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 HD **Baosteel/Aurizon pressure Aquila shareholders**

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Chinese steelmaker Baosteel and Australian rail haulage **company** Aurizon have told the shareholders of takeover target Aquila Resources the flagship West Pilbara **iron ore** project risks never being built unless they sell out their shares to the two larger companies.

In their bidders' statement lodged with the Australian Securities Exchange late Wednesday, the pair said Aquila needed to find a further A\$3.7 **billion** (\$3.5 **billion**) to fund its 50% share of the potential 30 **million** mt/year capacity West Pilbara project. It also needed to raise another A\$815 **million** to fund its 50% share of the Eagle Downs hard coking **coal** project in central Queensland's Bowen Basin region.

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"As at March 31, 2014, Aquila had cash and term deposits of A\$498.6 **million** which represents only 11% of this funding requirement," Baosteel and Aurizon said. By contrast, the two companies told Aquila shareholders any future funding uncertainties would be removed by a **sale** to Baosteel and Aurizon.

The companies pointed out that Aquila's attempts to sell stakes in other projects — including the Washpool coking **coal** project in Queensland — to fund West Pilbara had been "unsuccessful to date."

However, they did concede that Aquila had sold its Isaac Plains **coal** project to Japan's Sumitomo Corp., for A\$430 **million** in 2012, and its 24.5% interest in the Belvedere **coal** project to Brazil's Vale.

The bidders' statement also noted that development of the projects was "threatened by poor relations with joint venture partners." Aquila fell out with American Metals & **Coal** International (AMCI), its 50% partner in West Pilbara, which resulted in work at the project coming to a halt. It has also had several disputes with Vale at their Queensland **coal** ventures.

In response to the bidders' statement, Aquila advised its shareholders to "take no action" at this stage. The general feeling in the market in Australia is that Aquila is unlikely to sell unless the would-be suitors raise their bid. In early May, Queensland-based Aurizon and Baosteel tabled a A\$1.4 **billion** joint takeover bid for Perth-based Aquila.

In a research note, Brisbane-based brokerage Morgans said if the bid succeeded, Aurizon would end up with a 10% interest in Aquila with Baosteel holding the balance.

Eagle Downs is a 50:50 joint venture with Vale with designed hard coking **coal** production capacity of 4 **million-5 million** mt/year. Last week, South Korean steelmaker Posco — which owns 49% of AMCI, giving it a 25% **stake** in the West Pilbara **iron ore** project — told Platts that as far as it was concerned, its status in the project would be unaffected by any potential **sale** to Baosteel and Aurizon.

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

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