

# FINANCIAL REVIEW

SE Companies and Markets  
HD **Aurizon will listen to Queensland offers**  
BY Jenny Wiggins  
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Aurizon chief executive Lance Hockridge has confirmed the rail group will consider selling a **stake** in its Queensland tracks as it reported a 43 per cent fall in annual net profit to \$253 **million**.

Aurizon is considering building new rail networks in Western Australia's Pilbara region as well as Queensland's Galilee Basin to haul **iron** and **coal** for miners, and was evaluating "a range of options" to pay for the projects, Mr Hockridge said.

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"One of those options would be the potential to sell down an interest in the central Queensland **coal** network."

Investment bank UBS has estimated that Aurizon could generate up to \$2 **billion** by selling 49 per cent of its Queensland track business .

Aurizon has not started talks with potential investors in the rail network because it had not made final investment decisions on either project, Mr Hockridge said. The CEO indicated the Pilbara project could proceed faster than the Galilee project because its **Chinese** partner, Baosteel, wants to start exporting **iron ore** as soon as possible to supply a new steelworks plant in **China**.

Aurizon has delayed signing a final agreement with its Galilee partner, miner GVK Hancock, until early next year. Mr Hockridge cautioned it would take about 12 months for the **company** to secure haulage contracts before it could start building a new rail line and a new terminal at the port of Abbot Point.

"Whether it's a three-year horizon or a slightly longer horizon that ultimately the fundamental economics will underpin both the development of T3 [terminal at Abbot Point] and of the opening up of the Galilee," Mr Hockridge said.

The Galilee delay comes as Indian **coal** producer Adani pushes ahead with its own rail and port project after striking a deal with Korean construction group POSCO to build a rail line to Abbot Point. Shares fall

Aurizon's shares fell 3 per cent on Monday as investors were disappointed by weaker than expected profits. Although underlying earnings before interest and taxation (EBIT) rose 13 per cent on a year earlier to \$851 **million** due to stronger **coal** and **iron ore** haulage volumes, Aurizon did not take as much cost out of its business in the second half as predicted.

Statutory net profits were hurt by previously announced asset impairments of \$317 **million** and voluntary redundancy costs of \$69 **million** as Aurizon slashed jobs and scaled back its train fleet .

Analysts were concerned to see the **company** flag increased capital spending on IT, track maintenance and fleet upgrades. It plans to lift spending to about \$600 **million** annually between fiscal 2015 and fiscal 2017 from \$350 **million** annually.

"All of a sudden you've got a lot less cash flow coming back," said Matthew Spence, analyst at Merrill Lynch, adding Aurizon had not provided much "hard detail" on how the additional spending would improve revenues.

Mike Franczak, Aurizon's head of **operations**, argued higher capital spending was necessary for the **company** to become a world-class operator.

Aurizon will accelerate group cost cuts to as much as \$300 **million** over two years to fiscal 2015 from an original target of \$230 **million**.

Aurizon has been trying to negotiate a new enterprise agreement with workers in Queensland over the past 18 months but is at "a hands in the air stage of frustration" over how to get a sensible outcome, Mr Hockridge said.

Unions want a 4.5 per cent annual salary increase and no change to employment conditions.

Mr Hockridge's total pay package dropped to \$5.1 **million** in fiscal 2014 from \$6.1 **million** in fiscal 2013 due to a lower short term cash bonus and a flat fixed salary. Aurizon is changing the way it measures executive performance to counter criticism from shareholders after 28 per cent of votes were cast against its 2013 remuneration report. Aurizon's shares have risen 7.7 per cent in the past 12 months compared with a 9 per cent rise in the S&P/ASX 200.

Full year 2014 2013 Sales (\$**m**) 3,832 3,766 Pretax (\$**m**) 353 582 Net (\$**m**) 253 447 EPS 11.8¢ 19.8¢  
Final div\* 8.5¢ 8.2¢ –Payable Sep 22 Close Change Shares (last) \$4.88 -15¢

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