

All eyes on Xstrata as Vale's resolve falters

Rebecca Bream

The failure of the Brazilian mining company Vale's attempts to take over London-listed Xstrata left both sides feeling wistful on Wednesday. A person close to Xstrata likened the opportunity to when BHP of Australia merged with Billiton of South Africa to form the world's biggest mining company, and said a Vale-Xstrata combination could have been a similar platform for future growth.

But although both companies feel like a great opportunity has passed, in part because of hostile market conditions, Vale and Xstrata were keen to project the message that life will go on and that neither side needed to do the deal.

Vale's shares rose almost 5 per cent on the back of the news, while Xstrata shares closed down 5.2 per cent as the market stripped out most of the stock's takeover premium.

One London-based mining analyst said that Xstrata would quickly get on with pursuing other deals.

The Anglo-Swiss group has grown rapidly through acquisition over the past five years, and all eyes will be on Xstrata following the end of talks with Vale.

Bankers said Mick Davis, Xstrata chief executive, remained interested in "transformational deals". But they played down expectations that Xstrata would soon unveil a new deal on the rebound from its break-up with Vale. It is likely that things could go quiet for a while as Xstrata looks at opportunities.

Mr Davis has said in the past that he was keen to get into platinum and iron ore, to diversify his group's portfolio of copper, coal, nickel, zinc and ferrochrome.

Analysts speculated that Xstrata could look at buying Impala or Lonmin, the world's second- and third-largest platinum producers, respectively.

But it is understood that while Xstrata likes Impala's businesses in particular, it thinks the platinum companies are too expensive.

As for iron ore, there are very few businesses up for sale and Xstrata would face strong competition in any bid from Chinese state-backed companies, which are aggressively buying up iron ore assets to reduce their reliance on Rio Tinto and BHP Billiton.

The big question is whether Xstrata could interest London-listed Anglo American in a deal. It is thought that a combination with Anglo would be top of Mr Davis's wish list as this would bring exposure to both platinum and iron ore, and there could be some synergies in South Africa and South America.

The rise in Xstrata's share price in recent months means that, even after Wednesday's share price fall, it is now not much smaller than Anglo, making a merger less of a pipedream than it was 12 months ago. But Anglo has so far been unwilling to talk to Xstrata, and people close to the situation said that had not changed.

If Xstrata cannot find another big deal to do, it is likely to restart its share buy-back programme. The group said that further buy-backs were now "certainly an option".

Mr Davis is now likely to be reassessing his future plans in the light of Vale's bid failure. He has a lot of his personal wealth tied up in Xstrata stock options, and while these start to pay out in May, his incentive package is designed to keep him at Xstrata.

A change of control would have triggered a pay-out on all of the options however, and it was likely that he would have left if Vale had taken over.

On Vale's part, the company was keen to stress that its priority was organic growth, and that it had big plans to build new iron ore mines in Brazil.

As for acquisitions, the group is likely to wait for the current turmoil to die down. But it remains keen to diversify away from iron ore, and analysts said yesterday that it could take a look at US copper producer Freeport-McMoRan and also Hydro, the Norwegian aluminium producer.

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