SE Drilling Down Under; Blog

HD **Miners witness period of consolidation; Orbis Gold, Sheffield Resources named likely targets**

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The current pressure on the global mining sector is driving an increase in consolidation as the downturn provides more opportunities for cheap acquisitions and companies turn to cut-rate assets to try to lower the costs of their broader operations.

The sector has witnessed several takeover attempts in recent times, with the trend likely to continue for some time against a backdrop of continuously declining commodity prices, a softening in Chinese demand and oversupply in some key commodity markets.

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"On the acquisitions side I think we will be seeing a fair few bargains come to the market with the current state of the industry," Breakaway Research senior resource analyst Mark Gordon told SNL Metals & Mining.

He said that while miners are unable to control commodity prices, they can control their costs, and consolidation is a means of bringing the costs of an operation down. "If you can bring your costs down, you have a chance of making a reasonable margin. Consolidation can help that as well," Gordon said.

MineLife senior resource analyst Gavin Wendt told SNL that the recent interest in Western Australian gold assets is all part of a consolidation process.

"A good example is the producing gold assets at Meekatharra that were once quite profitable and have been owned by a succession of smaller companies that have tried to make a go of them on their own," he said.

"What you're seeing are operations that on their own might not be commercial or are quite marginal, but can be quite profitable if you're an existing player in the region, then it's a consolidation play, and that's effectively what it is for [Norton Gold Fields Ltd.]"

Norton, which is 89% owned by Chinese miner Zijin Mining Group Co. Ltd., recently made a play for junior dual-listed gold hopeful Bullabulling Gold Ltd. to try to secure more feed for its 3.3 million-tonne-per-annum Paddington mill.

Bullabulling appears to be holding out for a better offer after it knocked back Norton's higher takeover bid of 8 Australian cents per share because it considers the offer "inadequate" and "opportunistic."

However, Wendt said the likelihood of a rival offer for Bullabulling emerging is slim. "Norton is very patient and at the end of the day I think with a company like Bullabulling there are not a lot of alternatives around at the present time. I think they would've presented themselves," he said.

RFC Ambrian head of research Duncan Hughes believes another offer is unlikely to materialize given the state of the gold sector at the moment. "Obviously in a stronger gold market, targets would expect a higher premium and valuation, but we are just not there at the moment," he said in a note to clients.

"Norton is well placed to fund the 3.5 [million-ounce] gold project near Kalgoorlie to development, while Bullabulling is unlikely to be able to do this on its own."

Deutsche Bank research analyst Brett McKay told SNL that Norton, which so far has only gained a 17% stake in Bullabulling, has some way to go to get the deal over the line.

"These things tend to be a bit easier to get through once the directors recommend the deal, and directors are not coming to the party on the Bullabulling side yet," he said. "I guess everyone's got a price, and maybe their price isn't anywhere near what Norton are offering."

RFC Ambrian, which is acting as adviser to Norton on the takeover, said investors appear to like the sweetener on the offer, which was originally priced at 7 cents per share.

On June 17, the day after Norton announced the 1-cent-per-share increase in its bid, more than 1 **million** Bullabulling shares changed hands, driving the price up to a high of 7.9 cents from the previous day's close of 7.1 cents. Shares are currently trading at 7.5 cents, which is a 39% increase on the 5.4 cents they were trading at the day Norton revealed its takeover offer to the market.

Norton's revised offer is conditional on the **company**'s obtaining a 30% **stake** in Bullabulling before the end of June.

China a **lead** player

China is behind a number of takeover plays, with Baosteel Resources International Co. Ltd., a wholly owned subsidiary of Shanghai-based Baosteel **Group** Corp., having placed a A$1.4 **billion** cash bid on the table for ASX-listed **coal** and **iron ore** explorer Aquila Resources Ltd.

Baosteel, which has partnered with a subsidiary of rail freight operator Aurizon Holdings Ltd. on the takeover, has expressed its frustration at how long it is taking Aquila to bring the West Pilbara **iron ore** project in Western Australia into production.

Aquila has struggled in recent times to lock in the roughly A$4.5 **billion** needed to fund its share of the 50%-owned Eagle Downs hard coking **coal** and 50%-owned West Pilbara **iron ore** developments, and is unlikely to be able to access that level of funding anytime soon given market conditions, according to industry watchers.

The **company** was hesitant to accept Baosteel and Aurizon's joint A$3.40-cash-per-share offer from the outset, instead engaging in talks with minority shareholder Mineral Resources Ltd. to see if the two companies could strike a better deal.

However, Aquila and Mineral Resources could not agree on the terms of an all-scrip offer, which was equivalent to A$3.75 per Aquila share, prompting Aquila to recommend that its shareholders accept Baosteel and Aurizon's offer.

Executive Chairman and CEO Tony Poli, who owns a 28.92% **stake** in the **company**, has indicated he plans to accept the offer.

There is quite a bit at **stake** for Aquila if Baosteel and Aurizon's bid fails, with Baosteel reportedly threatening that if it is not successful in the takeover, the West Pilbara project will receive no financial or other type of support from **China**.

Wendt said Baosteel's pulling support from the project would create a high level of uncertainty surrounding its development. "I think Baosteel is past the point of just being a shareholder in the **company**, they want this thing to happen," he said. "So I guess they're talking tough in terms of saying 'Look, we want the offer to succeed so we can get this project happening.'"

PanAust Ltd. is also the subject of a takeover bid by a **Chinese firm**. State-owned Guangdong Rising Assets Management Co. Ltd. made a revised A$2.30-per-share, or roughly A$1.37 **billion**, cash offer for the ASX-listed **copper** producer in mid-May.

However, PanAust has declared the offer too low and may well remain steadfast in its rejection until it gets as much as A$1.67 **billion**, or A$2.80 per share, for the **company**, Baillieu Holst Ltd.'s head of **mining** and **energy** research, Adrian Prendergast, told SNL in May.

Guangdong Rising, which is a major shareholder in the **company** with a 23% interest, originally proposed A$2.20 per share.

Likely prospects

RFC Ambrian's Hughes tips ASX-listed explorer Orbis **Gold** Ltd. as a potential takeover target in the West African **gold** space. He told SNL earlier in June that the **company** would have to be on the radar of potential buyers.

"In this market, grade is king. It always has been really, but it certainly is in this market, and Orbis has a 3.7 g/t orebody, 1.8 million ounces, it's in southern Burkina Faso, so a pretty good jurisdiction to be in and it's got to be on the radar," he said.

"It's developing through a feasibility study as it is, and I think as the company continues to develop and a bit more certainty is displayed over the quality of the assets … I think a major or another producer would be able to view these results and get a lot more comfortable with it."

Orbis Gold is undertaking infill drilling at its Natougou gold project to upgrade the inferred resource to the higher confidence indicated category, with results due out in a few weeks.

While McKay and Gordon declined to name any potential takeover targets, Wendt said he favored Consolidated Tin Mines Ltd. and Sheffield Resources Ltd. as likely contenders.

Consolidated Tin is developing the Mount Garnet tin project near Cairns in northern Queensland. The project is set to become an open pit mining operation processing 1 million tonnes per annum to produce about 5,000 tonnes of tin in concentrate each year.

Wendt said the company already has a significant Chinese backer and is one of the few emerging sources of tin.

Meanwhile, Sheffield Resources' main focus is mineral sands, although it also has projects in iron ore, nickel, potash and talc, all located in Western Australia.

The company's flagship project is the Dampier project near Derby in the Canning Basin due to its large-scale, high-grade, high in situ zircon content and potential to produce premium products.

In late May, Sheffield began prefeasibility, drilling and other work at its Thunderbird heavy mineral sands project, which forms part of the Dampier property, after raising the required A$11.5 million to fund the next phase of development.

McKay told SNL that there is currently a lot of uncertainty around underlying commodity prices, which is prompting potential buyers to carefully consider their purchases.

"While we've got quite a lot of uncertainty around underlying commodity prices, then you're going to have other corporates getting a bit shy around pulling the trigger on what could be seen as questionable deals, or deals that they may have to defend quite rigorously in the current environment," he said.

"So I guess in that context, the better quality names are still key targets, and they are probably the ones that have had some activity around them already."

CO mtisam : Orbis Gold Ltd | dorval : Aurizon Mines Ltd | dagg : DGR Global Limited | hclamn : Hecla Mining Co

IN igoldm : Gold Ore Mining | i211 : Metal Ore Mining | imet : Mining/Quarrying | ibasicm : Basic Materials/Resources

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IPD Industry News

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