Zijin Mining falls on concerns it is paying too much in US$1.39 billion Nevsun takeover of Timok Serbia copper project

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Shares of Chinese mining company Zijin Mining fell as much as 4.6 per cent on Thursday on concerns that it may be paying too much with its C$1.8 billion (US$1.39 billion) offer for Vancouver-based Nevsun Resources.

Zijin's offer of C$6 a share, its biggest overseas acquisition since it went public in Hong Kong in 2003, is at a 26 per cent premium and trumps a rival bid by Toronto-based Lundin Mining of C$4.75 per share. The acquisition, which is subject to a formal agreement, is not big enough to require Zijin shareholders' approval.

Nevsun owns 60 per cent of the Bisha copper and zinc mine in Eritrea, east Africa, and 60 to 100 per cent interests in two sections of the Timok copper and gold mine in Serbia, in eastern Europe.

"Zijin's 26 per cent offer premium is high relative to the around 10 per cent premium seen in most deals worth US$1 billion and above," said Argonaut Securities analyst Helen Lau. "It doesn't leave much room for earnings per share accretion for shareholders."

The production cost of the Eritrea project is relatively high, while the Serbia exploration asset's potential valuation of US$1.8 billion – based on a copper price of US$3.15 per pound according to Zijin's filing – is too optimistic, she said.

Bisha produced 95,000 tonnes of zinc last year, incurring total cash-based production costs of 97 US cents per pound, and 8,000 tonnes of copper at cash costs of US$1.72 a pound.

The mine is expected to be economically viable for just over four more years, but nearby areas have large resources worthy of further development, Zijin said.

The upper zone of the Timok mine, 245km (152 miles) from Serbia's capital Belgrade, needs an estimated US$574 million to bring it to production, which could start as early as 2022. It is estimated to have 10 years of life, averaging 86,000 tonnes a year, at 92 US cents per tonne of copper in cash costs, according to a pre-feasibility report. The lower zone of the mine is under exploration.

Nevsun posted a net loss of US$8.75 million in the year's first half on revenue of US$183 million, and a loss of US$99.6 million last year due to exploration and asset impairment costs.

Guotai Junan Securities analyst Kevin Guo said that while Zijin's offer appeared aggressive, he expected its post-deal debt load would still be within acceptable levels. Likely lower interest loans from mainland Chinese banks under Beijing's "Belt and Road Initiative" global trade development plan would also help cut its finance costs.

Zijin shares closed 2.8 per cent lower on Thursday at HK$2.74.

Source: m.scmp.com