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HD **Glencore plans next shot at Rio**

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Glencore chief executive Ivan Glasenberg's second attempt to force a merger with Rio Tinto will see him attack Sam Walsh over dwindling hopes of substantial capital returns, and try to win the support of Rio's biggest shareholder, **Chinese** giant **Chinalco**, by promising to sell key assets Oyu Tolgoi and Simandou.

That's the view of Bernstein's London-based senior analyst, Paul Gait, who first predicted Glencore would make a move on Rio in September, a month before Rio confirmed the approach.

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That \$190 **billion** merger approach was rebuffed, and under British law Glencore must wait until April to make another attempt. Mr Gait expects Mr Glasenberg will waste little time.

"Is he coming back? In my view – yes," Mr Gait said from London.

He told The Australian Financial Review that Glencore's shock announcement it would shut down its Australian **coal operations** for three weeks is a strong indication that Mr Glasenberg will try again for Rio.

Mr Glasenberg would be able to point to Glencore's willingness to pull tonnes out of an oversupplied market in a direct challenge to Rio over its expansion in **iron ore**, Mr Gait said. "To me this **coal** announcement is clearly Ivan playing games," he said. "It had the language of someone trying to make his credentials on managing the market as a CEO. It's a shot across the bows to Rio."

Mr Glasenberg has repeatedly lashed out at the expansion strategies being used by Rio and its fellow **iron ore** majors, and their price impact, as part of his attempt to pitch the merger. Pitching to the FIRB

Mr Gait believes Mr Glasenberg would retain an Australian listing for the merged entity and preserve its listing in London.

Keeping the Australian listing would help with its pitch to the Foreign Investment Review Board, while Mr Glasenberg would also make sure Western Australia supported a merger.

The starting point will be an all-scrip, zero-premium "merger of equals", and Mr Glasenberg won't go higher than a 10 to 20 per cent premium.

That view is supported by reports out of London, where Bloomberg said former JPMorgan dealmaker Ian Hannam, who now runs a boutique advisory **firm**, brought representatives of more than 20 investors to together to discuss the deal.

"If not today, this deal will happen sometime in the near future," Mr Hannam said in his presentation, according to a copy seen by Bloomberg. He wants to position his **firm**, Hannam & Partners, to get a slice of the potential deal.

Mr Gait believes winning the support of Rio's big shareholders in **China** and London will be crucial to get any deal with Rio over the line. Australia's FIRB also presents a major hurdle.

Chinalco owns 9.8 per cent of Rio. The **company**, along with **Chinese** regulator MOFCOM, are seen as a key stumbling blocks to any merger, as they would be wary of allowing the merged entity to gain too much power over certain commodities. Possibly open to the approach

But Mr Gait says the state-owned aluminium giant could be open to Glencore's approach.

"Historically, **Chinalco** borrowed \$14 **billion** to buy this **stake** in Rio, it's halved in value and people have been shot for far, far less than that in **China**. Politically, this is not a good thing," Mr Gait said. "Ivan's opening line to **Chinalco** I'm sure would be – 'Guys are you happy? Tell me what's upsetting you in the world of commodities'."

He believes Glencore could offer to give **Chinalco** Rio's stakes in its key Mongolian **copper** project Oyu Tolgoi and its greenfields **iron ore** project Simandou, in Guinea. This would help allay concerns about market power, and help restore some of the value **Chinalco** has lost.

"So that's easy for Glasenberg. You give them Oyu Tolgoi and you give them Simandou, assets that from a Glencore perspective have zero value, but from a **Chinalco** perspective have huge value, and you buy the shares for a relatively modest premium."

After winning over **Chinalco**, Mr Gait said Glencore would need to focus on Rio's London shareholders, who have expressed disquiet about Rio's rapid **iron ore** expansion – which has helped push down prices by almost 50 per cent this year – and the fact long-promised capital returns haven't materialised. "Rio has little ability to return the big wall of cash that has been promised for the past 10 years. Investors were promised there would be significant buybacks, returns of capital," Mr Gait argues. Placing the blame Mr Glasenberg will cut through the disquiet "with a very clear narrative, that the person to blame is Sam Walsh".

"A lot of this [merger attempt] is, in a lot of ways, an ad hominem attack on the management of Rio Tinto, designed essentially to transfer the assets.

"In an all share deal – which is what this is going to be – all you're really discussing is who you want to manage these assets. That's it."

Mr Gait also argues that the colourful Glencore boss is likely trying to shore up political support in WA, tapping Premier Colin Barnett's frustration over Rio and BHP's **iron ore** expansions. "Having the WA government online, or at least politically ambivalent, is crucial. What would be impossible in the FIRB context is if WA started playing the nationalist card."

It is understood that Rio believes a merger of equals will be almost impossible to get over the line.

But a deal that offers Rio's key shareholders a premium would get the two parties talking, which Mr Gait, says, is exactly what Glencore wants.

"What Ivan wants is to get people talking because he knows once they start talking, he invariably gets what he wants. History shows that. Once that happens, the solution will present itself."

CO almcpr : Aluminium Corporation of China Limited | craaus : Rio Tinto Ltd | march : Glencore PLC | rtz : Rio Tinto PLC | rtzcra : Rio Tinto Group

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