

DEALTALK-China eyes stakes in Australian iron ore explorers



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- * China taking minority stakes in Australia iron ore miners
- * Wants to back explorers and break reliance on BHP, Rio
- * Market betting on more China deals in sector

By Denny Thomas and James Regan

SYDNEY, Sept 8 - Australian junior iron ore explorers, once just a darling of day traders, are finding new backers -- in China.

Private and state-owned Chinese companies are making a big push to help so-called "minnows" get up and running as Beijing seeks to reduce its reliance on global miners Rio Tinto Ltd <RIO.AX> <RIO.L> and BHP Billiton Ltd <BHP.AX> <BLT.L> for iron ore to feed its steel mills.

Funds have been promised for everything from bulldozers to rail lines to guarantee supply agreements even before the holes are dug. Port operators are kicking in, too.

In Port Hedland, a main ore export terminal, new berths are planned that could accommodate more than 400 million tonnes in new shipments.

"There's quite a bit of activity in port development to accommodate the junior miners," Port Hedland CEO Andre Bush said.

Also, the recently assembled North West Iron Ore Alliance of small miners is lobbying the Western Australia state government to force BHP and Rio to open up their mine-to-port rail lines to third parties. Rail access remains the Achilles' heel to new mine developments.

Only one other company, Fortescue Metals Group <FMG.AX>, has been able to lay its own tracks, allowing it to export 26 million tonnes last year.

China's Valin Iron and Steel Group has since acquired a 17 percent stake in Fortescue and there is talk that other Chinese investors are circling the company for equity.

Since the collapse in June of Chinese state-owned Chinalco's ambitious \$19.5 billion investment in Rio, China has been busy hunting down other sources of iron ore.

On Tuesday, China Railway Materials Commercial Corp announced separate alliances with explorers FerrAus <FRS.AX> and United Minerals <UMC.AX>, both operating in west Australia's rich Pilbara iron ore belt. [ID:nSYD505802]

Those deals, and others, are small and some of the targets are unlikely to bear fruit for 5-10 years, if at all. But that's done little to deter Chinese spending, such as Baosteel Group's A\$286 million investment in Aquila Resources Ltd <AQA.AX>.

"We're going to see Chinese groups being more and more aggressive ... walking in the door, taking stakes in companies, projects, promoting consolidation between companies," said David Flanagan, Managing Director of Atlas Iron <AGO.AX>.

"Building infrastructure, creating avenues for juniors to actually get up and running and put more tonnes into the market," he added.

Other junior miners that could attract Chinese interest include Atlas, Brockman Resources Ltd <BRM.AX>, Mt Gibson Ltd <MGX.AX> and BCI Iron Ltd <BCI.AX>, bankers and analysts say.

Shares in Brockman and Mt Gibson are up 140-150 percent so far in 2009, Atlas has more than doubled, and BCI Iron shares have leapt five-fold.

"You might think the tenements are not worthwhile, but if they get the infrastructure going, the projects would be up and running," said an equity dealer with an institutional broker, who asked not to be named as he was not allowed to speak to the media. "With investments from these Chinese guys, there is longevity to the story."

"China has probably worked out that it's a more benign way of approaching access to resources in Australia," said an investment banker who specialises in the resources sector.

"Most of the bigger transactions have been done and therefore it's a logical way for China to increase its exposure to these projects," the banker added. The banker declined to be identified because of the sensitivity of the issue.

While China is building small stakes, it would be some time before its reliance on Rio and BHP declines. Most doubt if China could ever realistically break free.

To put things in perspective, Rio on Tuesday exported its 3,000,000,000th tonne of ore from Australia.

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Rio, BHP and Fortescue should, combined, produce about 370 million tonnes of iron ore this year. Smaller players such as Atlas and others are forecast to produce a further 20 million tonnes or so.

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"I just can't foresee them ever breaking the reliance on Rio and BHP," said the investment banker.

"But what they're able to do on the margins is support these smaller projects. There are probably a few more deals that might get done." For related [TIMELINE](#), click [ID:nSYD477222] For Australia's foreign investment rules, click [ID:nSYD73199]