

SE Drilling Down Under; Blog
HD Mick Davis likely to keep close eye on Aquila takeover

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With high-quality **iron ore** and coking **coal** assets in the politically stable jurisdiction of Australia, it is perhaps not surprising that Aquila Resources Ltd. is the target of an unsolicited takeover attempt by **China's** Baosteel Resources International Co. Ltd. However, there is every chance that a rival bidder may emerge given the attractiveness of Aquila's assets.

MineLife senior resource analyst Gavin Wendt told SNL Metals & **Mining** it is likely that ex-Xstrata boss Mick Davis is watching the Aquila bid "particularly closely."

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"I would find it surprising, given the quality of the assets, that Mick Davis' group hasn't at least looked at them; they would've had to," he said.

Aquila announced May 5 that an Australian subsidiary of Baosteel, in partnership with a subsidiary of rail freight operator Aurizon Holdings Ltd., has launched a A\$1.4 **billion** takeover bid for the **company**.

Aquila, which had a prebid market capitalization of just more than A\$1 **billion** and a May 2 closing share price of A\$2.45, received a A\$3.40 per share cash offer for all the shares that the two companies do not yet own.

The news sent shares soaring to a high of A\$3.41 the day of the announcement, an almost 46% increase on the low of A\$2.34 recorded May 2. Aquila's shares have since settled back to A\$3.37 as of 3:11 p.**m**. Sydney time.

Wendt said any group that is going to bid for Aquila's assets is going to need to have "reasonable confidence" that it can access project financing to turn the **company's** Eagle Downs hard coking **coal** project in Queensland's Bowen Basin and its West Pilbara **iron ore** project in Western Australia into a commercial reality.

"That's the big advantage that Baosteel has, but of course somebody like Mick Davis could access funding with a click of the fingers because he has run major companies, he's got a tremendous support base and he knows how to turn large bulk commodity projects into commercial realities," he said.

"I **m** not necessarily saying that he is going to come out with a bid, but I think he is the sort of potential rival bidder that could emerge."

Even with Baosteel already owning a 20% interest in Aquila, Wendt believes an alternative bidder may still join the race.

For Baosteel, it is the perfect deal because it provides the **company** with access to two much-needed bulk commodities to support its steelmaking **operations**.

"Due to market circumstances this has provided them with the opportunity to acquire these sorts of assets at effectively a fire **sale** price," Wendt said. "I think it's a bid that Aquila's shareholders are going to like and it's a tremendous **acquisition** for a **company** like Baosteel."

Aquila has struggled in recent times to lock in the roughly A\$4.5 **billion** needed to fund its share of the 50%-owned Eagle Downs and 50%-owned West Pilbara **iron ore** developments, and is unlikely to be able to access that level of funding anytime soon given market conditions, according to industry watchers.

Essentially, Baosteel and Aurizon's joint bid presents a very attractive "cash exit" for shareholders, as well as Executive Chairman and CEO Tony Poli, who collectively owns a 40% **stake** in Aquila with his founding partner.

Regardless of who the actual final bidder is, the general consensus is that a buyout of Aquila will proceed.

"I think it's fairly likely that there will be some sort of deal go-ahead, perhaps not in its current form, but in some form," an analyst who did not want to be named told SNL.

Meanwhile, Wendt said he does not see shareholders knocking back the offer. "It's a very generous [offer] in the context of the current market," he said. "So I think it's going to be difficult for directors, after giving the offer consideration, to go back to shareholders and say, 'Look, don't accept it,' and even if that is the case, I still think shareholders are most likely to accept the offer anyhow."

Certainty of infrastructure development

Aurizon and Baosteel have struck agreements for the proposed development of a 432-kilometer heavy haul rail line linking to a new deepwater port to be built at Anketell Point on Western Australia's Pilbara coast.

The new mine, rail and port system is planned to have an initial capacity of 40 **million** tonnes per annum of direct shipping **iron ore**.

The analyst who did not want to be named said it is a positive for the Australian **mining** sector because it increases the likelihood that rail and port infrastructure will be built.

"I think Baosteel and Aurizon will be willing to allow third-party access and therefore it will improve the economics of some of the other players in that area," the analyst said.

However, while Wendt agrees that the deal will allow the development of appropriate infrastructure in the Pilbara region to proceed, he does not believe Baosteel will want to provide third-party access.

"Most companies tend to look after No. 1, and they don't want anything that is going to potentially impinge upon the efficient running of their own **iron ore** operation," he said. "You have to say, on the balance of probability, that the **Chinese** won't want to share their railway line. They'd probably have the view that 'We've built this thing and we want it for our own purposes and we want flexibility around using it.'"

If Baosteel is successful in its bid for Aquila, the deal will mark the biggest entry into an undeveloped **iron ore** project in Australia by a **Chinese** investor since CITIC Pacific bought into the US\$10 **billion** Sino **Iron** project, Reuters reported May 5.

The **company** first invested in Aquila in 2009 via a placement and at the same time struck a cooperation agreement relating to the **company's** projects, including the 2.2 **billion** tonne West Pilbara project.

Baosteel CFO Wu Yiming reportedly said that after five years, the **company** has not seen any projects started. "So we have been very patient, but we've become frustrated," Yiming said.

CO aqres : Aquila Resources Ltd. | qnrtnl : Aurizon Holdings Limited | dorval : Aurizon Mines Ltd | hclamn : Hecla Mining Co

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IPD Deal Announcement

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