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COMMENT & ANALYSIS

Letters

Only a mining merger would make sense

Sir, Investors recognise that Xstrata trades at a discount to its peers because of its current ownership structure and uncertainty about how this will be resolved. One proposal that has been mooted is a merger between Glencore and Xstrata.

When this was first proposed a year ago, the reaction of many investors, including Knight Vinke, was that this would be difficult given the lack of transparency surrounding Glencore as a private company. We now understand that to overcome this issue, the proposal is to list Glencore.

We suspect that even as a listed company, Glencore will still be hard for the market to value due to the unpredictable nature of its trading income. There is no truly comparable company of this size and the long-term evidence from the trading activities of banks, for example, suggests that the volatile trading business ought to be valued at a discount to the mining activities.

Xstrata shareholders are rightly concerned about the issue of valuation and will expect the board to stand up for the interests of shareholders.

If the board concludes that some kind of combination with Glencore is unavoidable, perhaps a better way forward might be for Glencore to split its trading and mining businesses, leaving the trading business as a private company (which some insiders believe is an advantage) and the mining company as a public company free to merge with Xstrata.

A merger of Xstrata with Glencore's mining business (without its trading activities) would at least have the merit of being easier to value and would create a true competitor

for the likes of BHP Billiton, Rio Tinto and Anglo American. It would also remove some of the issues concerning management and governance.

If a transaction on reasonable terms cannot be agreed with Glencore, the Xstrata board should not be afraid to say no.

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