

**SE** Exclusive  
**HD** Industry questions Padbury's attempt to bring Oakajee port, rail project to fruition  
**BY** Angela Kean  
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Industry commentators are still in two minds as to whether Padbury **Mining** Ltd. can succeed in building a A\$6.5 **billion** rail and port in Western Australia's Mid West region despite the ASX-listed **iron ore** explorer revealing that it has secured financial backing for the project.

Padbury said April 11 that private Australian **equity** investors will provide the funding to build the Oakajee port and rail in three tranches.

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The Geraldton Port has limited capacity, and the development will enable the export of 35 **million** tonnes to 45 **million** tonnes of direct shipping **ore** and magnetite, using Capesize vessels with up to a 240,000-tonne capacity. It is expected that annual exports will increase to more than 100 **million** tonnes per annum over time.

The rail network will enable mines in the northern and southern sectors of the region to share a multiuser, open access regime regulated by the Economic Regulation Authority of Western Australia.

The Mid West region is estimated to host some 50 **billion** tonnes of magnetite **ore** and has 21 **billion** tonnes compliant with the Australasian Joint **Ore** Reserves Committee Code.

There are about 21 companies with **iron ore** interests in the Mid West, as well as a number of other commodities that could utilize the proposed port and rail.

While Padbury seems sure that it can succeed in building the port and rail where the previous proponents failed, analyst Peter Strachan is not as convinced.

"I'd like to see some **firm ore** reserve numbers, and I'd like to see some **firm** costings of project development, because unless the miners are in lockstead with this development the project won't go ahead," he told SNL Metals & **Mining**.

"No one is going to spend dollar one until they know that there is going to be 35 **million** tonnes of material going along that rail line every year paying US\$15 a tonne for the privilege."

New **iron ore** supply coming online, which is expected to weigh on the **iron ore** price, also creates uncertainty over Padbury's ability to complete the project.

The **iron ore** price is forecast to slide to about US\$100 a tonne following Fortescue Metals Group's lift in capacity to 155 **million** tonnes per annum and expansion projects underway by global **mining** giants Rio Tinto and BHP Billiton.

This means the costs associated with railing and shipping **iron ore** via Oakajee would impact miners' profits substantially.

"It seems to me that there's more likelihood that the **iron ore** price will be A\$100 a tonne, rather than A\$140 a tonne," Strachan said. "If you ask me which way it is going to go, the risks are on the downside."

Magnetite Network executive director Megan Anwyl told SNL that while the Magnetite Network is very supportive of any reasonable proposal that will expand Mid West port capacity for magnetite projects, more information is needed on Padbury's plans.

"We just need some more detail about this one before making any real conclusion at this point," she said. "I think that like everyone I look forward to hearing further detail about the identity of those private Australian **equity** partners."

"It is good news for any potential magnetite producer because clearly the major long-term users of any new port in the Mid West are going to be magnetite producers."

Terms of the deal

The Oakajee project will be developed by Midwest Infrastructure Pty. Ltd., or MWI, a fully owned subsidiary of Padbury.

The investors in the project will obtain a 64% **stake** in MWI, with the remaining 36% being held by Padbury.

The project will be 100% **equity** funded, and Padbury has the ability to claw back its shareholding to 49% once the private investment has been returned.

Strachan said it is unclear what the investors providing the funding will be getting for their money. "I presume they will be getting either direct ownership itself or there will be some other overarching ownership structure in which to raise the debt and **equity** for the project," he said.

The first tranche of US\$470 **million** will be used to complete design and construct specification over the first nine months, for early civil works and to meet early ordering of long **lead** items.

Drawdowns against the second tranche of US\$3.45 **billion** and the third tranche of US\$2.55 **billion** will be used for construction.

Industry surprised by Korean focus

With so much talk surrounding growing **Chinese** investment in the **mining** sector as well as the level of ownership in mines in the Mid West region by **Chinese** state-backed companies, industry watchers are a little surprised at the Korean focus of the Padbury deal.

One of the problems contributing to why the Oakajee port and rail project did not go ahead under the previous proponent, Oakajee Port & Rail, was due to its backing by the Japanese, which typically do not have any interests in **mining** projects in the Mid West.

"None of the members of the Japanese consortium had interests in the actual **mining** activities, so there was a bit of a disconnect there," Strachan said.

"So I can't see how a Korean consortium owning the infrastructure is going to be any more attractive to **Chinese**-based state-owned enterprises."

Padbury said it is working closely with a number of engineering, procurement and construction companies and suppliers in Korea and **China**.

The **company** is also in talks with the Western Australian government to formalize development agreements.

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