

RESOURCES

Canadian miners may hold edge in bidding for Peace River Coal

DAVID PARKINSON
AUGUST 26, 2010

The competition is heating up for a plumb asset in one of the coal mining hotbeds of Canada - and some of the country's leading publicly traded coal companies may have an inside track.

Reports this week said that Peace River Coal Ltd., which owns the Trend metallurgical coal mine and several other development projects near the northeastern B.C. town of Tumbler Ridge, has narrowed the field of potential suitors to a handful of names, almost a year after the 75-per-cent owner of the joint venture, U.K.-based mining giant Anglo American PLC, announced it was putting it up for sale. This follows a first round of bidding, under which more than 60 companies from around the world reportedly expressed interest in Peace River Coal, whose price tag could run north of \$500-million. The sale is expected to be completed before year's end.

While the names on Peace River's short list haven't been made public, UBS Securities (Canada) Inc. analyst Chris Lichtenheldt suggested three Canadian miners - Teck Resources Ltd., Western Coal Corp. and Grande Cache Coal Corp. - could be in the running. All three operate in the same area as Peace River Coal's properties, offering operating synergies that might prove a deal-clincher for a winning bid.

"Based strictly on proximity, we would suggest all three of these companies would likely have conducted at least some due diligence on Peace River Coal," Mr. Lichtenheldt wrote in a research note.

Print Edition - Section Front



Enlarge Image



Quoting a report this week from industry news and data provider McCluskey's, Mr. Lichtenheldt wrote the remaining bidders for Peace River are also believed to include at least one Chinese operation, along with one Indian group and one Japanese group.

Spokesmen for both Western Coal and Grande Cache indicated that their firms had expressed interest in Peace River Coal in the first round of bidding, but declined to say whether they have made the short list of bidders for the second round. (Teck didn't provide a comment.) "We have taken a look at the assets, yes. That's about all we can say about it. We're bound by confidentiality agreements," said David Jan, head of investor relations at Western Coal.

The potential foreign buyers are believed to be steel mills looking to lock up supplies of metallurgical coal, a vital raw material in steel making. (South Korea's Posco is among the steel makers mentioned as possible bidders.) But unlike the Canadian coal producers in the region, these companies would run Peace River as a stand-alone entity, without complementary operations in the region that would help keep operating costs down.

That may be critical in the bidding process for Peace River, as its existing operations are relatively high-cost for the industry, with cash costs of about \$130 to \$140 (U.S.) a tonne. Contract prices for high-quality coking coal are running at about \$225 a tonne for the current quarter, but sluggish demand over the summer has analysts expecting the price could dip below \$200 for the next quarter - and some analysts see them heading back toward \$150 over the long term.

The synergies of the acquisition might be particularly compelling for Western Coal, which has several mines within spitting distance of Trend and a processor in the area operating at only a little over half its capacity. Western Coal also co-owns the promising Belcourt-Saxon development project with Peace River, which could prove the jewel of the acquisition. The proven and probable reserves on the properties, at 86.6 million tonnes, are almost four times the reserves at the Trend property, and roughly equal the reserves on all of Western Coal's other B.C. assets combined.

Teck, the biggest of the three, would have the least trouble absorbing the expense of such an acquisition. However, the company has said

that it has plenty of internal growth potential to invest its money in, and would need a "pretty compelling" reason to expand through acquisition.

For Grande Cache, though, the deal would be a stretch. The upper range of the anticipated purchase price could exceed the company's entire market capitalization, which is slightly more than \$500-million (Canadian).