

# FINANCIAL REVIEW

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**HD** **Investors angry over Yancoal play**  
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Furious minority shareholders in **Chinese**-controlled **coal** producer Yancoal claim they were approached by management over a buyout just weeks before the Australian-listed coalminer announced a dilutive \$US2.3 **billion** debt-for-**equity** swap on Monday.

After unveiling the refinancing deal, Yancoal boss Reinhold Schmidt denied it was a new attempt at privatisation by controlling shareholder Yanzhou **Coal**, and said privatisation was not on the table.

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But a senior investor in Yancoal has told The Australian Financial Review that Yancoal's management had made half a dozen informal offers to buy out its holding at about 30 cents in the past six months – most recently in mid-October.

Yancoal shares opened at \$1.53 on their ASX debut in mid-2012, and are currently languishing at about 16¢.

The shareholder claims the debt-for-**equity** swap, using a subordinated capital notes offer, is a privatisation grab by **Chinese coal** giant Yanzhou **Coal**, after informal takeover offers were rejected.

Yancoal's head of investor relations James Rickards said the miner had been in talks about "a potential liquidity event for minority shareholders", as part of an independent board committee review.

"Preliminary informal conceptual soundings were held with a number of shareholders to test the feasibility of this option, however, no offer was ever tabled as this option was not feasible," he said.

Yancoal is one of the ASX's most illiquid stocks, with Yanzhou's monstrous holding accounting for 78 per cent, and Asian commodities trader Noble Group with 13.2 per cent. The remaining 8.8 per cent is split between four minority shareholders.

In a recapitalisation revealed on Monday, Yanzhou will take up \$US1.8 **billion** of a \$US2.3 **billion** subordinated capital notes offer in Yancoal to repay a \$US1.8 **billion** loan to itself. The notes will be treated as **equity**, convertible at 10¢ a share.

Yancoal will attempt to tap the rest of its register for the \$US500 **million** balance. Yanzhou will also extend a fresh \$US1.4 **billion** loan to the troubled miner.

Mr Rickards said the deal was "an offer in the interests of strengthening the balance sheet, not privatising Yancoal – to assert otherwise is incorrect and misinformed".

The minority shareholder says the debt-for-**equity** swap is a "massive expropriation" that will see Yancoal refinance itself unnecessarily at a higher rate, adding about \$50 **million** a year to interest repayments – which will go in the main to Yanzhou **Coal**.

There is no justification for the timing of the refinancing, when no significant debt is due for two and a half years, he claims.

But Yancoal's Mr Rickards said "the status quo is not sustainable in light of our gearing levels and covenant position".

"We are under growing pressure from lenders to proactively take steps to reduce our debt, address our covenant position and establish a more sustainable capital structure," he said.

"Delaying recapitalisation of the **company** until the debt is due and payable or a default has occurred would clearly not be in the interests of the **company**."

The aggrieved shareholder is taking legal advice on its options, and will make a complaint to the **company**, while also considering an application to the Takeovers Panel. It will also attempt to interrogate each of the independent directors who backed the debt-for **equity**-swap, saying it is at a loss as to how they could have recommended the deal as being in the best interest of all shareholders.

But Mr Rickards said the independent board committee, which assessed the deal, had "acted with complete propriety throughout the process and it is inappropriate and wrong to suggest otherwise". "The IBC has conducted a rigorous and independent process, which has involved it using separate and independent legal and financial advisers from those used by the **company**." It is understood the minority shareholders outside Noble had been approached about a buyout in the **lead-up** to the debt-for-**equity** swap being announced. The Australian Financial Review understands the buyout offers involved Noble remaining a minority holder in the private **company**, alongside Yanzhou. The offers came after Yanzhou called off a privatisation bid for Yancoal in March this year, after being stymied by shareholder Noble Group over price. However, Noble was blindsided by the debt-for-**equity** swap and is understood to be furious about not being sounded out over it.

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

**IN** i112 : Coal Mining Support Activities | ibasicm : Basic Materials/Resources | imet : Mining/Quarrying

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