



Baosteel Buys 15% Stake in Iron Ore Company Aquila (Update4)

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By Jesse Riseborough



Aug. 28 (Bloomberg) -- Baosteel Group Corp., China's largest steelmaker, agreed to buy a 15 percent stake in iron ore and coal company **Aquila Resources Ltd.**, adding to investments in Australia, the biggest producer of the materials.

State-owned Baosteel will pay A\$286 million (\$240 million) for the stake, the Perth-based company said today in a statement. It will also help Aquila get "low-cost" Chinese financing for some projects, according to the statement.

China, the biggest buyer of iron ore, has invested in \$56 billion of projects globally to try to reduce dependence on Vale SA, Rio Tinto

Group and **BHP Billiton Ltd.**, the world's three largest suppliers. Aquila has announced plans to develop a A\$4.1 billion iron ore mine, port and rail project in Western Australia and coal mines in Queensland.

"It's good news for Baosteel as it will help secure iron ore and coal," **Zhou Xizeng**, Beijing-based analyst with Citic Securities Co., said today by phone. "It's difficult for Chinese steelmakers to buy stakes in large iron ore miners, so a stakeholding in a medium-sized or a small-sized mine would also be welcome."

Aquila **shares** jumped 9.2 percent to A\$7.15 at the 4:10 p.m. Sydney time close on the Australian stock exchange. Baosteel agreed to buy 43.95 million new Aquila shares at A\$6.50 each.

The **stock** has more than doubled this year amid a rebound in demand and prices of the steelmaking raw materials. The company has a market value of A\$1.8 billion.

"Baosteel values the growth potential of Aquila assets," the Shanghai-based company said in a statement on its Web site, adding that also agreed to explore for minerals with Aquila.

Funding Help

Baosteel overtook Japan's JFE Holdings Inc. and South Korea's Posco to become the world's third-largest steelmaker last year as China's economic expansion fuelled demand for construction and automobiles. Steel production in China rose to record in July as fixed-asset investment increased 33.5 percent in the first half. Local banks made a record \$1.1 trillion of new loans in the first six months.

"They are going to be a supportive shareholder and will help Aquila source funding over time for what is a pretty capital intensive development pipeline," **Alex Passmore**, head of metals and mining research at Patersons Securities Ltd. in Perth, said today by phone.

Aquila's share of capital spending for its three biggest projects, including West Pilbara iron ore, is about A\$2.9 billion over the next five years, said Passmore, who has a "buy" rating on the stock and a A\$9.35 target price.

Production Target

"We would expect to be producing iron ore in 2013," Aquila Chief Executive Officer **Tony Poli** said today in an interview with Bloomberg Television. Aquila aims to produce as much as 40 million metric tons of iron ore a year at West Pilbara, he said.

Aquila's development projects include iron ore, steelmaking coal and manganese prospects in Australia and South Africa. Australia is the biggest exporter of coal and iron ore.

The company's Eagle Downs coking coal project will cost A\$977 million to build and the mine could start

production in 2012, Aquila said Aug. 17.

China, the world's biggest buyer of iron ore, is Australia's second-biggest trading partner, with two-way trade valued at A\$68 billion in 2008, and is its largest source of foreign investment. Yanzhou Coal Mining Co., China's fourth-biggest coal producer, is also in talks to buy Felix Resources Ltd. for A\$3.5 billion.

The Chinese steelmaker already has a 46 percent stake in Rio Tinto's Eastern Range iron ore mine in Western Australia, according to the Register of Australian Mining. It also has a joint venture exploration agreement with Australia's third largest iron ore producer Fortescue Metals Group Ltd.

Baosteel nominated Vice President **Dai Zhihao** to Aquila's board as part of the investment agreement, Aquila said.

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