

Company: MMG Limited
Title: MMG to Acquire Las Bambas Conference Call
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Start of Transcript

Operator: Thank you for standing by and welcome to the MMG to acquire Las Bambas conference call. At this time all participants are in a listen only mode, there will be a presentation followed by a question and answer session. At which time if you wish to ask a question you will need to press the star key followed by the number one on your telephone keypad. I must advise you this conference is being recorded today the 14th April 2014. I would now like to hand the conference over to your speaker today, Mr Andrew Michelmore Executive Director and CEO. Please go ahead.

Andrew Michelmore: Hello and welcome to everyone who's joined us today. I appreciate we've provided short notice of today's teleconference, but it's great to see so many familiar names on the list of people dialling in. It's certainly been a busy weekend for us and we are very happy to finally be able to announce the acquisition of Las Bambas.

This morning I'll run through a short presentation, the slides are available on our website MMG.com if you have not already received them by email. Alternatively you may contact our communications team for an electronic copy. We are thrilled that we can finally talk about this transaction, I know many of you joining us this morning have been waiting some time for the news. So let's jump straight into the details of today's announcement.

Shortly before the Hong Kong market opened this morning MMG announced that through its joint venture with Guoxin International and CITIC Metal, it has entered into an agreement to acquire Las Bambas. The consortium led by MMG will acquire this transformational asset for a total of US\$5.85 billion, based on the project to the end of December last year.

This is a unique opportunity for MMG, assets of this quality and scale are rarely available and with the project already 56% complete, it is set to become a significant producing asset in the near term. Las Bambas will complement MMGs existing assets and is perfectly aligned to our criteria for growth. MMG will hold 62.5% of the joint venture and the joint venture will leverage MMGs expertise as an operator of large open pit mines.

We are pleased to lead this joint venture and establish a strong platform in one of the world's most prospective mineral precincts. Our investment in this project is of national importance, it is the first step of what we see as a long term relationship with Peru.

Slide four of the presentation details the key terms of the transaction, and I won't spend a lot of time discussing these, however a few of the key points to note are: the joint venture is structured with MMG owning 62.5%, a wholly owned subsidiary of GXIIC 22.5%, and CITIC owning the remaining 15%. The joint venture will adopt MMGs standards, processes and systems in operating Las Bambas. A board with a maximum of six directors will be established with MMG appointing the chairman. The transaction

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consideration is US\$5.85 billion on 100% basis and the joint venture will assume project capital spend already spent in 2014. That is from 31 December of last year to the date of the completion.

There are some approvals required to enable this transaction to proceed in both China and Peru, however we do not see any major barriers to this progressing. We also require shareholder approval and I'm happy to disclose that our major shareholder, China Minmetals will vote in favour of the transaction.

The acquisition of future project capital expenditure is fully funded, so not only will our financing terms include the transaction consideration, they'll also take into account future capital the joint venture will spend in completing the project. Funding for the transaction is through a banking syndicate arranged through China Development Bank and importantly the debt has been supported by a guarantee from our major shareholder and partner China Minmetals [Non-Ferrous]. We will provide full details of how the financing will be structured in late May in our shareholder circular.

I appreciate some may not be familiar with Las Bambas, so I'll describe the project in some more detail. Las Bambas is a large long life and low cost advanced stage copper project, located in Cotabambas Apurimac region of Peru. The Las Bambas project commenced construction in 2012 and according to its current owner Glencore, is around 56% complete. The project itself includes a large open pit using conventional concentrator, with capacity to process around 140,000 tonnes of ore per day.

Once completed Las Bambas is expected to produce in excess of 2 million tonnes of copper in concentrate in the first five full years of operation. This will place Las Bambas globally amongst the top three copper producing mines in 2017. Importantly once in operation Las Bambas is expected to be in the first quartile of the C1 cash cost curve, using forward projections of production and costs. Glencore have given estimates of a C1 cost of US\$0.79 cents per pound of copper for the life of the mine.

Las Bambas has a substantial resource, 10.5 million tonnes of contained copper at an average grade of 0.62% of copper and a significant existing reserve of 6.9 million tonnes containing copper at an average grade of 0.73% copper. Based on current reserves Las Bambas is expected to have a mine life in excess of 20 years.

We've been meticulously reviewing the information provided through the due diligence process in arriving at our valuation, leading to the transaction consideration. One thing I would like to point out, is that during this process we have identified some risks in the existing project schedule and CapEx. MMG will provide an update to these forecasts upon transaction completion. I may add here as I know I'm bound to get questions later, it would be inappropriate for us to provide more detail of our findings through the due diligence process, simply because there are several steps until this transaction is complete and the joint venture assumes ownership of the assets.

The addition of Las Bambas to MMGs international portfolio delivers on our growth strategy and vision, to build a global diversified minerals and metals company. Las Bambas ticks all of these boxes, the addition of a large copper project aligns with our long term view of copper. It has substantial scale relative to our existing assets. It's an advanced stage project, a production project, we see this as an ideal phase for us to add value.

We believe there is upside through further exploration in the region with a significant proportion of the licensed area currently unexplored. We are also looking forward to establishing a major and permanent presence in a region supportive of mining investment.

As I mentioned at the beginning of the call, Las Bambas is transformational to MMG. If I skip to slide 11 of the slide pack, you can see some current projects under construction and some that have been recently completed. The X axis shows the mine life and the Y axis shows annual production and the size of each bubble indicates the size of the mineral resource.

This clearly shows the quality of Las Bambas, it's estimated to be amongst the top three biggest producing copper mines in 2017, has a mine life in excess of 20 years and we believe significant upside potential through exploration. We've also plotted MMGs existing copper operations, that's Sepon and Kinsevere on this slide, to emphasis the transformational nature of this project.

Slide 12 also shows in more detail how this transaction transforms our Company. Our existing copper resource of 3.9 million tonnes of contained copper will increase to around 10.5 million tonnes, this is an increase by almost a factor of three. Our revenue mix will also change, and we will be more skewed towards copper. We will still offer good exposure to zinc, a commodity many of you know we are fond of. These are the key points from our announcement today and I'm happy now to open the lines for questions.

Operator: Thank you, at this time if you wish to ask a question, you will need to press star then one on your phone and wait for your name to be announced. If you wish to cancel your request, press star then two. The first question comes from Ephrem Ravi of Barclays, please go ahead.

Ephrem Ravi: (Barclays, Analyst) Andrew, Ephrem Ravi here from Barclays. Two questions. Number one, you've said that a banking syndicate has been raised to [EB]. Can you give us a sense as to the cost of debt that is being talked about and the cost of the equity funding provided from China Minmetals? And secondly, you did mention that there were risks to the project schedule. I'm pushing my luck here, I know that, but would it be fair to assume that the first production [unclear] will start up mid-2015? Thank you.

Andrew Micheltore: Answering the second one first, look, I really don't want to say anymore. We've done obviously a lot of due diligence. We first had access to the data back in August last year, so eight months have passed. We've tracked that very carefully. We have our views on the project and particularly completion. They have been limited in terms of our on-ground access, so really we've taken our views into account in our projections, both on capital and timing and we know what these big projects are like so we're saying look, we now need to get much closer to the project now that we're signed up in the next number of months to completion in the third quarter, and we aim to come out on completion with a more accurate estimate of what we believe both the capital to complete and also the timing to complete.

In terms of funding, I think you were asking about the cost of the debt, and through Minmet that we were able to raise through the consortium of Chinese banks, I'd ask David whether we will provide any more information at this stage.

David Lamont: Thanks, Andrew. The answer to that will be we will provide more details obviously when we send out our circular to shareholders, but what I would just say to you is that the debt obviously is supported

by all three shareholders of the joint venture. They will be providing guarantees for the funding. If you look at our existing funding we've got a price range of somewhere between 2% to 5% generally as our funding and if you look at the nature of the terms, certainly the latest funding that we did for the Dugald River would be an indication of the style and structure that we would be looking to put in place. We still need to obviously finalise all of those terms and they will be fully disclosed at the point in the circular.

Ephrem Ravi: (Barclays, Analyst) thank you.

Operator: Thank you. The next question comes from Mark Andrews with Paydirt Media. Please go ahead.

Mark Andrews: (Paydirt Media, Journalist) Hello Andrew, thanks for taking a couple of questions. I was just wanting to get a general comment on Peru in general, how the Company views the country as a destination and also, would you consider some other parts of Latin America on the back of this down the track?

Andrew Michelmores: Thanks, Mark. Certainly Peru, Peru is a country that's been of great interest to us for quite a while. China Minmet Non-Ferrous own 60% of a project in the northern part of Peru, a large copper project called El Galeno. We've been in there and looking at that on behalf of Minmet and in doing that it has given us a very good feel of what it's like to operate in Peru. The issues around the concerns obviously of the local communities and working with them that that project has been doing for many years. Also the very positive support that mining has within that country, and also importantly, the prospectivity.

A lot of people don't realise that Peru is the second largest zinc producer in the world after China. It's the third largest copper producer. It's very large in silver as well. So it has huge natural resources right across the country and again, through our due diligence work down in the south where the Las Bambas project is and our interaction with groups down there make us very comfortable about being in Peru. I think the other thing is that just like when we bought into Kinsevere in Africa in the copper belt there, that was a very important position in terms of having a hub within Central Africa in that mineral belt. We've been looking for the same sort of opportunity in South America. We like again the mineral belts down through South America through a number of countries and this gives us obviously the opportunity to have people on the ground, local people who understand how to operate there and also understand the mineral opportunities. So again I think this is transformational in that respect for us as well.

Mark Andrews: (Paydirt Media, Journalist) Thanks.

Operator: Thank you. The next question comes from [Alex Latsa] with Maybank Kim Eng. Please go ahead.

Alex Latsa: (Maybank Kim Eng, Analyst) Yes, thank you. Thank you very much and congratulations to your Company on this first step toward acquiring a quite spectacular copper asset. I was wondering if you can - I know you can't at this stage give us much of an update on the CapEx and this that and the other; I was just wondering though if you recall what Glencore have been saying about what the total expected CapEx for this project may have been. I was just trying to get some sense of how much more you'll be paying up until the closing and to get some sense of how much more CapEx. Or if you can tell us what's been spent up until 31 December then I can just use the 56%.

The second question, I was just wondering if any of this, does this impact your review of the Dugald River project. Does that project become a lower priority on your list or is that still going to be looked at as it's on the same ride in terms of phasing in at some point for the eventual closure of Century? Thank you.

Andrew Michelmore: Good questions, Alex. The capital, Glencore to the end of December had spent \$3.5 billion and their projections were a further \$2.4 billion to spend to completion. Again, we've been tracking that, what they've actually spent, over the last three to four months and it's about \$400 million. So that's part of what we've been tracking is how those projections are going, and obviously we'll update that on our completion. In terms of Dugald River, Dugald River is very important. The whole Queensland operations with Century coming off and Dugald, getting the mine working with Dugald and looking at the options for how we maximise the value of that, the Queensland operations, the combination of the two, is also a key component for us, especially as Century, call it 480,000 tonnes coming off the middle of next year and Dugald having the ability to produce around 200,000 tonnes of zinc, particularly over 20, 25 years of life are absolutely key for us. It is one of the messages we'll be giving across the organisation is not to get diverted on just Las Bambas, we've got two very important projects to get up and completed and equally important is to keep running the rest of the business extremely well like it's been running to date. So very key messages.

Alex Latsa: (Maybank Kim Eng, Analyst) Okay, thanks, and just one last one. I noticed the [unclear] Holdings, the 22.5% or the GXIIC financial investment company, are there - I noticed they're yielding or they're going to be forwarding part of their share of the project copper to CMN to sell on their behalf. Is there any economic benefit from doing that for your Company or they're just yielding part of their - for compensation. I'm wondering if their stakes - are they a long term holder in this, do you have any sense there? Are they are a long term holder? Is there supervision in the agreement that may allow for you and CITIC to perhaps buy at some future point their stake in the project?

Andrew Michelmore: At this stage my impression is they're a long term holder. They are certainly a very strong backer of MMG and have been watching our performance over the last five years, and it's on that basis they were very keen to come in and further back us. But in terms of the sale of their share, David Lamont our CFO looks after the marketing side of things, so I'll pass that to David to comment.

David Lamont: Yes, look, it's a good question. At the end of the day it's about understanding who has capability and expertise, and they are a financial investor who don't currently have a marketing team that are able to actually take the product and sell into the market and hence it was far more sensible for them to actually give their share of the product to effectively the other two shareholders to ultimately put into the market.

Alex Latsa: (Maybank Kim Eng, Analyst) Okay, I see. All right, so you may end up with some marketing fees or something like this. Okay, very good. Thank you very much for the answers.

Andrew Michelmore: Thanks, Alex.

Operator: Thank you. The next question comes from Shivani Singh with Metal Bulletin. Please go ahead.

Shivani Singh: (Metal Bulletin, Journalist) Congratulations, Andrew. You said that Las Bambas is 56% complete. Any idea about when it will be 100%? And can you give more details on how much copper will it produce per year?

Andrew Michelmore: Yes, 56% complete. Glencore have projected middle of next year for completion of the project but we haven't given our comments on that. We'll wait until we've completed the transaction and we'll have a better view of the timing by that stage. So you'll have to wait for that. In terms of MMG 62.5% of call it 400,000, 450,000 tonnes per year, so you're looking at something over - around 250,000 plus tonnes of copper per year. So it's a very significant component for us. Importantly, all the indications are it's a very high quality, very clean concentrate so it will be highly sought after. I think that's the other issue for this project; the concentrate looks to be very, very good quality.

Shivani Singh: (Metal Bulletin, Journalist) What grade would it be?

Andrew Michelmore: It would be 30% to 35% copper, but importantly, the impurities that go with it will be low. Things like arsenic are very, very low.

Shivani Singh: (Metal Bulletin, Journalist) I know this is a big acquisition but what other acquisitions would you be looking at in the near term

Andrew Michelmore: I could joke and say we've got five others to do later this year but no, this is very serious. This is - the scale of it, our focus will be on delivering this. We've put together a very large team working on it in terms of looking at how to integrate this as fast as possible, what we need to provide in the local region, transfer it over from Glencore on to our systems and we've set a timetable of completing that that's something like two months after we actually complete the transaction and get the keys to the operation. So that will be a very serious focus for us and take up a lot of time, and as such we'll put on just about every other activity around M&A on hold.

Shivani Singh: (Metal Bulletin, Journalist) Thank you.

Andrew Michelmore: Thanks, Shivani.

Operator: Thank you. At this time there are no further questions.

Andrew Michelmore: Good. Well again, thank you for all joining us again today at such short notice. I appreciate some of you may have some additional questions throughout the day and I encourage you to contact the relevant person in our communications team. So look forward to speaking to you again about this project at a later date and thank you, and goodbye.

Operator: That does conclude our conference for today. Thank you for your attendance. You may now disconnect your line.

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