

HD Baosteel Threatens To Drop Bid For Aquila

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WC 512 words

PD 16 June 2014

SN The Wall Street Journal Asia

SC AWSJ

PG 17

LA English

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SYDNEY -- **China**'s state-owned Baosteel Group turned up the heat on Aquila Resources Ltd. Friday, threatening to walk away from a takeover bid if the Australian miner doesn't accept its offer price.

The A\$3.40-per-share approach, led by Baosteel and involving minority partner Aurizon Holdings Ltd., values the target at 1.4 **billion** Australian dollars (US\$1.3 **billion**).

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The bidders on Friday declared their offer final, meaning they can no longer sweeten it, unless a rival bid emerges.

The move raises the stakes in a contest with deep implications for both parties. A successful deal would give the **Chinese** steelmaker access to undeveloped **iron-ore** and coking-**coal** deposits that could help support the country's economic development for decades.

For Aquila, agreeing to a takeover would mean handing over control of promising assets, including its proposed A\$7.4 **billion** West Pilbara **iron-ore** project in Western Australia state, that would be too large for such a small **company** to build on its own.

Aquila said it would consider its options. "It is important to note that the offer is open for acceptance for a period of approximately four weeks," it said. Directors including founder and Executive Chairman Tony Poli together own a combined 37% of the **company**. If they reject the bid, Aquila shares could fall back to where they were before the takeover approach was first announced on May 5.

On Friday, Aquila shares fell 12% to A\$3.10 in a sign some investors already fear Mr. Poli and his fellow directors won't accept the A\$3.40 offer.

Further complicating matters, Mineral Resources Ltd. on Thursday said it had purchased a 12.8% **stake** in Aquila in an attempt to muscle in on the West Pilbara project. Mineral Resources paid a 10% premium to Baosteel's offer, prompting investors to bet the **Chinese** steelmaker would need to improve its terms.

A spokesman for Mineral Resources said the **company**'s desire to work with Aquila and Baosteel on the West Pilbara project hasn't changed. "Mineral Resources' intention was to get their plan for West Pilbara in front of the parties that matter, particularly Baosteel and Aquila," he said. "So we are pushing ahead as much as we can on that front."

With **iron-ore** prices waning due to increasing supply and moderating demand from **China**, it could be difficult for Aquila and Mineral Resources to find others willing to risk investing the **billions** of dollars required to get the project off the ground.

China-backed entities, however, are more interested in buying supplies to support the country's resources security over the longer term.

Dai Zhihao, Baosteel's chairman, said Aquila would be left "facing the challenges and uncertainties of volatile commodity markets" and various funding risks if it doesn't accept the bid.

Baosteel said it would also consider selling its existing 20% holding in Aquila if the bid is rejected.

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