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HD UPDATE 1-Glencore, Jinchuan frontrunners to buy BHP's Nickel West

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(Adds comment from second source on Jinchuan's plans)

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LONDON/HONG KONG, Aug 27 (Reuters) - Commodities trader and miner Glencore and Chinese nickel producer Jinchuan Group are the frontrunners to buy BHP Billiton's Australian Nickel West division, two sources close to the situation said.

BHP, the world's largest mining company, announced plans last week to spin off businesses worth an estimated \$16 billion but said that Nickel West in western Australia would not be part of the demerged group.

Chief Executive Andrew Mackenzie has said the company was in talks with potential buyers for all or part of Nickel West.

Estimates of the value of Nickel West vary greatly, with some analysts and industry sources putting it at anything up to \$1 billion and others tagging negative figures to an asset they say is burning cash.

"It's a race between Glencore and Jinchuan now," the first source said.

Jinchuan is "very interested" in Nickel West and plans to ship about 30,000 tonnes of nickel concentrate to China if it takes over the business, said the China-based second industry source, who had been briefed about the plan but declined to be named because of the sensitive nature of the matter.

Other companies initially said to be interested in Nickel West were X2, a mining business founded by former Xstrata chief Mick Davis, and commodities trader Trafigura, but two sources said that both lost interest after reviewing the asset.

Glencore, X2, BHP and Trafigura declined to comment.

Calls to a Jinchuan spokesman at Jinchuan Group's headquarters in China's northwestern province of Gansu were not answered. A senior executive at Jinchuan's listed arm Jinchuan Group International Resources Co in Hong Kong was not immediately available for comment.

CHINESE COMPETITION

London-listed Glencore, which completed the acquisition of rival Xstrata a little more than a year ago, recently received \$6.5 billion from the sale of its Peruvian copper project Las Bambas to a Chinese consortium and said it intended to use about a third of the money for acquisitions.

It has already spent \$1.5 billion buying Chad-focused oil firm Caracal.

Jinchuan, however, is keen to get its hands on Nickel West, according to the sources.

Even as demand growth has slowed in the past couple of years, China's appetite for metals, which are strategic for its development, remains high.

The **sale** of Las Bambas was a condition imposed by **Chinese** regulators to give Glencore the green-light for its **acquisition** of Xstrata, for example.

Interest in nickel projects has shot up since Indonesia banned exports of unprocessed nickel this year to encourage investment in smelters within the country.

Indonesia was a key supplier to **Chinese** nickel pig **iron** producers and the ban has boosted prices for the stainless steel ingredient by more than a third this year.

BHP in May started its review of Nickel West, which is made up of the Mt Keith, Cliffs and Leinster mines, concentrators, the 100,000 tonne-a-year Kalgoorlie smelter and the 60,000 tonne-a-year Kwinana refinery in Western Australia. (Editing by David Evans and David Goodman)

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

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