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Dyno will add spark to Incitec

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IN ALL the turmoil it's nice to see businesses going about, well, their business. Incitec Pivot's offer for Dyno Nobel is the second 'pure' business-building deal in a week.

It's similar in that core sense to the Oxiana-Zinifex proposal. Both unions will qualitatively and quantitatively build a better -- Australian headquartered and managed, global -- player. Two and two will add to five.

There are two big differences. Oxiana-Zinifex is a pure merger. Indeed, I haven't seen one purer. There's very little premium paid by Oxiana, the 'acquirer'.

Shareholders in the two companies share the equity exactly 50-50. Oxiana's chairman stays chairman of the merged group, Zinifex's CEO becomes CEO of the merged group.

Incitec is a straight takeover, and at a -- underwritten -- premium. Not only is Incitec more than three times the size of Dyno, but at least 25 per cent of the consideration paid to Dyno shareholders will be in cash, not shares.

The combination means that Dyno shareholders will end up with less than 19 per cent of the merged company. Their stake could go above 19 per cent if the higher consideration promised on a fall in Incitec's share price kicks in.

Although, interestingly, Incitec has reserved the right to call off the deal if its share price falls so far that Dyno shareholders would edge above 20 per cent of the merged entity.

The second big difference is that the mining merger is a marriage of Zinifex cash and (immediate) cash flow, and Oxiana's exploration and development prospects.

With Incitec-Dyno, it is a straight expansion. Adding Dyno's nitrogen-based explosives to Incitec's nitrogen-based fertiliser.

And no, it's not intended to take Incitec into the 'fertiliser explosives businesses'. Simply to broaden and consolidate supply from the same source material.

This enables the sort of huge in-market rationalisation benefits from two, on the surface, seemingly completely different products and businesses, that would normally only be expected with two direct competitors.

Further, a merger of businesses selling into exactly the same -- what other word, explosive -- global growth.

It will put together a business that sells explosives to the companies that are blowing up Western Australia, to ship off to China.

With a business that provides fertiliser to grow the food to ship off to feed China.

Did anyone mention Orica? The deal is exquisite with painful irony for Orica.

Because Orica sold Incitec to buy Dyno. Or at least, part of Dyno.

And now they are coming back at it with a pincer movement.

Barely two years ago, Orica decided to rationalise its business profile and get out of fertiliser. And to consolidate and expand into the world's biggest commercial explosives company. The original Nobel would have been spinning in his grave.

Now Orica has been a very good company since; but nevertheless that was a big mistake.

First it sold too cheaply. At $21 an Incitec share, pocketing $700 million or so for its 70 per cent.

That was just two years ago. Incitec shares have been rocketing since. Before yesterday's announcement they were pushing $150. The Orica stake would have been worth $4.5 billion.

But secondly and more potently, an enlarged Incitec-Dyno will be coming after Orica to 'devalue' what it put that Incitec money into. Expanding into the other half of Dyno. At an $8 billion company, it will have every bit as much muscle as Orica.

Orica would have liked to buy all of Dyno back in 2006. They were the two biggest explosives groups in the world.

Worse, it had to pass on the single two best bits. The Aussie arm -- which would have given it all-but 100 per cent of explosives to the mining industry, just as demand was about to, well that word again, explode.

And the US arm. The two were packaged into the Dyno which Incitec is now aiming to buy.

So not only has Orica missed out on nearly $4 billion in less than two years; that $4 billion is now coming back at its throat. Now true, there is enough demand and growth to share. There's still plenty of Western Australia to blow up between them.

But that's not how business tends to work -- just look at the changing shares in cardboard boxes. Even if you didn't have the ACCC's trust-buster Graeme Samuel staring over your shoulder.