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HD Aquila stake proof of 'hard times ahead'

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LP MINERAL Resources' push on to takeover target Aquila Resources' share registry is a symptom of iron ore contract work drying up, analysts have warned.

The Perth-based mining services company, which also operates small iron ore mines, last week entered China-backed Baosteel's \$1.4 billion battle to control Aquila in an attempt to assert its desire to develop the target's \$7bn iron ore project.

TD Analysts have said Mineral Resources' move on the iron ore and coal company is not surprising given that life in the sector is going to be more difficult in a lower-price, lower-growth iron ore market.

Aquila's flagship asset all parties have their eyes firmly set on is the West Pilbara iron ore project.

Mineral Resources was keen to highlight its experience in iron ore production when it announced that it had brought a significant stake in Aquila, at \$3.75 a share, because it had a proposal to build, own and operate the iron ore project.

Morningstar's analysts outlined though that project capital expenditure of more than \$7bn was a bridge too far for a company the size of Mineral Resources.

Aquila's newest shareholder has not revealed its plans for the West Pilbara project but it has said it is seeking talks with the key stakeholders involved in the proposed new development. West Australian mining millionaire [Chris Ellison](#), co-founder and boss of Mineral Resources, has met with Aquila's co-founder, chief executive and 30 per cent shareholder Tony Poli. He is yet to meet with Baosteel.

Morningstar's analysts outlined in a client note on Mineral Resources that it forecasts a long-term iron ore price of \$US90 a tonne, which they said would be a price at which Mineral Resources' mining business might be profitable.

"We expect the volume-linked crushing and screening business to prove relatively resilient to price weakness, but a weaker cost environment may encourage customers to insource activities," the team covering Mineral Resources at the research house said.

The analysts also took a hit at Mineral Resources, saying the company's operating and financial disclosures were poor. They also added that an increasing reliance on iron ore sales and rising debt made Mineral Resources increasingly vulnerable to a downturn in the sector.

"A failure to disclose iron ore resources, reserves or cash costs means mine life, operating leverage and profit sustainability are highly uncertain," the client note read.

"Poor disclosure was tolerated during the boom years but shows a disregard for small shareholders and could hide problems during a downturn." The move by Mineral Resources to take a 12 per cent stake in Aquila at a significant premium to the \$3.40-a-share Baosteel is offering heightened market speculation that the Chinese state-owned entity could increase it offer.

But Baosteel, and joint bidder Aurizon, put those rumours to rest on Friday when they announced they would not increase their bid price or extend the offer period.

In making the announcement, the Chinese steel giant used its strongest words yet in its fight for Aquila.

It threatened that failure of the deal to succeed, which has a 50 per cent minimum acceptance condition, could see Baosteel, which has a 20 per cent stake in Aquila, pull its support for the target. Aquila will this week release its official response to the bid, which is expected to recommend shareholders reject the offer.

CO aqres : Aquila Resources Ltd.

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