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Float to value Glencore at $60bn

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Investors were divided on the impact of the correction on the Swiss trader's issue. **Photo: Rob Homer**

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Glencore's $US11 billion ($10.4 billion) blockbuster initial public offering in London and Hong Kong is poised to secure the Swiss commodities trader a valuation topping $60 billion and trigger the take-up of shares by at least one Australian institutional investor.

The company shut its share offer to investors at 4pm London time on Wednesday, with its book covered several times over. The final price of the initial public offering is to be announced Thursday morning London time before trading starts early next week.

On Tuesday, Glencore narrowed the pricing range to give a mid-point of £5.35 ($8.23), handing the trading house a valuation of $60 billion including the issue of $7.9 billion of new shares.

Global Mining Investments is expected to be the only Australian institutional investor in Glencore due to its ownership of convertible bonds issued in 2009.

GMI chairman John Robinson told *The Australian Financial Review* the change to the pricing range had made take-up of Glencore's share offer attractive.

"Anything that comes in around the $60 billion mark would certainly suggest value," Mr Robinson said.

He declined to comment on whether GMI had agreed to take up any shares, although GMI's investment adviser BlackRock agreed to invest $US360 million as one of the cornerstones in the float, alongside Abu Dhabi's sovereign wealth fund Aabar Investment with $US1 billion of stock.

Fund managers and institutional investors have been divided over the impact of the commodities correction in the first week of May on Glencore's imminent float.

Silver, copper, oil and gold all plunged, raising questions around the value of some of Glencore's assets including its 34.5 per cent stake in diversified Swiss mining giant Xstrata.

But Mr Robinson said he remains bullish on the outlook.

"The recent volatility in the commodities sector has had some effect on sentiment, but people taking the medium to long-term view will see the underlying value," he said. However, other global fund managers who opted not to participate in the float said they were wary of being on the other side of a trade with Glencore.

Five Oceans Asset Management portfolio manager Christopher Selth said the timing of the IPO suggested Glencore believed the commodities cycle was reaching its peak.

"Are they selling at the top of the market? Of course there's demand from a lot of the sovereign wealth funds who are buying it – but these are a lot of people who are notorious for buying at the tops of markets," he said.

"These guys [Glencore] are masters at realising profits as traders, and they're selling now when they know there's a large buying base – that's not to say commodities won't ultimately go up, but it's ironic that this has coincided with a rollover in commodity prices."

Orbis Investment Management portfolio manager Simon Marais said he would be very surprised if his colleagues overseas managing the Orbis Global Equity fund were buying into the float.

"The guy who runs Glencore [chief executive Ivan Glasenberg] is very smart and probably knows more about commodities than anybody else. He's decided this is the time to sell, so why would you want to be buying from him?" he said.

IG Markets analyst Cameron Peacock said the idea Glencore executives were "cashing out" was not entirely accurate, as many senior executives had agreed to lock-up stock for two to five years.

Although the shares will immediately be included in the benchmark FTSE 100 index in London upon listing, investors have previously raised concerns about a lack of liquidity, given those restrictions and a six month no-sell clause for cornerstone investors.

Local investors also played down the possibility that a global rush into Glencore would divert funds from mining rivals BHP Billiton and Rio Tinto.

"Inevitably, people will reweight portfolios to make room for new offerings like this, but this being an international offering obviously changes the dimension somewhat [compared to a local offering, which would have a greater impact on the local market]," Mr Robinson said.

BT Investment Management portfolio manager Tim Barker said the assumption that Glencore would seek a tie-up with Xstrata over the next 12 months may see further local interest following the listing.

"There's an assumption that at some stage they will probably try to do something with Xstrata, which makes sense. They know that the market is aware that transaction could occur in the future and therefore is a potential dampener of long-term demand for the stock."

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