

SE Business  
HD **Rio-Glencore deal possible, fund manager believes**  
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A \$190 **BILLION** merger between **mining** giants Rio Tinto and Glencore to create the world's biggest miner should not be ruled out in the medium term, particularly if **iron ore** prices weaken, according to the nation's biggest fund manager Colonial First State, which holds shares in both companies.

Tal Lomnitzer, a London-based fund manager at Colonial First State's \$2.2bn global resources fund, says it is unlikely Glencore's rebuffed July approach, revealed this week by Rio and now subject to a six-month waiting period imposed by British regulators, will get up soon.

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"Having said that, it's very clear that Glencore has ambitions to be a bigger business, and that would entail a deal with another **mining company**," Mr Lomnitzer told The Australian yesterday during a visit to Sydney.

"In the medium term, I'd say a deal is possible, particularly if **iron ore** prices weaken further." Colonial, the Commonwealth Bank's wealth management arm, is the biggest Australia-based holder of the dual-listed Rio's Australian stock with 1.7 per cent, according to Bloomberg.

Following reports this week that Glencore's **billionaire** chief executive, Ivan Glasenberg, had been canvassing Rio's biggest overall shareholder, the **Chinese** state-controlled **Chinalco**, about a merger deal, Rio revealed it had rebuffed an approach in August.

Switzerland-based Glencore, previously a trading house, became a **mining** and trading giant last year through the **acquisition** of Xstrata, but this appears just the start of its ambitions.

Most analysts and fund managers have indicated a deal with Rio is unlikely. The long list of hurdles include Rio having better-quality assets that Glencore is in no position to offer a big premium for, Rio being set to deliver bigger cash returns to its shareholders, Glencore's \$US49bn (\$55bn) of debt and potential regulatory troubles from the Foreign Investment Review Board and **China**.

But Sydney-based Colonial analyst Todd Warren said it was not all in Rio's favour.

"One of the biggest advantages Glencore has is a management and board that have considerable skin in the game, which serves to focus their attention somewhat," Mr Warren said.

"Glencore, in terms of assets, are not as high quality, but they have built a business model that is not just around digging the commodities out of the ground but trading them — clearly if you control the supply of the commodity it lends certain advantages to your trading business." Mr Lomnitzer said Glencore, as a trader, was skilled at making money from logistics and blending, which would mean Rio's big, high-quality West Australian assets would fit in well.

Rio is the Colonial resources fund's second-biggest holding and Glencore is its fifth-biggest (the fund does not reveal the weighting of individual stocks). Some local fund managers have suggested the bid could gain traction through bigger shareholders with crossholdings in both firms. Mr Lomnitzer said **China**'s support for the deal could be hard to get. "Although they want security of supply, they also probably prefer fragmentation," he said.

**CO** march : Glencore PLC | rtz : Rio Tinto PLC | craaus : Rio Tinto Ltd

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