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HD **MinRes boss to play king or jester**

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The concert of trading halts entertained by Aquila Resources and its newest major shareholder Mineral Resources says that a redefining transaction is under construction but the immediate and final outcomes of any proposition in play remain thoroughly unpredictable.

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MinRes placed itself into trading halt on Monday morning, saying a "potential material transaction" was under contemplation. With that, Aquila promptly placed itself in market purdah. But it did so only on the back of the MinRes statement. There has been no contact between possible bidder and possible target.

For all the uncertainty, the logic of Aquila's approach to the ASX is impeccable. If MinRes does bid for Aquila then it has to match the highest price paid in soaking up 13 per cent of the iron ore junior last week. That was $3.75 a share. And when it went into halt, Aquila's shares were changing hands at $3.11.

MinRes says it is working to a Wednesday morning statement on its intentions, but there are suggestions that a proposition could be put to market as early as Tuesday morning. Given that this is all about Aquila and that MinRes is of a mood to pursue a bid, then the pressures on the target's independent board committee are delicious to contemplate.

First and foremost, there are questions of value and the currency in which it is being expressed. There is no way that MinRes could use cash to pay for Aquila; it would have to be a scrip offer. Which means instead of being cashed out by Shanghai Baosteel Group Corp's now final offer of $3.40 a share, Aquila shareholders would remain exposed to the risk that their iron ore project might never happen. The question then is what is the risk premium? Is 35¢ a share of enough value, or will it take more to secure Aquila's endorsement?

Assessing that is a tough call given that we don't yet know what the independent committee thinks of the cash offer made by Baosteel and its bid partner Aurizon Holdings.

Then there are issues over the apparent change of direction in project planning that MinRes is interested in pursuing and whether or not they fulfil the aspirations of Aquila's often irascible partner in Pilbara iron ore, Hans Mende's AMCI.

What we do know is that Mende is a seller and that Baosteel's success would seem to be a more profitable option for him than anything else imaginable. And finally there is the rather more tectonic issue of iron ore markets and whether or not a very public slighting of Baosteel might prove costly when it comes to selling product into global markets now entirely shaped by Chinese appetites.

Because the only absolute certainty right now is that we are going to see a serious ramp up of Baosteel's slightly irrational irritation at the interruption of progress of its $1.4 billion cash bid by MinRes boss Chris Ellison.

Baosteel was already quietly testy ahead of last week's decision by Ellison to throw $197 million at what might prove to be a pivotal 13 per cent stake in Aquila. That investment opened three options: Ellison could be kingmaker, owner or court jester.

Each remains a possibility. Having gatecrashed Baosteel's party, Ellison approached China's second-biggest steel maker for a chat about how it might better proceed with the heavy port and rail project that sits central to China Inc's interest in Aquila specifically and the Pilbara generally.

The Baosteel reception to this new approach is said to have been chilly at best. The immediate result was that Baosteel and its slightly surprised partner Aurizon went final on their offer. There are some who reckon this was inadvisable, given it sets clear value hurdles for Ellison to outbid Team China. But even as MinRes was accumulating its stake, Baosteel made it clear it was not up for any sort of price inflation.

Private warnings that Baosteel would walk if Aquila's board rejected the approach, or if this became a contest, were reinforced by both the fact of going final and by the punchy rhetoric that announced the decision.

In place of the certainty of cash, Aquila's owners would be accepting "the challenges and uncertainties of volatile commodity markets, risks of financing large capital expenditure, potentially dilutive capital raisings, and the challenge of developing genuinely economically feasible greenfield projects".

They would also accept the risk that Baosteel would not be there to assist or support a future development. "In those circumstances Baosteel and its related entities would have to carefully consider their ongoing shareholding in Aquila," the company said. Given that Baosteel is a Chinese government-owned entity, then the potential of that threat would seem to be pretty dire.

MinRes apparently describes its redraft of the Aquila project design as a "capital-light option". If what we hear is right, then it sure is.

The Aquila plan is to build a new railway to link its eastern Pilbara deposits to a spanking new scalable port at Anketell. That is the plan endorsed by the state government and the one that attracted Baosteel to take a position in Aquila in the first place and then to make a pitch for the company in cahoots with Aurizon, Australia's third-biggest long-haul rail operator (after Rio Tinto and BHP Billiton).

But Ellison has other ideas. From what we understand, he suggested to Baosteel that it drop Aurizon, abandon Anketell and instead drive the Aquila ore to export markets via Cape Preston, a port exporting for at least two other producers of modest size and aspiration.

The path to market at Cape Preston is quite different to the other big iron ore ports. Rather than directly loading ore from wharf to ship, the product is put on barges that carry it from the port railhead to bigger offshore loaders. This is called trans-shipping and it is how the likes of Arrium ship iron ore out of South Australia's Whyalla port. But it is nothing like the high-volume bet that Baosteel, or Aquila for that matter, has in mind.

The unavoidable fact is that Baosteel is after Aquila because of Anketell. It is a port that could host volumes of 300 million tonnes a year. And, if it goes ahead, it would likely be the last big iron ore port to be developed on the north-west coast.

Fortescue Metals Group's decision to pump $US275 million ($292 million) into four "very large" iron ore boats announces again the maturing financial savvy of a business preparing for life after growth. Like its bigger Pilbara cousins, Fortescue is working hard at the boring, hard yards of delivering more from less by driving productivity right across its logistics and mining footprint.

This shift in priorities was triggered by the iron ore price shock of 2012 and has been made all the more timely by a "mean reversion" of iron ore prices that is in full, predictable swing.

Fortescue spends $US1.5 billion a year on shipping its ore and that dollar figure is likely to rise as the miner hits and sustains its long-run production target of 170 million tonnes per year.

Fortescue's boats will be about 40 per cent bigger than the average Capesize vessel that might have previously visited its berths at Port Hedland, and in running its own fleet from the end of 2015 the Third Force is following a shipping channel charted by Rio Tinto but eschewed by BHP Billiton. The way Fortescue reads it, this investment is the most accretive allocation of capital it can make once the ramp-up to peak capacity is complete.

Metgasco's acceptance of the NSW government's request to delay the hearing of its case against the suspension of the Rosella exploration program raises questions that cannot be answered. The government asked for a two-week delay to allow time for a review of a decision by the Office of **Coal** Seam Gas to suspend Metgasco's right to drill a well at Bentley in the state's far north.

The OCSG is something more than its name suggests. It is, in fact, the regulator of all onshore petroleum drilling in NSW. And it stopped the Metgasco's anything-but-CSG well, claiming there had been a failure of community consultation.

This decision is under review. But, on the spurious grounds that this is a matter before the courts, the OCSG refuses to tell us how that review is being run or who is running it. How illumination of routine regulatory process might be prejudicial to a Supreme Court action was not explained. All very odd really.

CO aqures : Aquila Resources Ltd. | dorval : Aurizon Mines Ltd | hclamn : Hecla Mining Co

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