China Gold-Mine Deals at Record After Price Plunge: Commodities
2013-08-21 14:54:26.121 GMT

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By David Stringer and Brett Foley
Aug. 21 (Bloomberg) -- Acquisitions by China's gold mining companies reached a record this year as the metal's steepest quarterly drop in more than nine decades slashes mine values and sidelines Western competitors laden with debt.
Takeovers and asset purchases by producers based in China and Hong Kong rose to a record $2.24 billion this year, beating last year's record $1.96 billion, according to data compiled by Bloomberg. Zijin Mining Group Co., the world's seventh-largest gold company by market value, and Zhaojin Mining Industry Co. are among companies looking to strike after the share prices of targets fell an average 53 percent since bullion peaked in 2011.
"The gold declines are good for key Chinese producers to buy overseas assets," Chen He, head of overseas resources development at Zhaojin Mining, China's fourth-largest producer, with a $2.3 billion market value, said in an interview. "This year our main task is to closely watch potential targets as prices in 2014 are forecast to be lower."
Global producers led by Canada's Barrick Gold Corp., the world's second-biggest by value, were warned by investors against deals after taking $26 billion in writedowns since July 16 following a spree that saw $162 billion spent on acquisitions during a decade-long price boom.
Shareholders are "actually actively telling a lot of companies, we'd rather you not do M&A transactions," Barrick Chief Executive Officer Jamie Sokalsky said May 21 at the Bloomberg Canada Economic Summit in Toronto.

Demand Explodes

Chinese buyers are less constrained as demand at home explodes. With consumption having jumped to 4 metric tons a day, the nation is set to overtake India as the biggest consumer this half. Many producers in China have better cash flow than overseas competitors and lower production costs.
Zijin is forecast to have all-in costs, which include administration, capital spending and exploration, of $658 per ounce this year and Zhaojin $549 per ounce, compared with a global average of $831, brokerage UOB Kay Hian Ltd. said in a note to clients dated July 9.
Papillon Resources Ltd., which has a project in Mali, may be a possible target for Chinese companies, according to RBS

Morgans Ltd. Iamgold Corp., with a $2.4 billion market value, Amara Mining Plc and Perseus Mining Ltd. also are possible targets, said David Brennan, an analyst in Melbourne at Ord Minnett Ltd.

"There are some good bargains out there, and things that are too good to pass up on," said James Wilson, a Perth-based analyst at RBS Morgans Ltd. and a geologist who has worked in Australia, Africa and China.

Perseus Reaction

Perseus has fallen 62 percent this year, meaning it's "not surprising that some consider us to be a takeover target," the Perth-based producer's CEO Jeff Quartermaine said in an e-mailed statement. Papillon Resources hasn't yet received approaches, CEO Mark Connelly said by phone. "We could be a potential target. Any decision would be for the shareholders to make." Charles Vivian, a spokesman for Amara based at Pelham Bell Pottinger in London, said in an e-mail that the company declined to comment. Iamgold didn't immediately respond to calls and an e-mail seeking comment.

Gold producers globally were involved in $10.3 billion of deals this year, compared with a record $32.6 billion in 2010 and last year's $8.9 billion, the data show. Chinese M&A is accelerating, with transaction values more than doubling in the first half from the preceding period.

"They are hunting assets that are more distressed, or are obviously for sale," said Matt Weaver, a Perth-based director of advisory firm Azure Capital. "But we are also finding that they are becoming a lot more discerning."

Easier Financing

Financing is often easier for Chinese commodities companies compared with rivals overseas, Jake Klein, chairman of Evolution Mining Ltd., said in an interview. "They have access to cheaper, vast pools of capital, they are going to be competitive," said Klein, who previously ran gold mines in China. Zijin said in November 2012 it had received 30 billion yuan ($4.9 billion) in loans from the state-controlled China Development Bank's Hong Kong and Fujian units for overseas acquisitions.

China's government has urged national gold producers to boost development of overseas resources in neighboring countries and in Africa and Latin America, according to its 12th Five-Year Plan which ends in 2015.

The encouragement is probably linked to the country's desire to increase its gold holdings, Marcus Grubb, managing director of investment research at the World Gold Council, said in an interview.

Zijin, China's biggest producer, is looking at buying several assets and considering making a bid for three of Barrick's mines in Australia, the company said June 20.

Barrick Plans

Barrick plans to sell, close or trim production at 12 of its 27 mines where costs are higher than $1,000 per ounce, the company said Aug. 2, while Alacer Gold Corp. said it will mothball two high-cost mines in Australia if it can't sell the assets within 18 months after taking charges of $902 million on the unit since the last quarter of 2012. Spot gold traded today at $1,369.20 an ounce, down 0.2 percent, at 3:52 p.m. London time.

At Barrick, net debt jumped last quarter to 83 percent of equity from 49 percent in the previous quarter, according to data compiled by Bloomberg. Zijin's ratio rose to 55 percent from 51 percent.

'Improve Things'

Newmont Mining Corp. of the U.S., the world's third-biggest gold miner, said in December it was in talks to sell the stalled Hope Bay project in Canada. Johannesburg-based Gold Fields Ltd., spun off most of its South African assets into Sibanye Gold Ltd. in the past year amid a wave of strikes and above-inflation pay increases.

"I think some of the Chinese companies believe they can actually improve things," Owen Hegarty, vice chairman of G-Resources Group Ltd., said in an Aug. 6 interview in Hong Kong.

Bullion's spiral into a bear market in April provoked a buying frenzy in malls and shops in China, a culture that traditionally acquires the metal for brides, babies and strongboxes. There will be about 6.6 million brides in China this year alone, according to the World Gold Council.

At a national level China, with the world's largest foreign exchange reserves of $3.497 trillion on June 30, is likely to increase gold holdings to diversify from the dollar, according to the Official Monetary and Financial Institutions Forum.

Net imports into China more than doubled in the first half to 493 metric tons, from about 239 tons a year ago, according to Bloomberg calculations based on Hong Kong customs data.

Doubting Takeovers

"What is often not understood is that the Chinese approach

to metals is strategic and, in the case of gold, also has the added element of being involved in Chinese reserve asset management," the Gold Council's Grubb said in an interview.
To be sure, with gold heading for its worst year in three decades and some brokers forecasting the metal to extend losses, BOCOM International Ltd.'s Benjamin Pei isn't convinced takeovers will soar. Societe Generale SA last month predicted gold may average $1,150 an ounce in 2014, the lowest annual average since 2009. Spot gold traded at $1,368.30 at 2:52 p.m. in Sydney.
"Recent price declines have squeezed gold miners' profit margins and largely affected their cash flow, hampering their ability to spend on acquisitions," said Beijing-based Pei.
China National Gold Group President Sun Zhaoxue said in March, after talks ended in January with Barrick over its African unit, that China's state-owned enterprises face obstacles such as cultural gaps and environmental barriers in seeking overseas deals and shouldn't rush to conclude them.

China Consumption

Gold consumption in China jumped 54 percent to 706.36 metric tons in the first six months, the China Gold Association said this month. Per capita gold holdings in China are little more than 5 grams, compared with the average 20 grams in developed countries, meaning there's huge potential as long as the economy is growing, the association said in June.
"China's appetite for gold is virtually insatiable," said Jon Price, managing director of Phoenix Gold Ltd. "They have a large bank account with which to work, and a lot of U.S. dollars that they perhaps would rather see turned into physical assets. I can see them being a dominant player."

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--With assistance from Helen Yuan in Shanghai, Michelle Yun in Hong Kong, Elisabeth Behrmann and Andrew Hobbs in Sydney and Simon Casey in New York. Editors: Keith Gosman, Todd White

To contact the reporters on this story:

David Stringer in Melbourne at +61-3-9228-8737 or
dstringer3@bloomberg.net;
Brett Foley in London at +61-3-9228-8721 or
bfoley8@bloomberg.net

To contact the editor responsible for this story:
Jason Rogers at +65-6231-3673 or
jrogers73@bloomberg.net