

# Mindsets of Chinese Resource Investors

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- Chinese industry is seeking to secure long term secure supplies of core commodities at stable prices
  
- The alternatives presented on how this can be achieved over the longer term (at the April 2009 Boao Forum) were:
  - Own the producers
  - Have long term off-take contracts
  - Regulate against price speculation

The primary driver of future Chinese investment in Australian resources will be securing core commodities at stable prices

# Increasing Investment Appetite



- Because of the need to secure resources the Chinese appetite for investment in Australian resources is already increasing
  
- The evidence:
  - Increased number of enquiries
  - Increased number of announced deals
  - Increased presence of parties on the ground in Australia
  - Public statements made about deployment of foreign exchange reserves into resource projects

If Chinese investment in Australian resources is to continue it will require that the investments produce acceptable financial returns

# Why the Increased Investment Interest



- The long term requirement to access commodities
- Asset prices are low on a relative basis, presenting an opportunity for greater returns over time
- China recognises it has leverage as a major (the only?) source of capital
- Increased level of acceptance in China about investing in Australian resources

# Investment Challenges



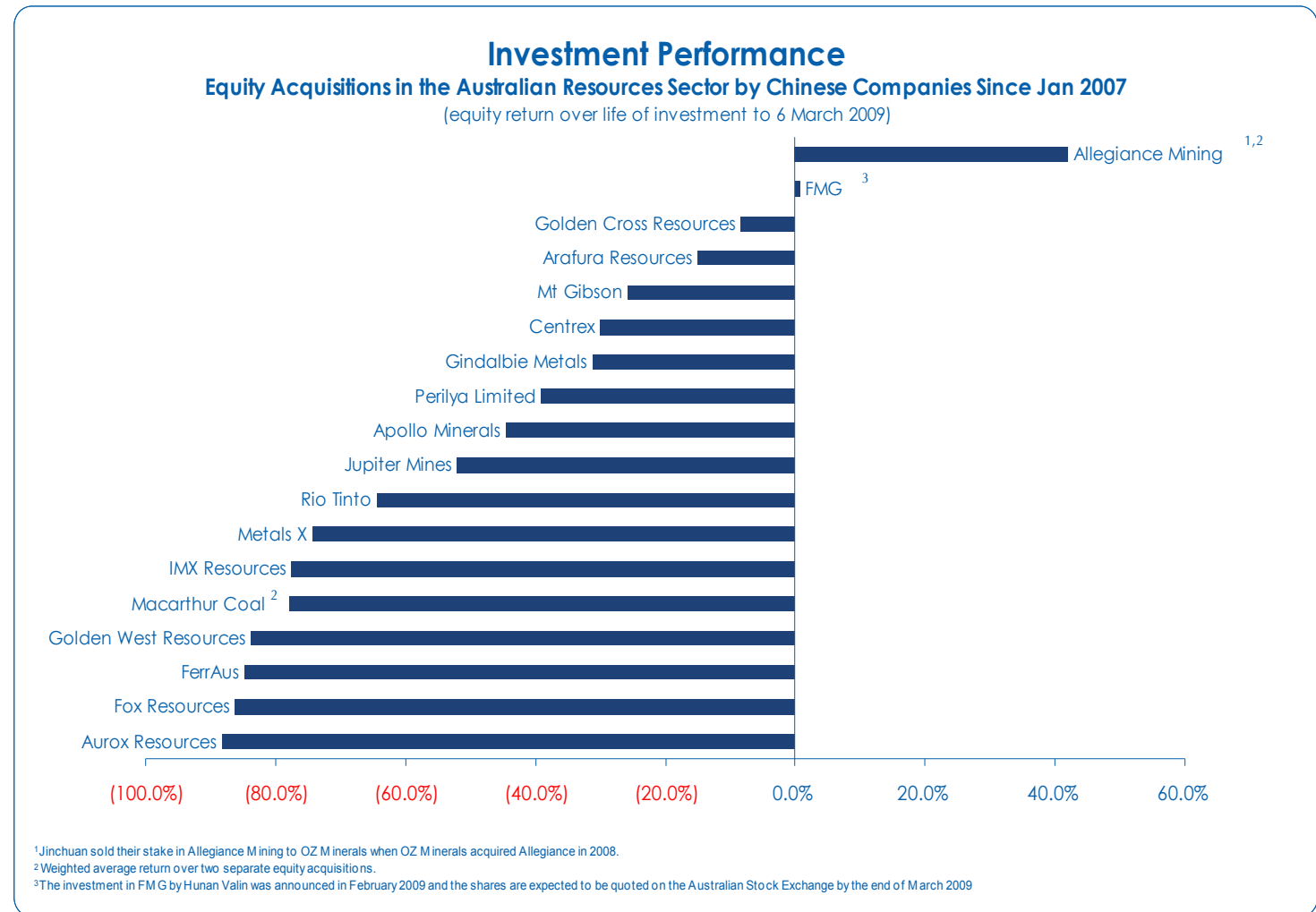
- While the appetite to invest has increased, there are a number of challenges for incoming parties

Challenge	Issues
Due Diligence	<ul style="list-style-type: none"><li>• local insights</li><li>• access to skilled resources</li><li>• knowledge of commercial, environmental, accounting, legal and technical risks</li></ul>
Valuation	<ul style="list-style-type: none"><li>• local knowledge of market, competitors positions, and key value drivers</li><li>• high risk of overpaying</li></ul>
Negotiation and structuring	<ul style="list-style-type: none"><li>• crucial to get structuring right to obtain necessary approvals</li><li>• risk of not seeing full picture and key leverage points relevant to Australian vendors</li></ul>
Communication	<ul style="list-style-type: none"><li>• essential that communication of any deal to Government (State and Federal), shareholders, employees, analysts and institutions is well thought out and carefully managed</li></ul>

# Recent deals – a snapshot on performance



- Our analysis indicates significant financial underperformance from recent Chinese direct investments in Australian resources
- Some may yet achieve other objectives (such as access to off take) but at what price?

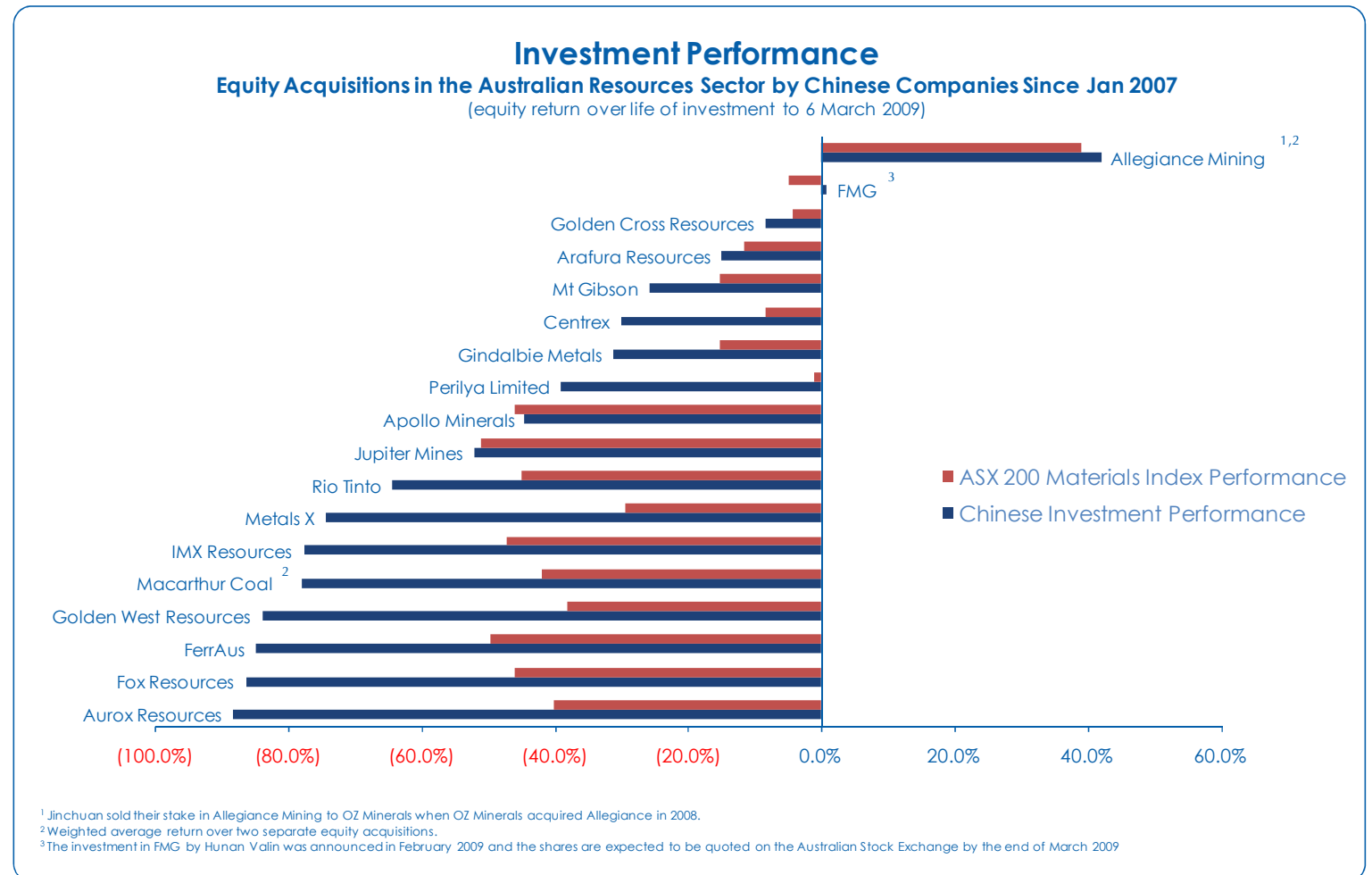


Recent deals have disappointed Chinese investors

# Recent deals – a snapshot on performance



- Some underperformers have been hit by broader market events, others were poor investments



Market factors are only partially the cause of underperformance

# The Issues for Australia



- China represents one of the very few sources of meaningful capital for Australian resource projects in the current market
  
- The Australian resources industry will have difficulty continuing to encourage Chinese investment in companies and projects if these investments consistently underperform:
  - Negative financial returns will dampen appetite
  
  - Technical problems that limit the ability of the investee companies/projects to deliver into off-take agreements will reduce the willingness to participate
  
  - Inappropriate structuring and loose communications strategies will cause political and inter-Governmental issues for FIRB, Treasury and Trade with their Chinese counterparts

Failed deals will impact on the brand “Australia” and may slow further investment