Where mining giants are ready to pounce

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Body

News feature The next time a big miner such as BHP, Rio Tinto or ***Fortescue*** lobs a takeover bid for a small explorer, the target will probably be one of the companies on this list, writes Peter Ker.

When BHP launched a $3.2 billion takeover bid for copper explorer Filo Corporation in July, it was a reminder that mergers and acquisitions don't always involve the element of surprise.

Just as South32 had done with Toronto-listed junior Arizona Mining in 2018, BHP had conspicuously sat on Filo's share register for more than two years before it pulled the trigger, and the smart money was always expecting the Australian company to launch a takeover bid for Filo's Argentinian asset.

When the BHP bid finally came on July 30, Filo shares surged more than 10 per cent, suggesting there was still upside for speculators who bet in line with market expectations. Filo shares finished 2024 a solid 41 per cent higher than they started the year.

So who's next? Here's a list of junior explorers that have a big miner such as ***Fortescue***, BHP, Rio Tinto or South32 lurking on their register.

Sovereign Metals

Big suitor: Rio Tinto

Commodities: Rutile, graphite

Country: Malawi

There's an intriguing time limit buried in the commercial arrangement between Sovereign Metals and Rio Tinto which could tempt the big miner to move sooner rather than later on the rutile and graphite aspirant.

Rio and Sovereign signed an investment agreement in July 2023 which outlined the terms under which they would jointly progress the Kasiya deposit that Sovereign found in Malawi. Rio has spent about $60 million so far accumulating a 19.9 per cent stake in Sovereign.

One of the clauses provides Rio with a host of exclusivity benefits for a period that expires 180 days after Sovereign publishes a definitive feasibility study (DFS) into the construction of a mine at Kasiya.

Those benefits include anti-dilution rights if Sovereign launches a share issuance and matching rights if Sovereign tried to sell the asset. Sovereign is due to publish a DFS by October, which means Rio has the inside running on a takeover offer until about March or April 2026.

Beyond that time, the exclusivity benefits lapse and Sovereign can sell a stake in the project to help fund itself.

At stake is a rare piece of geology that can support production of rutile without having to go through the carbon- and energy-intensive process of extracting it from ilmenite sands.

Rutile contains titanium dioxide, which goes into consumer products such as paint and toothpaste, as well as high-end steel production. Rio is already one of the world's biggest producers of titanium dioxide from South Africa and Madagascar. But Kasiya presents a way of making titanium dioxide with a much lower carbon footprint.

Kasiya will also produce graphite as a byproduct. While weak graphite prices are hurting incumbent producers such as Syrah Resources, the graphite made at Kasiya will effectively be a bonus - most of the production costs will be covered by the rutile production.

Rio wants exposure to battery minerals such as graphite, and ownership of Kasiya will get it closer to that goal.

Alta Copper

Big suitor: ***Fortescue***

Commodities: Copper and gold

Country: Peru

Fortescue flexed its muscle at the Alta Copper annual meeting in June, voting four of the seven directors off the board in a bid to "accelerate" development of the company's Canariaco copper and gold project in Peru.

Alta's founder and former chief executive Joanne Freeze was among those removed and the new board has already approved a placement of shares to ***Fortescue***, suggesting the Perth company holds significant sway.

But ***Fortescue*** will need to influence the hearts and minds of local communities in Peru if it is to make a success of its investment.

Alta's most recent study suggests the Canariaco mine would cost $US2.2 billion ($3.5 billion) to build. It would produce an average of 134,000 tonnes of copper per year over its 27-year life.

"All in" costs would be below $US2 per pound of copper, and if the copper price averages $US4 per pound, the mine would pay for itself in just over three years.

Despite those robust economics and an obvious suitor such as ***Fortescue*** on the register, Alta's market capitalisation remains small at just $C37 million ($41.4 million).

That's because many investors believe Alta will struggle to win support from local communities who fear Canariaco will damage local forests, watersheds and farmlands. About 400 people blockaded the road into Canariaco 12 years ago and the deposit has not been drilled since 2013.

Alta told investors in October that dialogue with the community was "frequent and continuous, which was not the case during the period 2016 to 2022".

If ***Fortescue*** and its talismanic leader Andrew Forrest can convince those Peruvian communities to host a copper mine, the Perth company might be on to a bargain.

Lifezone Metals

Big suitor: BHP

Commodities: Nickel, cobalt, copper

Country: Tanzania

It would be a bold call for BHP to launch a nickel acquisition barely a year after mothballing its nickel mines in Western Australia, but that's the dilemma that could come within months when New York-listed Lifezone Metals is due to deliver the contractual trigger that permits BHP to take majority control of Tanzania's Kabanga nickel project.

Kabanga has been on BHP's radar for more than 30 years. The Australian company drilled the high-grade nickel sulphide deposit between 1991 and 1995 before deciding to walk away.

It took until December 2021 for BHP to return to a project that is built on a new low-carbon method of processing nickel ores.

BHP owns 1.5 per cent of Lifezone's New York-listed shares, but the Australian giant's exposure to Kabanga is much bigger at project level.

The asset is owed by a Tanzanian group of companies called Tembo, which is 16 per cent owned by the host nation and 84 per cent owned by a privately held British company called Kabanga Nickel (KNL).

BHP owns 17.8 per cent of KNL, with Lifezone owning the rest.

BHP has a deal with Lifezone that, under certain circumstances, would allow BHP to grow its shareholding in KNL to about 61 per cent, thereby giving the Australian giant a 51 per cent ownership of Tembo and the Kabanga mine.

The trigger for BHP to take that step to majority control is the delivery by Lifezone of a DFS into the mine and an agreed financial model for development.

Lifezone promised to deliver that study in the "second half of 2024" but failed to do so. Delivery is expected soon. Lifezone continues to garner support for the project from governments in Japan and the United States, who are keen to ensure some of Africa's critical minerals are developed by non-Chinese companies.

At a time when Indonesian miners are flooding nickel markets and BHP is preoccupied with its pursuit of Anglo American, it would not be a surprise to see BHP walk away. Watch this space.

Aldebaran Resources

Big suitors: South32, Rio Tinto

Commodities: Copper, gold, silver

Country: Argentina

Could Argentina's Altar copper project be the scene of the first bidding war between 10-year-old South32 and 151-year-old Rio Tinto?

Rio has a special connection to the project, having discovered Altar's big copper resource between 1995 and 2004. But it walked away in 2005 in the belief the copper grades weren't good enough.

By 2019 the Toronto-listed explorer Aldebaran Resources had stepped into the void, agreeing to gradually buy 80 per cent of Altar from its former owner Sibanye-Stillwater.

Australia's connection to the asset was revived in 2022 when South32 spent $C11 million buying 9.9 per cent of Aldebaran's shares. South32 raised its stake to 14.8 per cent in 2023 with a further $C9 million.

Since then, the pathway for South32 to acquire majority control of Aldebaran has looked achievable; 44 per cent of Aldebaran shares are held by San Francisco hedge fund Route One Investment Company.

A further 14.4 per cent are held by Sibanye, which is struggling under big debts and weak earnings at its flagship African platinum mines.

Cash-strapped Sibanye would presumably welcome an offer for its Aldebaran shares.

But just when it looked like South32 was in pole position, Rio signalled in November that it still holds a candle for the Altar copper mine.

Rio offered to pay Aldebaran $US250 million for a 20 per cent stake in the Altar project - as opposed to buying Aldebaran shares.

Rio's money would be provided in increments over two years and Rio has already agreed to pay two increments totalling $US30 million.

The Rio deal effectively values the Altar project at $US1.25 billion.

Where does this leave South32? Well, shares in Aldebaran have more than doubled over the past four months, so it's not all bad for the Perth company.

South32 is also well aware that Rio is investing in neighbouring copper projects, meaning Aldebaran and Altar might be just the start of a broader province play.

McEwen Copper

Big suitor: Rio Tinto

Commodity: Copper

Country: Argentina

The closest copper discovery to Aldebaran's Altar copper project is about 40 kilometres north at Los Azules.

Los Azules is owned by private unlisted company McEwen Copper, which counts Rio Tinto as a 14.2 per cent shareholder and Melbourne's Victor Smorgon Group as a 3.2 per cent shareholder.

It is no coincidence that the Rio subsidiary that holds the stake in McEwen also struck the deal with Aldebaran in November.

The subsidiary, called Nuton, holds intellectual property specialising in the extraction of copper from mineralisation that is relatively low grade. While Nuton will likely want to study the rocks at Los Azules and Altar before Rio does anything big, it's hard to resist the conclusion that Rio is building a province play in this part of the Andes.

Magmatic Resources

Big suitor: ***Fortescue***

Commodities: Copper, gold

Country: Australia

A funny thing seems to happen to small companies once ***Fortescue*** gets on their share register: the resolutions at annual shareholder meetings become far more contested.

So it was for NSW copper explorer Magmatic Resources, which suffered a first strike against its remuneration report in November. Almost 36 per cent of votes were cast against the report, up from less than 1 per cent in 2023.

Some Magmatic directors saw opposition to their candidacy rise from less than 1 per cent last year to almost 27 per cent in November.

What changed in the intervening 12 months to swing sentiment? We can't be sure, but one thing that did change was 19.9 per cent of Magmatic shares falling into the hands of ***Fortescue*** in March 2024.

If more than 25 per cent of votes are cast against the remuneration report in November, Magmatic will be forced to hold a resolution over a boardroom spill. As discussed in the case of Alta Copper, ***Fortescue*** is not shy about throwing its weight around in boardrooms of its target companies.

Although in the case of Magmatic, it's not clear that ***Fortescue*** needs to play hardball. By simply spending $14 million on exploration drilling over six years, ***Fortescue*** will eventually take 75 per cent ownership of Magmatic's Myall exploration project near Narromine in NSW.

Maybe ***Fortescue*** chairman Andrew Forrest doesn't want to wait.

Brixton Metals

Big Suitor: BHP

Commodities: Copper, gold

Country: Canada

The world's biggest miner does plenty of exploration partnerships with small companies, but it's not often BHP buys listed shares in a small explorer.

Brixton Metals was an exception in November 2022 when BHP paid $C13.6 million for 19.9 per cent of its shares.

The excitement around that transaction took Brixton shares as high as C30¢, but the stock has slipped back to C6¢ as the long process of drilling and appraisal has got under way.

BHP's main interest is Brixton's huge land parcel of almost 3000 square kilometres in British Columbia. The land parcel is north of the "golden triangle" copper and gold province, which Newmont was keen to consolidate when it acquired Newcrest in 2023.

Brixton's latest batch of drilling results from its flagship Thorn project didn't set the world on fire, but it is still early days.

BHP's purchase of Brixton shares in 2022 was done at C18¢, well above the C6¢ the stock was fetching this week. That means BHP can dramatically lower its average entry price should it choose to double down on Brixton in 2025.

American Eagle Gold

Big suitors: South32, Teck

Commodities: Copper, gold

Country: Canada

South32 joined BHP in British Columbia in November when it paid $32.7 million for a 19.9 per cent stake in American Eagle Gold.

The deal allows South32 to leapfrog Teck Resources, which was sitting on more than 15 per cent of American Eagle's shares.

The two big miners are focused on the NAK exploration project in the province, which has delivered impressive hits of copper, gold and molybdenum. It's early days, but with two big miners on your register, things can happen fast.

Liontown Resources

Big suitor: Hancock Prospecting

Commodity: Lithium

Country: Australia

If Gina Rinehart liked the look of Liontown shares at $3 a pop barely 15 months ago, then surely she can see merit in paying the market price of 52¢ a share now.

Hancock has bided its time while Liontown has valiantly brought Kathleen Valley into production amid very weak lithium prices.

Despite the good work of the Liontown team, if prices for spodumene concentrate stay at current levels, the company could be broke within a year.

Perhaps Mrs Rinehart thinks she can wait and buy the company cheaper off the liquidators? But that's a risky strategy; lenders such as Ford have security over Liontown's Kathleen Valley mine in the event of default, and lithium prices have a habit of turning hard and fast when the boom times return.

What Liontown needs is a patient owner who can absorb the near-term pain and take a long-term view of development at Kathleen Valley to ensure it is built right to vomit cash when the next lithium boom comes.

In Mrs Rinehart, Liontown has found the perfect owner; just as she did with Atlas Iron, she can wait for the cycle to turn and harvest profits.

So what exactly is Australia's richest person waiting for?

Western Copper and Gold

Big suitor: Rio Tinto

Commodities: Copper, gold

Country: Canada

Rio collected a bunch of rights as it was building its 9.7 per cent stake in Western Copper and Gold over five transactions in the past four years.

Some of those rights ensure Rio can't be diluted in share issuances, while others give Rio the right to have observers sit in on the company's board meetings and technical committee meetings.

But those rights will expire in May 2025, meaning the dual-listed miner has some degree of incentive to move fast if it wants to own the Casino copper and gold project that Western has found near the border of Alaska and the Canadian Yukon territory.

Casino would cost more than $4 billion to build; a near-impossible task for an explorer with a market capitalisation of $337 million.

Rio is not the only cashed-up global player sitting on Western's register; Japanese firm Mitsubishi owns 4.1 per cent of the explorer and has similar rights, which will expire in March.

Rio has spent about $44 million buying shares in the explorer and no one will be surprised if it buys more in 2025.

Trilogy Metals

Big suitor: South32

Commodities: Zinc, copper

Country: USA

One interpretation of the 230 per cent rise in Trilogy Metals shares since Donald Trump won November's US presidential election is that South32 missed a chance to acquire the explorer while it was cheap.

South32 owned 11.6 per cent of Trilogy shares and 50 per cent of its flagship Ambler exploration project in Alaska during Joe Biden's presidency, meaning the Perth company was close to the action as Biden's blocking of a road to the Ambler site triggered a collapse in Trilogy's share price.

A more philosophical way of looking at Trilogy's Trump bump is to say that South32 is historically willing to pay more for something that it has greater certainty about.

That was true for Arizona Mining, the copper explorer South32 acquired over two years between 2017 and 2018, with little concern about whether it was telegraphing its intentions to the market too clearly.

In the case of Trilogy, South32 wants to see more progress made in Alaska before it considers stepping up its investment. It will want to see all the region's First Nations groups express their support for the project.

It will want to see political change in the White House manifest in more permitting access to the Ambler region.

South32 will also want to see further drilling to better understand the geology.

The Trump bump has taken Trilogy's market value to about $300 million - almost three times higher than a year ago - but still small enough that South32 can afford to wait for all the Alaskan ducks to be in a row.

Entree Resources

Big suitor: Rio Tinto

Commodities: Copper, gold

Country: Mongolia

Some type of deal will happen between Entree and Rio, the only question is whether Rio buys Entree's stake in tenements adjacent to its Oyu Tolgoi copper mine, or whether it buys Entree outright.

Rio has owned 16.1 per cent of Entree shares for more than a decade, but it needs to act soon because the tenements that are minority-owned by Entree are scheduled to be mined by Oyu Tolgoi within the next 12 to 18 months.

Under that schedule, preparatory work should be happening on the Entree tenements right now, but it is being frustrated by the need to strike a commercial deal first.

Entree had a win over Rio on December 19 when an independent arbitration tribunal adopted Entree's interpretation of how certain transactions between the two companies should be struck.

Entree shares have risen tenfold since March 2020, demonstrating how Rio could have fixed up this mess much cheaper had it acted sooner.

Entree shares have more than doubled over the past year and are up 68 per cent in the past six months.

It's hard to see the value equation getting better for Rio if it holds out long enough to start sabotaging Oyu Tolgoi's grades and volumes.

SolGold

Big suitors: BHP, Newmont

Commodities: Copper, gold

Country: Ecuador

It has been eight years since BHP showed its liking for SolGold's Cascabel project, and even though the Big Australian still owns 10 per cent of SolGold shares, a takeover bid seems less likely than ever.

Put simply, SolGold's Cascabel project is being developed and funded in a way that is diametrically opposite to how BHP would like it developed.

Rather than building the mine to maximise its long-term potential and cashflows, the loose coalition of colourful characters that controls SolGold is thinking smaller, cheaper and faster.

An updated plan for the mine published in 2024 slashed close to $1 billion off the construction costs. The new plan envisages a smaller mine that will cherry-pick the highest-grade zone of the resource first, meaning Cascabel's second and third decades will rely on extracting the lower-grade material.

Rather than fund construction via share issuances, Cascabel is being funded via a series of debt instruments that require the mine to provide a "stream" of gold or a royalty to the lender at a future date in exchange for immediate cash. This approach is common for small miners without deep pockets; but with every royalty streaming deal that is placed on Cascabel, the project becomes a bit less attractive to BHP.

Perhaps that's why SolGold shares slumped 30 per cent over the past year, despite strength in gold and copper prices; the "event driven" investors in SolGold are becoming less convinced that a takeover "event" will occur. The stock is down 82 per cent since April 2022.

According to RBC numbers, the Filo Del Sol asset that BHP acquired for $3.2 billion in July is a bit better than Cascabel in most ways; it contains more copper and is a bit higher grade. BHP certainly likes the Filo project partners - the Lundin family - better than the SolGold crew.

Newmont inherited a 10 per cent stake in SolGold from Newcrest, but seems far less interested in SolGold.

SolGold will likely make a final decision to build Cascabel according to the smaller, faster, cheaper strategy within the next two years. For BHP, that will be the moment to speak up or forever hold its peace.

Hyterra

Big suitor: ***Fortescue***

Commodities: Hydrogen, helium

Country: USA

Fortescue may have cooled its hydrogen jets in 2024, but in December it showed it was still the world's biggest hydrogen bull, buying 39 per cent of natural hydrogen explorer Hyterra for $21.9 million.

Unlike most of ***Fortescue***'s hydrogen projects, Hyterra does not plan to manufacture the flammable gas by zapping water with electricity. Rather, Hyterra plans to extract naturally occurring hydrogen from underground in Kansas.

It hopes to find some helium down there too.

Hyterra's work is more akin to oil and gas extraction than hard rock mining, and given the nascent nature of natural hydrogen extraction, ***Fortescue*** is unlikely to face a bidding war for control of Hyterra any time soon.

But like all things ***Fortescue***, it will be fun to watch.AFR

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