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Aquila Plans to Exit Vale Coal Project This Year (Update2)

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(Closes shares in fifth paragraph.)

By Jason Scott

May 27 (Bloomberg) -- Aquila Resources Ltd., a partner with Vale SA in Australia, plans to sell its almost quarter stake in the A\$2 billion (\$1.7 billion) Belvedere coking coal project this year to focus on developments including an iron ore mine.

"By the end of the year, we'll be out of Belvedere," Russell Tipper, general manager of iron ore at the Perth-based company, said in an interview. "Whatever we get for our share will go towards funding other projects."

Producers of coking coal are increasing output as demand from steel mills rebounds and the global economy recovers. Vale, the world's largest iron-ore producer, has an option to buy Aquila's 24.5 percent stake in Belvedere in Queensland.

"We intend to sell our interest in Belvedere should Vale not exercise its option," Tipper said.

As well as its option to buy Aquila's stake, Vale is seeking to raise its stake in Belvedere to 75.5 percent from 51 percent by buying AMCI (BC) Pty. The project may produce 8 million to 9 million metric tons a year of coking and pulverized coal.

Aquila rose 3.5 percent to A\$8.60 on the Australian stock exchange, giving the company a market value of A\$2.8 billion.

Isaac Plains

Vale is also an equal joint venture partner at Aquila's Isaac Plains mine, which is doubling capacity to 4 million tons of steelmaking making coal. Aquila's Eagle Downs coal project, also in Queensland and jointly owned by Vale, needs about A\$1 billion to proceed, while its West Pilbara iron ore project will be a "multi-billion-dollar development," Tipper said.

"This year is going to tell for us on a funding point of view," he said. "The biggest funding focus for us will be Eagle Downs and West Pilbara. That will determine out future structure in terms of what projects we retain, what projects we need to either sell down or dispose of."

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. The company expects government approvals for the West Pilbara project by the end of next year, along with details of funding. Construction may start in 2012.

"There's a lot of interest in the market to support the project," Tipper said, because it's an alternative to supply from Rio Tinto Group and BHP Billiton Ltd.

Port Problem

Aquila plans to ship iron ore from West Pilbara through Anketell Port. That was jeopardized by a decision by Fortescue Metals Group Ltd.'s Chief Executive Officer Andrew Forrest to put mine and infrastructure plans, including the port, on hold because of Australia's planned resources super profits tax.

"It's very early days," for the port, Tipper said. "Whether Andrew is there or not, we need to keep moving forward. It will be his decision on whether he proceeds with Anketell Point or not."

The planned 40 percent tax will be imposed on resource projects from 2012.

"It would be easy to run around like Chicken Little saying it's the end of the world," Tipper said. "None of our projects are that marginal that it would impact on the investment decision. It does impinge on getting financiers comfortable about your future cash flows."

Baosteel Group Corp. owns a 15 percent stake in Aquila.

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