

Mining & Resources



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In the latter part of 2008, the resources sector was in crisis. As commodity prices tumbled, a number of small companies collapsed, others were on the verge of bankruptcy and some large miners were under pressure to repay significant debts. Companies were forced to slash costs: Rio Tinto announced plans to cut its workforce by 14,000 and BHP closed its Ravensthorpe nickel plant. Large impairment charges were also recognised against various investments as market conditions deteriorated. However, just as many mining companies were experiencing their lowest juncture at the turn of the year, commodity prices began to rise again and the market started to turn. The rebound in the equities market opened up opportunities to raise much needed finance. Accordingly, we have seen a spate of capital raisings and rights issues as companies have looked to shore up their balance sheets and prepare for the next wave of M&A, largely through industry consolidation.

Recent surges in commodity and stock prices have not yet fully translated into a rush in M&A activity as uncertainty continues to pervade market sentiment: there was approximately a 10% decrease in the number of deals in the first half of 2009 compared with the second half of 2008. Despite the fall in volume, total deal value actually increased in the first half of 2009, primarily due to the significant contribution of the proposed Rio Tinto – BHP iron ore tie up, which was announced in June.

Most of the deal activity in the Asia Pacific region during 2009 has emanated from Australia and China (approximately 80%). Chinese buyers have continued to play an increasingly important role in transactions in the region and there has been a series of investments by state-owned Chinese firms. In June, the debt-laden Australian miner Oz Minerals agreed to sell most of its assets to Chinese Group Minmetals for US\$1.39 billion. In March, Chinese steelmaker Hunan Valin Iron and Steel Group also secured a 17% stake for US\$771 million in the Australian-based iron ore producer, Fortescue Metals.

In Singapore, PetroChem China took a 45% stake in refiner Singapore Petroleum in a deal worth approximately US\$1 billion, with expectations that PetroChem will move to full ownership in August 2009. In Indonesia, Pukuafu Indah PT acquired a further 7% stake (to increase its total stake to 27%) in Newmont Nusa Tenggara PT (NN), a gold and copper mining company, in a deal worth approximately US\$427 million.

The largest deal of 2009 was the alliance between the two mining giants Rio Tinto and BHP Billiton. Rio Tinto put aside a proposed US\$19.5 billion deal with Chinalco in favour of an alliance with BHP. The 50:50 production joint venture will cover the entirety of both companies' Western Australian iron ore assets. BHP will pay Rio Tinto US\$5.8 billion to buy into the joint venture. Now that the worst of the downturn appears to be over, this example of consolidation could reflect a broader trend towards industry consolidation as the big miners vie for the remaining quality assets and attempt to realise cost savings from combining with their rivals. Swiss-based Xstrata has also recently proposed a 'merger of equals' with London-listed rival Anglo American. Through consolidation, these established Western behemoths are trying to stay ahead of the rapidly growing miners from the world's emerging nations.

As we look forward to the remainder of 2009, there are signs of an upturn in deal activity following an anticipated relaxation of credit and lending terms, and a sustained upturn in commodity prices. There are also signs of life in the IPO market, further lifting the prospect of increased M&A activity in the second half of 2009. ■