

HD Corporate News: BC Iron Deal Bets On Rising Demand

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SYDNEY -- Australia's BC Iron Ltd. agreed to buy Iron Ore Holdings Ltd. for 251 million Australian dollars (US\$233 million) in cash and stock, betting that fears of a widening iron-ore supply glut and a prolonged drop in commodity prices are overblown.

The deal will create a new midsize miner in Australia's remote Pilbara region, which accounts for around half of the world's iron ore transported by sea. It also deepens Australian billionaire Kerry Stokes's ties to the mining sector; his Australian Capital Equity Pty. Ltd. investment vehicle will become one of BC Iron's biggest shareholders.

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Perth-based BC Iron agreed to pay 0.44 share and 10 Australian cents (9 U.S. cents) for each share of Iron Ore Holdings. The offer is a 64% premium on where the company's stock ended last week. Iron Ore Holdings' shares rose 39% Monday.

Iron Ore Holdings' Buckland iron-ore project was a lure for BC Iron, since reserves at its Nullagine joint venture with Fortescue Metals Group Ltd. in the Pilbara were due to run out within six years.

Still, the takeover comes as many iron-ore producers have been facing head winds from falling prices and heavy discounting on sales to steelmakers. Record iron-ore production in Western Australia's Pilbara has flooded the global market as demand growth in China has cooled, squeezing profit margins for mining companies.

"We live in a volatile and cyclical industry, but we have faith in iron ore for the future and demand, not only out of China but other significant economies looking to improve quality of life," said Morgan Ball, BC Iron's managing director. "We have looked at this asset on pretty conservative iron-ore prices."

The Buckland project, which includes a new iron-ore mine, road and port facilities, is forecast to produce eight million metric tons of iron ore for export annually for at least 15 years. Iron Ore Holdings Managing Director Alwyn Vorster said his company would have struggled to raise financing for the operation on its own.

Mr. Ball, who will lead the merged company, said BC Iron would immediately start assessing funding options and aim to make a decision on the development plan for Buckland in the first half of next year. The combined group will hold iron-ore reserves of nearly 300 million tons.

Many mining companies in the Pilbara have been slow to forge deals, partly because Rio Tinto and BHP Billiton dominate iron-ore production and own rail networks that are closed to competitors.

But Iron Ore Holdings manages deposits that aren't far inland and are close to existing infrastructure. The company also has approval to build a new port facility at Cape Preston East.

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