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Altius Flies Higher on Coal & Potash Royalty Deal

Under a $1bn deal by Sherritt International, once Canada's largest thermal coal miner, explorer Altius Minerals has emerged as one of the world's largest diversified royalty groups.

Sherritt has sold its Canadian coal portfolio to Colorado-based Westmoreland Coal for C$465m ($435m), whilst hiving off its associated royalty portfolio to a consortium led by Altius for $460m. "This is the transformational deal that we have been looking for," says Altius director Jamie Strauss, lead partner at London-based Strauss Partners. "We've found the right asset at the right price."

The royalties cover 6 potash mines in Saskatchewan encompassing more than 60 per cent of all potash production in Canada, comfortably the world's largest potash producer, accounting for a third of all global supply. They also cover the Cardinal River coking coal mine in Alberta, operated by Canada's Teck, plus tonnage-based royalties on a string of thermal coal mines being sold to Westmoreland.

Altius will pay $233m for 51 per cent of the portfolio, with a subsidiary of Boston-based Liberty Mutual taking a further 43 per cent. Altius' share of the partnership would have generated $27m last year at profit margins close to 100 per cent.

"We are deeply attracted to long-term sustainable revenue that does not require sustaining investment," chief executive Brian Dalton wrote in a letter to shareholders; the underlying potash mines have an average reserve life of over 70 years.

The deal aggressively accelerates Altius' evolution from an exploration stock to a fully-fledged royalty house. Founded by Dalton in 1997, Altius has become a royalty machine by confining itself to low cost prospecting, repeatedly optioning out projects in exchange for cash, shares and retained royalty rights on discoveries held by Rio Tinto, Mamba Minerals, Altius spin-out Alderon and uranium miner Paladin.

The structure generates royalties at better than zero cost: in 2004, Altius staked the Kami iron project in Labrador for $2.2m, before spinning the project into Alderon, retaining a 3 per cent gross sales royalty and $50m in stock. Based on current prices, the royalty is expected to generate over $30m per annum for 30 years from late 2015.

Altius also holds a 0.3 per cent ➤ royalty on Vale's Voisey's Bay nickel mine in Labrador, bought for $13m in 2003. In a per share emphasis rare to the mining industry, Altius has bought back over 13 per cent of its stock since the deal achieved payback in 2008.

"Commonsense dictates that shareholder value should be the most important thing," says Strauss, "and as you're seeing in the gold companies, shareholder value has become the buzzword of the last 12 months. For us, it's been the buzzword of the last 15 years."

Sherritt's asset disposal is Canada's third largest mining deal of 2013, behind Silver Wheaton's $2bn streaming deal with Vale in February and a Russian buyout of uranium group, Uranium One. The deal vindicates Altius' strategy of holding a $150m cash cushion, earned through a string of equity spin-outs, allowing the company to aggressively capitalise on the current bout of mining market weakness.

Sherritt, which has oil interests in Cuba and debt of $2.1bn, has been embattled by dividend uncertainty and calls for a proxy battle. The company is due to suffer a C$460m ($430m) loss on the sale, having bought the assets in 2008 by bidding for a utilities trust.

Altius will meanwhile lift its royalty revenue tenfold to $30m per annum, equal to roughly $1 per share, which have jumped 40 per cent since the deal was announced to C$14.98. Altius has paid less than 9 times royalty income, before accounting for an expected 35 per cent ramp-up in output at its underlying potash mines.

The deal is being funded by cash plus debt of $130m, lent by Scotiabank and Rick Rule's Sprott, one of Dalton's earliest backers. "Brian has built this business utilising the two and a half to three million dollars a year cash from the Voisey's Bay royalty," says Rule. "His tool chest has now increased tenfold. I think that's important."

The assets have such long lives, adds Rule, that their net present value will be undiminished even after pumping out payments for 15 years. "Brian will now be in a different league," Rule says. "He'll have highly predictable cash to invest on my behalf for the rest of my useful life."

For a further $21m Altius also gains Sherritt's 50 per cent share in a vast landbank surrounding the royalties, peppered with drilled extensions to the existing mines. "We see huge optionality," says Strauss. "We've got a debt structure that needs to be serviced, but it is our clear intention to move to a dividend paying position as soon as possible."

RIO TINTO has paid $1.2bn under a rights issue by Mongolian miner, Turquoise Hill. Rio has separately reported record iron ore output of 266m tonnes in 2013.

FENNER, a leading conveyer belt manufacturer and a bellwether for the mining industry, has warned of a decline in order visibility. Workers at its factory in Hull have been put on a three-day week, according to the *Hull Daily Mail*.

WALTER ENERGY has had its debt rating downgraded by Moody's to Caa, one step above near-default, citing "potential liquidity concerns".

MARKET REPORT

Goldcorp Bids C$2.6bn for Quebec's Osisko Mining

CANADA: Goldcorp has ended a dearth of takeover activity in the gold sector bidding C$2.6bn ($2.4bn) in cash and shares for Canada's Osisko Mining, owner of the 10m ounce Malartic mine on Quebec's Abitibi belt.

The offer of C$5.95 per share, 38 per cent in cash, stood at a 15 per cent premium to the prior day's close, but shares moved 20 per cent higher to C$6.25 on expectations of a higher bid.

Backed by a C$1.25bn credit facility from Scotiabank, the move is a masterstroke in market timing by Goldcorp, which sold a 10 per cent stake in Osisko in February 2011 for C$530m.

"Our clear preference remains to engage with Osisko," Goldcorp's president Chuck Jeannes said this week. Osisko, which is believed to have consistently rebuffed talks with Goldcorp in recent years, said the offer was "very low" and "price opportunistic."

"It's a miserly bid," one analyst said. "We wouldn't be surprised to see them sweeten their bid over time," added Dundee's Joseph Fazzini.

LONDON: Firestone Diamonds leapt 34 per cent on Wednesday to 4p after announcing a capital raising of $140m, fully funding construction of its Liqhobong mine in Lesotho, due to produce 1m carats per annum from early 2016.

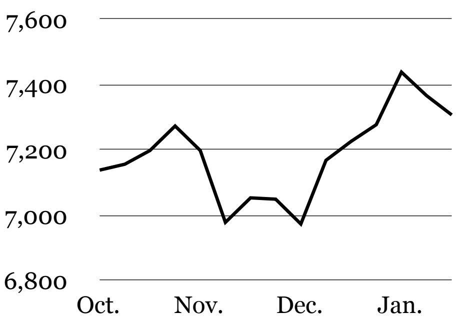
Private equity groups Pacific Road and Resource Capital Fund have subscribed to 610m shares each at 3p raising $60m, offering a further $40m in bridge and mezzanine debt. 813m shares have also been bought by institutional investors, raising $40m, with a retail component capped at €5m ($6.8m).

The total offering, which was oversubscribed, sees Resource Capital and Pacific Road land 23.5 per cent of the company's stock each, before warrants exercisable at 3.75p, which would lift their combined interest to 54 per cent.

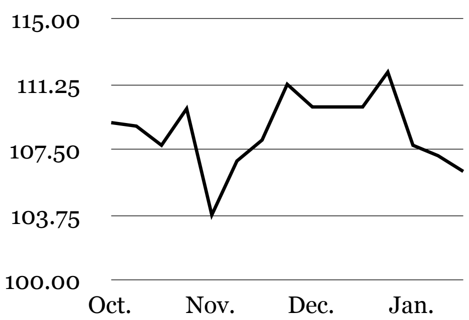
Together with an $82m debt deal in November, the raising lifts Firestone's enterprise value to more than $300m, vs. $40m three months ago. "Raising $140m," said chief executive Stuart Brown, "is an outstanding achievement for a company of Firestone's size."

OSISKO's Malartic mine, Quebec, bought from a bankruptcy court in 2004 by Osisko's founders for $80,000. Then a depleted mine built over with bungalows, Malartic has grown to become Canada's largest open-pit gold mine.

Copper (US$ per tonne)



London Brent (US$ per barrel)



COMMODITIES: Rocketing aluminum premiums suggest the market may be on the turn. Aluminum has suffered a 7-year supply surplus, pushing prices to 4-year lows, but premiums being paid by buyers above the LME price hit all-time highs in Europe, the US and Japan this week as analysts forecast a supply deficit aided by smelter bankruptcies. "Almost all the main consuming sectors are contributing to higher demand," wrote analysts at Commerzbank.

Gold (US$ per ounce)