

Grupo Mexico Proposes Merging Southern Copper, Asarco

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(Updates with details, analyst comments)

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MEXICO CITY -(Dow Jones)- Mexican copper mining and railroad company Grupo Mexico SAB (GMEXICO.MX) on Friday proposed consolidating its mining operations under a single roof by combining Southern Copper Corporation (SCCO) and Asarco LLC, bringing back into the fold the U.S. company it came close to losing in a drawn-out bankruptcy case.

In a filing with the Mexican stock exchange, Grupo Mexico said its subsidiary Americas Mining Corporation, or AMC, has presented the plan to the board of Southern Copper, which runs the group's Mexican and Peruvian mining operations. Asarco has operations in Arizona and Texas.

Under the proposal, Southern Copper shareholders would receive 1.237 shares of AMC for every Southern Copper share owned. The proposal values Asarco at \$5.94 billion, and would create a single company with the world's largest proven copper reserves at an estimated 74 million tons. Southern Copper said it will set up a special committee of independent directors to evaluate the plan.

"The transaction would give Southern Copper shareholders the opportunity to participate in the future growth of Southern Copper and Asarco, which would be fueled by synergies and operating efficiencies that could be had under a common ownership and management," Grupo Mexico said. AMC would then be listed on the New York and Lima stock exchanges.

The merger would raise Grupo Mexico's stake in Southern Copper to 100% from 80%, and the shareholders who own about 20% of Southern Copper would have a 16.6% stake in AMC.

Southern Copper shares rose, fell, and rose again on the news, closing up 0.7% at \$32.26. Grupo Mexico series B shares rose 3.7% to 33.62 pesos (\$2.64) on the Mexican stock exchange.

Mining analyst Juan Pablo Cordova at Peru's Banco de Credito said there were two big questions over the possible merger: Firstly, what is the real value of the Asarco operations, and secondly, whether the proposed share exchange reflects the fair values of both companies.

The transaction would bring Grupo Mexico's U.S. operations back into the fold years after the company separated Asarco with the merger of its Mexican and Peruvian mines into Southern Copper. In 2005, faced with huge environmental claims, undetermined asbestos claims, and hit by a strike, Asarco filed for Chapter 11 bankruptcy proceedings and Grupo Mexico lost management control soon after.

Grupo Mexico recovered Asarco last December after staving off an offer to buy the company from Vedanta Resources PLC (VED.LN). Grupo Mexico expects Asarco to produce around 220,000 metric tons of

copper this year, in addition to Southern Copper's estimate of 500,000 tons, not including eventual output from Cananea.

In June, Grupo Mexico recovered control of Cananea, Mexico's largest copper mine, after a long strike and dispute with the national mining workers union that kept the facility shut for nearly three years, shutting in 180,000 tons of capacity. Production is expected to take three to six months to resume.

Rodrigo Heredia, a metals and mining analyst at Mexico's Ixe brokerage said the proposed transaction would add value to Grupo Mexico as the holding company by bringing the mining division together. Heredia, who also expects Grupo Mexico could spin off its railroads division next year, said that would give investors clear-cut options.

"That means if you wanted to invest in the mining company, you would have Americas Mining Corporation; in railways, you would have Ferromex; and if you wanted both, you would have Grupo Mexico," he said.

Grupo Mexico officials weren't available to comment.

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(Sophie Kevany in Lima and Laurence Iliff in Mexico City contributed to this article.)

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