HD China's Baosteel, Australia's Aurizon Ready Bid for Aquila Resources -- Update

BY By Rhiannon Hoyle and Chuin-Wei Yap

WC 950 words

PD 5 May 2014

ET 19:54

SN Dow Jones Institutional News

SC DJDN

LA English

LP

SYDNEY--Baosteel Group Corp. plans to bid for Aquila Resources Ltd., a tie-up that would unlock new iron-ore supply for its steel kilns and represent China's biggest acquisition of an Australian mining company in more than two years.

Baosteel, China's third-largest steel mill by volume, said it is working with Aurizon Holdings Ltd., Australia's largest rail-freight hauler, on a joint offer that would value Perth-based Aquila at 1.4 billion Australian dollars (US$1.3 billion). The proposal, worth A$3.40 a share, sent Aquila's stock up 36% Monday as investors bet the deal would encounter little opposition from regulators, which have been spooked by a recent sharp downturn in mining investment in Australia.

TD

China has long relied on Australia for the bulk of its iron-ore imports, which are used to make steel for everything from skyscrapers in major cities to the limousines favored by the country's elite. Most of this iron ore is shipped to order from major miners such as BHP Billiton Ltd. and Rio Tinto PLC, although a small-yet-growing supply line comes from Australian mines that were bought by state-run Chinese companies in an earlier wave of deals.

Baosteel, which owns China's largest-listed steel mill, bought 15% of Aquila in 2009 when iron-ore prices were rising and later increased its stake to 20%. It was attracted by Aquila's plans for a new mine, which was expected to produce more than 30 million metric tons of iron ore a year and ship through a new rail line and port that bypassed infrastructure owned by Rio Tinto and other major miners in Western Australia's Pilbara region.

But the West Pilbara Iron Ore Project soon became mired by delays and cost blowouts, mirroring other investments by Chinese companies in the region. Aquila's most recent estimate to build the project was A$7.4 billion, which dwarfed the Australian company's market value. It also cemented lenders' reluctance to provide billions of dollars in debt financing.

Wu Yiming, vice president of Baosteel Resources International Co., the Chinese steelmaker's overseas development unit, said repeated delays to the West Pilbara Iron Ore Project following a funding dispute among joint venture partners had sparked the move to take control. Shanghai-based Baosteel Resources International's Australian unit is handling the Aquila deal.

"Our original investment was to support Aquila to develop its projects, but after five years we haven't seen any projects started," Ms. Wu said on a call with journalists. "We have been very patient, but we have become frustrated. We are going to get this started."

Aurizon's involvement in the bid is significant as the Australian company has made little secret of its desire to expand in iron ore and gain a foothold in Western Australia, where companies are under no obligation to open their rail lines to rivals. Aurizon is Australia's largest coal hauler, but its existing operations are mostly in eastern Australia's Queensland state. The West Pilbara Iron Ore Project requires construction of a 282-kilometer (175.2-mile) rail line to connect the mine with a new port at Anketell Point.

Under the proposal made Monday, Baosteel would own as much as 85% of Aquila, with Aurizon acquiring the remaining interest.

The deal underlines Baosteel's re-emerging leadership in China's steel industry. It is the first state-owned mill to take up Beijing's call, issued in January, for its big resource companies to acquire more iron-ore assets abroad.

The National Development and Reform Commission, the government's economic planning agency, told steelmakers to keep building up stakes in foreign iron-ore assets in the interests of China's strategic security and "speaking rights," or influence, in global trade.

The proposal also signals Baosteel's willingness to spend on new investments despite weak steel prices and a gloomy outlook for the industry at home. Baosteel President He Wenbo said last week the company isn't considering any domestic consolidation because of the poor market outlook, which he described as the worst ever.

Iron-ore prices recently fell to their lowest level since late 2012, partly due to concerns about China's steel demand. Traders have also cited concerns about an emerging oversupply of iron ore at a time when companies such as Rio Tinto are continuing to expand their Australian mines.

However, Baosteel's Ms. Wu said even if the iron-ore price fell to US$80 a ton from around US$106 now, management would feel confident the West Pilbara Iron Ore Project could be competitive. Half of the iron-ore used by Baosteel, which relies entirely on imports to make steel, comes from Australia.

Still, analysts said the proposed deal is unlikely to herald a new wave of Chinese iron-ore asset purchases, similar to the frenzy that began about seven years ago. Mining costs globally remain high, especially in Australia where new gas-export facilities compete for labor and the local currency is strong.

"Baosteel's bid doesn't mean a return to large-scale iron-ore purchases, " said Frank Tang, analyst at investment bank North Square Blue Oak. "Foreign iron-ore asset acquisitions have been relatively scattered in recent years, and I don't think we will be seeing many more this year."

Write to Rhiannon Hoyle at rhiannon.hoyle@wsj.com and Chuin-Wei Yap at chuin-wei.yap@wsj.com

(END) Dow Jones Newswires

May 05, 2014 05:54 ET (09:54 GMT)

CO aqures : Aquila Resources Ltd. | baois : Shanghai Baosteel Group Corp | qrntnl : Aurizon Holdings Limited | dorval : Aurizon Mines Ltd | hclamn : Hecla Mining Co

IN i221 : Iron/Steel/Ferroalloys | i71 : Railroads | iindstrls : Industrial Goods | imet : Mining/Quarrying | i22 : Primary Metals | ibasicm : Basic Materials/Resources | irailtr : Road/Rail Transport | itsp : Transportation/Shipping | i211 : Metal Ore Mining | i2112 : Gold Ore/Silver Ore Mining | icargo : Freight/Cargo Transport | irfrght : Railroad Freight | isteel : Steel Production

NS c18 : Ownership Changes | c181 : Acquisitions/Mergers/Takeovers | cacqu : Acquisitions | ccat : Corporate/Industrial News | gtrans : Transport | ncmac : Commodities Asset Class News | nenac : Energy Asset Class News | neqac : Equities Asset Class News | cactio : Corporate Actions | gcat : Political/General News | gpir : Politics/International Relations | gplan : Urban Planning/Development | gpol : Domestic Politics | ncat : Content Types | nfact : Factiva Filters | nfcpin : FC&E Industry News Filter

RE austr : Australia | china : China | eurz : Europe | uk : United Kingdom | apacz : Asia Pacific | asiaz : Asia | ausnz : Australia/Oceania | bric : BRIC Countries | chinaz : Greater China | devgcoz : Emerging Market Countries | dvpcoz : Developing Economies | easiaz : Eastern Asia | eecz : European Union Countries | weurz : Western Europe

PUB Dow Jones & Company, Inc.

AN Document DJDN000020140505ea55000ry