

March 2011

# Coal & Copper

## Coal Sector M&A

In this issue we look at M&A activity in the coal sector, and the outlook for copper.

### Points of Interest

- Coal sector is leading exploration and development expenditure
- Chinese investors lead M&A activity
- Copper is set to reach new highs in 2011
- Neuchatel coordinated due diligence activities and advised on coal transactions
- Neuchatel managed the sale of an Australian copper project

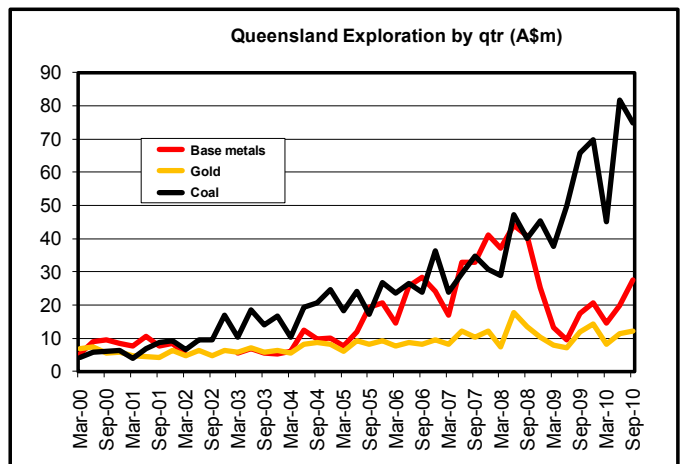
A stand-out for both exploration and development activity and corporate activity is the coal sector. In Queensland, aggregate exploration data suggest that there has been a broad-based exploration boom. However underlying data shows that this is confined to the coal sector, with exploration and corporate activity in the metals sector relatively subdued.

A notable trend has been the activity levels of Chinese investors, now followed by India.

China accounted for almost two-thirds of Australia's \$US10.6 billion (\$11.9bn) of mining M&A deals in 2009. The top 35 deals in the Australian mining sector in 2009 were done by foreign companies. Just 7 per cent of the total value of deals done were by local investors.

Neuchâtel has advised on a number of coal transactions during the past 12 months. This work has included undertaking full technical and commercial due diligence appraisals, reviews of infrastructure, project valuations, and assistance in negotiation of transactions.

In 2009 Chinese investors did \$US7.2bn worth of Australian resources deals. Coal made up the biggest portion, at 42 per cent, highlighted by Yanzhou Coal's \$3bn friendly takeover of Felix Resources. This is the biggest single Chinese investment in Australian resources to date (cont' over page)



Source: Qld Government

## The outlook for Copper

Copper's supply/demand picture may become so tight that many analysts and institutional investors say it is one of the commodities on which they are the most bullish for 2011.

Copper has already staged an impressive rally from the commodity-wide sell-off that occurred when the global financial crisis hit in 2008 (see over page). While Western economies were weak, copper demand remained strong in emerging economies such as China, the world's largest consumer of the metal. When recovery picks up in the West, demand should rise further. Meanwhile, analysts say, mining companies will not be able to ramp up output fast enough to

keep up with demand, leaving a global supply/demand deficit for 2011.

"It's our top commodity pick for 2011," said Bart Melek, global commodity strategist with BMO Capital Markets. The same was true for many institutional investors surveyed by Barclays Capital during an investor conference in December. More than 300 participants were asked to rate which commodity or sector will perform best in 2011, and copper got the highest rating with 26%, followed by grains at 23% and crude oil at 19%.

For starters, there were relatively few mine cutbacks in 2008-09, meaning little in the way of restarts, Briggs said. Where cut-

backs did occur, miners have been slow to reverse them, he said. Ore grades are declining at aging mines, Briggs and Melek said. For instance, in late summer, controlling owner BHP Billiton reported that production at the Chile's Escondida mine, the largest in the world, will fall as much as 10% by the middle of next year due to lower ore grades.

There have been limited major discoveries and developments in recent years, analysts said. Furthermore, some of the potential new operations are in regions of the world with high geopolitical risk, which makes companies cautious about investment, Melek said. (cont' over page)

### Partners

**Jonathan Loraine**  
jloraine@neuchatel.com.au  
0419 643 200

**Hugh Barbour**  
hbarbour@neuchatel.com.au  
0409 643 040

**Fiona Murdoch**  
fmurdoch@neuchatel.com.au  
0410 481 148

www.neuchatel.com.au

## Coal Sector M&A cont'

In 2010, foreign acquisitions of Australian resource projects have continued as supply constraints and growing demand intensified the needs of China, India and the Middle East to secure supply. The stand-out transactions in the coal sector in 2010 have been made by Indian investors.

LINC Energy sold its Galilee Basin coal tenements to the Adani Group in a deal worth up to \$3 billion over 20 years. Adani will pay an upfront \$500 million in cash to Linc plus a \$2 per tonne royalty for the first 20 years of coal

production. Linc chief executive Peter Bond said the net present value of the deal was about \$1.5bn and assuming the seam was mined out, its value would be \$3bn over 20 years.

India's Lanco Infratech announced on December 15 2010 that it would buy Griffin Coal near Collie in Western Australia. The acquisition is believed to be costing about \$850 million, though Griffin Coal's administrator KordaMentha has declined to specify a figure. The acquisition is progressing.

COAL India is reportedly in advanced talks with Peabody Energy on buying a stake of up to 15 per cent in the Wilkie Creek mine for approximately \$US120 million. The mine has an estimated coal reserve of 400 million tonnes.

"While India's annual coal demand will exceed output by 100 million metric tonnes in the next few years, the company expects to meet half the shortfall from such acquisitions", stated Coal India director R Mohan (Press Trust India)

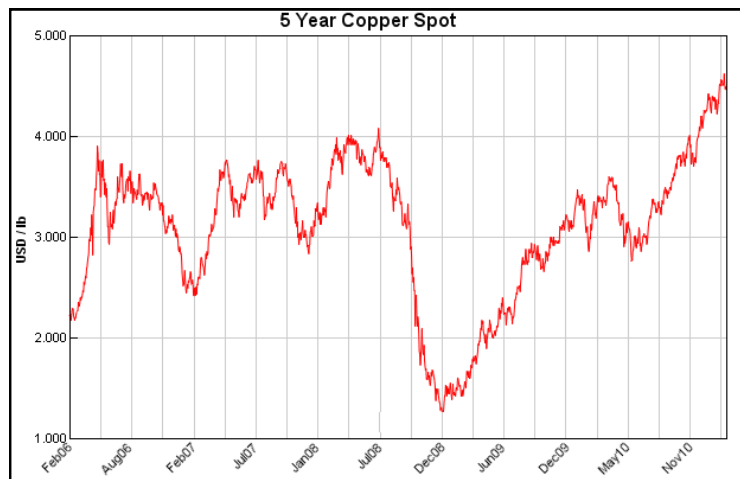
## The Outlook for Copper cont'

"The difference in copper, compared to a lot of other commodities, is the supply side really is extraordinarily tight," said Kevin Norrish, managing director of commodities research. "The problem for copper is there just aren't lots of large projects out there in the way that perhaps there were 10 or 15 years ago. It's becoming very difficult to grow supply." "I think the real tightness in the market is going to come in 2012," "While I'm bullish 2011, I'm super bullish for 2012." Standard Bank analyst Leon Westgate said.

BNP Paribas analyst Stephen Briggs looks for a supply deficit of 200,000 tonnes this year, widening to 500,000 tonnes in 2011.

There is a wide range of price forecasts. Morgan Stanley looks for an average of \$7,900 a metric ton in 2011, up from \$7,300 for 2010, although down from current levels. Citi also expects copper to hit \$10,000 in the next to 12 months. Barclays looks for copper to average \$9,950 in the third quarter alone. Goldman Sachs looks for LME copper to hit \$11,000 a ton in 12 months.

Copper demand should be driven by a continuing global economic recovery, Melek said. In particular, an improving auto sector likely will consume more copper, while China will also need more metal to keep building its power



Source: Kitco

and other infrastructure. Meanwhile, a number of factors are limiting the ability of mining companies to hike production.

Analysts with Goldman Sachs, in a research report, said base metals such as copper are even closer to a "structural bull market" than oil because of supply issues. But for many base metals, producers are already at full capacity and existing inventories are the only "spare," Goldman said. In fact, Goldman said, nearly all exchange inventories may be exhausted over the course of 2011, forcing the market into demand rationing. "We are expecting copper stocks to fall to the lowest that they've ever been," Norrish said.

Neuchâtel has been actively involved in the copper sector during 2009 and 2010. Work has included:

- Managing the sale by auction of an Australian-based copper project.
- Coordinating and advising on joint venture and associated structuring negotiations for a world-class copper and gold project.
- Undertaking due diligence investigations into copper projects on behalf of potential acquirers.
- Assisting in locating potential copper acquisitions for investors.

Neuchâtel Partners provides specialist corporate advisory services to the resources, energy and utilities sectors.

- Design and execution support for mergers, acquisitions and divestments.
- Business analysis and strategy development.
- Due diligence studies and support.
- Asset and business case valuations.
- Project facilitation.
- Board level commercial and strategic advice.
- Joint venture design and management.