FINANCIAL REVIEW

SE Companies and Markets

HD **Politics costs the little guys**

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WC 1,247 words

PD 18 November 2014

SN The Australian Financial Review

SC AFNR

ED First

PG 34

LA English

CY

LP

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The incandescent minority owners being squeezed like pips from the Yancoal register by its **Chinese** owner have sheeted home responsibility for their plight to federal Treasurer Joe Hockey.

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In December, Hockey signed off on alterations to the Foreign Investment Review Board's constraints on Yancoal's 78 per cent owner, the **Hong-Kong**-based Yanzhou **Coal Mining Company**.

This was the moment the options began evaporating for the five minorities left in Yancoal.

Last week, after months of detailed discussions with the owners in Australia, **Hong Kong** and the United States that control 22 per cent of Yancoal, a grumpy parent moved to an endgame made possible only by the changes to the FIRB rules.

"That pulled the rug from under our feet," one of the minority five told us last week. "It changed the investment playing field in terms of what Yanzhou was obligated to do.

"Shareholders relied on a FIRB ruling that was going to create a liquidity event. Then, for whatever political requirements – or who knows exactly how FIRB works – it was changed to suit Yanzhou with the result that the value and leverage of our investments were massively reduced," the agitated owner said.

Yanzhou is ultimately owned by the state of **China**. So, as part of paying too much to acquire Gloucester **Coal** in 2012, Yanzhou was required to progressively increase ASX-listed Yancoal's free float to 30 per cent and to sell a small community of the coalmines it had acquired over eight years of consistent expansion.Investment crunch

Those requirements were supposed to have been met by the end of 2012. They were not. The FIRB extended the deadline until the end of 2013. But instead of delivering on that revised schedule, Yanzhou went back asking to change the rules. Remarkably, the Treasurer agreed.

Mind you, the decision came at a fateful time in foreign investment. Hockey had just stunned everyone by blocking ADM's move on GrainCorp, while news of General Motors' retreat from Australia hung heavy.

The liquidity limits were removed, along with any requirements to sell assets. And, for good measure, the government made it quite clear Yanzhou would be allowed to move to full control of the business.

The motivation for FIRB's shift was made obvious enough through the one new condition placed on Yanzhou. It was required to underwrite the solvency of the business and guarantee two years' notice of the withdrawal of financial support.

Two important points need be made here. First, the coal price was already in firm retreat when FIRB made its decision and things have only worsened since.

And second, in building Yancoal, Yanzhou pumped over $US5 billion ($5.7 billion) of China Inc debt into expansions, including a $US3.3 billion all-cash take-out of Felix Resources a year before the $US2.1 billion Gloucester cash and equity deal.

The reason Yancoal's minorities are so angry now is Yanzhou is proposing to issue $US2.3 billion of $US100 notes in the ASX listed coalminer.

Each note is convertible into 1000 shares. So we are talking 23 billion shares. And that renders utterly insignificant the 994 million shares Yancoal currently has on issue.

Nearly 219 million of that current issuance is owned by the minorities. The biggest of them is Hong Kong's Noble Group which owns 13.4 per cent of the company. The other four own less than 8 per cent.Big fight over not a lot

The plan is that Yanzhou will take its full entitlement of the notes.

That will require investment of $US1.6 billion. But the cash will be immediately recycled through repayment of $US1.6 billion of debt owed to Yanzhou.

The minority owners will need to invest $US500 million to maintain their current standing in Yancoal. They will be diluted to irrelevance if they do not. And theirs will be the only cash actually retained in Yancoal if they do stump up.

Part of the problem here is Noble has different priorities to the other minorities. It does not want to take its leave. Rather, it wanted to take out the others and sit content in an unlisted investment run, secured by Yanzhou's access to cheap sovereign debt.

The smaller four, on the other hand, are all about an exit plan. They talk of six or seven meetings through August and October where a price of 30¢ a share was flagged.

Instead, they have been delivered a deal whose most obvious outcome is Yanzhou will assume full control of its outpost in Australian coal without spending another yuan, given the circularity of the cash flows proposed.

Currently the numbers suggest this could be a very big fight over not an awful lot. Forces external and internal have reduced value of the minority five to less than $30 million.

The depth of the retreat in coal prices has put a whole lot of pressure on Yancoal. It listed with a market capitalisation of $1.52 billion and total assets of $5.4 billion. While the value of those assets have been written up to $7.6 billion, its market value has been more than decimated to $134 million.Accusations of expropriation

That, in turn, has plainly put a lot of pressure on the cadres at Yanzhou. After, maybe, four months of failed discussions with the junior owners, it is pretty clear they are now in no mood to worry any more about the niceties of life as a minority investors.

"This is nothing short of a massive expropriation," our shareholder claimed. "We did a compare-and-contrast with them. We said, 'OK, the Bank of China is an ultimate financier here and it will stand behind this debt; they will roll it and roll it and roll it'. It has never called in a debt. So why would you refinance debt early that carries an average rate of 3.5 per cent and replace it with something that will pay 6 per cent?

"We calculate that the extra interest on an annual basis to be about $52 million a year. We would love to see the board minutes for other alternatives discussed," he said.

Now, just for the record, we understand this discovery process has already started with Yancoal receiving requests for an encyclopedia of minutes and discussion papers.

It is also understood the minority owners have formally reminded each of the independent directors involved in approving the deal of their obligations to protect the interests of all shareholders.

Indeed, we hear legal letters are flying like expensive confetti all around Asia as the minority owners consider their legal options. It is expected, at very least, the Takeovers Panel will be asked to opine on the Yanzhou manoeuvre while the Hong Kong regulator might be asked to consider a range of disclosure issues.

The probity of a $US1.2 **billion** loan that helped PNG recover a 10.1 per cent **stake** in **Oil** Search is again at the centre of agitation against Prime Minister Peter O'Neill.

It is reported the public prosecutor has recommended O'Neill face a "leadership tribunal" over allegations the loan was raised unconstitutionally.

It is claimed the tribunal, which has punitive powers enough to sack a PM, would examine the evidence provided by the ombudsman commission. There are unconfirmed reports both **Oil** Search and UBS were asked to provide evidence to that inquiry.

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