

# FINANCIAL REVIEW

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Many will be surprised that Aquila Resources chairman Tony Poli has acted with such considered rationality in accepting **China** Inc's \$1.4 **billion** offer for the **company** that has been home to his ambitions in **iron ore** and **coal** since 2000.

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They should not be.

Poli has shown himself to be an artful dealer in assets through the back-end of his 14-year ride with Aquila. Sure, this time around it is the whole box and dice rather than an asset defined by Poli as excess to Aquila's needs. But the value equation is essentially the same.

While privately he has been less than content with the undercurrent of hostility in Baosteel and Aurizon's bid, Poli has assessed that a cash offer of \$3.40 a share represents full value given the circumstances Aquila finds itself in. Pragmatism rules, OK.

Those circumstances include a stand-off with the joint venture partner in his West Pilbara **iron ore** project, the need to dig up \$7 **billion** in project finance to translate that project from plan to operating reality and the need to throw a good deal of cash at a Queensland **coal** project whose clock for retention is ticking.

Then there is the little matter of commodities markets that are being reshaped by the "mean reversion" that was predicted so forthrightly by BHP Billiton management two years ago.

By confirming the time was ripe for a cash-out, Poli might well have listened to his now retired founding partner in Aquila, Charles Bass. He speaks for about 10 per cent of Aquila and it has been speculated over recent days that Bass was of a mind to take the cash.

For the record, Poli owns 28 per cent of Aquila and he too will be left wealthy by the transaction.

One person who either didn't hear that speculation or was not of a mind to believe it was Chris Ellison at Mineral Resources. Because there can be no question that Aquila's recommendation of the Baosteel offer leaves Chris Ellison in a pretty tough spot.

Last week Mineral Resources paid nearly \$200 **million** for a 13 per cent **stake** in Aquila. The cornerstone of Ellison's play simply had to be a confidence that Poli would not be party to a recommendation of the Baosteel offer.

But he got that wrong.

From then, there were three ways that it could have gone for Ellison.

Mineral Resources could assist Baosteel in its success and along the way build itself a place in the future of the West Pilbara project that is the target of the **Chinese** steelmaker's desire.

Or Ellison could position MinRes for a takeover bid. And then there was always the chance he could be caught out if Aquila really did like the colour of Baosteel's cash.

Ellison tried both of the first two options and missed out. He tried to talk to Baosteel about a plan to recast the West Pilbara project but that only made **China's** second-biggest steelmaker more angry than it already was. Baosteel and Aurizon immediately raised the stakes going final on their offer.

It then added threatening spice to that decision by noting it would sell out of Aquila if its offer failed and that it would not engage with any future West Pilbara project. Unpopular tactics

It seems Baosteel was not alone in expressing irritation at Ellison's project redesign. The word is Ellison paid a courtesy call to Western Australian Premier Peter Barnett before his failed dialogue with Baosteel and the premier's office was less than thrilled.

The background is that Aquila's long-promoted proposal is the building of a 30 **million** tonnes a year mine that would be linked to a new and expandable port at Anketell Point by a new 245-kilometre heavy-haul railway.

Baosteel wants to buy Aquila because it wants to deliver on that proposition, but maybe also do a whole lot more a lot faster.

But Mineral Resources is promoting another option, which is to downscale the infrastructure and send West Pilbara **ore** out through a trans-shipping facility at Cape Preston.

The Premier's great desire for progress at Anketell Point was reinforced only hours after confirmation of Poli's decision, with the publication of a master plan for a new 350 megatonne capacity, open-access port at Anketell Point.

That chilly reception was plainly not enough to quench Ellison's appetite for a slice of the Aquila action. Pretty much immediately, Mineral Resources indicated it would make an offer. As expected, it then knocked on Poli's door with an all-scrip offer valued at \$3.75 a share.

That was the top price Ellison paid in securing his **stake** so it was the minimum price he could offer under the rules. And it was never going to be enough given the risks implicit in acceptance.

Patently, taking scrip over cash means signing up for the long term on an **iron ore** project whose underlying economics appear to be shifting fast and whose secure future relies existentially on **Chinese** custom.

So Poli and his board went with Baosteel while leaving themselves wiggle room to reconsider should circumstances change. Effectively, Poli and Co have condemned Aquila to new ownership but the question of the final price of their surrender might yet be a matter of debate.

As before, Ellison would appear to have three options.

First, he can go back to the value drawing board and maybe return fire with a new offer and perhaps even consider throwing some real cash into the consideration package.

This appears unlikely though, given the tone of the **company's** commentary in the wake of Aquila's unwelcome embrace of Baosteel. Mineral Resources observed simply that negotiations with Aquila had been "terminated". Which seems pretty final.

Which leaves Ellison a choice of holding or folding. He can accept an \$18 **million** loss by selling into the already final Baosteel offer or follow the Solomon Lew playbook and simply sit and enjoy the ride with an Aquila firmly in the control of Baosteel and Aurizon.

Remember that Baosteel's offer carries a 50.1 per cent acceptance condition and it already owns 20 per cent of Aquila.

So, given Poli and Bass fulfil the intentions confirmed on Wednesday morning, then this bid has already cleared its primary acceptance hurdle.

Now, given all that has occurred so far, it would seem apparent that a decision by Ellison to linger for longer would be less than welcome by Team Baosteel.

In its letter to Mineral Resources on Monday, Baosteel made it quite clear that a choice to hang on would condemn Ellison to interesting times.

There is clear commercial and financial logic to Newcrest's decision to embrace an out-of-court settlement of its differences with ASIC over whether or not the miner's communication with some **mining** analysts in May and June of last year amounted to illegal selective briefings.

The goldminer changed chairmen before Christmas and is in the process of introducing a new chief executive. That the new bloke, Sandeep Biswas, might be spared a poisonous legacy regulatory problem would seem to be a thoroughly sensible play.

What is apparent though is that ASIC was in no mood to walk away from this precedent-setting dispute without extracting **firm**, reputation-tarnishing admissions and a **gold**-plated penalty.

When you cut away the legal weasel words, the fact is Newcrest has been required to acknowledge that it broke corporation law. This is not often the case in ASIC settlements.

As a result, Newcrest is to pay two fines totalling \$1.2 **million** and to cover the considerable costs of ASIC's pursuit of the **company**.

While attempting to take solace in the idea that the two contraventions it admitted were neither knowing nor intentional contraventions of the continuous disclosure obligations, Newcrest has acknowledged the settlement does not prevent ASIC taking action against "any individual officers or employees of Newcrest".

Whether that is ASIC's intention remains unclear. But it is hard to see why that observation would be required if further action was not under active contemplation.

What is more certain though is that last year's clumsy conversations with Newcrest analysts will sit long and ugly in the textbooks of corporate governance and disclosure obligations.

<b>CO</b>	aqres : Aquila Resources Ltd.   dorval : Aurizon Mines Ltd   hclamn : Hecla Mining Co
<b>IN</b>	i211 : Metal Ore Mining   imet : Mining/Quarrying   ibasicm : Basic Materials/Resources   igoldm : Gold Ore Mining
<b>NS</b>	c181 : Acquisitions/Mergers/Takeovers   ccat : Corporate/Industrial News   reqrm : Suggested Reading Metals/Mining   c18 : Ownership Changes   cactio : Corporate Actions   ncat : Content Types   nfact : Factiva Filters   nfcpin : FC&E Industry News Filter   redit : Selection of Top Stories/Trends/Analysis   reqr : Suggested Reading Industry News
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