

FINANCIAL REVIEW

SE Companies and Markets
HD **West Pilbara project investment still on track**
BY Amanda Saunders and Jenny Wiggins
WC 499 words
PD 12 September 2014
SN The Australian Financial Review
SC AFNR
ED First
PG 19
LA English
CY Copyright 2014. Fairfax Media Management Pty Limited.
LP

Rail haulage giant Aurizon has won more time to come up with a viable infrastructure plan for the greenfield \$7.4 **billion** West Pilbara **iron ore** Project, as the project's owners insist the falling **iron ore** price will not kill off the project.

Aurizon took control of the West Pilbara **iron ore** project by teaming up with **Chinese** steel giant Baosteel in a \$1.42 **billion** takeover of the project's majority shareholder, Aquila Resources.

TD

When they lobbed the bid in May, spot **iron ore** was about \$US105 a tonne, a far cry from the \$US83 it is trading at now.

On Thursday, the West Pilbara project's other two owners, US private **equity firm** AMCI (American Metal & **Coal** International) and Korean steel giant POSCO, offered their first formal show of support for Baosteel and Aurizon.

They signed an infrastructure agreement giving Aurizon exclusivity to come up with a development plan for a new deepwater port at Anketell Point and a rail system underpinning the project. Aurizon's exclusivity was extended by about six months to January 2016, on the proviso it can provide base tariffs that Baosteel and POSCO were happy with.

BoAML analyst Matt Spence says Aurizon would have to rely on hitting Baosteel with a high port and rail charge of about \$36 a tonne, to justify committing to the project.

"Aurizon is effectively taking credit risk for 16 years [the mine's lifespan] with a **Chinese** SOE," he wrote in a note.

"Unfortunately Baosteel has some form in altering terms in 'take-or-pay' contracts." Speculation quelled

AMCI and POSCO's commitment will put to bed – at least for a while – speculation that they have been looking to cash out their project stakes of about 25 per cent apiece. The project had been stalled since 2009 amid a funding stand-off between AMCI and Aquila, but the Aquila takeover has renewed co-operation.

A POSCO spokesman told The Australian Financial Review from Perth that he was confident the project would be viable at current **iron ore** prices.

He said Aurizon had been granted a "study period".

"It is a unique project – [there are] four parties with very different interests so co-operation and negotiation are very important."

Aurizon chief Lance Hockridge described the project as a "long-term consideration for Aurizon, driven by long-term demand for quality Australian resources and the support of three large scale global companies".

Aurizon has said it is confident it can build the project infrastructure for at least 20 per cent less than its \$6 **billion** price tag. Construction of the **iron ore** mine has been costed out at \$1.4 **billion**. Production of about 40 **million** tonnes a year is expected within a few years of the mine coming online in 2018.

Anketell would be the first major port built in the Pilbara since Rio Tinto's Cape Lambert in 1972.

CO aqres : Aquila Resources Ltd. | baois : Shanghai Baosteel Group Corp | pohn : Posco Co | qrntnl : Aurizon Holdings Limited

IN i5020017 : Harbor Construction | i2111 : Iron Ore Mining | i22 : Primary Metals | i221 : Iron/Steel/Ferroalloys | i211 : Metal Ore Mining | i502 : Heavy Construction | ibasicm : Basic Materials/Resources | iconst : Construction | icre : Real Estate/Construction | imet : Mining/Quarrying | i71 : Railroads | icargo : Freight/Cargo Transport | igoldm : Gold Ore Mining | irailtr : Road/Rail Transport | irfght : Railroad Freight | isteel : Steel Production | itsp : Transportation/Shipping

NS c181 : Acquisitions/Mergers/Takeovers | cacqu : Acquisitions | ccat : Corporate/Industrial News | c18 : Ownership Changes | cactio : Corporate Actions | ncat : Content Types | nfact : Factiva Filters | nfcpin : FC&E Industry News Filter

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

PUB Fairfax Media Management Pty Limited

AN Document AFNR000020140911ea9c00047