

SE Business
HD **Lost battle with Baosteel could see miner take \$20m hit**

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PERTH-based **mining** services **company** Mineral Resources could be forced to take close to a \$20 **million** hit on its new investment in Aquila Resources after losing the takeover battle to **China**'s Baosteel.

Mineral Resources, which is also a processing **company**, lost its short-lived fight to control Aquila Resources after the target backed a \$1.4 **billion** cash offer from Baosteel over a scrip deal with Mineral Resources.

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The **company** had launched its rival offer on Monday after it had moved on to Aquila's share registry last week, purchasing a 12 per cent **stake** at \$3.75 a share.

Baosteel, with joint bidder Aurizon, last month offered \$3.40-a-share for Aquila in an attempt to win control of its Australian **iron ore** and **coal** projects.

Following Mineral Resources's emergence onto Aquila's share registry, Baosteel announced on Friday it would not increase its offer above \$3.40.

Mineral Resources is now left with the choice of taking a loss on its almost \$200m investment or remain a minority shareholder in a **company** controlled by **China**.

Macquarie analysts said the most likely outcome would be for Mineral Resources to sell into the bid and take a loss of around \$20m on its investment.

"Whilst the financial loss is not material to Mineral Resources, the loss of reputation is potentially more serious," the investment bank said.

State-owned Baosteel, which has a 20 per cent **stake** in Aquila, had warned last week that if its offer did not succeed it could exit the **company**.

Executives also refused to meet with Mineral Resources to discuss its rival's development plans for Aquila's West Pilbara **iron ore** project. It also threatened that **China** would not play a role in the project in the future — as financier or customer — if its bid failed.

The market did not react to the potential loss for Mineral Resources, with its shares up 2.9 per cent at \$9.63 yesterday.

Morningstar's analysts said the pragmatic approach for Mineral Resources would be to sell into the Baosteel bid in the hope of gaining favour and a slice of the construction pie for the West Pilbara **iron ore** project.

The analysts said that they believed that Mineral Resources was overvalued, a view it believed was supported by Aquila's rejection of the scrip-based takeover equivalent of \$3.75-a-share. Euroz Securities analyst Greg Chessell also said that he expected Mineral Resources would accept into the Baosteel offer, outlining that the alternative was to remain a large minority shareholder, with \$197m of

assets tied-up in an illiquid security and at risk of future dilution potentially forced by a state-owned enterprise.

CO aques : Aquila Resources Ltd. | baois : Shanghai Baosteel Group Corp

IN i211 : Metal Ore Mining | i22 : Primary Metals | i221 : Iron/Steel/Ferroalloys | ibasicm : Basic Materials/Resources | igoldm : Gold Ore Mining | imet : Mining/Quarrying | isteel : Steel Production

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