



HD **Moody's: Baosteel's A3 rating unaffected by its offer to acquire Aquila**

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Moody's Investors Service, ("Moody's") says that while Baosteel Group Corporation's (Baosteel) joint bid with Aurizon Holdings Limited (Baa1 stable) to acquire Aquila Resources Ltd (unrated) is credit negative for Baosteel, the bid will not have an immediately impact on Baosteel's A3 issuer rating or stable outlook.

On 5 May 2014, Baosteel's wholly-owned subsidiary, Baosteel Resources Australia Pty Ltd (unrated) and Aurizon jointly announced their offer to acquire an 80% **stake** in Aquila for approximately AUD1.1 **billion**.

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If the bid is successful, Baosteel will acquire a maximum 65% interest in Aquila, which will increase its **stake** in Aquila up to 85%, while Aurizon will own all of the remaining shares acquired under the offer.

The maximum amount payable by Baosteel for its proposed 65% **stake** is about AUD910 **million** (RMB5.3 **billion**).

"The **acquisition** cost is low when compared with Baosteel's sizeable cash and liquid financial investments," says Jiming Zou, a Moody's Assistant Vice President and Analyst.

"However the transaction would expose Baosteel to significant execution risks. Its financial leverage will also rise, as Aquila's **operations** will require large capex budgets," adds Zou.

Moody's expects Aquila's capex to total about AUD8 **billion** (RMB46 **billion**) over the next 3-4 years, if it obtains the necessary approvals to develop its West Pilbara **iron ore** project and Eagle Downs hard coking **coal** project.

"However, there are uncertainties over whether or not Aquila can obtain the required approvals and how the capex will be funded," says Zou.

"Given these uncertainties and the likely long period it would take to develop the projects, we see the joint bid to acquire Aquila as having no material effect on Baosteel's rating at this time," adds Zou.

Moody's points out that the approvals include agreement by the joint owners of West Pilbara, Aurizon's internal approvals, and the securing of take-or-pay agreements with end-customers of the **iron ore**.

Moody's continues to expect Baosteel's financial leverage - as measured by adjusted net debt/EBITDA - to stay at about 3x over the next 12-18 months. Such a ratio is consistent with, but at the low end of its A3 issuer rating and baa2 baseline credit assessment.

Moody's says that a successful bid by Baosteel for Aquila and the subsequent development of the West Pilbara and Eagle Downs projects will enable Baosteel to demonstrate greater self-sufficiency in its key raw material supplies over the longer term, thereby improving the competitiveness of its steel **operations**.

Moody's will continue to monitor the progress of this **acquisition** and the development of Aquila's future projects to assess the rating implications.

The principal methodologies used in rating Baosteel was the Global Steel Industry Methodology published in October 2012 and Government-Related Issuers: Methodology Update published in July 2010. Please see the Credit Policy page on www.moodys.com for a copy of these methodologies.

Baosteel Group Corporation is the world's fourth-largest steel producer by production volume. Its products are mainly flat steel items -- such as hot rolled coils and cold rolled coils -- for the automotive, home appliances, shipbuilding, **oil** and gas, and manufacturing industries.

Aquila Resources Ltd owns a 50% **stake** in the West Pilbara **Iron Ore** Project and a 50% interest in the Queensland Eagle Downs Hard Coking **Coal** Project. As part of the project, Aquila would also own, develop, and operate a common user port and rail infrastructure in the Pilbara region.

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