BHP unlikely to make fresh Rio bid when ban lifted -Anaysts

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Reuters reported that the chance of BHP Billiton making another attempt to take over rival Rio Tinto soon after a bid ban expires later this month is low.

Analysts said that BHP scrapped its hostile all share bid for Rio in November in 2008 blaming sliding metals prices and the threat of global recession. It has to wait a year before it can rebid at a lower price under UK takeover regulations. The stance of European regulators on a planned iron ore joint venture between the 2 companies will be key to whether BHP revives its takeover bid for Rio.

Liberum Capital said that the chance of a renewed bid over the next 12 months was less than 30% but action by the European Commission might spur BHP to think again. We think the probability of a re bid is low but not immaterial. It said that a key reason BHP dropped its bid was that the Commission had required heavy divestments to allow the second and third biggest iron ore producers to join together. Selling off units would have been very difficult during the downturn.

Following the collapse of the bid, however, the 2 groups agreed to merge their iron ore operations in a joint venture but marketing would be separate to head off anti trust issues.

Ms Rebecca O'Dwyer analyst at Investec Securities said that we think that the biggest synergies were in the iron ore division. The probability of a fresh takeover bid by BHP was low but it could not be ruled out completely. For now, the feedback we've had from BHP and Rio management is that they are very focused on completing their iron ore joint venture.

Liberum said that Steel companies who buy iron ore as a raw material are just as much opposed to the joint venture as they were to the full merger and if European regulators once again require divestments that may spur BHP to revive its merger bid. The regulatory view is crucial to the probability of a re bid. If the EU is hawkish and wants to block the JV unless there are merger type disposals the probability of a re bid is fairly material in our view.

It said that “We are unable to rule out BHP coming back for Rio as the company is currently loaded with cash of USD 10.8 billion which potentially be used to sweeten the offer and / or repay Rio's debt after the merger. We struggle to see BHP Billiton making a major M&A move until there is greater clarity on the likely success of the iron ore joint venture with Rio Tinto, because if a binding agreement cannot be reached, a renewed tilt at Rio could certainly be on the cards.”

(Sourced from Reuters)

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