Lundin Mining Corp., the base-metals company founded by the billionaire Swedish Lundin family, likely has one or two more acquisitions in its future — but is in no rush to get there.
“We’d like to have five or six operating mines that all have a decent life and a decent quality,” Chief Executive Officer Paul Conibear said in an interview this week from the company’s Toronto headquarters. “We have four now.”
To reach its goal, Lundin Mining is constantly surveying the acquisition scene. The modus operandi of the group includes taking advantage of weak commodity markets to acquire assets it may have been stalking for years. “Sometimes the stars need to align for something to be actionable,” Conibear said.
The company recently offered as much as $262.5 million to buy a stake in Freeport-McMoRan Inc.’s Timok copper and gold project in Serbia. Reservoir Minerals Inc., a partner in the mine, has the right to either welcome Lundin into the fold with Freeport, or shut the company out by matching its bid.
Lundin expects to find out Reservoir’s position on May 3. Talks with Reservoir have so far been “constructive,” Conibear said.
Global Empire
If the deal goes forward, Lundin probably will be done making acquisitions for a couple of years. That’s because Timok will require a half billion dollars or more of investment to bring total annual production to 80,000 to 100,000 tons of copper within five years. The company’s total cost, therefore — from acquisition through production — would be $800 million to $1 billion, a size Conibear said is “ideal” for a Lundin deal.
“If Timok doesn’t happen, over the next year or two we’re likely to do other significant things,” he said.
The base-metals miner is part of the Lundin family’s globe-spanning empire, which includes oil, diamond, uranium, gold and solar-energy companies. Lukas Lundin is chairman of most of them. All have boards with a majority of independent directors, but there is plenty of overlap; Conibear sits on three.
Long Term
More often than not, the company is juggling more than one asset play at a time, Conibear said. The company began talking to Freeport in 2013, at the same time it was negotiating to buy a controlling stake in Freeport’s Candelaria copper complex in Chile, which it eventually bought for $1.8 billion. It took a collapse in base-metal prices and an escalation of balance-sheet woes at Freeport to make the Timok deal possible.
“You take a long-term view,” Conibear says of the company’s acquisition strategy. “You set your criteria, you stick with them pretty religiously.”

Since 2011, Lundin's mining investment criteria also include a preference for staying in the same geographic regions — primarily Europe and the Americas — and buying from large companies, Conibear said. "You get a whole bunch of quality when you buy an asset from a major."

Investment Thresholds

Other thresholds for investment include:

* The mine must produce a minimum of 50,000 tons of copper equivalent a year within five years and be cash-flow positive in that time frame.
* Its operating cash costs must be in the third quartile or higher with a clear path to reaching at least the middle of the cost curve.
* The acquisition must not stress the company's balance sheet.

Lundin Mining's net debt is $458 million, meaning its total leverage is low for the sector, Conibear said. Even so, the company has backed away from paying a dividend to shareholders.

"We were almost there last year, and as the market got worse we had to pull back," Conibear said. It might make sense to reassess that next year, "but with the fragility of metal prices right now it's not on the table," he said.

No Emotion

Lundin rose 5.5 percent to C$3.94 at 11:37 a.m. in Toronto, after earlier climbing 7.1 percent, the most intraday since March 4. The stock was the fifth-best performer on the 29-company Bloomberg Americas Mining Index.

The company believes commodity markets will start to strengthen toward the end of this year, with zinc leading the way by rising to above $1 a pound in 2017 and copper improving more gradually in the next two years, eventually returning to $3 a pound. Copper in New York fell to close about $2.08 on Thursday, erasing the last of its gains this year, and zinc settled at about 80 cents a pound in London.

If the company is wrong about zinc rising, it will keep pushing back plans to expand its Neves-Corvo copper and zinc mine in Portugal. Conibear's hope is that the expansion, which will double zinc production at the site, will be running by 2018 but it requires a $1 a pound zinc price to be viable. "We haven't pulled the trigger on capital expenditure and we're not likely to this year," he said.

While the company will almost definitely buy more assets in coming years, it's not looking to sell assets into a weak market.

"We wouldn't have any emotion about selling an asset at the right time for the right reason at the right price," he said. "In a bull market, if someone offers you a remarkable price, you

have to consider it."
source: bloomberg.com