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Natural Resources **July** 2017

Barrick Gold Corp and Shandong Gold Mining finalise Veladero joint-venture

On 30 June 2017, Barrick Gold Corporation (**Barrick**) announced the completion of the sale of a 50% interest in its Veladero mine in San Juan province, Argentina, to Shandong Gold Mining Co., Ltd, (**Shandong Gold**) for US$960 million. Shandong Gold was listed on the Shanghai Stock Exchange in 2003 and by 2016 had produced approximately 1.2 million ounces of gold. It is currently the only Chinese mining company categorized as a 'National Environmentally Friendly Enterprise' by the Chinese Government. Following the sale Barrick and Shandong Go will form a 50/50 joint venture, which will explore and jointly develop the Pascua-Lama deposit and the El Indio Gold Belt on the border of Argentina and Chile. Barrick has stated that the proceeds from the sale will be used primarily to reduce its debt. (Source: http://www.asiaminer.com/news/latest-news/8664-barrick-and-shandong-finalise-veladero-jv.html#.WWRqIRWGOUI, 6 July 2017)

Rosneft clears last hurdle in Essar Oil takeover

On 22 June 2017, Igor Sechin, CEO of Rosneft Oil Company PJSK (**Rosneft**) confirmed that Rosneft's delayed US$13billion takeover of India's Essar Oil Limited (**Essar Oil**) would proceed. Rosneft will acquire a 49% stake in Essar Oil from its holding company Essar Global Fund Limited (**Essar Global**). Russian investment group United Capital Partners and Swiss commodities trader Trafigura Pte Limited will take a 49% stake between them, with Essar Global's founders taking the remainder. Essar Oil is Essar Global's most profitable business; it controls India's second-largest oil refinery and 2700 petrol stations throughout the country. It has been struggling under a heavy debt burden. Essar Steel India Limited (**Essar Steel**), Essar Oil's sister company, one of 12 indebted Indian companies granted protection is by the Reserve Bank of India under the country's new bankruptcy code. The takeover was reportedly delayed by several Indian banks with significant exposure to Essar Oil and Essar Steel, and who were seeking assurances that Essar Global would use part of the proceeds from the sale of Essar Oil to invest in Essar Steel. Essar Global has committed to making a capital injection in Essar Steel pursuant to the sale. The takeover will be the biggest ever foreign direct investment in India. (Sources: https://www.ft.com/content/28067852-573f-11e7-9fed-c19e2700005f?mhq5j=e3, 22 June 2017; http://www.reuters.com/article/us-rosneft-oil-essar-banks-idUSKBN19E0TP, 23 June 2017)

Mergers and acquisitions among Chinese State-owned Enterprise seen as preparation for Belt and Road Initiative

The Chinese Government has initiated a fresh round of State-owned Enterprise (**SOEs**) mergers in the coal, electricity, heavy machinery and steel sectors. Coal producer Shenhua Group Corporation Limited (**Shenhua Group**) is reported to be in merger talks with China Guodian Corp (**China Guodian**). It is estimated that Shenhua Group and China Guodian have combined assets of approximately US$262 billion. In March 2017, it was announced that China National Nuclear Corp. and China Nuclear Engineering & Construction Corp would merge to create a new group with an estimated value of approximately US$80 billion. In June 2017, China National Machinery Industry Corp. (**China National Machinery**) received Government approval to merge with the China Hi-Tech Group (**China Hi-**

Tech) which produces textile machinery. The combined value of China National Machinery and China Hi-Tech is estimated to be approximately US$52 million. The China National Chemical Corporation (**CNCC**) and the Sinochem Corporation (**Sinochem**) are also understood to be involved in merger talks. Should Sinochem and CNCC merge, it would create the world's largest industrial chemicals firm. The recent merger activity is part of a wider restructuring by Chinese SOE's as part of China's 'Belt and Road' initiative. (Source: https://www.ft.com/content/e3972f54-62e2-11e7-91a7-502f7ee26895, 10 July 2017)

ENGIE seeks US$512-million selling stake in India LNG importer Petronet

Former French state-owned natural-gas producer the ENGIE Group (**ENGIE**) is proposing to sell its entire stake in Petronet LNG Limited (**Petronet**), India's biggest importer of liquefied natural gas (**LNG),** for approximately US$512 million. ENGIE's subsidiary GDF International S.A. is offering for sale 75 million shares in Petronet - equal to approximately 10% of Petronet's issued share capital - for a price of between US$6.481 - US$6.838 per share. The sale is the latest in a US$9.5 billion divestment plan ENGIE has been pursed over the last three years. ENGIE proposes to sell US$16.9 billion worth of assets before 2018, with a view to reducing its exposure to fluctuating oil, gas and power prices. The divestment follows the announcement by India's Prime Minister Narenda Modi that India will seek to meet its increasing energy demands through the use of cleaner fuels. ENGIE, which invested in Petronet in 2001, has engaged Citigroup Inc. and JP Morgan Chase & Co. to act as joint placing agents for the offering. ENGIE will give India's 4 state-owned petroleum companies - the Oil & Natural Gas Corp., the Bharat Petroleum Corp., the Indian Oil Corp and GAIL India Ltd, which together control 49.99% of Petronet, 'right of first refusal' before proceeding with the sale. (Source: http://www.worldoil.com/news/2017/6/8/engie-seeks-512-million-selling-stake-in-india-lng-importer, 8 June 2017)

China Gold International Resources raises US$500 million through issue of corporate bonds

On 6 July 2017, China Gold International Resources Corp. Ltd. (**China Gold International**) entered into a subscription agreement for the issue of corporate bonds with a value of US$500 million. China Gold International and its wholly-owned subsidiary Skyland Mining (**BVI**) Limited entered the subscription agreement with joint lead managers, China International Capital Corporation Hong Kong Securities Limited, Citigroup Global Markets Limited, CCB International Capital Limited, Industrial Bank Co., Ltd. Hong Kong Branch and Standard Chartered Bank Limited. The joint lead managers will subscribe for the bonds at an issue price of 99.663% bearing a coupon of 3.25% per annum with a maturity date of July 6, 2020. China Gold International will unconditionally and irrevocably guarantee the bonds. The net proceeds of the bond issue will be used to repay existing indebtedness and used as working capital in China Gold International operations in China. The Canada-based, China Gold International, operates the CSH Gold Mine in Inner Mongolia and the Jiama Copper-Gold Polymetallic Mine in Tibet and is dual-listed on the Toronto Stock Exchange and the Main Board of the Stock Exchange of Hong Kong Limited. (Source: http://www.asiaminer.com/news/latest-news/8668-us-500-million-bond-funds-for-china-gold.html#.WWRqHRWGOUI, 6 July 2017)

Chinese steel mills favouring high grade Australian iron ore over Indian ore

Chinese steel mills are reportedly switching from Indian iron ore to Australian ore. Iron ore prices have decreased below US$60 a tonne on concerns about oversupply and weak demand from steelmakers in China, making it cheaper for Chinese steel mills to buy higher-grade iron ore. Indian exports of iron ore dropped by 53%, to 23 million tonnes (**mt**) in May 2017, compared to 49 mt in March 2017. Indian iron production is still expected to grow by 8%, but with declining exports a domestic surplus of 18 mt is expected in 2018. The increase in tonnage is partly due to the resumption in production in India's top iron exporting state of Goa in 2015, led by Vedanta Resources PLC. Most of Goan produced ore is of a lower-grade, with supply-side competition for lower grades increasing. Chinese steel consumption has been higher than expected in 2017, and prevailing steel prices are leading to increased profit margins at Chinese steel mills. Australian ports are benefiting from increased steel prices. According to data produced by the Pilbara Ports Authority (**PPA**), the PPA had a throughput of 59.1 million tonnes in May 2017, a 10% increase than in May 2016. (Source: http://www.mining.com/china-shuns-indian-iron-ore-favour-australias/, 25 June 2017)

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