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Nuclear Fallout Sinking Uranium Takeovers 28% Below Offer Prices: Real M&A

By Nikolaj Gammeltoft, Rita Nazareth and Tara Lachapelle - Mar 18, 2011

Japan's worst crisis since World War II is making takeovers of uranium miners the most likely to fail, and that has enabled some traders to anticipate returns approaching 40 percent.

Kalahari Minerals Plc (KAH) traded 28 percent below the offer of 290 pence a share that China Guangdong Nuclear Power Group Co., the nation's second-largest reactor builder, made last week, implying a 39 percent gain, according to data compiled by Bloomberg. Australia's Mantra Resources Ltd. (MRU) fell 28 percent yesterday as Rosatom Corp., Russia's state nuclear company, sought to renegotiate its bid after Japan's biggest earthquake on record caused the worst nuclear accident since Chernobyl. Analysts still project uranium stocks will rise more than 80 percent on average in the coming year, the data show.

Radiation leaks from the damaged nuclear plant in Japan have prompted China, which is building more reactors than any other nation, to halt its atomic-power expansion plans and led to an almost 30 percent drop in uranium producers since the magnitude-9 earthquake struck Japan on March 11. While the disaster has fed speculation investment in nuclear energy will decrease, shares of companies that produce uranium, used as fuel in reactors, have now fallen so far traders have a chance to lock in the biggest profits from betting on takeovers in the industry, data compiled by Bloomberg show.

'Overcome the Headwinds'

"You're offered fundamental upside if you believe the sell-off in the uranium stocks is overdone," said Andrew Ross, partner and global equity trader at First New York Securities LLC, a New York-based proprietary trading firm that bets on stocks, commodities and derivatives. "The Chinese are taking a very long-term view of their energy needs and they have to incorporate some element of nuclear power into their plans. You just have to overcome the headwinds of the Japanese issues."

Engineers have been trying to avert a meltdown at Tokyo Electric Power Co.'s crippled Fukushima Dai-Ichi nuclear plant following last week's earthquake and tsunami in northern Japan. The situation remains "very serious," Graham Andrew of the International Atomic Energy Agency said yesterday in Vienna.

China said it will stop approving new atomic plants "until safety and improved long-term development plans are cleared," according to a statement on March 16 from the State Council, the nation's cabinet. China is building at least 27 reactors and has 50 more planned, World Nuclear Association data show.

Uranium Slumps

The disaster has sent the Global X Uranium ETF down 29 percent this week, the biggest slump on record. Kalahari Minerals and Mantra are among its 20 biggest holdings, data compiled by Bloomberg show.

Uranium has retreated 27 percent this week to $50.01 per pound of U308, the tradable form of the metal.

"The risks associated with these types of transactions are going to be much higher relative to other deals out there," said Sachin Shah, a special situations and merger arbitrage strategist at Capstone Global Markets LLC in New York. "Because the circumstances are without resolution in the plant in Japan, the potential buyers are likely not only to take a wait-and-see approach, but they're trying to understand what ramifications they will have with the current operations in their countries."

Takeovers of diversified and non-ferrous metals companies, which include uranium producers, have been more prone to failing than those in other industries, data compiled by Bloomberg show.

In the past five years, 71 percent of deals in the industry greater than $500 million collapsed, according to data compiled by Bloomberg. That compares with 22 percent for all takeovers.

China Guangdong Nuclear

Among the industry's deals this year, Shenzhen-based China Guangdong Nuclear, the state-owned reactor builder, is in discussions to buy Kalahari Minerals in an all-cash offer for 290 pence a share, according to a statement on March 7.

The transaction would value London-based Kalahari Minerals at 756 million pounds ($1.2 billion), including stock options and convertible loan notes. The proposed deal would give China Kalahari's 43 percent stake in Australia's Extract Resources Ltd. (EXT), which controls the Husab uranium project in Namibia.

While Kalahari jumped as high as 301 pence on a closing basis since the announcement, the shares fell to 209.25 pence yesterday. The deal, proposed at a 17 percent premium to Kalahari's 20-day average prior to the announcement, would now give traders a 39 percent return. That's

the largest globally of any pending or proposed acquisition of more than $1 billion, according to data compiled by Bloomberg.

Kalahari's shares advanced 3.2 percent to 216 pence at 11:03 a.m. in London today.

'Attractive Value'

"The Kalahari board believes this represents attractive value for Kalahari shareholders," Mark Hohnen, the company's chairman, said in the statement. Kalahari also held talks with buyers including those from Japan and Russia prior to China Guangdong Nuclear's bid, Hohnen said in an interview on March 8.

Rosatom offered A$8 a share for Mantra on Dec. 15 in a deal valued at A$976 million ($963 million) including net debt, according to data compiled by Bloomberg. The shares, which fell to a 2010 low of A$3.68 in July, climbed as high as A$7.94 after the acquisition was announced.

Mantra tumbled to A$4.85 yesterday after ARMZ Uranium Holding Co., the Rosatom unit buying Mantra, said the events at Japan's nuclear plant "are likely to have a material adverse effect" on Mantra and that the agreement between the companies can't be met, according to a statement on March 16.

The premium for Mantra stood at 65 percent as of yesterday's close, the most of any acquisition of at least $500 million and the second-highest of any deal globally, according to data compiled by Bloomberg.

Mantra rebounded 9.1 percent to A$5.29 in Sydney today. Extract Resources rose 7.7 percent to A$7.

'Serious Buying Opportunity'

The share-price declines in uranium producers since the earthquake in Japan give investors a "serious buying opportunity," Ben-Ari Elias, a New York-based analyst at Sterne Agee & Leach Inc., said in an interview on "Bloomberg Surveillance" with Tom Keene and Ken Prewitt yesterday.

Analysts project an average advance of 82 percent for the uranium companies in the Global X Uranium ETF (URA) that have 12-month price estimates, according to data compiled by Bloomberg.

"There's no doubt there are opportunities out there as far as arbitrage spreads," said Kevin Caron, a market strategist in Florham Park, New Jersey, at Stifel Nicolaus & Co., which has about $90 billion in client assets. In the short-term "deals that were seen to be certain may be less certain," he said.

"Looking forward, you may see other deals come to market, opportunistic deals in the wake of this," he said.

Overall, there have been 4,878 deals announced globally this year, totaling $468.5 billion, a 9 percent increase from the $429.8 billion in the same period in 2010, according to data compiled by Bloomberg.

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