



Fortescue offers \$254m for Pilbara neighbour

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Body

Andrew Forrest has launched an off-market bid to acquire Red Hawk, the owner of a key iron ore deposit near **Fortescue's** existing Pilbara mines, as part of a strategy to secure longer-term growth on home soil.

The board of Red Hawk has agreed to sell its Blacksmith deposit, located 30 kilometres west of **Fortescue's** Solomon operations in the Pilbara, in a deal valued at up to \$254 million. **Fortescue** requires the support of the target's shareholders to secure the deal.

An independent expert evaluating the offer deemed it fair and reasonable, noting that the bid of \$1.05 a share will increase to \$1.20 a share if **Fortescue** secures 75 per cent or more of the Red Hawk shares by February 4.

"We consider the offer to be fair for shareholders because the value of the offer for consideration under both scenarios is greater than the entire assessed valuation range of a Red Hawk share prior to the offer," said advisory firm BDO.

The offer is a 28 per cent premium to Red Hawk's closing share price of 82¢ on Friday, the last day it traded before the deal was announced yesterday. The higher offer represents a premium of 46 per cent.

Steven Michael, Red Hawk chief executive, said the decision to sell to **Fortescue** allowed shareholders to accept a chunky return on their investment and avoid the risks of developing an iron ore project.

"For a single asset junior, such as Red Hawk, to develop a major project there is a considerable funding burden. There are also question marks over the timing of development of the project - to go to first production in the next 12 to 18 months requires many things outside our control to happen," he said.

"**Fortescue** has billions of dollars invested in infrastructure only 30 kilometres from our project. For them, this is an attractive bolt-on transaction. They can realise value that Red Hawk could never have realised."

Fortescue has the backing of Red Hawk shareholders TIO (NZ) and OCJ Investment (Australia), which own 70 per cent of Red Hawk. These agreements grant **Fortescue** the right to purchase 19.99 per cent of Red Hawk's shares

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at the same price offered in the takeover bid, \$1.05 a share. The remaining shares will be priced at \$1.20 each if Red Hawk shareholders agree to sell 75 per cent of the company's register to **Fortescue** by next Tuesday.

Red Hawk's Blacksmith iron ore deposit is estimated at 243 million tonnes with an average iron grade of 59.3 per cent, slightly below the 62 per cent benchmark typical for Pilbara operations. While the lower grade poses pricing challenges, the deposit reinforces **Fortescue**'s iron ore portfolio in the Pilbara and can link with its infrastructure.

RBC analyst Kaan Peker said **Fortescue** was the natural owner of the Blacksmith plot. "[The deal] consolidates some of the last available tenements resources in the region which sits outside the major miners," he told clients.

In last week's quarterly update, **Fortescue** said it fetched an average price of \$US87 per dry metric tonne of iron ore, lower than the average benchmark spot price of \$US103 a tonne over the December quarter.

Fortescue's troubled Iron Bridge project was developed to enhance the company's product mix by blending its higher-grade ore with its lower-grade output. However, even with Iron Bridge in the mix, **Fortescue** will still be a majority low-grade producer, Morgan Stanley analysts concluded. They estimate that by the 2027 fiscal year, the group grade with the benefit of Iron Bridge will be about 59.1 per cent, below the 62 per cent benchmark.

Mr Michael, who led Vimy Resources when it was taken over by uranium miner Deep Yellow, said the quality of Red Hawk's deposit compared favourably **Fortescue**'s.

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