

HD Baosteel, Aurizon bid \$1.3b on mine

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Joint offer intends to take strategic advantage of falling **iron ore** prices

China's Baosteel Group Corp took a further step to secure raw material by bidding for **iron ore** miner Aquila Resources Ltd jointly with Australian freight operator Aurizon Holdings Ltd in a deal valued at A \$1.4 **billion** (\$1.3 **billion**).

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According to a statement released Monday by the **Chinese** steelmaker, Baosteel and Aurizon intend to make a joint offer of A \$3.40 a share, or an unsolicited A \$1.4 **billion** offer in total, to take over what shares of Aquila they don't currently own.

"The deal is in accordance with the **company's** strategic goal, which is building an advanced overseas resources platform through developing western Pilbara's **iron ore** project and Eagle Downs hard coking **coal** project in Queensland," the Baosteel statement said.

If the deal is successfully completed, Baosteel will own as much as 85 percent of Aquila's shares, with the rest owned by Aurizon.

At a Sydney news conference held Monday, Wu Yiming, chief financial officer of Baosteel Resources International Co, owned by Baosteel Group, said the **company's** original investment to acquire a 20 percent **stake** in Aquila in 2009 was to support Aquila in developing major projects. But he said they had not seen any new projects in five years.

Wu said the **company's** new action is to get things started. "It's a pretty smart move to cooperate with a local infrastructure construction **company** and management team to explore **iron ore** projects in Pilbara," said Jeremy South, global **mining** leader at Deloitte Touche Tohmatsu Ltd.

He said Baosteel has taken advantage of falling **iron ore** prices, and that **Chinese** steel companies will increasingly be investing in Australian mines. With **China's** steel industry experiencing falling prices and ongoing deficits, companies have forged different paths to survive the tough times.

"It might be a good time for **Chinese** steel companies to invest in medium and small-sized Australian **iron ore** mines because their corporate valuations are falling down to a reasonable level," said Chang Xingguo, project director of the international minerals and finance department with the **China Mining** Association.

As huge industrial giants, such as Rio Tinto Plc, BHP Billiton Ltd and Fortescue Metals Group Ltd, increase their capacities and supply delivery this year, many medium and small-sized Australian mines are facing tight cash flow, Chang said.

"These companies may face more challenges in financing when **iron ore** prices drop than the large players like Rio Tinto, which have relatively lower production costs," he said.

But Chang said **iron ore** prices haven't touched bottom yet. "The **iron ore** projects will not attract investors from financial institutions, but it can be a chance to acquire good assets at a low price for domestic steel companies, if it is within their long-term vision," he said.

Under the current backdrop, the **China Iron** and Steel Association is certainly hoping that the central government will support the domestic miners through tax reductions in order to break the stranglehold of the international players.

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CO aques : Aquila Resources Ltd. | baois : Shanghai Baosteel Group Corp | qmntl : Aurizon Holdings Limited | 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 | i2112 : Gold Ore/Silver Ore Mining | i71 : Railroads | icargo : Freight/Cargo Transport | irailtr : Road/Rail Transport | irfrgt : Railroad Freight | isteel : Steel Production | itsp : Transportation/Shipping

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