

HD BC puts Pilbara revival in motion

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BC **IRON** will look to springboard from its surprise \$256 **million acquisition** of Kerry Stokes's **Iron Ore** Holdings into negotiations.

The deal will provide the growth projects BC was looking for to complement its profitable but small Nullagine **iron ore** project, which has a limited mine life. And IOH's \$800m-plus Buckland **iron ore** development will enjoy a stronger prospect of going ahead courtesy of BC's cashed-up balance sheet.

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The offer of 10c and 0.44 BC shares for each share in IOH is a windfall for Mr Stokes, who owns a 53 per cent **stake** in the target. He will emerge with a 19 per cent **stake** in the enlarged BC.

BC's bid values IOH at about \$1.59 per share, representing a 67 per cent premium to IOH's previous closing price of 95c.

BC owns a 75 per cent interest in the 6 **million** tonne-a-year Nullagine mine, with Andrew Forrest's Fortescue Metals owning the balance.

IOH is preparing to receive in the coming months the first cashflow from the **Iron** Valley mine, which is operated by Chris Ellison's Mineral Resources under a mine gate sales agreement, as well as the undeveloped Buckland project. Those two projects have combined reserves of almost 270 **million** tonnes of **iron ore**, compared to the 33 **million** tonnes at Nullagine.

Studies have found Buckland could be developed as an \$800m mine and infrastructure project including a new port facility at Cape Preston East. But BC chief executive Morgan Ball told The Australian the **company** would explore collaboration with **China's** Baosteel and Brisbane's Aurizon, which recently picked up neighbouring **iron ore** ground through their \$1.4 **billion acquisition** of Aquila Resources.

"We believe the combined entity could fund (the development of Buckland) potentially without having to go to the **equity** market," Mr Ball said.

"That said (IOH chief executive) Alwyn (Vorster) has done a lot of work around third parties who might be interested and ... it may be there's a lower capital solution that achieves everything we want to achieve."

The West Pilbara **iron ore** project acquired by Baosteel and Aurizon involves the construction of a larger port at Anketell, northeast of IOH's proposed Cape Preston East facility. "I can't help but feel there might be some sort of Anketell-Cape Preston East combination that works in the West Pilbara," Mr Ball said.

"Anketell could be a rail-focused solution, Cape Preston could be a road-based solution that caters to all the producers."

BC yesterday promised a 15c-a-share fully franked final dividend, lifting total 2014 payouts beyond its targeted payout ratio of 30-50 per cent of profit.

Mr Ball said the enlarged group would continue to target that range. "We believe there will be a happy medium whereby we can develop these projects and continue to reward shareholders from a dividend basis, but we need to see where the balls fall," he said.

Macquarie analyst Hayden Bairstow noted that BC had worked hard to cultivate a reputation for paying dividends and would need to convince its shareholder base of the merits of a costly growth project.

"They've designed their register to be dividend-orientated, so it's going to take some time to get it back the other way," Mr Bairstow said.

IOH's shares surged almost 40 per cent to \$1.325, the highest in more than two years, while shares in BC fell 8.5 per cent to \$3.03.

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