

SE Business
HD **Aquila stake** proof of 'hard times ahead'
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WC 582 words
PD 16 June 2014
SN The Australian
SC AUSTLN
ED Australian
PG 18
LA English
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MINERAL Resources' push on to takeover target Aquila Resources' share registry is a symptom of **iron ore** contract work drying up, analysts have warned.

The Perth-based **mining** services **company**, which also operates small **iron ore** mines, last week entered **China**-backed Baosteel's \$1.4 **billion** battle to control Aquila in an attempt to assert its desire to develop the target's \$7bn **iron ore** project.

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Analysts have said Mineral Resources' move on the **iron ore** and **coal company** is not surprising given that life in the sector is going to be more difficult in a lower-price, lower-growth **iron ore** market.

Aquila's flagship asset all parties have their eyes firmly set on is the West Pilbara **iron ore** project.

Mineral Resources was keen to highlight its experience in **iron ore** production when it announced that it had brought a significant **stake** in Aquila, at \$3.75 a share, because it had a proposal to build, own and operate the **iron ore** project.

Morningstar's analysts outlined though that project capital expenditure of more than \$7bn was a bridge too far for a **company** the size of Mineral Resources.

Aquila's newest shareholder has not revealed its plans for the West Pilbara project but it has said it is seeking talks with the key stakeholders involved in the proposed new development. West Australian **mining millionaire** Chris Ellison, co-founder and boss of Mineral Resources, has met with Aquila's co-founder, chief executive and 30 per cent shareholder Tony Poli. He is yet to meet with Baosteel.

Morningstar's analysts outlined in a client note on Mineral Resources that it forecasts a long-term **iron ore** price of \$US90 a tonne, which they said would be a price at which Mineral Resources' **mining** business might be profitable.

"We expect the volume-linked crushing and screening business to prove relatively resilient to price weakness, but a weaker cost environment may encourage customers to insource activities," the team covering Mineral Resources at the research house said.

The analysts also took a hit at Mineral Resources, saying the **company**'s operating and financial disclosures were poor. They also added that an increasing reliance on **iron ore** sales and rising debt made Mineral Resources increasingly vulnerable to a downturn in the sector.

"A failure to disclose **iron ore** resources, reserves or cash costs means mine life, operating leverage and profit sustainability are highly uncertain," the client note read.

"Poor disclosure was tolerated during the boom years but shows a disregard for small shareholders and could hide problems during a downturn." The move by Mineral Resources to take a 12 per cent **stake** in Aquila at a significant premium to the \$3.40-a-share Baosteel is offering heightened market speculation that the **Chinese** state-owned entity could increase its offer.

But Baosteel, and joint bidder Aurizon, put those rumours to rest on Friday when they announced they would not increase their bid price or extend the offer period.

In making the announcement, the **Chinese** steel giant used its strongest words yet in its fight for Aquila.

It threatened that failure of the deal to succeed, which has a 50 per cent minimum acceptance condition, could see Baosteel, which has a 20 per cent **stake** in Aquila, pull its support for the target. Aquila will this week release its official response to the bid, which is expected to recommend shareholders reject the offer.

CO aqres : Aquila Resources Ltd.

IN i211 : Metal Ore Mining | i2111 : Iron Ore Mining | i221 : Iron/Steel/Ferroalloys | i22 : Primary Metals |
ibasicm : Basic Materials/Resources | imet : Mining/Quarrying | igoldm : Gold Ore Mining

NS ccat : Corporate/Industrial News

RE austr : Australia | apacz : Asia Pacific | ausnz : Australia/Oceania

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AN Document AUSTLN0020140615ea6g00043