

China makes move on iron ore prospector

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Baosteel Group, China's biggest steelmaker, agreed on Friday to invest \$US240 million (\$286 million) for a minor stake in Australian iron ore explorer Aquila Resources, underscoring China's huge appetite for Australian assets.

The deal comes at a tense time for Australia and its biggest trading partner, with an Australian mining executive detained in China on commercial espionage charges, Beijing cancelling a top-level visit to Australia, and the recent collapse of a \$US19.5 billion investment.

But analysts said this latest deal was likely to be approved by Australia's foreign investment watchdog, noting it would give state-owned Baosteel only 15 percent of Aquila, and the fact that Aquila was still only a prospector and not yet in production.

"I can't see any particular reason why they wouldn't approve it," said Mark Taylor, senior resources analyst at Morningstar.

"It's not a huge deal in terms of dollars or resources."

The latest deal, which sent Aquila shares surging 11 percent to near a 10-month high, would give Baosteel the right to directly invest and co-develop most of Aquila's projects and give the Australian miner access to cheap loans from Chinese banks.

Baosteel plans to buy up to 43.95 million Aquila shares at \$6.50 a share, Aquila said, adding that Baosteel Vice President Dai Zhihao had been nominated to its board.

Aquila shares were up 7.6 per cent at \$7.05 at 1:05pm (AEST).

Take relations 'off the bottom'

"I'd like to think this agreement with Baosteel will help take Sino-Australian relations off the bottom," Aquila Executive Chairman Tony Poli told Reuters by telephone from Perth.

He said Baosteel's investment will "go a long way" to bringing the company's projects into production.

Baosteel has agreed to acquire no more than 19.9 percent of Aquila, according to Poli. Anything over that would require Baosteel to declare a formal takeover attempt under Australian securities regulations.

Further cash could come via Brazilian mining giant Vale, which holds an option starting in December to buy out Aquila's 24.4 percent stake in the Belvedere coal project in Queensland.

Analysts have suggested Aquila would use proceeds from the sale for development of iron ore mines in Australia. Alternatively, the funds could go towards Aquila's Eagle Downs coking coal project, also in Queensland.

Aquila has enough reserves to annually mine 32.5 million tonnes of iron ore and 11.4 million tonnes of coal, with production of both expected to begin in mid-2013, according to a recent presentation it made at a conference in China.



Aquila is exploring for iron ore in Western Australia where bigger miners already have large projects (photo released by Rio Tinto). (AAP: Rio Tinto/Christian Sprogoe, file photo)

Iron ore belt

Aquila's deposits lie in the West Pilbara iron ore belt, home to the massive operations of Rio Tinto and BHP Billiton, the world's second- and third-largest producers of iron ore.

Australia's relations with China soured in June when a then-indebted Rio Tinto ditched a planned \$US19.5 billion equity partnership with China's state-owned Chinalco and instead agreed a joint venture with rival BHP Billiton.

Soon after, Rio Tinto's top iron-ore salesman in China, Stern Hu, was detained along with three other Shanghai-based Rio Tinto staff and later charged with commercial espionage.

Despite the recent political tensions, investment ties have proven resilient, with Australia last week agreeing a \$50 billion deal to sell liquefied natural gas to PetroChina from a yet-to-be-built project.

"Trade is still going to occur," said Steven Robinson, senior investment manager at Alleron Investment Management.

"The Chinese are looking to secure raw materials for the longer term. The main thing for me is the security of supply."

He pointed to a recent deal whereby China would provide up to \$US6 billion in funding to Fortescue Metals Group in exchange for buying Fortescue's iron ore at a price discount.

-Reuters

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