

# Copper Mining M&A Continues as Green Energy Transition Drives Demand

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Copper mergers & acquisitions continue to shine as the transition to a green economy requires a significant increase in the use of renewable energy sources, such as solar and wind power, and these sources depend on various metals to produce and store electricity, such as copper, lithium, cobalt, and nickel.

Copper is especially important for renewable energy, as it is used in electric vehicles, wind turbines, solar panels, and power grids. According to the [International Energy Agency](#) (IEA), the demand for copper could increase by 40% by 2040 under various governments' [Net Zero](#) initiatives to cut greenhouse gas emissions.

This growing demand for copper has sparked a wave of mergers and acquisitions in the copper mining industry, as companies seek to secure access to high-quality deposits and expand their production capacity. Here are a couple of examples this year.

## Teck to spin off steelmaking coal business to shareholders to create two independent companies

Teck Resources, a Canadian mining company, announced in February 2023 that it will spin off its steelmaking coal business to form two new companies: Teck Metals and Elk Valley Resources.

- Teck Metals ("TM") will retain Teck's existing base metals

operations and development projects, including copper mines in B.C. and Chile, a zinc mine in Alaska, a lead-zinc smelter in Trail, B.C., and copper projects in Chile and Peru.

- Elk Valley Resources (“EVR”) will become a pure-play steelmaking coal producer with four metallurgical coal mines in B.C. and an enterprise value of C\$11.5 billion.

## **Breakdown of the split**

The split has been designed as a spin-off of Teck’s steelmaking coal business, with EVR common shares being distributed to existing Teck shareholders. Throughout a transition period, TM will maintain a significant stake in steelmaking coal cash flows, via an 87.5% interest in a gross revenue royalty (“Royalty”), as well as preferred shares of EVR (called the “Transition Capital Structure”).

As per the Transition Capital Structure, TM will receive quarterly payments consisting of Royalty payments and preferred share redemption amounts, which will collectively add up to 90% of EVR’s free cash flow.

Teck shareholders who are on record as of the relevant distribution record date will receive common shares of EVR in proportion to their Teck shareholdings, at an exchange ratio of 0.1 common shares of EVR for each Teck share (or roughly 51.9 million total EVR common shares), as well as around \$0.39 cash per share, resulting in a total of \$200 million in cash. Through a Dutch auction election process, shareholders will have the option to choose between receiving a greater amount of cash or common shares of EVR, subject to proration.

The separation is expected to be completed by the end of 2023, subject to regulatory and shareholder approvals with a

shareholder vote expected on April 26, 2023.

## **Consolidating coal operations**

In exchange for their minority interests in the Elkview and Greenhills coal operations, Nippon Steel Corporation (“NSC”) and POSCO, a South Korean steel-making company, have agreed to exchange their interest in the Elkview and Greenhills coal operations so EVR can own 100% of its projects.

NSC will exchange its interest and add C\$1.025 billion in cash to acquire 10% of the common shares of EVR and POSCO will receive a 2.5% interest in EVR.

## **Strategic Move**

The split will result in the formation of two resource companies, giving investors the option to allocate investments between two distinct businesses with different commodity fundamentals and value propositions.

TM will prioritize growth, boasting a copper development portfolio and premier low-cost base metals production. , while maintaining a disciplined capital returns policy.

EVR will be a Canadian high-margin steelmaking coal producer, focused on generating long-term cash flow and providing cash returns to shareholders, with ample potential for equity value accretion.

## **But suitors emerge**

After the announcement, [Glencore](#) (LSE: GLEN), a Swiss mining company, announced an unsolicited bid to acquire Teck Resources for \$22.5 billion, mostly in Glencore shares and up to \$8.2 billion in cash.

According to recent reports, at least six other companies have

now approached Teck to explore deals to acquire the base metals business after the split including, [Anglo American](#) (LSE: AAL), [Freeport-McMoRan](#) (NYSE: FCX), and [Vale](#) (BOVESPA: VALE3).

## **Hudbay Minerals to acquire Copper Mountain for US\$439 million**

[Hudbay Minerals](#) (TSX: HBM), a Canadian miner with operations in Canada, Peru, and the United States, announced on April 13, 2023, that it had entered into a definitive agreement to acquire Copper Mountain Mining Corporation (TSX: CMMC), a Canadian miner with assets in Australia and B.C. The transaction is expected to close in the third quarter of 2023.

The transaction, valued at US\$439 million, will be carried out through an exchange of shares, whereby Copper Mountain shareholders will receive 0.381 of a Hudbay share for each Copper Mountain share they own. The deal represents a 23% premium over the 10-day volume-weighted-average share prices of both companies as of April 12, 2023.

The combination of Hudbay and Copper Mountain will create a premier Americas-focused copper producer with a diversified portfolio of high-quality, long-life assets and a robust pipeline of growth projects.

The combined company will have an annual copper production capacity of approximately 150,000 tonnes, with the potential to increase to over 200,000 tonnes through organic growth initiatives. The transaction is expected to generate an estimated US\$30 million per year in operating synergies and enhance the financial position and flexibility of the combined company.

# Lundin Mining to Acquire a Majority Interest in the Caserones Copper Mine in Chile

[Lundin Mining](#) (TSX: LUN), a Canadian company that operates several base metal mines, announced that it has entered into a purchase agreement with JX Nippon Mining & Metals Corporation, a subsidiary of ENEOS Holdings, Inc. (TSE: 5020), to acquire 51% of the Caserones copper mine in Chile for US\$950 million.

The deal is worth US\$800 million in upfront cash and US\$150 million in deferred cash over six years. Lundin Mining also has the option to buy up to an additional 19% of Caserones for \$350 million over five years.

Caserones is a large-scale, long-life copper-molybdenum operation located in the Atacama region of Chile. The acquisition leverages Lundin's existing investment in the region, will increase its copper production by 50% in 2022, and enhance its cash flow generation.

## Copper exploration companies to watch

Here are some other mineral exploration companies with copper projects that might be of interest to larger companies and they progress with exploration and development.

- [Clean Air Metals Inc.](#) (TSXV: AIR | OTCQB: CLRMF): Clean Air Metals owns 100% of the high-grade Thunder Bay North Critical Minerals Project, a platinum, palladium, copper, and nickel project located near Thunder Bay, Ontario.
- [Critical Metals PLC](#) (LSE: CRTM): Critical Metals has a 100% stake in Madini Occidental Limited, which holds an indirect 70% interest in the Molulu copper and cobalt

project, an ex-producing, medium-scale asset in the Katangan Copperbelt in the Democratic Republic of Congo.

- [Fjordland Exploration Inc.](#) (TSXV: FEX): Fjordland is a mineral exploration company that is focused on a nickel-cobalt-copper project in Newfoundland, a nickel project in Quebec, and two copper-gold properties in B.C.
- [Geophysx Jamaica Ltd.](#) (*private*): Geophysx Jamaica is an exploration junior searching locally for new mineral discoveries in Jamaica and is focused on copper, gold, and rare earth metals.
- [Silver Bullet Mines Corp.](#) (TSXV: SBMI | OTCQB: SBMCF): Silver Bullet Mines is a silver and copper exploration and development company with projects in Arizona and Idaho.
- [Troilus Gold Corp.](#) (TSX: TLG | OTCQX: CHXMF): Troilus Gold is a mining company focused on the advancement and de-risking of the former gold and copper Troilus Mine in Quebec towards production.

## Final thoughts

These deals reflect the strategic importance of copper for the green economy and the competitive advantage of owning low-cost, long-life assets that can meet the rising demand. They also indicate the challenges that copper miners face in finding new sources of supply, as existing mines are depleting, and new projects face environmental and social hurdles.

The copper mining industry is likely to see more consolidation and investment in the coming years, as the world shifts to more sustainable energy systems.