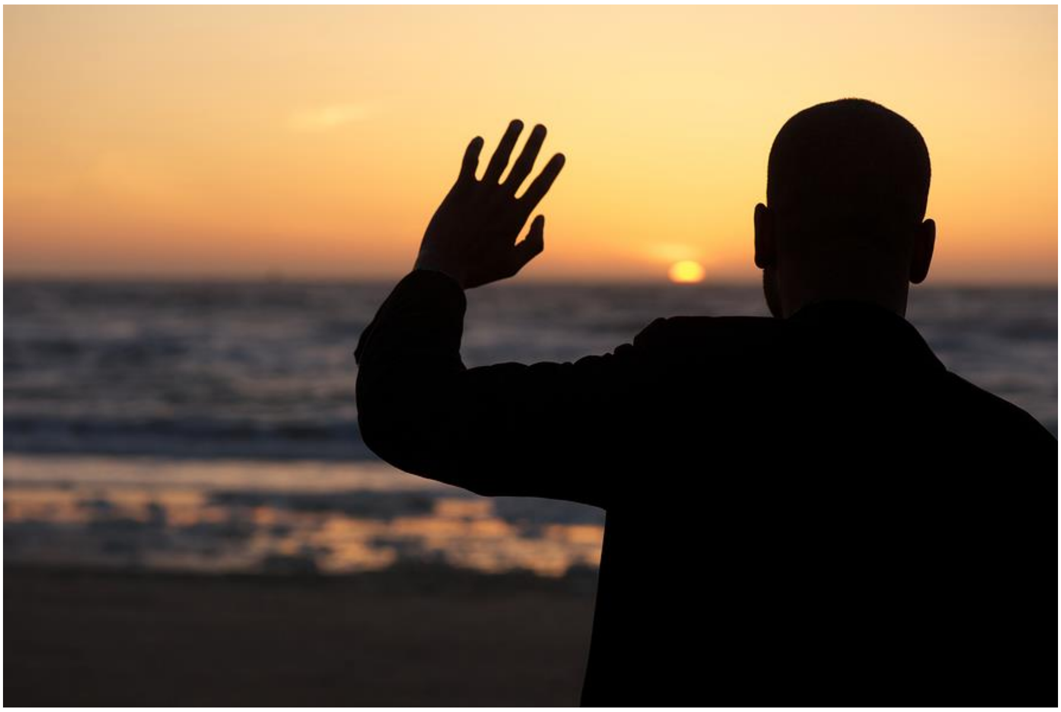


The ever diminishing list of ASX large caps

There's been a good chunk of M&A activity recently, including Seven Group (SVW) proposing to acquire the remaining 28% of Boral (BLD) it doesn't already own, Newcrest (NCM) being gobbled up by its original parent Newmont (NEM), ANZ finally receiving ACCC approval to buy Suncorp Bank, Aussie Broadband (ABB) buying Superloop (SLC), but now we wave goodbye to another couple of Australian doyens from the ASX.

CSR

- Saint-Gobain, a French manufacturer and distributor of building materials and industrial products, has agreed to acquire CSR for $9 per share.
- CSR has a building products division split 41% into Masonry & Insulation (with around half in bricks & tiles), 40% interior products (largely plasterboard) and 19% construction systems (fibre cement and aerated autoclaved concrete panels). It also has a property development business and a 25% stake in an aluminium smelter.
- CSR was of course originally the Colonial Sugar Refinery created in the mid 1800's.
- St Gobain's offer is subject to regulatory and CSR shareholder approvals. The transaction is expected to close in H2 2024.
- St Gobain want exposure to the high growth construction market in Australia, which should over time benefit from population growth. There have already been numerous interactions with CSR over the past years at various levels, including licensing of St Gobain technology to CSR and reciprocal site visits for best practice sharing.

Alumina (AWC)

- AWC is nothing more than a cashbox business spun out of Western mining 20 years ago. It owns 40% of the Alcoa World Alumina and Chemicals (AWAC) JV with Alcoa (60%) formed in 2002.
- AWC has received a non-binding, indicative and conditional proposal from Alcoa to acquire 100% of the ordinary shares on issue of AWC via a scheme of arrangement for scrip consideration of 0.02854 shares of Alcoa common stock for each AWC share. The Proposal is at a 13.1% premium to the share price of AWC on 23 February 2024 which would imply a value of A$1.15 per share.

No pot of gold here

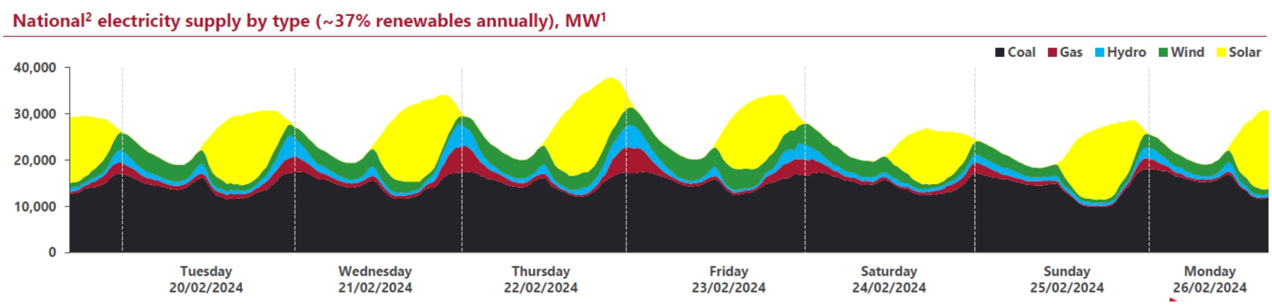
Let's be under no illusion; there is no pot of gold at the end of this energy transition rainbow. Western society's relentless pursuit of a utopian renewable energy solution does not exist.

I understand, for better or worse, this manic scramble towards renewable energy is all but agreed upon across all western nations within Government, opposition and corporate leaders, as spurred on by the likes of economic vandals such as the Inner-city Greens, but if we want to move from Option A to Option, B; B needs to exist.

Below are two great charts from the recent Cooper Energy (COE) results presentation.

Chart 1 shows Australia's electricity supply by source – baseload coal, big peaks in solar when available. It's an obvious point – but where does baseload come from when coal is gone? Solar can't do baseload. It has to be from batteries or maybe nuclear.

Chart 1

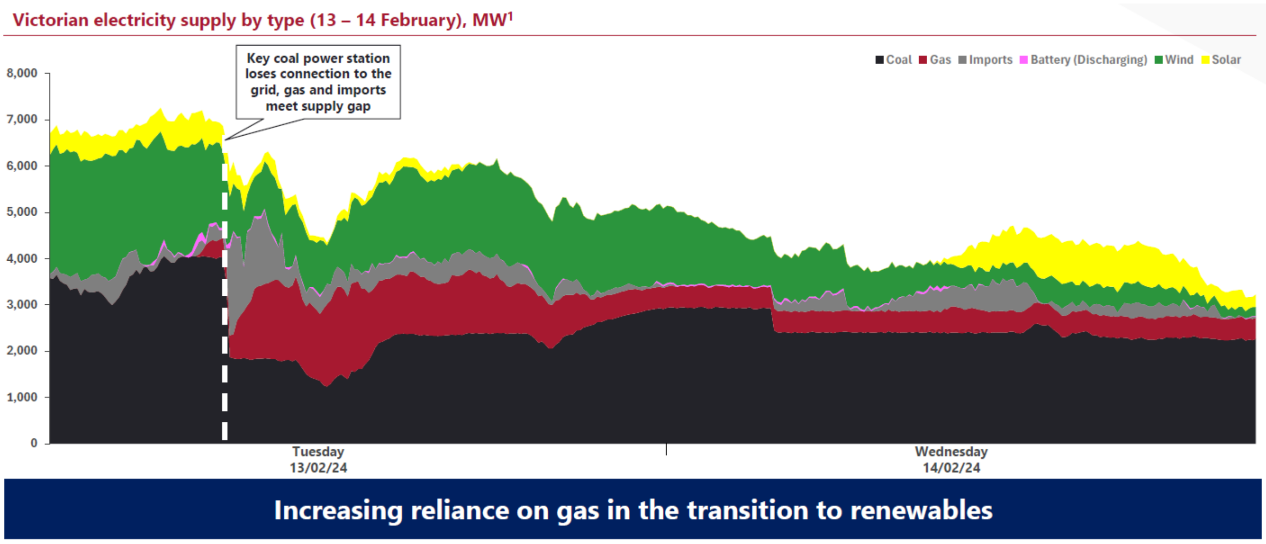


The current battery options are too few and far between and simply don't last long enough, and nuclear is many years away from approval, if approved, and then a further 10 years away from construction completion.

Chart 2 shows what happened in Victoria when the Loy Yang coal plant went off grid due to the transmission tower failures after that dirty big storm rolled through on 13th and 14th of Feb.

We initially imported heaps of power from interstate (grey), then the gas generators kicked in (red). Solar did nothing. Wind was there to help which is excellent, but we need firming capacity for emergencies, and gas has to play that role.

Chart 2



The transition metal; copper

There is one undeniable beneficiary during this transition period; copper. The demand for this commodity continues to rise as it is used in the transmission wires, batteries, solar and wind installations.

Click on the link below to read Shaw and Partners' own Peter Kormandy's summary and small cap recommendations.

I'm sticking with BHP and S32 for now.

click here (15 pages)

South 32 (S32)

Speaking of coal, albeit the type used in stainless steel, S32 has announced the sale of its Illawarra Metallurgical Coal business to GEAR and M Resources.

GEAR is an Indonesian based mining group who acquired Stanmore. M Resources is Matt Latimore's company – a major shareholder in Stanmore and Bowen Coking Coal (and previous director).

- The consideration is up to US$1,650m comprising:
    - Upfront cash of US$1,050m
    - Deferred cash of US$250m payable in 2030, and
    - Contingent payments of up to US$350m (based on coal prices) – coking coal needs to be above US$180-200/t for these to be made- it is currently around US$330/t.
- The full price implies a free cash multiple of 7.6x free cash flow of US$229m, which is the average free cash flow from FY16 to FY23.
- South32 is likely to return the cash to shareholders in a buyback.

- Yet another major miner is exiting the coal business, no doubt from shareholder pressure. RIO have done it, Teck is doing it, BHP has partially done it. Without investment from the major miners, coal supply is going to be constrained and demand solid.
- India is replacing China as the key growth engine for global steel production. China is short iron ore but long coal, India is the opposite. India has the potential to require an additional 100Mtpa of coking coal imports by the early 2030s. That's a 30% increase in demand at a time when supply will be constrained.

Australian Economics

January CPI inflation held at 3.4% year on year, the slowest since Nov-21 and below expectations. We revise down our estimate for Q1 CPI to 0.8%.

To read this Report [click here (4 pages)]

Click on link to read

EFG Infocus – Views on China - - 29 Feb 2024

Have a good weekend

Ben and the team.

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