

Business

The West Australian

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Edited by SEAN SMITH

China buys into big battle for Rio spoils

PETER KLINGER

China's state development bank has flexed its muscle in the battle for control of Rio Tinto in an ominous sign for BHP Billiton that Australian mining's biggest customer will demand a say in any carve-up of the \$200 billion takeover target.

It is understood that China Development Bank (CDB) has built a stake of just under one per cent, worth about \$2 billion, in Rio.

It remains unclear whether the stake was built in Rio's Sydney or London-listed shares but the fact the Chinese agency has invested at all signals Beijing's intent to have a say in the final outcome of Rio's future.

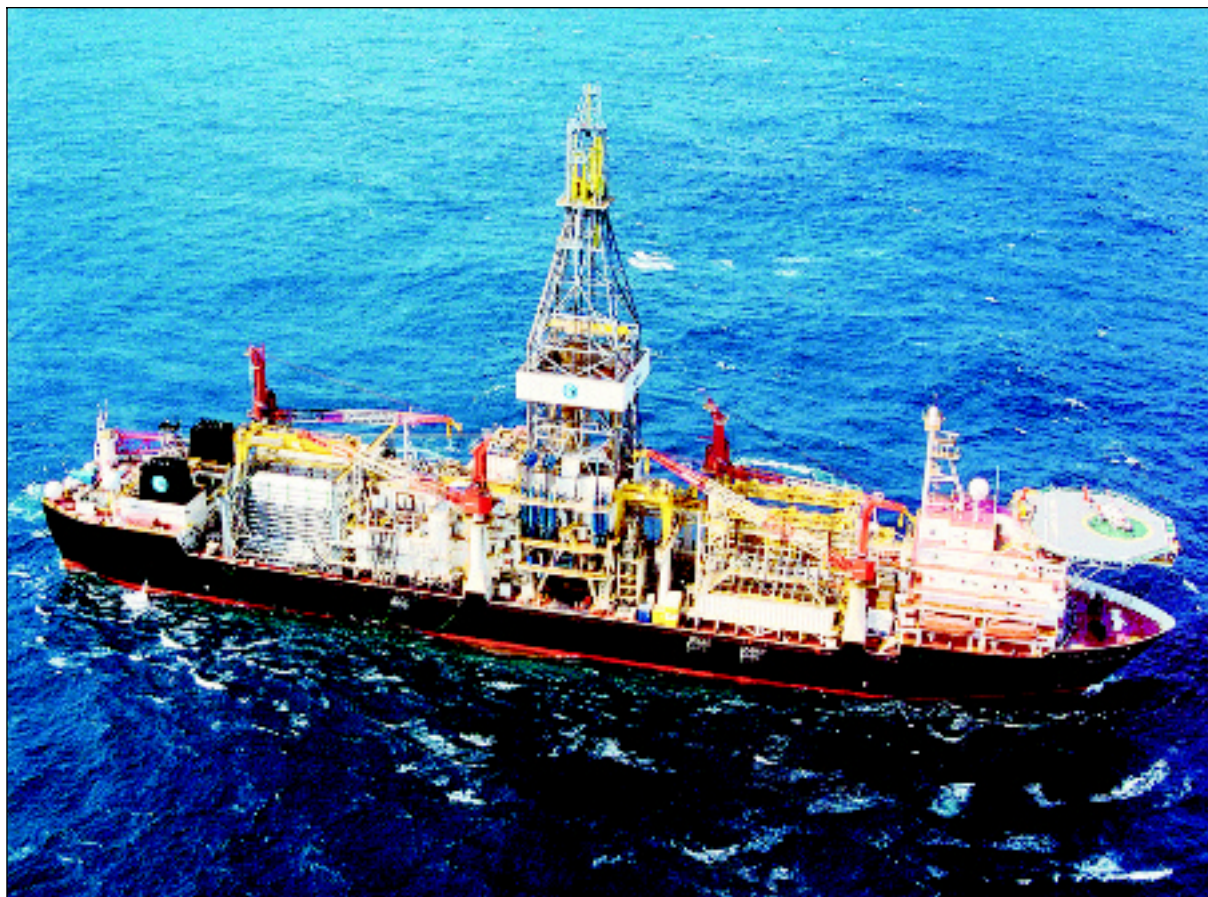
It raises the spectre of a Beijing-sanctioned bid by a Chinese group for Rio, either on a stand-alone basis or in conjunction with private equity groups or smaller miners like Xstrata, to try to scupper BHP Billiton's \$400-plus billion merger plans.

Rio would not comment on the CDB stake yesterday but investors are likely to respond by propelling the miner's shares to fresh record highs this week.

Rio's Sydney shares closed at a record \$130.90 on Friday before its London scrip soared a further £3.28 (\$7.45) to £56.24 that night. BHP's London stock, on the other hand, fell 28p to £16.28 amid expectations it would have to substantially improve its proposed three-for-one scrip offer to win over Rio's board and shareholders.

The three-for-one proposal, rejected by Rio's board last week, values the merger target at £48.84 a share using BHP Billiton's London close.

Sources close to Rio have already hinted any successful bid would need to be priced around £70. BHP Billiton sources have dismissed the Rio demands, pointing to the fact that its three-for-one proposal had factored in a 30 per cent premium based on Rio's share price before speculation of the bid emerged last week.



Gulf search: There has been speculation BHP Billiton may offload its petroleum division to help a takeover of Rio.

Perennial Growth Management partner Ken West told ABC TV yesterday a 60 per cent takeover premium could be necessary, given that that was the level of premium Rio had offered Alcan in order to succeed in its \$44 billion takeover of the Canadian aluminium group.

The likelihood that BHP Billiton will have to significantly improve its offer, either by sweetening the terms of the share swap or by adding a cash component, has led to speculation at the weekend the mining giant could spin off its petroleum division.

A spin-off of the unit, which has a stake in WA's North West Shelf gas venture as well as extensive oper-

ations in the Gulf of Mexico, could yield more than \$40 billion and help pay for the Rio deal. It would also be an opportunistic disposal, given that crude oil prices are trading at almost \$US100/barrel.

However, BHP Billiton insiders have dismissed the speculation, pointing to its strategic value as a key differentiator to its mining-only rivals.

There was also talk in London that BHP Billiton was in the throes of arranging a \$US70 billion debt facility with Citigroup to help fund its Rio tilt. It will again try to set up a meeting this week with Rio officials to discuss its merger proposal.

Emmerson rattles tin to explore old ground

Spinifex



PETER KLINGER

The extraordinary mining boom that has engulfed Australia, and WA in particular, has seen promoters dust off many an old mining prospect with renewed confidence that China and India will acquire whatever metal is produced.

Given the rampant prices of most metals, led by iron ore, copper and uranium, the promoters' confidence is justified as even more marginal projects can generate a healthy profit.

However, it's been slightly more subdued in the precious metals department, in particular gold.

The bullion price's steady climb to levels above \$US830/ounce last week has got precious metal bulls believing once again in \$US1000 gold, but the price has been less kind in Australian dollar terms. And hence, less kind to Australia's locally operating gold community.

During a year when the US dollar gold price has risen 33 per cent, mainly on the back of a weaker US dollar, the Australian dollar-denominated price is up only 11 per cent. Given the inflationary pressures being felt on the cost side, even last week's \$912.83/oz Aussie-dollar gold price is insufficient to rekindle a mad scramble to go over old tailings.

The good news is, however, that there still seems to be enough investor support for explorers targeting known gold regions.

Emmerson Resources will formally open its initial public offering on Thursday, under which it aims to raise \$15 million to explore 2700sqkm in the NT's Tennant Creek region.

Emmerson inherited the tenement portfolio, as well as an extensive

Continued on page 40

BIG MINING DEALS

2007

- Rio Tinto buys aluminium giant Alcan for \$US38.1 billion
- Freeport-McMoRan Copper & Gold buys Phelps Dodge for \$US25.9 billion
- Xstrata takes over Jubilee Mines for \$US2.9 billion

2006

- Xstrata acquires Falconbridge for \$US17.3 billion
- CVRD strikes \$US16.7 billion deal to acquire Inco

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