It's Oz as usual after Alcoa split

PRESHANT MEHRA
COMMODITIES

A structural split of aluminium giant Alcoa should be finalised late next year.

GLOBAL metals giant Alcoa's planned split into two companies is not likely to affect its Australian operations.

The change in structure is not expected to have any impact on the Australian operations of the company, an Alcoa of Australia spokesman said.

The US-based aluminium producer announced on Monday it would break its global operations into two independent, publicly traded companies, one focused on upstream mining and smelting and the other on aluminium products for industries.

The move comes after the company suffered poor earnings amid a commodities slump and is designed to help maximise value for its investors.

"In the last few years, we have successfully transformed Alcoa to create two strong value engines that are now ready to pursue their own distinctive strategic directions," Alcoa chairman and chief executive Klaus Kleinfeld said in a statement.

After the separation, the new upstream company, which will retain the name Alcoa, will have five business units dealing with bauxite mining, alumina refining and aluminium production in 64 facilities worldwide. It will have a workforce of about 17,000.

The downstream manufacturing unit, to be named following the split, will aim at fast-growing markets such as the aerospace industry, supplying rolled and engineering products for aircraft and jet engine manufacturing. The company will operate in 157 locations with 43,000 employees.

The plan, approved by the board of directors, was expected to be finalised in the second half of 2016, Alcoa said.

In Australia, Alcoa operates through a 60:40 joint venture with local partner Alumina. The operations include bauxite mines, alumina refineries and an aluminium smelter, employing about 5000 people.

The aluminium giant also announced in March it would review its global smelting and refining capacity over the next 12 months as it looked to cut costs.

AAP, AFP

Gas well deal for Cimic

CONSTRUCTION

CIMIC's construction unit Leighton Contractors has been tapped by Australia Pacific LNG to build 400 gas wells in Queensland's Surat Basin.

The project for APLNG — led by Australian-listed Origin Energy and US energy giant ConocoPhillips — would deliver $300 million in revenue over two years, with an option to extend for two more, Cimic told the stock exchange.

The works will support APLNG's supply to its liquefied natural gas export facility on Curtis Island, "post the construction phase, which is largely complete".

The contract will extend the upstream infrastructure the unit has delivered for APLNG in the past three years.

It is the third major boost to Cimic's works pipeline this month, after it was chosen to deliver Sydney's new $5 billion M5 Motorway, as well as the first four of Melbourne's railway crossing removals.

Cimic Group shares closed down 2.5 per cent at $23.45.

GREINER RESIGNS POST

BOARDROOM

NICK Greiner, the chairman of struggling mining services group Bradken, will step down from his post and retire from the company's board in November.

The former NSW premier plans to retire when Bradken hosts its annual meeting on November 10.

Chairman of drilling services company AJ Lucas and independent Bradken director, Phil Arnall, will replace Mr Greiner, who has been Bradken's chairman since it listing in 2004.

Mr Greiner, 68, said Mr Arnall was "well qualified to lead the Bradken board through the current challenging stage of the resources cycle".

In the year to June 30, Bradken posted a net loss of $241.3 million, a sharp reversal from the previous year's $21.5 million profit.

Its share price has dropped more than 75 per cent since January 1. They closed down 4.7 per cent at $1 yesterday.

In the vice of low commodity prices

THE SHORT CUT with ROGER MONTGOMERY

TECK Resources, Canada's largest diversified mining company, has been one of the larger "short positions" held in the Montaka Global Fund, so it was no surprise to the team at Montgomery when the credit rating of the miner was cut by Moody's to junk bond status.

Teck produces 27 million tonnes per annum of metallurgical coal, making it the world's second biggest seaborne exporter behind BHP Billiton.

In addition, it produces 350,000 tonnes per annum of copper and 935,000 tonnes per annum of zinc.

In 2014, base metals accounted for two thirds of the company's profit and metallurgical coal accounted for one third. Prior to the crash in the price of metallurgical coal, these contributions were reversed.

Teck's share price has been in free fall, having fallen from above $C60 to $C7 in less than five years, and its current market capitalisation of $C4 billion ($4.3 billion) is well below its net debt of $C7.8 billion. This does not include the capital expenditure commitment of $C1.8 billion required to complete the Fort Hills oil sands project in Alberta (20 per cent interest) — coinciding with oil prices hitting seven-year lows.

Its net debt could approach $C10 billion in 2016, at least four times its earnings before interest, tax, depreciation and amortisation.

The rotating production shutdowns within the metallurgical coal division may continue into 2016 if the supply demand imbalance doesn't improve.

This is the problem with many resource companies.

More often than not, the board of directors commit the company to a significant project or acquisition when commodity prices are high.

In Teck's case, for example, the bulk of their capital expenditure is committed after commodity prices have collapsed, and their underlying cash flows and balance sheet are under strain.

The slowdown in China is contributing to weak prices within the commodity complex and commodity country currencies.

Metallurgical coal is at a 10-year low while copper and zinc are at six-year lows.

A recovery seems some way off. For example, global demand for seaborne metallurgical coal peaked at nearly 300 million tonnes in 2014 and the constrained outlook for the global steel industry means this is unlikely to be exceeded for some years.

China imported 73 million tonnes of metallurgical coal in 2013 and we expect this to decline to 23 million tonnes over the next few years. While India may pick up a bit of the slack, we believe the supply-demand imbalance will require further closures of coal mines.

While the rating agencies tend to move slowly with respect to these structural shifts, Moody's "negative outlook reflects the potential that Teck's rating could be lowered in the event metallurgical coal prices fail to recover from current levels in the next 12 to 18 months".

For the Montaka Global Fund, the short position in Teck Resources has met a number of requirements including the structural decline of its underlying commodities, which has led to a cash-flow squeeze in conjunction with a poor balance sheet.

And did I mention divergent expectations?

Roger Montgomery is chief investment officer at the Montgomery Fund