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HD **OZ needs to shed one-trick tag**

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OZ Minerals boss Terry Burgess is not the only mining chief who was caught out by sinking commodity prices but he is guilty of over-promising and under-delivering.

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A lot is being made about the fact that the copper and goldminer's cash pile has dwindled from almost $1 billion three years ago to $363 million with little to show for it.

OZ Mineral's cash position unnerved investors last year, making the heavily shorted stock one of the worst-performing Australian companies in 2013. Ironically, the company's cash position was the reason behind a 14 per cent share price jump on Wednesday.

OZ Minerals took the unusual step of pushing forward its quarterly production report and detailing its cash holdings (something normally reserved for the full-year earnings report) because consensus forecasts were so out of whack with reality. The cash holdings were at $363 million which was $100 million more than Macquarie and many other broking houses' estimates.

The market has reason to be pessimistic about OZ Minerals after a rough year which saw the company shed half its market value. It warned in October it would again fail to meet its production targets due to issues at its Prominent Hill copper and goldmine in South Australia.

Analysts were taking into account the company's generous dividend payouts and weak revenues when they made the latest cash forecasts. But it turns out things were not as bad as they feared because of lower costs and capex.Positive track record Unlike some smaller resources houses, OZ Minerals has a good track record when it comes to disclosure and transparency but it still needs to manage market expectations which have resulted in wild fluctuations in its share price in the last 12 months.

Burgess is frustrated by the heavy short-selling in the company, as well as the way analysts arrive at their forecasts, which he says has caused him a lot of grief. He says the market is basing forecasts on information which is sometimes out of date, cash cannot be looked at in isolation and it was dangerous to work off unaudited numbers which depended on the timing of shipments and payments.

Companies like OZ Minerals do not have the luxury of selectively briefing analysts and steering them on their guidance as well, an issue which still haunts Newcrest Mining which upped its gold production guidance on Wednesday.

The size of OZ Mineral's cash pile is important because there is still enormous pressure on the company to make acquisitions and diversify.

The company was birthed out of the 2008 merger of Oxiana and Zinifex. It was in a precarious position shortly afterwards but managed to retire the debt which threatened to bring it down through the $US1.35 billion sale of assets to China Minmetals.

Prominent Hill was excluded from that controversial deal though after former treasurer Wayne Swan blocked the **Chinese firm** from buying Prominent Hill as part of the package because of the sensitivity of its location on the Woomera weapons testing site in South Australia.Prominent uncertainty

Investors are worried OZ Minerals has too much reliance on this one asset. Burgess disagrees and believes the **company** is well set up for 2014. There is there is still a lot of uncertainty in the market around the true value of Prominent Hill though. Part of the problem has been lower than expected **copper** grades although this improved in the latest quarterly numbers. There are also ongoing jitters around a potential production gap if Prominent Hills closes before the **company**'s Carrapateena **copper** project starts producing.

OZ Minerals still needs to prove it is not just a one-trick pony. Without the tail **wind** of rising commodity prices, all miners need to show they can add value to assets through things they can control.

Burgess has made progress on costs, which was reflected in the market's positive reaction to production figures on Wednesday. Cash costs of $US1.80 per pound of **copper** beat RBC Capital Market's forecasts of $US1.90 to $US2.05.

Investors are divided over whether Burgess has whittled the **company**'s cash reserves away, or whether his prudent approach to potential acquisitions has actually saved the **company** from a terrible mistake.

Prudency is the name of the game in the **mining** industry these days. It is almost impossible to raise **equity** and cash is king. Companies with the firepower to actually do a deal if the right one comes along are in a good position. "There is more prudency," Burgess, who says he is always looking at potential acquisitions, told this columnist. "If you are ask me what is my most important challenge for 2014, it is to make the production we say we will but importantly to keep our costs down."

"There is a lot of activity behind the scenes and the biggest challenge with **M**&A is that unless you make a big announcement people think you are doing nothing."

Burgess also disputes the money has been whittled away. OZ Minerals has given shareholders $1.2 **billion** in the last four years in the form of dividends, capital return and a buyback. It acquired Carrapateena for $250 **million** and another $150 **million** has been spent on exploration and development, as well as a 19.9 per cent **stake** in Sandfire Resources. OZ Minerals shares are trading around half the price they were at a year ago, giving the **company** a market capitalisation of around $1 **billion**. But Sandfire's share price has doubled since OZ Minerals acquired its **stake** for around $100 **million** in 2010. The **company** is now worth almost as much as OZ Minerals.Harder times

It is no secret miners splashed cash around unwisely during the good times and there has been a seismic shift in a sector that has not always done a good job of managing capital well.

Miners have now been forced to pander to the appetite for yield, sometimes at the risk of diversification or expansion.

This has been reflected on the capital austerity of senior miners like BHP Billiton, Rio Tinto and Fortescue.

This shift in thinking was reflected in Fortescue Metals' announcement on Wednesday that it was paying down another $US1.6 **billion** in debt.

This move means the **iron ore** miner has cut its gross debt from $US12.7 **billion** to $US9.6 **billion**.

More than $US3 **billion** of that was paid down since November.

And there is more to come.

JPMorgan Chase bids

Macquarie Group's abundance of capital is back in the spotlight as the Australian bank is linked to a possible bid for JPMorgan Chase's commodities business.

An unconfirmed report on CNBC said Macquarie is one of the shortlisted bidders for an asset that may fetch as much as $US2 **billion** ($2.21 **billion**). Macquarie is adept at not giving anything away and is no doubt looking at multiple acquisitions so there is no certainty about how serious this potential deal is.

Certainly, chief executive Nicholas Moore has the capital to deploy and, with $2.8 **billion** on hand to invest, Macquarie will be looking at a wide range of assets.

Moore is under pressure to do a deal. The bank was pipped by Westpac Banking Corp for Lloyds Group's motor vehicle financing and corporate loan portfolio last year. It also lost out on a bid for British fund management Scottish Widows Investment Partnership.

But Moore is an opportunist when it comes to acquisitions and is not the type of CEO who will overpay for anything. With Blackstone and US investment **company** Castleton Commodities also reportedly lining up for the JPMorgan assets, there is likely to be bidding tension.

Buying the JPMorgan business, which includes physical assets such as a global metal warehouse network, **energy** supply agreement and power plants, would be its biggest deal in years.

Macquarie would like to repeat the success of its $US428 **million acquisition** of fund manager Delaware Investments in the United States in 2009.

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Matthew Stevens is on leave

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