's $US5.85 billion Las Bambas project to a consortium led by Melbourne-based, Chinese-owned miner MMG, is the largest deal this year, while Baosteel Group and Aurizon Holdings' acquisition of Aquila Resources also sits within the top ten transactions.

But there have also been speedbumps, including the stalling of **Chinese** suitor Guangdong Rising Asset Management's (GRAM) tilt at junior miner PanAust. Bankers were also kept on alert by hype around Swiss miner and commodities trader Glencore's potential renewed interest in industry behemoth Rio Tinto.

"In terms of activity, while this year has seen the re-emergence of a number of larger deals in **mining** (including MMG's **acquisition** of Las Bambas and the planned BHP Billiton demerger), the larger deals are more reflective of particular situations rather than a broader trend back to the large-scale **miningM**&A seen in 2008-12," said Russell Keating, Citigroup's local head of metals and **mining**.

"At the moment there, you're probably hearing some unnecessary hysteria in and around **mining**, in reality, the current environment is an expected and normal part of the **mining** cycle, which will produce a different set of transactions over the next 12-24 months, than we've seen over the last five years.

"It is going to be a place where there will be activity but it will now be a different form," he added noting the influence of recent market volatility and the relative demand for various commodities, particularly from **China**.

But Macquarie's Mr Mannolini says a lack of confidence has been hampering deals, rather than volatility.

"You can't necessarily blame it on volatility; volatility has been relatively suppressed."

"I think the problem has just been confidence – as a bidder, overcoming the fear that you are going to pay $5 for something now, when you could have got it for $3 tomorrow.

"That is the insidious nature of a deflationary environment."

Mr Keating also outlined that a softer commodities market meant mergers and acquisitions would be primarily driven by opportunism, material synergies and merger-of-equals type activity.

"**Copper** has been far and away the most active and attractive commodity in **M**&A terms which is a function of its geological scarcity and attractive demand fundamentals," he said.

Clayton Utz Partner Rory Moriarty said the coming year would see improved, but not bumper levels of, activity in the **mining** industry, as divestments continued and strategic players sought out opportunities over the medium to long term.

"There will be stronger levels of activity but obviously not back to the peaks of more recent years," he said. "The key driver will be interest from inbound investors that have a medium- to longer-term outlook. That sort of interest is not going away."

Mr Moriarty also highlighted strategic cornerstone investors and resources-focused private **equity** firms as key players that would participate in future activity.

"Target boards are recalibrating their expectations of how deals will be struck and terms," he said, of the narrowing of expectations between targets and suitors.

UBS managing director Campbell Stewart contrasted muted deal activity at the big end of **mining** sector to the potential for a string of transactions at the smaller end.


| | |
|---|---|
| **CO** | mcqbnk : Macquarie Group Limited |
| **IN** | i814 : Banking \| i831 : Financial Investments \| i83101 : Investment Banking \| ibnk : Banking/Credit \| ifinal : Financial Services \| iinv : Investing/Securities |
| **NS** | ccat : Corporate/Industrial News |
| **RE** | austr : Australia \| apacz : Asia Pacific \| ausnz : Australia/Oceania |
| **PUB** | Fairfax Media Management Pty Limited |
| **AN** | Document AFNR000020141104eab50001m |


 