

Xstrata talk persists but Glencore stays mum

PUBLISHED: 06 May 2011 PRINT EDITION: 6 May 2011

Jamie Freed

Glencore International has made no mention of plans to merge with Xstrata in the 1600-page prospectus for its \$US10 billion (\$9.2 billion) float in London and Hong Kong, but that has done nothing to douse market speculation the Swiss commodities trader is seeking a tie-up within the next 12 months.

Glencore owns a 34.5 per cent stake in Xstrata. It has a large commodities trading arm, but it also owns mining assets around the globe in its own right, including the Cobar copper mine in NSW and a majority stake in West Australian nickel miner Minara Resources.

"[A merger] seems to make sense," said Global Mining Investments (GMI) chairman John Robinson, whose fund is the only Australian institutional investor in Glencore due to its ownership of convertible bonds issued in 2009. "It certainly makes sense from Glencore's perspective. From an Xstrata perspective, it will depend on relative value."

At Xstrata's annual meeting in Switzerland on Wednesday evening – the last led by outgoing chairman Willy Strothotte, who was once the chairman of Glencore and Xstrata – shareholders asked no questions about the possibility of a deal.

However, Xstrata chief executive Mick Davis has previously indicated to analysts that it would be "unsustainable" for Glencore and Xstrata to remain separately listed entities with the former maintaining its large stake in the latter over the longer term.

One concern from the investment community is that the pair will find themselves competing against each other for acquisition opportunities.

The quality of the mining assets in the Glencore portfolio is regarded as similar to those owned by Xstrata, but several of Glencore's key assets are in more politically risky jurisdictions such as the Democratic Republic of Congo and Kazakhstan.

Although the prospectus made no mention of a possible merger between the pair, which indicates it could take months to complete a deal, it revealed other key details about Glencore, which until now had been commonly described as "secretive".

Chief executive Ivan Glasenberg, an Australian citizen, will have a 15.8 per cent stake in the company following the float later this month, down from his current 18.1 per cent. Based on the mid-point of the pricing range, which gives Glencore a market value of \$US61 billion, Mr Glasenberg's stake is worth \$US9.6 billion.

Chief financial officer Steven Kalmin, also an Australian citizen, will hold a 1 per cent stake valued at \$US610 million.

Glencore on Wednesday issued a rather wide pricing range of £4.80 to £5.80 a share following weeks of pre-marketing. It has secured commitments from cornerstone investors to take up 31 per cent of the shares to be issued as part of the float.

GMI recently raised the value of its convertible bond holding because those notes had been issued on the basis of Glencore having a market value of \$US35 billion.

Mr Robinson said the recent revaluation, which meant Glencore now accounted for 6.5 per cent of the fund's overall holdings, was still short of the pricing range the company had placed on the stock and would therefore be revised upward again following the float. GMI's investment adviser, BlackRock, has agreed to invest \$US360 million as one of the cornerstones in the float.

GMI has not yet agreed to take up any shares, but Mr Robinson said the fund would do so if it felt they were priced attractively.

"I think the mid-point [of the valuation range] is very close to the market consensus that has been around for several months now," he said. "It looks pretty reasonable."

The cornerstone investors, which also include Abu Dhabi's Aabar Investments with \$US1 billion of stock, will not be able to sell their shares during an initial six-month lock-up period.

Glencore will immediately be included in the benchmark FTSE 100 index upon listing, but there are some concerns from investors about a lack of liquidity given all of the employee shares will have various lock-up periods of up to five years and the cornerstone investors will also be barred from selling at first.

Glencore's top management team is not believed to be scheduled to visit Australia on its float marketing tour, but it will be present at Merrill Lynch's annual Global Metals & Mining Conference in Barcelona next week to meet with potential institutional investors.

Other major mining executives attending that conference include Xstrata's Mr Davis, BHP Billiton chief executive Marius Kloppers, Rio Tinto chief executive Tom Albanese, Anglo American chief executive Cynthia Carroll and outgoing Vale chief executive Roger Agnelli.

The Australian Financial Review

Related News

Topics [Mergers & Acquisitions](#), [Metals & Mining](#)



Create an alert

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

Topics [Mergers & Acquisitions](#), [Metals & Mining](#)