

[advanced search](#)

Search news, quotes, and

SEARCH

- [Subscribe](#)
- [Sign Out](#)

[My Account](#)

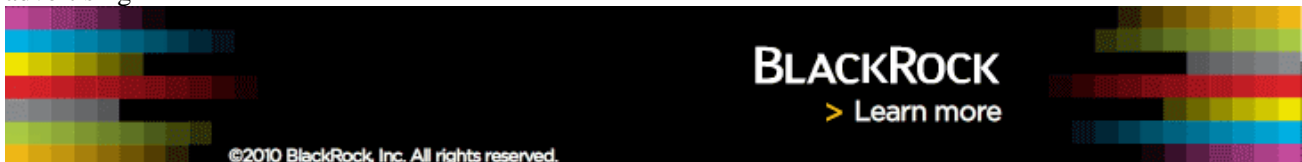
- [Mobile](#)
- [TV](#)
- [Today's Paper](#)

- [My Portfolio](#)
- [My Alerts](#)

- [Home](#)
- [National](#)
- [World](#)
- [Business](#)
- [Industries](#)
- [Markets](#)
- [Personal Finance](#)
- [Opinion](#)
- [Lifestyle](#)

- [Personal Finance](#)
- [Smart Money](#)
- [Managed Funds](#)
- [Portfolio](#)
- [Investment Guides](#)

advertising



Overseas assets ease resource tax

PUBLISHED : 8 hours 38 minutes ago | UPDATED: 2 hours 13 minutes ago PUBLISHED: 05 May 2010
12:06:52 PRINT EDITION: 5 May 2010

[email](#) [print](#) [-font](#) [+font](#)

Miners

Ayesha de Kretser

The warning signs were flashing before this week, but investors were struck by the brutal reality of a 40 per cent resource rent tax, prompting a massive sell-off among resources stocks.

Some fund managers said the brave investor could seize on this rare moment of weakness for the companies that have generated billions in income for both Australia and shareholders since the commodity super cycle began almost a decade ago.

Soaring demand for minerals from China would keep prices, and therefore earnings, at high levels, despite the additional impost.

The chairman of listed fund Global Mining Investments, John Robinson, says the tax is worrying, but the fund's view of the commodity super cycle is still optimistic.

"We haven't adjusted the portfolio to take account of this, we're long-term holders and take a three-to-five-year view of the sector," he says. "There's obviously still a lot of upside in that bulk commodity sector and that's why we're staying put."

But others caution that the so-called resource super profits tax (RSPT) would be every bit as bad for earnings as the headlines this week have suggested.

"Uncertainties and lack of clarity have probably been the key takeaways from the past trading days," Merrill Lynch's head of metals and mining, Peter O'Connor, says.

"And with material changes to earnings and valuation hanging over the mining sector, the share-price performance backdrop looks particularly challenging for the Australian miners."

The Rudd government's proposed tax changes mean companies such as BHP Billiton and Rio Tinto, which generate more profit than their smaller counterparts because of the type of minerals they mine, as well as benefiting from economies of scale, will be hit harder.

The federal RSPT is different to the state-based royalty regime, whereby all miners pay the same amount of tax based upon on a standardised percentage of the cost per tonne sold.

The new system, which will apply from 2012, would see miners slugged harder for being more profitable than their competitors.

In periods of weak commodity pricing, however, miners could pay less than they do under the existing royalty arrangements.

"While the RSPT targets profit only, and the proposed impost will be offset by rebates and a cut to the corporate tax rate – we still regard this change as a large new burden that slashes miners' profits and dividends beyond 2012," UBS analyst Glyn Lawcock says.

But while uncertainty lingers, brokers are recommending mining stocks with exposure to overseas operations and minimal Australian exposure, as well as those that already pay a 40 per cent petroleum resource rent tax (PRRT), such as Woodside Petroleum.

Companies with plans to spend up big may pause to collect their thoughts before committing funds, although the new tax scheme makes allowances for these billions of dollars in investments to be deducted.

"The RSPT also threatens the viability of already-approved projects, and may even deter longer-term investment in Australian mining equities and projects," Lawcock says.

UBS identifies Equinox Minerals, Paladin Energy, Riversdale Mining and PanAust as likely winners, because all of these have mining operations overseas.

At the big end of town, O'Connor reckons BHP looks more attractive than Rio because it derives a greater proportion of revenue from overseas assets, and is already exposed to the PRRT.

Deutsche Bank analyst Paul Young adds Kingsgate Consolidated, Aquarius Platinum, Extract Resources and Mirabela Nickel to the list of stocks that won't feel the pain of the RSPT because they operate overseas.

While many analysts speculate that merger and acquisitions activity could dry up in Australia while the full impact of the changes is being digested, Young thinks there could be a positive impact for overseas miners.

"We believe that sector M&A may reduce due to the valuation uncertainty surrounding companies with Australian mining assets until the new tax is implemented," Young says.

“On the contrary, companies with foreign assets may become takeover targets.”


Shafted

Potential impact of super profit tax on resource companies' earnings

	Earnings impact (%)			P/E (x)		
	2011	2012	2013	2011	2012	2013
Diversifieds						
BHP Billiton	0	0	-17	8.8	7.4	8.7
BHP Billiton (CY)	0	-9	-16	7.5	7.9	9.3
Rio Tinto	0	-11	-21	7.9	8.2	10.1
Base metals						
Iluka	0	-4	-11	12.4	12.5	8.7
OZ Minerals	0	-13	-22	8.5	10.6	12.1
PanAust	0	0	0	5.8	5.8	7.2
Precious metals						
Andean	0	0	0	n/m	n/m	9.6
Avoca	0	0	-15	7.0	7.3	13.2
Dominion	0	0	-31	8.8	7.6	10.8
Lihir	0	-1	-1	17.5	17.0	16.7
Newcrest	0	0	-23	16.6	15.1	21.4
Bulk commodities						
Centennial	0	0	-17	9.7	7.9	8.9
Coal & Allied	0	-12	-25	10.6	10.9	13.6
ERA	0	-14	-28	11.2	9.5	10.7
Fortescue	0	0	-36	7.2	5.6	9.2
OneSteel	0	0	-17	9.1	7.7	8.7
Paladin	0	0	0	n/m	23.3	23.4
Riversdale	0	0	0	n/m	n/m	22.9
Whitehaven Coal	0	0	-24	19.2	12.5	12.4

n/m = not meaningful

SOURCE: UBS



The Australian Financial Review

Related News

Companies [BHP Billiton Ltd](#), [Rio Tinto Plc](#), [Woodside Petroleum](#), [Equinox Minerals Ltd](#), [Paladin Energy Ltd](#), [Riversdale Mining](#), [Panaust Ltd](#), [Kingsgate Consolid.](#), [Aquarius Platinum.](#), [Extract Resources](#), [Mirabela Nickel Ltd](#)

Topics [Commodities](#), [Financial Markets](#), [Resources & Mining](#), [Taxation](#)



Create an alert

Click on the links below to create an alert and receive the latest news as it happens

Companies [BHP Billiton Ltd](#), [Rio Tinto Plc](#), [Woodside Petroleum](#), [Equinox Minerals Ltd](#), [Paladin Energy Ltd](#), [Riversdale Mining](#), [Panaust Ltd](#), [Kingsgate Consolid.](#), [Aquarius Platinum.](#), [Extract Resources](#), [Mirabela Nickel Ltd](#)

Topics [Commodities](#), [Financial Markets](#), [Resources & Mining](#), [Taxation](#)



advertising

sponsored links



[USA PROPERTY INVESTMENT](#) *Property from \$25,000 USD Rental Returns 10%-25% net*



[CMC Markets CFD Trading Guides](#) *Essential free guides to build Your CFD trading tool kit*

M

[Kick start your CFD trading](#) *FREE webinars from MF Global Learn new CFD trading skills*

[advanced search](#)

Search news, quotes, ani

SEARCH



News

- [National](#)
- [World](#)
- [Business](#)
- [Industries](#)
- [Markets](#)
- [Personal Finance](#)
- [Opinion](#)
- [Lifestyle](#)
-
- [AFR Market Wrap 5pm](#)
- [Dealbook](#)
-
- [Chanticleer](#)
- [Street Talk](#)
- [The Prince](#)
- [Rear Window](#)
-
- [Signature Editions](#)
- [Special Reports](#)
-

Events

- [Events](#)
- [Register for Updates](#)

My afr.com

- **Alerts**
- [My Alerts](#)
- [Create a new Alert](#)
-
- **Portfolios & Watchlists**
- [My Portfolios](#)
- [Create a new Portfolio](#)
- [Create a new Watchlist](#)
-
- [My Account](#)
-

Subscriptions

- [Free 14 day trial to afr.com](#)
- [Subscribe Now](#)

Tools & Research

- [ASX Quotes](#)
-
- [Markets Data](#)
- [Australian Equities](#)
- [World Equities](#)
- [Commodities](#)
- [Currencies](#)
- [Derivatives](#)
- [Interest Rates](#)
-
- [Share Tables](#)
- [Economic Indicators](#)
- [Investment Banking League Tables](#)
-
- **Managed Funds**
- [Top Performing](#)
- [Search Managed Funds](#)
-
- **Advanced Search**
- [Articles](#)
- [Videos](#)
- [ASX Announcements](#)
- [ASX Quotes](#)
- [Executive Profiles](#)
-
- **Other Tools & Resources**
- [Investment Guides](#)

Financial Review Group

- [AFR BOSS](#)
- [AFR Magazine](#)
- [BRW](#)
- [AFR Smart Investor](#)
- [MIS Australia](#)
- [AFR CFO](#)
- [AFR Asset](#)
- [Financial Review Conferences](#)
- [Profession Education](#)
- [Fairfax Business Research](#)
- [Connect4](#)
-

Help & Information

- [Help](#)
- [Contact Us](#)
- [Letters to the Editor](#)
- [What's in afr.com?](#)
- [What's in *The Australian Financial Review*?](#)
-

About

- [Services](#)
- [About Us](#)
- [Advertise](#)
- [Online Subscription Terms](#)
- [Newspaper Subscription Terms](#)
- [Conditions of Use](#)

- © [Copyright](#) 2009 Fairfax Media Publications Pty Ltd |
- [Privacy](#)|
- [Conditions of Use](#)|
- [About Us](#)|
- [Help](#)|