Holcim, Lafarge agree in effort to rescue merger

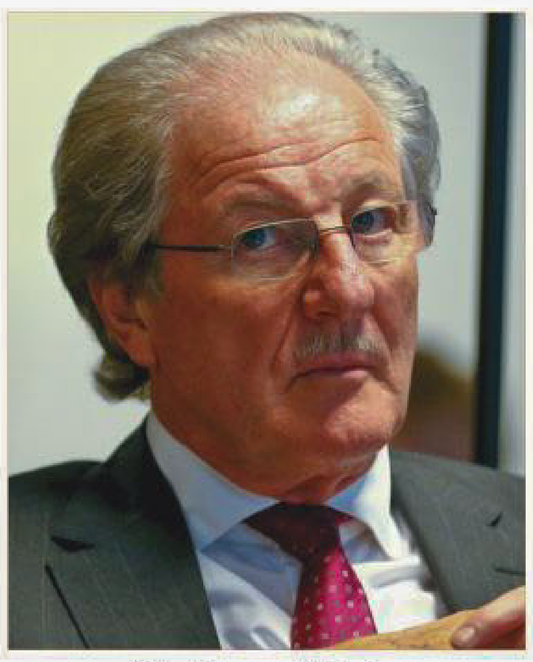
Bloomberg

HOLCIM Ltd and Lafarge SA agreed on new merger terms and management changes in an effort to salvage the creation of a $48 billion cement company, while leaving open the contentious question of who will be chief executive officer.

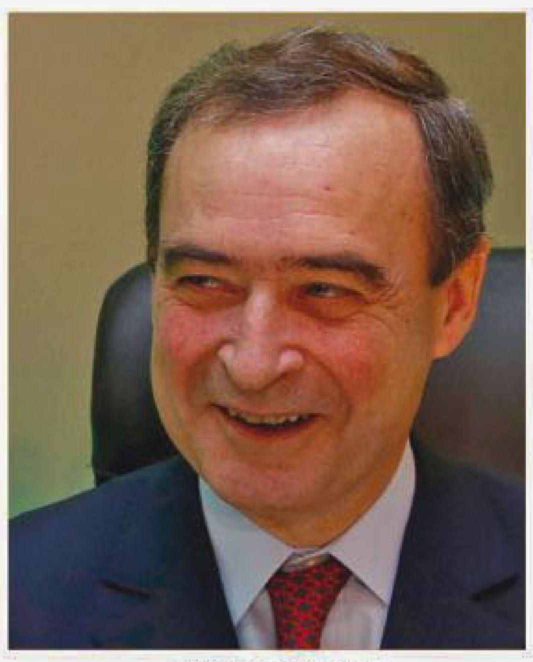
Lafarge chief Bruno Lafont will now become co-chairman of the new entity alongside Holcim Chairman Wolfgang Reitzle, following resistance to Lafont becoming CEO. The companies also revised the exchange ratio so that Switzerland's Holcim will give 0.90 of a share in return for one share of Paris-based Lafarge, instead of the original one-to-one ratio.

Holcim, in a letter to the French company on Sunday, had demanded a bigger stake and questioned the ability of Lafont to reach savings targets after its business outperformed Lafarge since the deal to create the world's biggest cement maker was announced in April. Lafont and Holcim managers also clashed over issues including leadership style and strategy, people familiar with the situation have said.

A merger of such a size "doesn't come without tension sometimes," Lafont told reporters on a call today. "My attitude since Sunday is to show that men must not block the implementation of this merger."



Wolfgang Reitzle



Bruno Lafont

A new CEO will be proposed to both boards in coming weeks, Lafont said. A Lafarge candidate for CEO has been identified, according to people familiar with the matter. Beat Hess, a high-profile Swiss executive and board director at Holcim, will be vice-chairman.

Lafarge rose as much as 4.6 percent in Paris, while Holcim shares gained as much as 2.2 percent in Zurich.

Holcim and Lafarge have predicted the merger will lead to cost savings of 1.4 billion euros annually, giving them an advantage over rivals as a global recession eroded demand for building materials and forced some kilns to run at a loss.

The decision to create a cement giant pushes the boundaries of M&A in an industry that had already seen heady, debt-fueled acquisitions in the run up to the financial crisis in 2008. Following the initial agreement last year, Holcim came under pressure from investors who increasingly saw the terms of the deal as unfavorable to them.

"The breakthrough was only possible because all participants considered the interests of the new company to be more important than personal ambitions," Holcim's biggest shareholder, Thomas Schmidheiny, said in a statement, adding that he's happy with the outcome. "It is a strong sign that the industrial logic of the merger and the related long-term perspectives succeeded."

The combined company will have a market value of about 47 billion Swiss francs ($47.6 billion) based on today's price for Holcim stock and the number of shares that will be outstanding after the transaction closes.

The deal, with the renewed support of "certain key shareholders of both companies" should be completed in July, the cement makers said. Subject to shareholder approval, the new company will announce a "post-closing scrip dividend" of one new Lafarge-Holcim share for each 20 existing shares. Holcim was advised by Perella Weinberg Partners, led by Dietrich Becker, and Goldman Sachs Group Inc., headed up by Francois-Xavier de Mallmann. Lafarge worked with Zaoui & Co., led by co-founder Michael Zaoui, and Rothschild, with bankers Francois Wat and Gregoire Heuze.

Sanford C. Bernstein analyst Phil Roseberg said it's not certain whether the new agreement will rescue the deal. "It's not the end of the story," he said in a note. "The fate of the merger still rests with Holcim's shareholders. The boards have secured an adjustment, but is this enough to convince shareholders?"

For the merger to go through, at least two-thirds of Holcim shareholders still must approve a capital increase.

The dispute over leadership by the 58-year-old Frenchman Lafont shows how a clash of personalities can become the biggest liability in mergers.

Australia signals approval of China-based AIIB; Japan divided

Reuters, Tokyo/Sydney

AUSTRALIA said on Friday there was a lot of merit in the China-led Asian Infrastructure Investment Bank (AIIB) while Japan's finance minister signalled cautious approval of the institution that the United States has warned against.

However, other top officials in Tokyo were more sceptical, reflecting a split in the government of Prime Minister Shinzo Abe over whether joining an institution launched by Japan's main rival would help or hinder its interests.

The Sydney Morning Herald newspaper reported that Canberra could formally decide to sign up to the AIIB when the full cabinet meets on Monday.

Japan, Australia and the South Korea, all major US allies, are the notable regional absentees from the AIIB. The United States, worried about China's growing diplomatic clout, has questioned whether the AIIB will have sufficient standards of governance and environmental and social safeguards.

But the opposition to the AIIB began crumbling after Britain said earlier this month that it would join the institution, maintaining it was in its national interest. France, Germany and Italy swiftly followed suit.

Australia now appears close to joining, although no formal decision has been made, and Beijing said Japan and South Korea were also considering the possibility.

China's Finance Minister Lou Jiwei said the bank would be set up by the end of the year and would complement rather than compete with other institutions, including the World Bank and the Asian Development Bank (ADB), the Manila-based multilateral institution dominated by Japan and the United States.

"All parties will by the middle of this year complete talks and sign the charter for the AIIB, and by year-end will make the charter effective and officially establish the AIIB," Lou said in an interview with state media, adding that Beijing was "maintaining communication" with the United States and Japan.

Asked about Australia, South Korea and Japan joining the bank, China's Foreign Ministry said it was "open" to it.

"They have all already expressed that they are contemplating the issue at hand," ministry spokesman Hong Lei told a daily briefing. "We are open to them making the relevant decision."

Japanese Finance Minister Taro Aso said Tokyo could consider joining the China-led bank if it could guarantee a credible mechanism for providing loans.

"We have been asking to ensure debt sustainability taking into account its impact on environment and society," he told reporters after a cabinet meeting.

"We could (consider to participate) if these issues are guaranteed. There could be a chance that we would go inside and discuss. But so far we have not heard any responses."

Other officials were more leery, reflecting Tokyo's concern over China-led lending practices, its relations with major ally Washington and the AIIB's potential rivalry with the ADB.

"We have a cautious position about participation," said top government spokesman Yoshihide Suga.

But a source familiar with Japan's policy-making said Tokyo should get involved to help ensure best practices and to avoid being left out. "Now it has become awkward as Europe joins but the US and Japan stay out," the source said.

Chinese airline completes cooking oil fuel flight

AFP, Shanghai

A Chinese airline on Saturday completed the country's first commercial flight using biofuel, made from waste cooking oil, as the government seeks to promote greater environmental sustainability.

A Hainan Airlines flight from commercial hub Shanghai to Beijing used biofuel supplied by China National Aviation Fuel company and energy giant Sinopec, according to a statement from US aircraft giant Boeing.

The Boeing 737 plane used a 50-50 mix of conventional jet fuel and biofuel made from "waste cooking oil collected from restaurants in China," it said. A Boeing spokeswoman confirmed to AFP that the flight was completed Saturday.

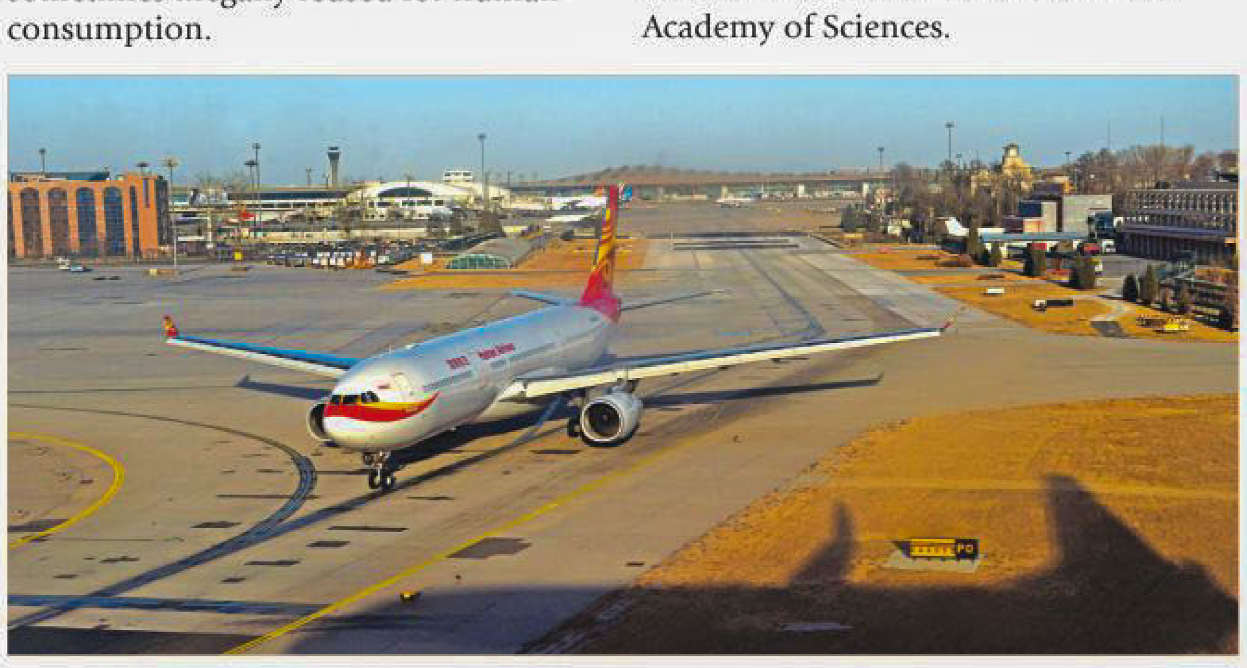
Used cooking oil, called "gutter oil" in Chinese, has been the target of media exposes about how the waste product is sometimes illegally reused for human consumption.

Sinopec, which was criticised in the Chinese environmental documentary "Under the Dome", said waste oil could be put to better use.

"This fully represents an earnest commitment from Sinopec to continuously advance scientific and technological innovation, and promote green and low-emission development," Sinopec said in the statement.

The world's first flight powered entirely by biofuel took place in 2012 when a plane took off from the Canadian capital Ottawa, but several commercial aircraft have used biofuels mixed with traditional petroleum-based jet fuel. Australia's Qantas and Air Canada have both tested biofuel on commercial flights.

Last year, Boeing announced it would co-operate with the Commercial Aircraft Corp. of China to develop aviation biofuel. It has a similar project with a research institute under the Chinese Academy of Sciences.



AFP

The shadow of a landing China Eastern Airlines plane passes a Hainan Airlines plane waiting to take off at Beijing airport yesterday.

For Hong Kong, a chill sets in as rich china tourists shop elsewhere

Reuters, Hong Kong

CHINESE tourists are rapidly deserting Hong Kong, leaving retailers who built businesses around once insatiable demand from mainland neighbours with bigger but emptier stores and squeezing the whole city's visitor-dependent economy.

With cross-border tensions exacerbated by pro-democracy Hong Kong protests, tour groups visiting Hong Kong from China plunged about 80 percent in early March. A Beijing crackdown on conspicuous spending by mainlanders also shows no signs of letting up, sending tourists further afield.

While daytrippers from just outside Hong Kong continue to buy daily essentials there, Chinese travellers with cash to burn are homing in on places like South Korea and Japan. According to the Japan National Tourism Organization, Chinese visitors lured by the weaker yen and easier visa rules nearly tripled in February to a monthly record: With one in four tourists in Japan, Chinese became the biggest visitor group in a country with which relations have often been fraught.

That's bad news for Hong Kong retailers like Chow Tai Fook Jewellery and cosmetics chain Sa Sa International Holdings Ltd. To the chagrin of some Hong Kongers, these firms expanded networks in the former British colony by about 50 percent over the past five years to cater to then-surging demand from Chinese tourists.

"The old shops are squeezed and replaced by chain stores like Chow Tai Fook, Sa Sa and other popular shops for them (mainland buyers)," said one 22-year-old Hong Kong shopper, who gave his surname as Yu. "That is crazy!"

While some Hong Kong residents accuse mainland tourists of pushing up prices and clogging already crowded streets, resentment rides high also on the other side of the border.

REUTERS/FILE

Shoppers cross a street at the Causeway Bay shopping district in Hong Kong.

Many have expressed shock, saying Hong Kong people are rude and pledging to take their money elsewhere, with some Internet users going so far as to post pictures of Hong Kong re-entry permits cut into pieces.

The net effect is a tourism slowdown that leaves a gaping hole in an economy where Chinese visitors - 47 million last year, about 40 percent of them from areas beyond border zones - account for about a third of retail spending.

In a report this week, Credit Suisse cut its economic growth forecast for Hong Kong to 1.6 percent from 2.4 percent for this year, citing weaker mainland tourist spending, and rated stocks dedicated to the city "underweight".

Chow Tai Fook, the world's largest jewellery retailer, has so far relied on mainland Chinese for nearly 60 percent of its sales in Hong Kong and the nearby casino hub of Macau. At Sa Sa, reliance is even bigger, with mainlanders accounting for 71 percent of its sales in Hong Kong and Macau.

But as tensions grew last year, even before Hong Kong's 'Occupy' pro-democracy protests, Chow Tai Fook pointed the way toward one option for Hong Kong retailers: It opened its first point of sale in South Korea's popular tourist destination Jeju island last September, and said it's looking at further expansion overseas to tap affluent Chinese tourists.

Like Japan, South Korea is a big beneficiary thanks to its currency weakening even as the strength of the U.S. dollar eroded competitiveness in Hong Kong - its currency is pegged to the greenback. More than 6 million mainland Chinese visited South Korea last year, up 42 percent from 2013, spurred by an easing of visa rules.

Stressed oil firms turn to junk bonds, bankruptcy

AFP, New York

THE oil price crash is taking a growing financial toll on companies throughout the industry, forcing some into bankruptcy and others to issue expensive junk bonds to stay afloat.

On Tuesday, shale producer Quicksilver Resources filed for bankruptcy protection for its US operations after missing a bond payment.

Earlier bankruptcies include a March 3 filing by Cal Dive International, which installs offshore pipelines and platforms.

And energy firms are now the top issuers, by a wide margin, of junk bonds, which require them to pay much higher yields than conventional bonds.

On March 5, US Gulf Coast producer Energy XXI issued $1.45 billion in bonds that pay a steep 11 percent, planning to use the money in part to pay off other lenders.

Energy XXI had previously warned it would not be able to make payments if commodity prices stay low.

The par value of high-yield energy company bonds on the market surged by about $30 billion in the first two months of the year, representing both new issues and downgrades.

That was far more than any other sector, according to Fitch Ratings.

The rise in junk bonds and bankruptcies are the latest sign of stress in the petroleum sector as US crude prices linger around $45 a barrel, down nearly 60 percent since June.

Low prices depress profits and bail ance sheets, especially for smaller companies, which can be heavily leveraged.

That is forcing more and more of them to go to capital markets to stay afloat.

"It is definitely a challenging environment all around for a smaller (lower-rated) name to get a deal done," said Mark Sadeghian, a senior director for energy at Fitch.

"They definitely have to pay up quite a bit."

The number of companies closing their doors is still limited. But the climate will get tougher still if the downturn in the crude price lasts years.

"You need oil prices to be lower for longer before you see a tidal wave of bankruptcies," said David Pursell, managing director at Tudor, Pickering Holt, an energy investment bank in Houston.

One wrinkle is that to continue to win financing, companies have to keep producing and selling oil, which keeps downward pressure on crude prices.

The International Energy Agency last week warned that, despite the sharp fall in crude prices, US supply "so far shows precious little sign of slowing down."

Some companies are seeking fresh financing to meet existing loan and bond payments. In other cases, companies are trying to be proactive and keep liquidity high in case the market gets worse.

"You're buying yourself the ability to live to fight another day," said Pursell.

Some energy companies have turned to new equity offerings for funds, a move that dilutes the shareholder base and comes as stock valuations are already low.

India's SEBI warns of penalties as board quota deadline nears

Reuters, Mumbai

CORPORATE India's "shameful" failure to appoint enough women directors ahead of a deadline set by regulators for April 1 will result in "very serious" consequences for firms, the head of the Securities and Exchange Board of India (SEBI) said on Friday.

SEBI last year imposed a quota of one female director on the board of every listed firm. It extended the deadline once last year, but despite last-minute appointments, hundreds of firms, including several large state-owned companies, still fall short of the requirement.

"I find it very shameful that in this country, about 8,000 or 9,000 listed companies can't find even one woman who is competent enough to be on their board," SEBI chairman U.K. Sinha told reporters.

"I'm very categorical: if people do not follow it willingly, then it will have consequences. And the consequences will be as per the law and can be very serious."

He did not specify the penalty or consequence. According to data combined by Prime Database, almost one third of companies listed on the National Stock Exchange still have no women directors on their board. Laggards include state owned oil firm ONGC, infrastructure group Larsen & Toubro and conglomerate Adani Enterprises, owned by one of India's richest men.

That is an improvement from early 2014, when the rule was introduced. In February last year, two-thirds of firms lacked a single female director.

But campaigners argue that the last-minute rush has also brought in female directors who do not meet the spirit of the law, as they are connected to the "promoters", or majority shareholders -- in many cases, through family.