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Hong Kong Listing for Iron Miner Cut by Half

By The Moscow Times

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Petropavlovsk's iron ore unit, IRC, cut the size of its initial public offering in Hong Kong by more than half to about $240 million, the company said Friday in a brochure about the revised listing.

IRC will offer new shares at a fixed price of HK$1.80 apiece, or 40 percent off the high end of an earlier price range. Petropavlovsk decided not to sell any existing shares at the lower valuation of the revised price, according to the document.

Petropavlovsk said it would alter the terms of the offering after demand from investors failed to meet its "highest expectations." IRC plans to publish an additional prospectus in Hong Kong, which will result in a "short delay" in the timetable, the company said.

Petropavlovsk fell 51 pence, or 4.8 percent, to 1,020 pence at the 4:30 p.m. close of London trading, the lowest since Aug. 26. IRC's loss for the six months through June was $51.7

million, narrowing from $125 million a year earlier.

"The company is still losing money, so the risk is higher than other new stocks," Jasper Tsang, an analyst at Capital Securities, wrote in a research note. "We recommend investors to buy only a small amount for trading purposes."

IRC, which has iron ore projects in Russia, previously offered 1.325 billion shares at HK$2.20 to HK$3 each to raise as much as HK$3.98 billion ($513 million), according to a Sept. 29 press release. About 80.8 percent of the shares previously offered were to be newly issued.

IRC's reduced offer contrasts with Mongolian Mining's IPO this month. Mongolia's biggest closely held coking-coal producer increased its price range and sold shares at the midpoint of the revised range.

Bank of America's Merrill Lynch unit, Bank of China International and UBS are managing the IRC sale. IRC joins commodity producers, including RusAl, in raising funds in Hong Kong as Chinese raw-material demand jumps.

Proceeds from the IPO will be used to develop mines, IRC has said. The company's projects have resources of 1.1 billion tons of iron ore, according to a press release last month.

The Kuranakh development in the Amur region is its only producing facility. The company is developing the K&S venture, which may cost $400 million in its first phase, Petropavlovsk said in March. The mine would have a capacity of 3.2 million tons of iron ore concentrate per year beginning in 2013. IRC also plans to develop the Garinskoye deposit.

IRC parent company Petropavlovsk may miss its full-year gold production target, as delayed equipment deliveries hamper output, analysts said.

Equipment delays and cold weather cut attributable output in the first half to 166,300 ounces from 224,600 ounces a year earlier, Petropavlovsk said at the end of the summer, adding that it may miss a 670,000-ounce to 760,000-ounce full-year target by as much as 5 percent. The company said Thursday that it was "striving" to meet that goal.

"Reducing full-year guidance to within 5 percent of 670,000 after such a weak first-half production of 166,000 may still prove insufficient," Tim Dudley, an analyst at Collins Stewart, said in a report last week. "We are not confident in this target and expect the company to downgrade further before year-end."