

FINANCIAL REVIEW

SE Companies and Markets
HD **\$14.6b high-risk Simandou project 'not on our radar': Aurizon**

BY Amanda Saunders

WC 627 words

PD 29 May 2014

SN The Australian Financial Review

SC AFNR

ED First

PG 27

LA English

CY Copyright 2014. Fairfax Media Management Pty Limited.

LP

Heavy haulage rail giant Aurizon has all but ruled out investing in the \$US13.5 **billion** (\$14.6 **billion**) greenfield infrastructure project underpinning Rio Tinto's Simandou high-grade **iron ore** mine in Guinea.

Some analysts had speculated the project could interest Aurizon, but the **company** told The Australian Financial Review Simandou "is not on our radar".

TD

Aurizon's lack of appetite for the high-risk project plays to industry speculation that state-backed **Chinese** and Middle Eastern investors are the most realistic candidates to fund Simandou's infrastructure. Sovereign and construction risk could be too high for traditional "western" commercial investors.

Aurizon shareholders would likely find a Simandou play hard to swallow, particularly given the rail giant is focused on gaining a coveted infrastructure foothold in the Pilbara. It has lobbed a joint \$1.42 **billion** bid with Baosteel for Aquila Resources. Ownership of Aquila would give Aurizon control of the \$6 **billion** infrastructure component of the greenfield West Pilbara **iron ore** project.

Rio is spruiking the Simandou infrastructure project to investors.

It has been working on Simandou for 18 years and this week struck a landmark deal for the troubled \$US20 **billion** project. Observers say the deal strategically transfers the key risk and the lion's share of funding onto a prospective consortium of infrastructure investors. Rio's control cemented

At the same time, it cements Rio's control of Simandou – the world's richest, undeveloped **iron ore** deposit.

UBS analyst Glyn Lawcock says Simandou will add more low-cost, high-quality tonnes (at a 65 per cent grade) to an oversupplied market.

"It is likely to increase the market's concerns about the impact of high-quality product on the discount that lower quality ores are required to offer," he wrote.

UBS tips an **iron ore** surplus of 74 **million** tonnes this year, ballooning to 270 **million** tonnes in 2017.

Fund managers say this week's "clever" deal allows Rio to minimise its spend, and prevents rivals snaffling the **iron ore** assets. "It provides them with a series of outs, and keeps everyone else out," a source said.

Rio has restructured the project to hive off the \$US13.5 **billion** infrastructure project – a 650-kilometre, multi-user rail line and deep-water port needed to ferry the **ore** from remote Guinea – into a separate vehicle.

Rio leads the joint venture that owns the greenfield \$US6.5 billion Simandou iron ore assets, with partners Chinalco and the World Bank's International Finance Corporation. After years of protracted negotiations, the parties inked a deal this week with the Guinean government, that will deliver the State a 7.5 per cent stake in the vehicle. The infrastructure assets will be returned to the government after 30 years. Return of 10pc needed

Mr Lawcock says the infrastructure consortium will need a 10 per cent return on investment to justify footing a \$US13.5 billion bill. He tips all-in port and rail charges of \$US27 a tonne – reduced if other users came on board.

Any infrastructure consortium would likely push for a long-term take-or-pay commitment from the Rio-led mining vehicle. If costs were too high, Rio could use that as an out.

Rio has said Simandou could get up by the end of the decade.

Rio has made back much of the \$3 billion it has spent on Simandou.

to date, including by selling a 47 per cent interest in the mining vehicle to Chinalco for \$US1.35 billion in 2010.

Provided this week's deal is ratified by the Guinean parliament, a bankable feasibility study will be run, which Rio says would be done within a year.

CO dorval : Aurizon Mines Ltd | rtz : Rio Tinto PLC | craaus : Rio Tinto Ltd | hclamn : Hecla Mining Co
IN i211 : Metal Ore Mining | i2111 : Iron Ore Mining | i221 : Iron/Steel/Ferroalloys | i22 : Primary Metals |
ibasicm : Basic Materials/Resources | imet : Mining/Quarrying | i2112 : Gold Ore/Silver Ore Mining
NS ccat : Corporate/Industrial News
RE austr : Australia | gurep : Guinea | africaz : Africa | apacz : Asia Pacific | ausnz : Australia/Oceania |
dvpcoz : Developing Economies | wafz : West Africa
PUB Fairfax Media Management Pty Limited
AN Document AFNR000020140528ea5t0000h