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HD **China** may increase Aquila bid
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CHINA may be forced to increase its \$1.4 **billion** bid for Aquila Resources if it wants control of the **iron ore** and **coal company** after a new player emerged with a significant **stake** in the target at a 10 per cent premium to the offer price.

China's Baosteel, in a joint venture with Brisbane-based freight operator Aurizon, launched a hostile \$3.40-a-share bid last month but Aquila's share price has comfortably sat above that figure.

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Market speculation of a higher bid escalated yesterday after Perth-based **mining** contractor Mineral Resources purchased 49 **million** Aquila shares at \$3.75 a share. That saw Aquila's shares rise 3.4 per cent to close at \$3.61.

Mineral Resources, which also operates small **iron ore** mines, did not confirm yesterday it had purchased a 12 per cent **stake** in Aquila but it placed its shares in a trading halt, pending an announcement this morning. The Australian understands the **company** had not contacted Baosteel or Aurizon prior to its share raid.

The strong interest in Aquila, which is developing the \$7.4bn West Pilbara **iron ore** project in Western Australia and the Eagle Downs coking **coal** project in Queensland, comes at a time of falling **iron ore** prices.

Given market conditions for bulk commodities, the move by Mineral Resources surprised the market.

Morningstar senior **equity** analyst Gareth James said the move was not great for Mineral Resources investors, as it was taking a big gamble on an improved offer from **China**.

"If that is their strategy, that is a high-risk strategy, as their core business is not speculating on stocks," Mr James said.

"If that's not their strategy, then they want to be part of the transaction — but it looks strange, and it's no surprise its share price started falling." Aquila is yet to formally respond to the offer, with its target statement expected next week, but it gave its strongest indication yet that it was likely to reject the bid as too low.

"Aquila's independent board subcommittee welcomes this recognition that the value of the **company's** shares is well in excess of the current \$3.40-cash-per-share conditional off-market takeover offer by Baosteel and Aurizon," Aquila said in reference to the \$3.75-a-share paid by Mineral Resources.

The Baosteel camp was not commenting yesterday as the bidders await the release of the target statement next week, but there were unconfirmed reports that the advisers to the **Chinese**, Satori and Deutsche, had met with **M&G Investment Management** — an institutional investor that sold its shares to Mineral Resources — in London earlier this week.

Mineral Resources' boss Chris Ellison, one of Western Australia's wealthiest people, keeps a low profile and his plans for his new 12 per cent **stake** in Aquila are unknown. It is also not clear if he has

a close relationship with fellow wealthy West Australian Tony Poli, the managing director of Aquila, who controls 30 per cent of the stock.

Shares in Mineral Resources fell 2.21 per cent to \$10.14 yesterday before the **company** requested a trading halt.

Morningstar's Mr James added that if Mineral Resources was not Continued on Page 20 Continued from Page 19 looking for an increased bid, it could want to get involved in the development of Aquila's **iron ore** project.

"Are they really going to get involved in a multi-**billion**-dollar **iron ore** project that has been struggling to get off the ground for many years?" he said.

"We are not overly impressed by the potential of this project, so for the people who are supposedly seeking to be part of the project, it is not encouraging for us." Mr James added that the emergence of a rival bid was not expected given that Baosteel has a 20 per cent **stake** in Aquila — and given the additional fact that the **iron ore** project needed substantial funding in an environment where the **iron ore** price was falling rapidly.

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

IN i2111 : Iron Ore Mining | i211 : Metal Ore Mining | i22 : Primary Metals | i221 : Iron/Steel/Ferroalloys | ibasicm : Basic Materials/Resources | imet : Mining/Quarrying | igoldm : Gold Ore Mining

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