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 HD Mineral enters fight for Aquila

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LP Mining services and iron ore hopeful Mineral Resources has entered the \$1.4 billion fight for [Aquila Resources](#) and demanded a role in Aquila's West Pilbara iron ore project.

Mineral Resources chief and Rich lister Chris Ellison confirmed on Thursday he had grabbed a stake of almost 13 per cent in an on-market raid, as foreshadowed by The Australian Financial Review .

TD While Mr Ellison says the move is designed to give Mineral Resources access to the potentially lucrative infrastructure build for the \$7.4 billion West Pilbara project, he could also disrupt the bid for Aquila by Chinese steel giant Baosteel and rail major Aurizon.

Mr Ellison looms as a potential ally for Aquila chairman Tony Poli, the junior's largest shareholder, in controlling the direction of the fight. The multimillionaires are understood to have met in Perth on Wednesday afternoon, when Mr Poli formally welcomed Mr Ellison onto the share register.

Mineral Resources had earlier that day bought a 12.78 per cent stake in Aquila from London-based fund manager M&G Investments for about \$197 million.

It is understood Mr Ellison and Mr Poli have been in sporadic discussions for at least six months about the troubled West Pilbara project.

Aquila's board is nearing the deadline to respond to Baosteel and Aurizon's joint \$1.4 billion takeover bid. Aquila is expected to lodge its target statement by the middle of next week.

Mineral Resources, a mining services and processing group, joins two other major shareholders on the register, Mr Poli with 28.9 per cent and co-founder Charles Bass with about 11 per cent.

The three holdings amount to a blocking stake for the Baosteel-Aurizon bid.

Snaring Aquila would grant Aurizon and Baosteel a 50 per cent stake in the stalled West Pilbara project.

Mineral Resources says it has a plan to build and operate the \$6 billion infrastructure underpinning the West Pilbara project. It said it has already "invested considerable time developing a business case to deliver a fit-for-purpose solution" for the project, including a "total mine to port development plan".

[Credit Suisse](#) analyst Paul McTaggart said the move is risky and could be a white knight play.

"It could be a white knight stake to lever up the bid or try to block it," he said. "Or it could be Mineral Resources trying to ensure they get a seat at the table. They could be trying to force their way into a consortium and ensure they are involved in building the project."

Mineral Resources paid \$3.75 a share for the Aquila share parcel, a notable premium on Baosteel and Aquila's all-cash unsolicited offer of \$3.40 a share .

But it was a risky strategy that would be costly if Baosteel and Aurizon were to walk away, Mr McTaggart said.

"Are Baosteel and Aurizon willing to pay substantially more? Maybe they'll play hardball. They could walk away and make Aquila sweat on it," he said.

Mr McTaggart said the surprise share raid made life more difficult for Baosteel and Aurizon.

"If I was them I'm not sure I'd want Mineral Resources in there. You'd want to put the work out to tender and they may not get the best rates if they had to work with a partner with a potential conflict of interest in the provision of engineering support".

The chances of a counter-bid are low, given Baosteel already owns 19.8 per cent of Aquila's register.

Aurizon and Baosteel are planning to split the \$7.4 billion West Pilbara project into separate mine and infrastructure vehicles. Aurizon would take a majority stake in the infrastructure vehicle, worth about \$6 billion.

Some in the market have suggested Mineral Resources is trying to take the reins from Aurizon on the infrastructure component.

Mr Ellison, who was valued at \$525 million on the 2013 Rich 200 list, said: "We have the financial capacity to make a meaningful capital contribution towards the development of the project and will now proceed to engage with all major shareholders, including Aquila and Baosteel, to facilitate the best outcome possible."

Minerals Resources bought its stake using cash reserves.

With the iron ore price on the slide amid concerns of oversupply, many investors and rivals have been asking why the West Pilbara project was suddenly of interest.

As an infrastructure play, some of the attraction is obvious. The project is underpinned by the proposed deepwater Anketell port and rail development, near Dampier, which would allow billions of tonnes of stranded Western Pilbara ore to be mined and shipped.

There are suggestions that the very dip in the iron ore price – down 30 per cent since January to about \$US94 a tonne – that has spooked investors spurred the two industry giants to lob their bid now.

And there are suggestions Mr Poli will try to squeeze more money from the bidders. But Baosteel and Aurizon say the bid is "very fully priced". "The offer is enhanced in a market where commodity prices for iron ore and coal are declining," they said.

Aquila is also developing the Eagle Downs coking coal project in Queensland.

But the key value of Aquila is widely seen to be in its iron ore asset. Aurizon and Baosteel are aiming to ship ore from Anketell by 2017 at a rate of about 40 million tonnes a year. But the aim is to expand the port capacity to 350 million tonnes.

Rio boss [Sam Walsh](#), among others, has expressed scepticism about the project coming to fruition.

Aquila owns the West Pilbara project with private equity house AMCI and Korean steel giant POSCO, who each hold 25 per cent. POSCO – which was a willing seller before the bid – has remained tight-lipped on its plans. But it is understood it has shelved any plans to sell, pending a final investment decision by Aurizon.

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