

Xstrata raises Falconbridge bid

By Bernard Simon in Toronto

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The tortuous battle for **Falconbridge**, the Toronto-based nickel and copper miner, has taken a new turn with **Xstrata**, the Anglo-Swiss metals group, making an improved cash bid of \$16.2bn.

The new offer seeks to thwart an agreed cash-and-shares bid by **Phelps Dodge**, the Arizona-based copper producer, and **Inco**, Falconbridge's bigger Canadian nickel rival.

Phelps and Inco have promoted their bid on the expectation of continuing strong metal markets and annual cost savings of \$900m by 2008, mainly by combining Inco and Falconbridge's flagship operations in Sudbury, Ontario.

Both the Xstrata and Phelps bids have raised concerns in Canada about a big chunk of the country's mining industry falling under foreign control, and a subsequent loss of business for Toronto-based investment banks and financiers. But the Canadian authorities have given no indication so far that they will block either deal.

The nickel price surged to a new record of \$25,650 a tonne on Tuesday, following a further decline in London Metal Exchange inventories. The price has almost doubled so far this year.

Mick Davis, Xstrata's chief executive, defended his bid on Tuesday on the grounds that "there's no market risk associated with cash, and there's no risk of non-delivery of synergies".

Phelps reiterated that its bid was superior to the Xstrata offer because it would "provide the greatest long term value for Falconbridge shareholders as well as net benefits for Canada".

The Phelps and Inco offer expires on Thursday. Xstrata's bid runs out on July 21.

Several analysts and Phelps' shareholders have criticised the company for taking on as much as \$22bn in debt to finance the Inco and Falconbridge acquisitions, and a subsequent share buyback.

But **Alex Gorbansky**, managing director at **Frontier Strategy** in Boston, said Phelps and Inco were likely to return to the fray.

“The prevailing view in the industry is that size is going to be a critical determinant in how successful companies will be, and how quickly they will grow”, **Mr Gorbansky** said. “If they don’t get this sort of deal completed, their days as an independent entity are numbered.”

Another analyst raised the possibility that Phelps may drop out of the running for Falconbridge but pursue its bid for Inco.

Xstrata’s latest offer is C\$59 cash per Falconbridge share. Inco’s bid of C\$17.50 cash and 0.55676 an Inco share was worth fractionally above C\$59 at Tuesday morning’s price in Toronto.

Xstrata declined to disclose its metal price assumptions, but said that its valuation of Falconbridge was based partly on its existing 19.8 per cent stake, acquired last August at C\$28 a share.

Mr Davis said many of the projected savings at Sudbury could be achieved through co-operation between Inco and Falconbridge, rather than common ownership. Instead, he trumpeted an Xstrata-Falconbridge combination as creating “the best copper footprint” in South America.

Besides the competition for Falconbridge, Inco is itself the target of a hostile cash-and-shares bid from Teck-Cominco of Vancouver. Teck is counting on Xstrata succeeding in its pursuit of Falconbridge. Teck’s bid, which expires on July 24, was worth C\$75.13 per Inco share on Tuesday, slightly above the prevailing market price.

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