

SE Business
HD **Baosteel trying its luck on Aquila**
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CHINA'S \$1.4 **billion** move on Aquila Resources is a "low-ball" offer that is unlikely to succeed in its current form, analysts have argued.

State-owned Baosteel teamed up with Australian freight **company** Aurizon to bid \$3.40 a share for the 80 per cent of Aquila it does not already own.

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Aquila has told its shareholders to take no action while it reviews the offer, but its founder and executive chairman Tony Poli is key to the deal succeeding given he has a 28 per cent **stake** in the **company**.

Analysts have outlined that the bid has been made at a low-point in the **iron ore** seasonal market and when coking **coal** prices are at their lowest point in four years.

China has said the key assets it is chasing in Aquila's portfolio are the \$7.4bn West Pilbara **iron ore** project in Western Australia and the Eagle Downs coking **coal** project in Queensland.

Shares in Aquila, which jumped on Monday following news of the bid, tracked slightly higher yesterday to close at \$3.37, 3c shy of the offer price.

Morgans analyst James Wilson said that based on previous deal activity in the **iron ore** sector, he believed that the hostile offer was "low-ball".

"It is a cheap deal on **iron ore** metrics alone," he said.

Mr Wilson said the offer price would have to increase to be palatable to the majority shareholders who control 40 per cent of the stock, which includes co-founder Charles Bass.

Morningstar analyst Gareth James said the main risk to the takeover proceeding would be if Mr Poli rejected the bid.

"When compared with historical transactions, the offer could be considered low," he said. "However, the **iron ore** and **coal** sectors have significantly weakened in recent years and Aquila has few, if any, alternatives.

"If the bid does not proceed, Aquila will remain in a difficult position, challenged by a lack of capital and stuck in an industry in downturn. The **company** has no operating business or economic moat and it is unlikely the projects will be developed at a sufficiently low cost to justify investment." Mr James said the ending of the resources boom and an associated slump in commodity prices had only made the development less likely.

The market was also mixed on Aurizon's role in the bid, which will see it get a 15 per cent **stake** in Aquila — an interest it will eventually divest — to earn exclusive rights to negotiate to develop a multi-user rail and port. Morgan Stanley analyst Scott Kelly said that while this could be a smart

strategic move to open up the Western Pilbara, he questioned the validity of the decision to contribute shareholder capital to move the proposal forward.

CO aqres : Aquila Resources Ltd. | baois : Shanghai Baosteel Group Corp

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