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HD **Aurizon makes $1.4b joint bid for Aquila**

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Venture with Chinese steel giant Baosteel AUSTRALIA'S biggest rail freight company could not have made an audacious $1.42 billion play to expand in the west if it still remained in government hands.

Analysts say Aurizon's controversial public float in 2010 unshackled it, paving the way for this week's announcement of a joint venture with Chinese steel giant Baosteel to acquire Aquila Resources.

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The unsolicited offer is the Queensland company's biggest deal since privatisation and, if successful, would give it a 15 per cent stake in Aquila, which has a half-share of the $10 billion West Pilbara Iron Ore Project.

Charlie Green, a principal of Hunter Green Institutional Broking, said there was "no way'' the deal would have happened if Aurizon was still owned by the State Government.

Morgans senior analyst Nathan Lead said the union influence alone during its days as a state-owned asset would have made reforms to the business much more difficult, including this week's announcement of a further 480 job cuts. More than 2000 Aurizon workers have been made redundant in the past four years.

Mr Lead said the bid for Aquila means investors hoping for special dividends from 2016 may be disappointed as they wait to see if the higher-risk plan pans out.

"I quite like the potential of the project,'' Mr Lead said.

"It could be an engine for growth and diversification of Aurizon's earnings.'' But the deal remains in its infancy, with speculation Aquila may knock back the $3.40 per share offer and demand a more generous sum.

Some analysts also have misgivings about the plan, which would diversify Aurizon's main focus on coal haulage in Queensland.

A Morningstar report this week warned that the potential acquisition would "raise the risk profile'' of Aurizon.

"Proposed investment in Pilbara port and rail infrastructure adds counterparty and construction risk not evident in the company's Queensland operations,'' the client note said. "Given weakness in iron ore prices and the high marginal cost of production for second-tier miners in the Pilbara, we do not believe the risks associated with this project are offset by potential return upside.''

CO baois : Shanghai Baosteel Group Corp

IN i22 : Primary Metals | i221 : Iron/Steel/Ferroalloys | ibasicm : Basic Materials/Resources | isteel : Steel Production

NS gcat : Political/General News

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

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