Del Santo

882319

T08

MINING JOURNAL

London,
August 10, 2001
Volume 337
No. 8646

Established 1835
ISSN 0026-5225

Goldfields and Delta talk

Two Australian-based gold producers, Goldfields Ltd and Delta Gold Ltd, have confirmed that they are in discussion regarding a possible merger. The two companies are reported to have exchanged information and to have discussed managerial and operational issues, but relative valuations, merger terms and possible cost savings have not yet been determined. Delta noted this week that it has held "preliminary strategic discussions, including a possible merger" with Goldfields, but that these discussions are "as yet incomplete" and "there is no guarantee that (they) will progress to completion".

Market reaction has been positive, with the share prices of both companies rising modestly following the news. However, the fact that the terms have not been established precluded the usual sharp price reaction to any takeover premium.

A key element in the outcome of any proposal will be the reaction of Harmony Gold Mining Co. Ltd of South Africa, which holds a 23% shareholding in Goldfields. Harmony's chief executive, Bernard Swanepoel, has been an outspoken proponent of greater supply-side discipline by the gold mining industry (*MJ*, April 27, p.319), indicating that he is in favour of consolidation, at least in principle.

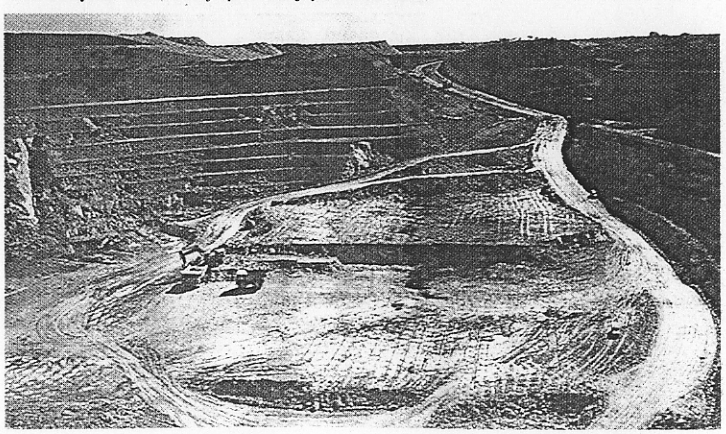
Delta is the slightly larger of the two companies in terms of market capitalisation, at A$477 million, and Goldfields is worth A$365 million. Merger would create a gold company ranked fourth on the Australian Stock Exchange on this basis, behind Normandy Mining Ltd, Newcrest Mining Ltd and Lihir Gold Ltd. Given investor preference for shares in larger companies, with greater liquidity in their shares, the combined size of a merged company might reasonably be expected to attract greater investor interest than the sum of the current parts.

Possible cost savings stemming from a merger would come mainly from Western Australia, where the two companies both have operations, centred around Kalgoorlie. Delta notes the "close relationship" between the two companies in this area, including the treatment of ore from its Golden Feather project in Goldfields' Paddington mill. There would also presumably be scope for rationalising their combined exploration programmes.

Goldfields produced 614,769 oz of gold (attributable) in the year to June 30, 2001, at a cash operating cost of A$295/oz and a total operating cost of A$417/oz. The largest contribution to production (222,067 oz) came from the company's 25% interest in the Porgera mine in Papua New Guinea. 100%-owned Henty, in Tasmania, contributed 82,042 oz (after deducting 10% for a royalty of that size on gross revenue), and the balance came from Kundana and Paddington in Western Australia.

During the same 12-month period, Delta produced 540,538 oz (attributable), at an average cash operating cost of A$322/oz. The largest contribution (290,481 oz) came from 100%-owned Kanowna Belle in Western Australia, followed by Delta's 40% share from Granny Smith (135,192 oz), and that from 100%-owned Golden Feather (69,444 oz). The balance came from 100%-owned Wirralie in Queensland. Merger of the two companies would rank the resulting producer second in Australia, behind Normandy. □

The Mulgarrie pit at Golden Feather, in Western Australia, one project offering potential synergies in a Delta-Goldfields deal. (Photograph courtesy of Delta Gold Ltd.)



Inside

Government support for Stanwell

The A$1.3 billion Stanwell magnesium project in central Queensland was thrown a A$200 million lifeline this week by the Australian Federal Government and the Queensland State Government. The Federal Government has agreed to act as guarantor for a A$100 million loan, and the Queensland Government has committed to provide A$100 million in loan-funding that the project's owner, Australian Magnesium Corp. (AMC), will use to guarantee dividend payments to its shareholders over the next three years. AMC is 62.4%-owned by Normandy Mining Ltd, but the latter is keen to reduce its involvement in the project, because its strategy is to concentrate on gold mining.

The loan to guarantee dividend payments is specifically designed to help resurrect the failed equity offering of shares in AMC. Two months ago, the company secured A$932 million in commercial debt funding, and announced plans to raise A$680 million through an institutional and retail share offering. However, the bookbuilding exercise for the offering fell short of this target by some A$120 million (*MJ*, July 27, p.65). Failure of the equity offering also jeopardised the commercial debt funding.

At the time of the failure of the equity offering, the Premier of Queensland, Peter Beattie, *Continued on p.93*