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Discussion-Opinion-Editorial
When a Mining Company Comes to Stalling and becomes a Likely Target of Acquisition: Learnings from a Recent Yet Continuing Saga

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Abstract

A company may become a takeover candidate when a larger company is interested in acquiring it. A potential takeover target may have the following characteristics: Unique niche: The company has a distinct niche in its industry, Capital structure: The company has a clean capital structure, with minimal debt and only one class of common stock, Management: The company has experienced management, Margins: The company has potential to increase margins and Revenue streams: The company has steady businesses and consistent revenue streams. In other words, for a mining company to be a candidate for a total takeover, it needs good deposits/assets, low cash reserve, below-par management, etc. When a company is a potential takeover target, the acquirer will usually make a bid to purchase the target company. The bid is typically made in cash, stock, or a combination. The offer is then presented to the target company's board of directors, who can approve or reject the deal. If the board approves, the deal will then be voted on by the shareholders. Here we deal with the sage of the largest mining company in the world, BHP considering taking over the fifth largest mining company, Anglo-American. We investigate the case.

Keywords: *Anglo-American, BHP, Deal, Market, Takeover*

1.0 Major Findings

In a rather depressing and dull market a high-performing mining company bids for a currently not-so-well-performing mining company with an attractive offer, though the share market encourages the deal rather tepidly.

2.0 How a Mining Company Comes to Stalling

Anglo-American Plc is a British multinational mining company based in London, with a primary listing on the London Stock Exchange and in the FTSE 100 Index. It also has a secondary listing on the Johannesburg Stock Exchange, reflecting the company's South African origins where it was formed in 1917. Anglo-American is the fifth biggest mining company in the world, with a value of over $55 billion in 2020. Anglo-American produces metals and minerals like copper, nickel, platinum group metals, diamonds, iron ore, coal, and crop nutrients. They have 56 operations in 15 countries, mainly in Southern Africa, South America, and Australia. They are the world's largest producer of platinum and the majority owner of the De Beers Group[1].

In one of their operations, the Cerrejón coal mine is jointly owned by Anglo-American, BHP and Glencore. The giant open-pit mine is located in La Guajira, northern Colombia, where it has displaced and continues to displace indigenous Wayuu and African descent communities. Local communities have often been relocated and face multiple issues as a result, including loss of their livelihood. Meanwhile, many of the alternative economic projects set up with Cerrejón funding have failed, leaving people without adequate incomes. The mining operations have also severely damaged the natural environment such that local people fear the land will never recover even

after mining stops. This includes the destruction of local watercourses which have exacerbated conflicts over water as local communities report not having enough water. Additionally, pollution and dust from the coal mine have caused the contamination of water supplies and the air. With increasing pressure on companies to take climate action, Anglo-American is divesting from coal and therefore selling its share in Cerrejón to Glencore. While a shift away from coal is desirable, Anglo-American must not be allowed to simply sell on its responsibility for the damage already caused by the Cerrejón mine. This includes the consequences of the diversion of the Bruno River and the eviction of the Tabaco community in 2001 who are still waiting for redress[2].

In another such operation, Anglo-American's operations in Minas Rio in Minas Gerais state have been criticised for being imposed on local communities and for water pollution caused by mining waste spills. Additionally, the project includes a large tailings dam which poses a high risk to communities living downstream – a fact of which they are even more painfully aware after the 2015 Samarco dam disaster and the 2019 Brumadinho dam disaster, both in the same state of Minas Gerais. A recent request to heighten the dam has further raised concerns about the risk to people living nearby. Anglo-American's exploration plans in Amazonia are in danger of infringing on indigenous people's land rights, particularly as the Bolsonaro presidency has reduced the protection of the Amazon and indigenous rights. At multiple instances when the company was asked if it was committed to respecting such rights, it only committed to seeking free, prior and informed consent (FPIC), not to obtaining it before starting operations[3].

3.0 The Problems Anglo-American is facing

3.1 In recent years, Anglo-American has faced several financial challenges, including:

1. **Production cuts:** Anglo-American has cut production to reduce costs, especially at its copper mine in Chile. The company has also experienced logistical and operational issues.
2. **Cost increases:** Anglo-American has faced above-inflation cost increases in utilities and consumables.
3. **Share price drop:** Anglo-American's share price has dropped due to production cuts and other factors.
4. **Profit fall:** Anglo-American has experienced a steep fall in profit.
5. **Dividend lower:** Anglo-American has lowered its dividend.

Anglo-American has also been restructuring to refocus on metals. The company is reviewing its portfolio and looking for growth[3,4].

3.2 Share Holding

Here are some of the top shareholders of Anglo-American as of June 14, 2024:

Anglo-American South Africa Investments Pty Ltd: 224,535,915 shares

Industrial Development Corporation: 41,498,615 shares

Public Investment Corporation: 8,616,229 shares

T. Rowe Price Associates, Inc: 3,950,528 shares

Anglo-American's shares are traded on the following exchanges: Johannesburg Stock Exchange (JSE), London Stock Exchange, SWX Swiss Exchange, Botswana Stock Exchange, and Namibian Stock Exchange.

Anglo-American is a large-cap public company. Anglo-American's market cap is over $40 billion. Anglo-American is one of the world's largest mining companies by revenue.

Stock exchanges: Anglo-American is listed on the London Stock Exchange and the Johannesburg Stock Exchange.

Index: Anglo-American is a constituent of the FTSE 100 Index.

Forbes Global 2000: In 2020, Anglo-American was ranked as the 274th largest public company in the world.

Anglo-American is a British multinational mining company that produces platinum, diamonds, copper, nickel, iron ore, polyhalite, and steelmaking coal. The company has operations in Africa, Asia, Australia, Europe, North America, and South America.

The major shareholders are as in Table 1.

Table 1. The major shareholders

Name	Equities	%
Public Investment Corporation (SOC) Ltd.	90,531,496	6.768 %
BlackRock Investment Management (UK) Ltd.	62,847,957	4.699 %
Epoch Investment Holdings Ltd.	47,275,613	3.534 %
The Vanguard Group, Inc.	46,448,227	3.473 %
Wellington Management Co. LLP	45,242,276	3.382 %

3.3 Why are Anglo-American Shares falling in 2024 ?

Anglo-American's share price has been affected by a number of factors in 2024, including:

i) **Asset divestment**

Anglo-American is selling less profitable assets, including five coal mines in Australia, to focus on expanding copper output. However, an underground incident at Grosvenor delayed the sale process and could negatively impact the timing and execution of the plan.

ii) **Earnings**

Anglo-American's majority-owned subsidiary, Anglo-American Platinum, saw earnings plummet due to a 24% drop in metal prices.

iii) **Diamond production**

Diamond production dropped by 23% in the quarter, following a global glut in 2023.

De Beers, partly owned by Anglo, is cutting its production for the year by around 3 million carats.

iv) **Woodsmith project**

Anglo-American temporarily slowed the Woodsmith crop nutrients project, which resulted in a $1.6 billion impairment. The Woodsmith Project, a fertilizer plant in North Yorkshire owned by Anglo-American, has faced a number of challenges, including (figure 1):

a) Cost pressures
The mine costs £2 million a day to run, and Anglo-American is under pressure to reduce costs.

b) Slowed development
Anglo-American has temporarily slowed down the development of the project, including the sinking of the production shaft and the completion of the 23-mile tunnel to the processing plant.

c) Job losses
The workforce is expected to be cut by about 60% to around 900 over the next 12 months.

d) Impairment
Anglo-American took a $1.6 billion impairment on the project in May 2024.

e) Challenges with the sandstone
The sandstone is hard and there is a risk of high-water flows in some sections.

f) Mining plan
There is a challenge in coming up with a viable plan for the lateral polyhalite mining.

g) Anglo takes fresh $1.6bn writedown on UK fertilizer mine ...
The Woodsmith Project extracts polyhalite, a natural mineral that contains sulfur, magnesium, potassium, and calcium, for the production of fertilizer. Underscoring the doubt is the fact that the Woodsmith project involves polyhalite, a relatively obscure fertilizer product with unproven demand. The project has a checkered past — its previous owner Sirius Minerals rode a wave of retail investor enthusiasm to develop it, only to fail to raise the final piece of financing.



Figure 1. Woodsmith Mine near Whitby extracts polyhalite for the production of fertiliser.

v) **Portfolio transformation**

Anglo-American is transforming its portfolio by focusing on copper, premium iron ore, and crop nutrients. This is expected to take a couple of years to complete.

Some guidance forecasts suggest Anglo-American could bounce back quickly, with earnings returning to pre-slump levels in the next couple of years. Others say that investors should prepare for volatility in the near term[4-6].

4.0 BHP makes $39 billion bid for Anglo-American

Mining giant BHP Group on 25th April, 2024 said it had made an all-share takeover offer for rival Anglo-American, valuing the smaller company at £31.1 billion ($38.9 billion). Anglo-American shares closed the trading session more than 16% higher. The company confirmed

it had received an "unsolicited, non-binding and highly conditional combination proposal," which it said it was reviewing with advisers. Australia-based BHP, the biggest listed miner according to Companies Market Cap, said that the deal would deliver 0.7097 BHP shares per Anglo-American share to Anglo-American's ordinary shareholders.

BHP said the combination would optimize Anglo-American's "assets and long-term growth potential" with its own "higher margin cash generative assets and growth projects along with its larger free cash flows and stronger balance sheet."

5.0 What are the Reasons that BHP is Backing to Bid Anglo-American

BHP is attempting to acquire Anglo-American primarily due to its large copper reserves, which are crucial for the growing demand in the green energy transition, and to bolster its portfolio of future-facing commodities like copper, nickel, and rare earth elements, which are considered essential for electrification and renewable energy projects; essentially, BHP sees Anglo-American as a way to significantly expand its copper production and secure a reliable supply of this critical metal[6,7].

Key reasons for BHP's interest in Anglo-American

1. **Copper dominance:**
   Anglo-American owns several large copper mines in South America, giving them a substantial share of the global copper market, which is highly sought after due to its role in electric vehicles and renewable energy infrastructure.
2. **Strategic asset acquisition:**
   By acquiring Anglo-American, BHP could significantly increase its copper production capacity and solidify its position as a leading producer of this critical commodity.
3. **Synergy potential:**
   Combining BHP's existing operations with Anglo-American's copper assets could create significant operational synergies and cost savings.
4. **Energy transition alignment:**
   BHP is actively looking to expand its exposure to commodities vital for the energy transition, and Anglo-American's copper portfolio fits perfectly into this strategy.

However, there are also challenges to this potential acquisition:

a. **Anglo-American's resistance:**
   Anglo-American's board may be hesitant to accept BHP's offer, potentially leading to a protracted negotiation process.
b. **Regulatory hurdles:**
   Depending on the deal structure, regulatory approvals might be required, which could introduce complexities.
c. **Market valuation concerns:**
   The market may not fully support the potential deal value, raising concerns about shareholder returns.

6.0 What is BHP

BHP is the world's largest mining company by market capitalisation, a leading producer of iron ore, copper and metallurgical coal and is moving into potash (figure 2).

BHP Group Limited, formerly known as BHP Billiton, is an Australian multinational mining and metals public company headquartered in Melbourne, Australia. The Broken Hill Proprietary Company was founded on 16 July 1885 in the mining town of Silverton, New South Wales. One of the world's largest mining companies, it is involved in the production of iron, steel, copper, silver, aluminium, oil, and gas. The company also has interests in engineering and transportation. BHP Billiton's headquarters are in Melbourne, Australia. BHP Ltd.

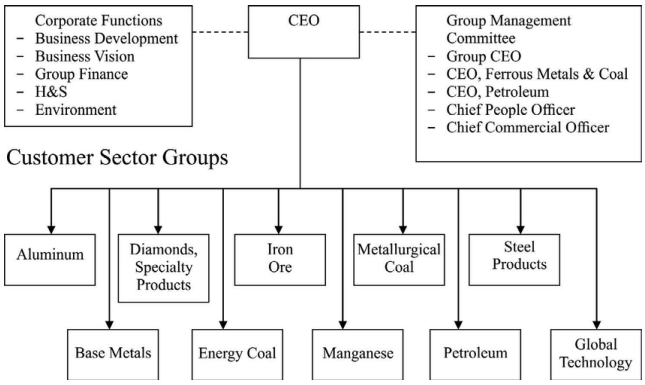


Figure 2. Organization of BHP.

BHP stock performance has been very strong in the recent years (figure 3).

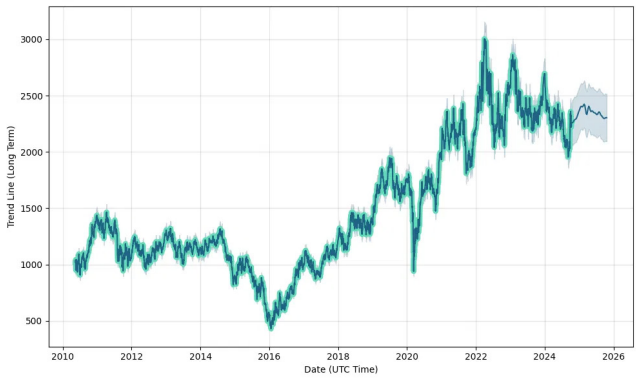


Figure 3. BHP Group Stock Forecast (GBP).

6.1 What is the Synergy BHP looking for into Anglo-American Takeover?

Compared to Anglo-American, BHP reported strong operational performance in 2024, with several notable achievements, including:

I. Copper production: BHP's copper volumes grew by 9% for the second year in a row, and they expect to grow by another 4% in 2025. They also set a record for copper production at Spence and Carrapateena.
II. Iron ore production: BHP set record volumes at Western Australia Iron Ore, and extended their lead as the world's lowest cost iron ore producer.
III. Steelmaking coal production: BHP's steelmaking coal production increased by 20% in the quarter, excluding the recently divested Blackwater and Daunia mines.
IV. Greenhouse gas emissions: BHP reduced operational GHG emissions by 32% from FY2020.
V. Economic contribution: BHP's total economic contribution was US$49.2 billion.
VI. Payments to governments: BHP paid US$11.2 billion to governments in 2024.
VII. Female employee participation: BHP's female employee workforce participation was 37.1% at the end of June 2024.
VIII. Indigenous procurement: BHP's Indigenous procurement spend was a record US$609 million, up 83% on FY2023.

7.0 Abandonment

BHP Group abandoned its $49 billion bid to acquire Anglo-American on May 29, 2024 after the London-listed company rejected a request to extend takeover talks:

8.0 BHP's proposal

BHP's bid included spinning off two units and buying the remainder of Anglo.

9.0 Anglo's response

Anglo rejected BHP's bid, calling it too complex and undervaluing its stock. Anglo also said it was committed to a "disciplined approach" to mergers and acquisitions.

10.0 BHP's response

BHP said it could not agree with Anglo on South African regulatory risk and cost. BHP also said it did not get "key information" from Anglo to address these risks.

Here are some other key events in the BHP-Anglo-American takeover saga:

May 13: Anglo-American rejected a raised takeover proposal of $42.67 billion from BHP.

May 14: Anglo-American announced plans to refocus on copper and offload less profitable assets.

May 22: Anglo agreed to a week-long extension for BHP to make a binding takeover offer.

May 23: BHP stood firm on its latest takeover proposal.

May 25: Key shareholders encouraged Anglo to continue engaging in talks with BHP.

BHP's initial offer was $39 billion, but Anglo-American rejected it, saying it undervalued the company. BHP's third proposal offered 0.8860 BHP shares for each Anglo share, which valued Anglo at £29.34 per share. This was an increase from BHP's initial offer of around £25 per share. Anglo-American rejected the third proposal, citing concerns about the deal structure and the risks it posed to shareholders. The proposal required Anglo-American to demerge its shareholdings in Anglo-American Platinum and Kumba Iron Ore. BHP withdrew its proposal, saying it believed its bid was compelling but the company is committed to a disciplined approach to mergers and acquisitions. BHP shareholders supported the decision[8].

11.0 The Latest

BHP chief executive Mike Henry met government officials in South Africa on 15th October 2024, fuelling speculation that the Australian miner will resurrect its failed £39bn bid for Johannesburg-based rival Anglo-American[8]. Henry and chief development officer Catherine Raw met South African government officials and the Public Investment Corporation, the state-owned asset manager, said three people with knowledge of the details[9]. Raw was involved in the first Anglo approach. PIC is the second-largest shareholder in Anglo, with a 7.5 per cent stake. South Africa's government is also a shareholder in BHP, with a 3.7 per cent stake at the time of the most recent annual report. BHP was examining how it might make a renewed offer after the standstill period comes to an end on November 29, according to bankers seeking advisory or financing roles. However, they cautioned no decision had been made. The enthusiasm is palpable. "The consensus view is that they are coming back if they can figure it out," one banker said. Another said it was an "open secret" that BHP was considering whether to make a bid. It is interesting to see how the share market in (AA:LSE) and (BHP: ASE) behaved (Table 2); expectedly the market seems to be hopeful of a deal[8,9].

Table 2. Share market price at LSE for Anglo-American

Anglo-American plc (AAL. L)		
Date	Open	Low
Oct 18, 2024	2,359.50	2,356.99
Oct 17, 2024	2,316.00	2,266.00
Oct 16, 2024	2,242.50	2,231.00
Oct 15, 2024	2,288.50	2,207.50
BHP Share Price History		
Date	Open	Daily Movement
18 Oct 2024	$42.33	-0.27 (-0.64%)
17 Oct 2024	$43.55	-0.56 (-1.29%)
16 Oct 2024	$43.40	0.14 (0.32%)
15 Oct 2024	$44.37	-0.36 (-0.81%)

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