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HD Move sets up a David vs Goliath battle

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LP THE Baosteel-Aurizon bid for Aquila Resources was looking decidedly shaky yesterday after Mineral Resources snapped up 12 per cent of the target at a 10 per cent premium to the offer price.

Citibank sold the 49 million Aquila shares at $3.75 a share on behalf of London-based M&G and BBY acted for the buyer.

TD Ironically enough, unconfirmed reports said Bao's advisers, Satori and Deutsche, met with M&G yesterday in London.

The purchase means Mineral Resources boss Chris Ellison will control 12 per cent of Aquila, which is more than enough to demand a seat at the table in any talks to settle control of the company.

But by late yesterday he was yet to expand on his motives and the stock was halted.

Aquila's Tony Poli is due to Continued on Page 26 Continued from Page 19 respond to the Baosteel offer early next week, which will be Aquila's first public statement on the company's attitude to the offer.

The company did "welcome" the fact that the Mineral Resources price was well in excess of the bid price.

This statement, the first public utterance since the bid was unveiled on May 5, suggests next week it may reject the Baosteel-Aurizon bid as inadequate.

Since the bid date, Aquila has traded above the offer price and yesterday its shares hit a 52-week high of $3.77, before closing at $3.61.

This puts its market value at $1.5 billion, against $1.9bn for Mineral Resources, some $10bn for Aurizon and a multiple of that for Baosteel.

This is a David vs Goliath battle. Just what Ellison does with his stake remains to be seen, but with Baosteel accounting for 19.8 per cent of the stock and Poli 29 per cent, the register is now fundamentally unstable, so something has to give.

The Baosteel camp has expressed frustration at the lack of action on its bid and the proposal to develop a new iron ore project in Western Australia.

Now Poli's careful consideration looks to be somewhat inspired. The Baosteel proposal came with an infrastructure offer from Aurizon, which would build the rail and port link for the mine and adjoining territory. This is exactly the sort of work Ellison is looking for, so maybe the Chinese steel company has a new partner in the wings.

The move came as on the other side of the country in the troubled coal sector, BHP has cancelled a $360 million contract with Downer EDI to process its Goonyella Riverside coalmine in Queensland.

The cancelled contract has spooked punters, with Downer's stock down 11.7 per cent to $4.70 a share at January lows.

Downer has $19.6bn in work on hand, of which roughly 25 per cent is in the contract mine space, and the fear, which could be overblown, is that more of this work will disappear.

Falling coal prices have forced BPH to cut costs and it will now assume control of the Goonyella operations.

Aquila has both iron ore in the west and coal in Queensland so it has both ends of the spectrum covered, and interest in next week's expert's report from Grant Samuel was centred on its valuation of both assets.

There is now another player in the game, and that doesn't make life any easier for Baosteel and Aurizon.

Taking gloom too far FLIGHT Centre boss Graham Turner underlined business concerns over the selling of the federal budget, noting growth slowed in May and consumer confidence has fallen since.

Both Qantas and Virgin have highlighted the brick wall hit by discretionary spending, caused in part by a budget that cleverly maintained spending for the next couple of years to nurse the economy before the axe comes into effect.

The trouble was the government just kept on talking up the gloom. It's not all gloom, and while Treasury Wine's stock price has fallen some 6 per cent in the past week, the talk in the trade says all the speculation of an imminent profit downgrade is wrong.

This is a crucial period for the company's Australian earnings with the Penfolds bin releases and the talk is momentum is good after a good month in May.

The chances of a profit downgrade this month on that basis is nil. Brave words, given all the talk that Woolworths in particular is piling on the pressure for good deals, perceiving Treasury boss Michael Clarke is under pressure given the KKR offer and collapse in consumer confidence.

But if the talk is right, Clarke is happy with progress and has no plans for any "market update" this month.

Flight Centre's stock price is down some 10 per cent this month and yesterday's update affirming guidance at the lower end of the range was enough to send its stock price up 1.2 per cent to $46.43, after falling as low as $44.82 during the day.

Toll's Brian Kruger is one to confirm the tough trading conditions but is commendably pushing ahead with key investment decisions to boost output, such as yesterday's new $150m freight sorting facility in Melbourne.

This follows the opening of a $170m facility in Sydney and helps to explain why Australia Post's Ahmed Fahour is less than impressed with his parcel freight returns.

The competition is stepping on the gas and the new Toll sorting facility, handing some 35,000 parcels an hour, will be the biggest in Australia.

The market is expecting at best that Toll will match last year's numbers, but while describing conditions as "two steps forward and two steps back", Kruger is placing the right bets for the future.

Opening the gates COMPETITION Inquiry submissions officially closed on Tuesday, but some big name entries like the Business Council and the Trade Practices Mafia (also known as the Law Council of Australia) were allowed to file late.

The Master Grocers' Association let fly as expected against the supermarket behemoths, wanting an effects test for section 36 to make it easier to bring an abuse of market power charge, and a reversal of the onus of proof so that Coles and Woolies would have to prove they didn't mean to hurt competition. The MGA also wanted a mandatory code governing supplier relationships but didn't mention either Metcash or Aldi as being worthy participants.

The Australian Pipeline Industry Association fed into inquiry boss Ian Harper's pet themes, asking just what had happened to the multiple reviews over the past decade urging for more transparency in the upstream gas market.

There is plenty of talk about pipeline regulation and competition, about supply and demand, but a review of wholesale gas market competition has been on the table for literally 16 years or more and so far nothing has happened.

The Pipeline Association said the competition review "should recognise the ongoing competition issues in wholesale gas markets and recommend policy action to address them".

It also wants some clarification of the definition of "production process" in the Part 3A access regime regulation, and also some certification of industry specific access regimes. Part 3A will be hotly contested in part because the issues were well covered by the Productivity Commission, but so far nothing has been done.One of Harper's goals is to find out what is stopping competition in Australia and how to open the gates.

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