

Coronation buys Hualamin

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"CASHSTRAPPED" Anglo American has sold Hualamin for a bargain.

This was revealed at Hualamin's disappointing results presentation yesterday where it revealed Heps had fallen 85,7%.

Dirk Kotzé of Coronation Fund Managers told Moneyweb Anglo American had sold a 28% stake in Hualamin to it.

Kotzé says Anglo American is now left with 17% of the company. Coronation paid R12 per share, which is a premium of 13,7% on the current price of R10,55. Coronation had been looking to build up a stake for a while, although the low liquidity of the share prohibited it until Anglo American wanted to sell.

Kotzé says though Hualamin is a highly cyclical company it was attracted to it by its view that the company is at a low in its earnings cycle. Hualamin's management team has done very well to contain costs where they are. This leaves Hualamin at the low-end of the cost scale compared to its global peers. Hualamin is a volume play, thus if its production volume increases its cost per ton decreases. Declining volumes was one of the major contributors to its poor performance for H1 2009.

Hualamin also only has about 1% of the global market, thus leaving plenty of scope for volume growth.

Comments in its interim results show that its expansion project is close to completion. Growth in volume will improve Hualamin's margins when the market recovers.

Kotzé notes that most of the main drivers of Hualamin have been working against the company recently, thus Coronation is possibly buying at the bottom of the earnings cycle.

This implies Anglo American is

AT A LOW: 'Cash-strapped' Anglo sells its stake



TAKE OVER. Hualamin CEO Alan Fourie said yesterday headline earnings per share for the six months to end June fell to 12 cents from 84 cents, while operating profit slid to R114m from R270m Picture: Desiree Swart

selling at the bottom. When probed for possible reasons for Anglo American's timeous sale, Kotzé said Anglo American has its own problems as it is cashstrapped in the current environment. No one at Anglo American was able to comment.

Hualamin's CEO Alan Fourie comments that Anglo American had not been an active shareholder so he does not see any operational impact from the sale. One criticism of Hualamin has been the lack of free-float of the share on the JSE. Fourie says a possible positive development from this transaction may be a change in the perception of Hualamin shares being illiquid. This is due to the change from corporate/Anglo American to institutional/Coronation shareholding.

Kotzé says Coronation holds a house view that the rand is overvalued. This view is based on the current-account deficit SA runs and current market sentiment is driving investors towards emerging markets. Due to Hualamin's export-oriented business any devaluation in the rand would boost earnings.

On the long-term prospects for the value-adding aluminium market, Kotzé confirmed there may be a shift from high-cost developed countries to low-cost developing countries. This could include an eventual shift away from SA but this will depend on future electricity prices and labour cost changes.

On what time-frame Coronation would have for a highly cyclical company like Hualamin, Kotzé says Coronation would look to sell when the share price approached its fair value. — chris@moneyweb.co.za.

