Family legal battle may unsettle investors

ANDREW BURRELL
COMMENT

THE lurid details emerging almost daily of Gina Rinehart's vicious legal stoush with her children are not simply embarrassing for the publicity-shy billionaire.

They also could be hazardous to her entire corporate vision.

Rinehart's Hancock Prospecting is at a sensitive and crucial stage in its drawn-out efforts to attract equity and debt funding to build its flagship Roy Hill project in the Pilbara by the end of 2014.

Rinehart's dream is for Roy Hill to be the first world-class project her company has built from scratch as controlling shareholder. Her other mine, Hope Downs, is a 50-50 joint venture with Rio Tinto.

With production capacity of 55 million tonnes a year, Roy Hill will be one of the biggest iron ore mines in the Pilbara.

If prices of the steel-making commodity remain high, the project will be highly profitable and add many billions of dollars to Rinehart's already bulging fortune.

But the global banks and possible investors that fund most of Roy Hill are doubtless examining media clippings from the court case to try to work out whether Rinehart will remain in control at Hancock.

Three of the billionaire's children — John Hancock, Bianca Rinehart and Hope Welker — are trying to win control of almost a quarter of the company that has been ruled by their mother with an iron fist for 20 years.

If they succeed, and that will be a matter for the courts to decide, Hancock's equity partners in Roy Hill may wake up one day to discover that Gina Rinehart no longer speaks for 100 per cent of the company.

A company such as South Korea's Posco, for example, may be less than thrilled to discover that the Rinehart progeny have sold their shares in Hancock Prospecting to a Chinese state-owned entity.

Conversely, the three adult children may choose to hold on to their shares, paving the way for hostilities to migrate from the courtroom to the boardroom and create instability for everyone involved.

The global banks considering lending billions of dollars to Roy Hill will also probably want to know precisely to whom they are lending.

So far, according to those close to the project, no potential equity partners or debt funders have raised any concerns about the unseemly legal brawl and its possible implications.

After the torrent of negative publicity in recent days, however, it's hard to imagine that will remain the case.

Rinehart pushes on with mine

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soon and to have bedded down its debt funding from several major banks within the next few months.

Roy Hill has been ordering long-lead items. Sources said all primary approvals were in place, including for native title.

The company has already started work on building a 1300-person accommodation village in Port Hedland and on dredging at South West Creek in Port Hedland's inner harbour.

The project was granted a railway licence by the WA government last month.

Korean cash sets up Cockatoo

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endorsement of the growth ambitions for Cockatoo held by management, led by managing director Mark Lochtenberg.

Cockatoo also has Korean steel giant Posco and Korea Electric Power as shareholders with 13.5 per cent and 7.6 per cent of current issued capital, respectively.

It also continues discussions with Japan's Mitsui about development plans for their jointly held Surat projects, and with Japan's JFE Shoji on expansion plans for the jointly held Baralaba, due in the September quarter.

The SK cash injection is not binding and is subject to due diligence by SK. If a binding deal is not signed by April 30, neither party will be obliged to proceed with the placement.

SK is also guaranteeing a proposed $150m loan facility, which is not dependent on the placement proceeding. That would mean Cockatoo could refinance its $85m loan facility, which matures on June 28.

Assuming the placement proceeds and the existing debt facility is repaid, Cockatoo will hold $277m in cash. "This will ensure that Cockatoo is well-positioned to secure capacity for rail and port infrastructure for its Surat Basin assets and will provide capital to support the expansion of Baralaba and Cockatoo's broader portfolio of exploration and development assets," Cockatoo said.

SK is no stranger to the coal industry. It holds minority stakes in a number of NSW projects majority-owned and managed by Centennial Coal, now part of Thai coal producer Banpu following a $2.5 billion takeover in 2010.

The Cockatoo deal extends the consolidation and merger and acquisition activity that has been a feature of the coal industry since 2008. More than $30bn in activity has greatly reduced the number of ASX-listed coal companies, with existing producers scaling up to capture a greater share of the boom in Asian demand and consumer nations moving to secure long-term supplies.

Other activity includes the planned $5bn link of Whitehaven with Nathan Tinkler's Aston and the $8bn merger between Gloucester Coal and Chinese-controlled Yanzhou Coal.

Cockatoo listed in 2005 with little more than four exploration tenements. Through a number of acquisitions it has grown to have a 1.4 billion tonne coal resource and market value of $416m.

BARRY FITZGERALD

Old hand blazes the trail for China deals

PAUL LOUGHNAN

Chinese law expert Robin Chambers says Hong Kong's common law jurisdiction is an advantage in negotiating deals

Chinese companies learn fast and make decisions quickly

ROWAN CALLICK
ASIA-PACIFIC EDITOR

CLIVE Palmer is still struggling to establish his Resourcehouse as a Hong-Kong-based listed entity.

But lawyer Robin Chambers's more modest Chinahouse structure, also run from Hong Kong, is going gangbusters.

A dozen years ago — when the massive merchant banks in Hong Kong hardly employed a single resource analyst between them, and Chinese companies were just starting to spread their wings — an Australian mining executive turned up at Chambers's Collins Street office in Melbourne.

He looked at the Chinese decor, at Chinese investment house Citic, which was sharing the office, at the list of Chambers's directorships of Chinese investments in Australia, and said: "This must be the China house."

Chambers is a Melburnian who worked on Wall Street with law firm Chadbourne and Parke, became legal counsel for CRA, where he worked for 14 years, and then launched his own boutique law firm taking advantage of his strong China connections.

He visited China 20 years ago with the first Australian legal delegation, and was invited — based on talks he presented there — to advise on China's joint-venture law as the country started evolving towards a market economy.

He became a representative of the Chinese corporation that evolved into Sinosteel, which acquired 40 per cent of the Channar iron ore mine in the Pilbara, to form China's second international joint venture, after Citic's stake in the Portland aluminium smelter in Victoria.

Sinosteel and its partner Rio Tinto have agreed to extend the highly profitable venture for a further five years in negotiations in which Chambers continues to participate on the Chinese side.

Melbourne is attracting ever-increasing Chinese investment. One of China's pillar banks has found that about 60 per cent of the funds coming into Australia from China flow first through Melbourne.

But for Chinahouse, Hong Kong has proved the ideal midway point, in many senses — cultural and geographic — in which to frame negotiations between investors and miners. It also operates a common law jurisdiction.

Chambers says: "The structure started evolving 10 years ago. At that stage, very little was happening. The original aim was simply to provide our clients with legal services.

"But people started bringing us other requests; they began asking us to help them find business partners."

Thus Chinahouse emerged and took on merchant banking elements. Chambers stresses that his firm keeps it separate from the core legal business. "We are sensitive to any conflict," he says.

"At first we were working almost exclusively for Chinese state-owned enterprises, putting together projects for them — and they said that if we could find other prospects for them, we should let them know.

"That was accelerated by the global financial crisis. There were so many start-up mining companies . . . some of them listed.

"They needed the market, and the offtake contracts guaranteeing supply underpinned the financing."

The Chinese side, including now a few privately owned companies, supplied the capital.

In the past few days, for instance, a major copper project has started in Queensland for which a Chinese company has provided $100 million upfront to take it into production, on the basis that the offtake from the smelters goes to China.

Iron ore has been the top commodity the Chinese are seeking, says Chambers, followed by coal, then copper — with four groups currently commissioning Chinahouse to seek projects — then almost any other mineral conceivable. He has worked with clients seeking supplies of lithium and tantalum.

"It's quite a shopping list. China seems to be basically the market for everything. We can't help every Australian company, but we're doing our best. The level of interest, the potential for these introductions, is extremely high."

The Chinese corporations tend to be very proactive, Chambers says, deploying lots of staff to follow through proposals. One Chinese firm set up a team of 100 people to work on a coal target in Queensland.

"They don't just assign one or two people," he says.

The resources are not restricted to Australia. Chambers has worked for Australian companies in Senegal, Ghana and Mauritania, and became involved in a conference in Perth about mining in Africa organised during the Commonwealth Heads of Government Meeting last October.

The president of one African country brought a large business delegation to Perth, and as a result of making the connections, Chambers is now working on an iron ore project there bringing together an Australian miner and a Chinese investor.

"That's how these things happen from time to time," he says.

His firm has also developed strong connections in Chile, where he has been approached to help find Chinese backing to build new port resources.

Chinahouse is also involved in putting together the structure to build a port in South Australia for a resources project in which a big Chinese steel mill is participating, and which is likely to use a Chinese construction group for some of the work.

At first, such deal-making was a new experience for most of the Chinese corporations. "But now they are pretty sophisticated, they know what they want and they travel everywhere. They surprise the Australians sometimes by being so quick off the mark."

There are few cultural difficulties today, Chambers says.

"Most Australian companies are smart enough to deal with such issues by engaging the right people. And the whole service industry has become more sophisticated."

Rare-earths deal could bolster China

JAMES AREDDY
SHANGHAI

MOLYCORP'S $US1.3 billion ($1.23bn) deal to acquire a key processor of rare-earth minerals has sparked a warning from industry officials that it could reinforce China as the main source for specialised magnets used in consumer electronics and sophisticated weapons.

Molycorp says it plans to buy Toronto-listed Neo Material Technologies, one of the world's leading experts in chemistry needed to transform rare earths — minerals used in applications that range from car batteries to advanced weaponry — into specialised magnets.

Molycorp says the deal creates the most diversified rare-earth company outside China, which dominates the industry.

President and chief executive of Colorado-based Molycorp, Mark Smith, said the transaction linked a world-class miner with a world-class processing company.

But the deal also paves the way for Molycorp to ship minerals from its California mine to the Chinese operations of a Neo Material arm called Magnequench, in a reminder of how much technological rare-earth capability resides in China.

US Magnetic Materials Association president Ed Richardson said the plan was worrying. The US was already "dangerously dependent on China" for rare-earth magnet materials, including those used in its weapons systems, he said.

Molycorp's "export of US rare earth assets into China will only exacerbate this problem", he said.

Mr Smith played down political and historical implications of the deal that now ties Molycorp, Magnequench and China. He said sending rare-earth oxides to China was a bid for "higher volume, higher margin" that will only reduce production costs in the US and by implication boost supply of the metals for industrial users.

"It does not in any way deplete our ability to serve the market outside of China whatsoever," Mr Smith said.

While much of the debate over China's hold on the rare-earths market has focused on mining, the Molycorp deal highlights China's ability to process mined oxides into metals that help electric cars hold their charge, make wind turbines turn and bring precision to military gyroscopes.

Like most developments in the tiny but critical rare-earth industry, the merger is a response to China's market supremacy.

Companies such as Molycorp and Australia's Lynas are trying to provide supply alternatives to China, which has 90 per cent market share in many aspects of the industry.

It comes as analysts predict a formal challenge of China at the World Trade Organisation over its rules to limit export of some rare-earth materials, rules that Beijing says are meant to protect the environment, but Washington labels a trade barrier.

Analysts concur with Molycorp's assertion that the acquisition of Neo Material gives it significant new technological capability, particularly in powders used in sophisticated high-performance bonded magnets.

The US company becomes more global, with production and sales in a number of new markets. Molycorp argues the deal can also lower production costs as the company restarts its California mine, which was once the world's No 1 rare-earth mine before it was closed due to falling prices and environmental concerns.

Neo Material's Tianjin plant and its other facility in China had spare processing capacity that Mr Smith said he intended to exploit by sending output from the California mine to be processed there.

The acquisition — coming amid cooling prices for rare earths and shares of the production companies such as Molycorp — will give existing shareholders of Neo Material about 14 per cent of the combined company, the companies say.

Molycorp and Neo Material executives said they had informed authorities in Washington and Beijing about the deal hours after the announcement and they did not expect regulatory hurdles in either country.

THE WALL STREET JOURNAL

BLOOMBERG

Rare earths from Molycorp's US mine will be shipped to China

Takeover a good bet in the long term

WEALTH

ANDREW ROSENBAUM
INVESTMENT

ASK most passers-by in the street what they think lanthanum, promethium and praseodymium are, and you will probably receive a quizzical look. Some may even suggest Greek holiday destinations. But few will actually have heard of these obscure elements, and even fewer would have any clue as to their unique properties.

But lanthanum, promethium and praseodymium are three of 17 elements that are having a major impact on our lives and could represent a sensible bet for any long-term investor looking to keep value in their portfolio. It is more than likely that the confounded passer-by's telephone will be dependent on one of these so-called rare earths, and perhaps even their latest-model hybrid car.

It is not only consumers that are reliant on the unique magnetic qualities of these obscure earth-bound elements; governments, too, rely heavily on them. They are not an immediately obvious choice for investors: Several rare-earth stocks have moved sharply lower in the past few months, but analysts attribute recent volatility to secondary tremors emanating from the sovereign debt crisis in Europe, which has pushed down stocks from every sector.

China had controlled the market for these elements until recently, but now new sources are coming online and that is where the opportunities lie.

World demand for rare-earth elements is estimated at 136,000 tonnes a year, but this demand is projected to rise to at least 185,000 tonnes by 2015, and to surpass 200,000 tonnes by 2020. Driving demand are the applications for which rare earths are required, which include defence, refining, electronics and clean energy. They are used in the petroleum-refining industry to convert heavy crude oil into petrol. Catalytic converters in cars use them to keep emissions clean. Significant quantities are needed to polish television and computer screens and they are critical for diverse applications such as wind turbines, hard-disk drives and power tools. They're also needed for a slew of missiles and aerospace applications.

While our need for rare earths escalates, our ability to supply them is limited. China controls about 90 per cent of all rare-earth production. Last year, China cut its rare-earths exports drastically, which sent prices for the elements spiralling. The rest of the world took note.

Some of the US-based rare-earth producers could represent good value for investors. Molycorp Minerals, which has seen its share price decline significantly since last year, is one such bet. The company expects to reopen a rare-earths mine in Mountain Pass, California, this year.

Another rare-earths stock, Ucore Rare Metals, is receiving support from the Alaska government for its flagship Bokan Mountain project. With its stock price down to about half of its peak last year, it's worth considering as a long-term bet.

Still another company with potential is Australian miner Lynas Corporation, which owns a processing plant for rare earths, one of the few that operates outside of China. Located in Malaysia, the plant is almost ready to deliver and has received licensing from Kuala Lumpur. Lynas also owns a rare-earths mine in Australia so it can supply part of the plant's requirements.

THE WALL STREET JOURNAL

Centrex, China plan ore port

RESOURCES: A Chinese steelmaker and Australian iron ore explorer have extended their joint venture, with plans to develop South Australia's first port capable of handling super-large bulk carriers.

ASX-listed Centrex Metals said it had signed a joint venture agreement with a subsidiary of Wuhan Iron and Steel Company (Wisco) for the development of a new iron ore export port at Port Spencer, northeast of Port Lincoln on the Eyre Peninsula.

The companies already have a joint venture to develop magnetite iron ore mines and a processing plant to the west of the Port Spencer site.

The port will be the first in the state to allow direct loading of Capesize ships, which hold up to 200,000 tonnes, and will be used to export product from the joint venture's planned mines.

Wisco and Centrex expect to start exporting from the port in early 2015."

AAP

ASIC won't probe Securency

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While no one at the RBA has been accused of any wrongdoing, governor Glenn Stevens last year wrote to Wayne Swan expressing his concern over the allegations and condemning them as going against its "high ethical standards".

The AFP has said the charges, which were first heard in Melbourne Magistrates Court on July 27, do not reflect individual board members at the companies being complicit or having knowledge of any illegal activity.

The RBA and joint partner Innovia Films have been looking to sell Securency since late 2010 and its most recent accounts show revenue in 2010 plunged 25 per cent to $128m.

After alerting the AFP, the Securency board commissioned KPMG to conduct an independent evaluation of its policies and procedures, overhauled its senior executives and terminated all agency arrangements.

Viterra bids plant seed for GrainCorp surge

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The interest in Viterra and the gains in GrainCorp come amid a wave of consolidation speculation. Glencore and Viterra are both reportedly considering a $US5bn ($4.7bn) bid for Gavilon, a privately held, US grain handler linked to George Soros, while Viterra has previously been touted as a potential buyer of GrainCorp.

Mr Mitchell said if Glencore bought Viterra, the Canadian company's Australian assets and competition concerns would rule out a bid for GrainCorp.

"That said, should the bid be unsuccessful . . . GrainCorp is the next most logical target," he said. "The attraction of GrainCorp as a takeover candidate should be enhanced by the bid for Viterra."

Viterra, which bought South Australia-focused ABB Grain for $1.6bn in 2009, told the Toronto Stock Exchange on Friday that it had been approached by unnamed parties, sending its shares 24 per cent higher.

Mr Mitchell said GrainCorp offered many of the same benefits as Viterra to a potential acquirer. These included geographical diversification, exposure to growing Asian protein demand and the ability to participate in Canadian export deregulation because of GrainCorp's Canadian malt assets.

"We believe a bid for GrainCorp is inevitable at some point, given the company is now the last remaining publicly listed agricultural player of any size in Australia," he said.

GrainCorp yesterday would not repeat comments chief executive Alison Watkins reportedly made about the Viterra offer making her company no more vulnerable to a takeover. "We remain focused on our own operations and don't comment on speculation," a spokesman said.

The Australian Competition & Consumer Commission would not say whether there were competition concerns about a Glencore bid for Viterra in light of Glencore's existing Australian grain handling assets.

"The ACCC is aware of the transaction and details of any public review will be posted on the website," a spokesman said.

DOONESBURY GARRY TRUDEAU