

MINING M&A PRIVATE EQUITY AND MINING SHOW ME THE DEALS

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Legal Briefings - By **Matthew FitzGerald** and **Tom Fisher**

In the last 18-24 months a chorus of analysts and other commentators have predicted a boom in private equity investment in the resources sector to take up the assets available for sale.

PREDICTED PRIVATE EQUITY INVESTMENT IN RESOURCES SECTOR

While there has not been a large volume of private equity deals in the resources sector, we suggest that this may change when it becomes clear that prices have bottomed.

WAR CHESTS BUILT, BUT WHERE ARE THE DEALS?

Some large private equity funds have been established to focus on opportunities in the resource sectors in Australia and emerging nations. These include former Xstrata boss Mike Davis' X2 Resources which raised a US\$5.6bn fund, former Fortescue vice-chairman Owen Hegarty's EMR Capital which raised US\$450m and former Barrick Gold MD Aaron Regent's Magris Resources. These funds, together with traditional private equity houses, such as KKR, Apollo and Blackstone, have been running the ruler over potential deals with exposures ranging from base metals and gold to oil/gas and coal.

There has been plenty of tyre-kicking from private equity including interest in Rio's east coast coal assets, Vale's nickel assets and potential takeovers of South32 and Barrick Gold's copper mines).

PRIVATE EQUITY WAITING FOR RESOURCES TO HIT BOTTOM?

Private equity has historically avoided the resources sector, with its volatile commodity prices, high capex requirements over a long period and high asset valuations. With commodity prices at cyclical lows and resources companies under pressure to recoup cash through assets sales, there are opportunities for private equity to generate attractive portfolio growth.

Unlike many capital market investors who face pressure from movements in portfolio values, private equity funds (particularly those with a resources focus) can wait to deploy capital at the bottom of the market and hold assets until markets turn. This is because a typical fund may have a life span of up to 12 years, with the investment horizon for individual portfolio assets spanning potentially 3 - 7 years.

IS PRIVATE EQUITY FINALLY COMING TO THE PARTY?

Recent reports from some analysts suggest that commodity prices may have finally bottomed after sharp falls earlier this year, with brightening outlooks for base metals and gold and oil. A number of smaller private equity investments have recently been made in the Australian base metals sector. These include:

- KKR's acquisition of 10% of Oz Minerals for over AU\$100m in October, which has been reported may pave the way for a takeover offer,
- EMR's acquisition of Aditya Birla Minerals' Mt Gorgon copper assets in Queensland in September; and
- Auctus Chillagoe's (backed by private equity group Denham Capital) \$56m on-market takeover offer for Atherton Resources, set to be decided in November.

CONCLUSION

With a bottoming out of the commodities market and a stabilised commodities price outlook generally anticipated to trigger movement in the mining M&A space, we envisage strong PE activity in the resources sector for the next 9-12 months.

KEY CONTACTS

If you have any questions, or would like to know how this might affect your business, phone, or email these key contacts.



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