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HD **Falling iron ore price threatens Pilbara**

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The viability of Aurizon's plans to build a new rail and port network in the Pilbara to transport **iron ore** is being questioned as weaker **iron ore** prices raise fears over costs.

Aurizon's shares have fallen 7 percent since the start of August to trade at their lowest levels since December as investors worry about the cost of the **company**'s Pilbara investment and increased capital spending on its existing **operations**.

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The **company** told investors at its annual results last month it would lift spending on IT, track maintenance and fleet upgrades to about $600 **million** annually between fiscal 2015 and fiscal 2017, from $350 **million** annually, giving it less cash to fund new projects.

But Aurizon is pushing ahead with plans to develop a new 430-kilometre rail line to Anketell Point in the Pilbara to export **iron ore** from the west Pilbara after teaming up with **China**'s Baosteel to buy Aquila Resources' 50 per cent **stake** in the West Pilbara **Iron Ore** Project.

When the companies made their initial approach in May, spot **iron ore** prices were trading at about $US105 a tonne but have now fallen to about $US85 a tonne.

Analysts say the project was highly sensitive to **iron ore** prices. Merrill Lynch estimates that while BHP Billiton's Pilbara **iron ore** production costs run at about $26 a tonne and Rio Tinto's at $22 a tonne, Aurizon's and Baosteel's costs will run as high as $80 a tonne, making it difficult for the companies to profit from their venture.**Chinese** keen to export

Although Baosteel is keen to export its own **iron ore** to send to its steel plants in **China**, the project's other investors – US private **equity firm** American Metal & **Coal** International and Korean steel giant POSCO (which jointly hold 50 per cent) could pull out if **iron ore** prices fall further.

Aurizon was expected to fund about 20 per cent of the $4.7 **billion** project, and has already signalled it is considering selling a minority **stake** in its central Queensland **coal** network to raise cash. Investment bank UBS has estimated Aurizon could generate up to $2 **billion** by selling 49 per cent of the Queensland track business.

Aurizon's board was expected to come under pressure to explain the **company**'s pursuit of the West Pilbara **iron ore** project at the **company**'s annual meeting in Perth in November.

Analysts have already expressed surprise at the decision of Aurizon's 73-year-old chairman, John Prescott, to stand for re-election at the annual meeting.

Aurizon's remuneration report last year received a "first strike" with some 28 per cent of proxy votes cast against the report in protest at the rail group's executive pay packages.

Proxy groups are still formulating their recommendations ahead of Aurizon's annual meeting this year but some were expected to raise concerns about Mr Prescott's re-election.

The Australian Shareholders Association last year called for Mr Prescott to resign, saying it was "disappointed" with his handling of remuneration issues in recent years, including permitting accounting changes that gave management bonus payments they may not have otherwise received, and adjusting performance targets.

Analysts had also expressed concerns Mr Prescott was "not particularly engaged" with the financial community and it would be timely to refresh the board as Aurizon moved into an expansion phase after several years of cost cutting following its float in late 2010.

Investors also believe Aurizon needs a strong and engaged chairman to monitor its expansion plans in the Pilbara and Queensland's Galilee Basin.

Key points Investors worry **iron ore** prices could affect planned port and rail construction. **Company** spending on IT, track maintenance and fleet upgrades, increases to $600m, leaving less to spend on other projects.

CO	qrntnl : Aurizon Holdings Limited
IN	i5020017 : Harbor Construction | i22 : Primary Metals | i221 : Iron/Steel/Ferroalloys | i502 : Heavy Construction | ibasicm : Basic Materials/Resources | iconst : Construction | icre : Real Estate/Construction | i71 : Railroads | icargo : Freight/Cargo Transport | irailtr : Road/Rail Transport | irfrght : Railroad Freight | itsp : Transportation/Shipping
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