Mining M&A Newsletter

First half of 2017
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Global economic uncertainty and price volatility continues tepid growth trend for the mining sector

The first half of 2017 saw mining M&A activity continue its tepid half-over-half growth trend, amidst a backdrop of increasing metal prices but falling mining stocks, and continued questions surrounding the economic health of China and monetary tightening in the U.S.

Global economic growth has been rising over the past year and passed three percent in 2016, a trend which is expected to continue through 2017. Over the first half of 2017, the market price of copper rose 8.9 percent, with base metal prices expected to continue to benefit from increased manufacturing and infrastructure spending in the U.S. and Europe, and stable demand coming from China. At the same time, ongoing geopolitical tension supported gold prices, which climbed 6.9 percent in the half.

Mining equities did not experience the same positive gains as metal prices, with the TSX/S&P Global Gold Index declining 3.1 percent while the TSX/S&P Global Mining Index was off 4.1 percent. For mining companies, cost control remains a priority as miners compete to produce profitably for shareholders.

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3 Ibid.
Cumulative global deal value edged up by nine percent compared to the first half of 2016, and 35 percent against the second half of 2016 (once normalized for the significant potash transaction in H2 2016). Although deal volume has been on the rise during the past three consecutive halves, it still topped out at 41 transactions in H1 2017, which is still below the 2013 and 2014 transaction activity levels.

While debt still remains high among major producing companies, the market seems to believe that many of the majors may be developing an appetite to buy. While opportunities undoubtedly remain in the market, some speculators believe that the largest mining transactions in the current commodity price environment are behind us, pending more desirable and certain market conditions.

M&A activity was well diversified by both commodity and geographic region in the first half of 2017. Gold was the top commodity, with 32 percent of total deal value, followed closely by diamonds and coal at 24 and 19 percent, respectively. The largest transaction of the half was in the coal sector, at $2.7 billion USD, with three other transactions over a billion dollars in the half, including two diamond transactions and one copper transaction.
Market trends

Mining M&A activity is affected by considerations of geographic location and development stage of the asset. We have analyzed market trends by cross-referencing deal value and volume with the location and development stage of the acquired assets. For the purposes of this analysis, transactions by location considers all transactions with a deal value greater than $50 million, whereas transaction by asset stage uses a lower deal value threshold of $5 million or greater in order to more accurately capture the different transaction values across the stages of the asset lifecycle (i.e., exploration, development, production).

H1 2017 highlights:

– Global deal volume recorded its third consecutive half-year of gains, rising from 27 to 41 transactions (for deals valued at greater than $50 million) in that period of time, and is at the highest volume levels since 2014. In H1 2017, most of these gains came from considerably greater activity in Africa, Europe and Australasia, with a significantly higher weighting towards development assets rather than earlier stage exploration assets. These three regions accounted for nearly two-thirds of the deal volume, while North America and Asia lost ground.

– Despite the rise in deal volume, the average deal size ($380 million) was actually the lowest in two years, and had more in common with average deal sizes during the higher transaction volume periods of 2013 and 2014.
In recent years, North America and Asia have consistently led in terms of deal volume (for transaction values larger than $50 million). However, H1 2017 breaks that pattern decisively, with the volume of deals involving Australasia and Europe greatly increasing. Comparatively, North America and Asia saw their lowest deal volume in over three years.

By asset stage, global deal volume of transactions greater than $5 million increased 23 percent to 111 this half, which is the most transactions since the second half of 2014. Deal volume of assets in the development stage significantly increased in H1 2017. For three straight years, transactions involving exploration assets had dominated the deals every half, while development assets held the lowest share of total deals. This half, a significantly lower proportion of exploration deals was recorded, while development assets expanded to account for almost half of all transactions greater than $5 million. This move to later-stage project acquisitions could be a response to the improving picture for metals markets, with senior mining companies returning to buy-mode and looking to acquire near-production assets to replace reserves while valuations for their targets are still reflective of the lower metal price environment.

Normalizing deal value for the $24.4 billion blockbuster North American deal between PotashCorp and Agrium in H2 2016, overall deal value of transactions greater than $50 million was the highest it has been in four years. That result is primarily due to a major expansion of deal value from transactions in Europe, more than doubling recorded results from that region for any half in the past four years. Considering the normalized data, deals this half were on average $30 million larger than in H2 2016, and in line with the three year average.

By deal value, companies headquartered in Australia, the U.K., and Canada were the main targets for their international portfolio of assets, accounting for 53 percent of transaction value in the half. The largest transaction by value was the $2.7 billion acquisition of the Australian company Coal & Allied Industries Limited for its Australian coal asset. The Democratic Republic of the Congo and Argentina also saw significant activity, accounting for 13 percent of transaction value, as companies continue to show desire to operate in Africa and South America.

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Companies based out of Australia were the most aggressive this half, as the country accounted for 20 percent of the acquisitions, spending $3.1 billion. Companies headquartered in the U.K., China, Canada and the U.S. were also active, with $8.6 billion dollars, or 55 percent of the total deal value.

Deal value by asset stage for transactions greater than $5 million is consistent with the deal volume trend in underscoring the relative increase in deals for development stage assets in the half, although it is still well within range as compared to the past four years. Despite the increase in development stage assets, this half continues to highlight the significant premium paid for producing assets, as this asset class represents less than a third of the transactions in H1 2017, but accounts for at least three-quarters of the deal value associated with those transactions. Removed from H2 2016 is the Potash Corp. merger with Agrium to normalize the half for comparative purposes.
Market activity - H1 2017 top 10 deals

The top ten global transactions in the first half of 2017 reveal no outsized deals this time around. Transactions are slightly skewed towards precious metals, with two of the top three deals being represented by diamonds. Copper, zinc and coal are also represented, rounding out a well-diversified list of commodities. Only one of the smaller deals involves a development asset, while all others represent transactions for production assets.

<table>
<thead>
<tr>
<th>Announced date</th>
<th>Target/Issuer</th>
<th>Buyers/Investors</th>
<th>Consideration (USD$M)</th>
<th>Commodity</th>
<th>Asset location</th>
<th>Asset stage</th>
</tr>
</thead>
<tbody>
<tr>
<td>24/1/2017</td>
<td>Coal &amp; Allied Industries Ltd</td>
<td>Yancoal Australia Ltd</td>
<td>$2,690</td>
<td>Coal</td>
<td>Australia</td>
<td>Production</td>
</tr>
<tr>
<td>15/3/2017</td>
<td>Anglo American PLC</td>
<td>Volcan Investments Ltd</td>
<td>$2,430</td>
<td>Diamond</td>
<td>International</td>
<td>Production</td>
</tr>
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<td>19/3/2017</td>
<td>Dominion Diamond Corporation</td>
<td>The Washington Companies</td>
<td>$1,263</td>
<td>Diamond</td>
<td>Canada</td>
<td>Production</td>
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<tr>
<td>13/2/2017</td>
<td>Mutanda Mining Sarl</td>
<td>Glencore Plc</td>
<td>$1,052</td>
<td>Copper, Cobalt</td>
<td>Democratic Republic of the Congo</td>
<td>Production</td>
</tr>
<tr>
<td>6/4/2017</td>
<td>Barrick Gold Corp-Veladero</td>
<td>Shandong Gold Mining Co Ltd</td>
<td>$960</td>
<td>Gold</td>
<td>Argentina</td>
<td>Production</td>
</tr>
<tr>
<td>31/5/2017</td>
<td>Polyus</td>
<td>Shanghai Pingju Invest Mgmt Co</td>
<td>$887</td>
<td>Gold</td>
<td>Russia</td>
<td>Production</td>
</tr>
<tr>
<td>15/2/2017</td>
<td>Union Mines Joint Venture</td>
<td>Siyanda Chrome Invests Pty Ltd</td>
<td>$488</td>
<td>Platinum</td>
<td>South Africa</td>
<td>Production</td>
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<td>14/5/2017</td>
<td>Integra Gold Corp</td>
<td>Eldorado Gold Corp</td>
<td>$431</td>
<td>Gold</td>
<td>Canada</td>
<td>Development</td>
</tr>
<tr>
<td>13/3/2017</td>
<td>Perkoa Group</td>
<td>Trevali Mining Corp</td>
<td>$430</td>
<td>Zinc</td>
<td>Burkina Faso</td>
<td>Production</td>
</tr>
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<td>28/3/2017</td>
<td>Barrick Gold Corp</td>
<td>Goldcorp Inc</td>
<td>$300</td>
<td>Gold, Copper</td>
<td>Chile</td>
<td>Development</td>
</tr>
</tbody>
</table>

Source: Thomson, Capital IQ and KPMG analysis

Gold back on top

Gold is never shut out for long, as it regains the top share of total deal value in H1 2017, with four transactions making it into the top 10. The largest of these deals being Canada’s Barrick Gold arranging a strategic cooperation agreement with Shandong Gold Group of China, worth $960 million. Shandong is acquiring 50 percent of Barrick’s Veladero mine in Argentina, and then the two companies, in a joint working group, will explore ways to develop the Pascua-Lama deposit. Beyond that, both companies will assess additional investment opportunities in the promising El Indio Gold Belt region on the Chile/Argentina border. Barrick will contribute its expertise and operating experience in South America, while Shandong brings engineering, construction and underground mining expertise to the partnership.

In the second-largest gold deal, Chinese company Shanghai Pingju Investment

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6 Ibid.
7 Ibid.
8 Ibid.
Management, a Fosun International company, is spending $887 million to acquire 10 percent of the share capital of Russia’s Polysy Gold. The transaction is all cash, and includes an option to purchase an additional five percent of Polysy within a year. Mining assets are all in Russia, where Polysy is the largest gold producer. The company is also one of the world’s top 10 gold miners measured by ounces produced.

An all-Canadian transaction saw Eldorado Gold purchase all of the shares of Integra Gold which it did not already own. Total value of the deal is $431 million in cash and Eldorado shares. Eldorado gains Integra’s Lamaque project near Val-d’Or, Quebec, which is forecasted to become a high-grade underground mine that produces 123,000 ounces per year, at relatively low cost. Having recently sold its Chinese assets, Eldorado is well positioned to make this move domestically.

Rounding out the gold deals is another all-Canadian affair worth $300 million. In a complex web of asset sales in the Maricunga region, known as the Maricunga Gold Belt. The joint venture has the potential to reduce capital and operating costs, and boost returns compared to operating alone. Goldcorp already has a similar arrangement in Chile with Teck Resources.

Diamonds surprise with significant activity

Holding down 24 percent of deal value in H1 2017, diamonds were in the thick of M&A activity for the half, with two of the top three transactions. In the largest of these, worth $2.4 billion, Indian mining billionaire Anil Agarwal purchased approximately 13 percent ownership of Anglo American Plc. Anglo American, one of the world’s top five mining groups, was founded in South Africa and owns De Beers, among other assets. Agarwal made his move through his holding company, Volcan Investments, after a merger approach to Anglo American failed last year.

In the other diamond deal, The Washington Companies have made a $1.3 billion bid for Canada’s Dominion Diamond Corporation. The Washington Companies are a group of privately held North American mining and other businesses. The Washington all-cash offer represents a 44 percent premium to Dominion Diamond shareholders, the Dominion board is blocking Washington’s requested access to due diligence.

Coal captures largest deal

The lone coal deal in the top ten also happened to be the largest deal for the half. All issued and outstanding shares of Australia-based Coal and Allied Industries, a holding company for Rio Tinto’s thermal coal business, have been purchased by Yancoal Australia, a subsidiary of China-based Yanzhou Coal. The purchase price was $2.7 billion in cash and shares,

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6 Ibid.
7 Ibid.
8 Ibid.
10 Ibid.
11 Ibid.
12 Ibid.
14 Ibid.
15 Ibid.
16 Ibid.
17 Ibid.
19 Ibid.
21 Ibid.

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as a result of a bidding war between Glencore and Yancoal.\textsuperscript{25} Coal and Allied Industries owns interests in three Australian mines that produce thermal coal and semi soft coking coal.\textsuperscript{26} Through Yancoal Australia, Yanzhou Coal now owns and operates an asset portfolio of 24 coal mines across China and Australia.\textsuperscript{27}

**Solo deals for copper, platinum and zinc**

Copper held its place in M&A activity this half with the fourth largest transactions, for $1.1 billion, which saw major mining group Glencore purchase the remaining 31 percent of Mutanda Mining SARL, that it did not already own, along with an incremental stake in Katanga Mining.\textsuperscript{28} Purchases were made from holdings of the Fleurette Group.\textsuperscript{29} Glencore now owns 100 percent of Mutanda, and 86.33 percent of Katanga. Mutanda is a high-grade copper and cobalt producer, while Katanga has the potential to become Africa’s largest copper producer and the world’s largest cobalt producer.\textsuperscript{30}

Platinum and zinc each had one transaction in the top ten this half. In the platinum space, an all-South African deal saw Anglo American Platinum (Amplats) sell its Union mine, plus a stake in a chrome company, to Siyanda Resources for $488 million.\textsuperscript{31} The Union mine, which Amplats had turned around, produced 151,000 ounces of platinum last year.\textsuperscript{32} The sale is part of Amplats’ strategy to exit joint ventures and concentrate on mechanized operations to reduce costs.\textsuperscript{33}

Canadian zinc and other base metals producer Trevali Mining has agreed to purchase a portfolio of African zinc assets from Glencore for $430 million.\textsuperscript{34} These include the Rosh Pinah mine in Namibia, the Perkoa mine in Burkina Faso, and the Gergarub project in Namibia.\textsuperscript{35} An option to purchase the Heath Steele property in Canada is also included in the deal.\textsuperscript{36} Most of the purchases represent ownership interests in the assets rather than outright ownership.\textsuperscript{37} The transaction will make Trevali a top-ten global zinc producer and add to its existing assets in Peru and New Brunswick.\textsuperscript{38}
Market activity – H1 2017 top financing transactions

The high volatility experienced in the commodity markets in 2016 has continued into the first half of 2017, which has caused hesitation from investors entering the market, and a resulting decrease in activity from private equities and mining finance companies, as they wait to see how the market stabilizes.

<table>
<thead>
<tr>
<th>Date</th>
<th>Type</th>
<th>Buyer/Investor/Dealer</th>
<th>Target/Issuer</th>
<th>Mine/Unit</th>
<th>Country</th>
<th>Mineral</th>
<th>Deal Value (US$M)</th>
</tr>
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<tbody>
<tr>
<td>18-Jan-17</td>
<td>Equity</td>
<td>Syndicate of Underwriters</td>
<td>Alcoa Corp</td>
<td>NA</td>
<td>Americas</td>
<td>Aluminum</td>
<td>1,125</td>
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<tr>
<td>6-Feb-17</td>
<td>Debt</td>
<td>Syndicate of Underwriters</td>
<td>Vale Overseas</td>
<td>Brazil</td>
<td>Diversified</td>
<td></td>
<td>1,080</td>
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<tr>
<td>7-May-17</td>
<td>Equity</td>
<td>Syndicate of Underwriters</td>
<td>Sibanye Gold</td>
<td>Company</td>
<td>Africa</td>
<td>Gold</td>
<td>1,035</td>
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<tr>
<td>31-Jan-17</td>
<td>Debt</td>
<td>Syndicate of Underwriters</td>
<td>Polyus Gold</td>
<td>Company</td>
<td>Russia</td>
<td>Gold</td>
<td>800</td>
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<tr>
<td>9-Feb-17</td>
<td>Equity</td>
<td>Goldman Sachs &amp; Co.</td>
<td>Cliffs Natural Resources</td>
<td>Company</td>
<td>United States</td>
<td>Iron Ore</td>
<td>600</td>
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</table>

The first half of 2017 saw mining companies reverting to more traditional financing methods, with the top five largest financings coming in the form of fixed-income bond and secondary equity offerings. As interest rates remain relatively low and market volatility remains high, alternative sources of financing may be temporarily sidelined.

Streaming and royalty companies showed less activity in the first half of 2017 compared to recent prior periods. Orion Mine Finance Group, was active in the half, and partnered with Blackstone Group in one of the largest alternative financings in the half, a $400 million package to Lundin Mining to fund the company’s Fruta Del Norte project in Ecuador. The financing is comprised of a gold prepay credit facility for $150 million, a stream loan credit facility of $150 million, and committed participation of $100 to $150 million for future equity financings required to fund the project.

Later in the half Orion Mine Finance Group was, itself, the target of an acquisition by Osisko Gold Royalties, which acquired 61 royalties, seven precious metal offtakes, and six streams for a total consideration of $1.125 billion consisting of cash and shares.

Source: Thomson, Capital IQ and KPMG analysis
Contact us

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