

# Chinese Potash Bid Risks Takeout Premium

The track record of Chinese white knights in the mining sector is limited. But it isn't good. Investors in **Potash Corp. of Saskatchewan** should bear that in mind while weighing alternatives to **BHP Billiton's** hostile bid.

State-owned **Sinochem** is rumored as a possible white knight for Potash, though nothing has been confirmed. On paper, Sinochem could be a viable alternative to BHP.

The company already has a fertilizer joint venture with Potash. Sinochem's state backing means it potentially could

## Growth Spurt

Potash's share price, weekly



Source: WSJ Market Data Group

match BHP's incredibly low cost of funding. It also means financial metrics needn't

wholly drive Sinochem's thinking; rather, the company could act as a spoiler for consolidation in a strategic industry.

**Aluminum Corp. of China** ticked some of these boxes as a white knight for **Rio Tinto**. It bought a 9% stake in 2008 to help fend off BHP's hostile bid. A year later, it offered \$19.5 billion to repair Rio's balance sheet in return for stakes in several businesses and a convertible bond that could have taken its overall stake to 18%.

Ultimately, aided by 2009's stock market rebound, Rio declined Chinalco's help. Share-

holders had bridled at what a Beijing-backed strategic investor might mean for commodities pricing and future merger prospects. Australia's government also was nonplused.

An outright Sinochem acquisition could provoke a Canadian political backlash. If it took a minority stake instead, that might stymie any takeover premium in what is a consolidating sector. Those invested in commodities have much to thank China for. Invitations to any merger party, however, should be handled with care.

—Liam Denning