FINANCIAL REVIEW

Rio Tinto in $157m first shout for Simandou

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Rio Tinto has loaned $US100 million ($157 million) to the Chinese and Singaporean companies that will build railways and ports for Guinea's Simandou iron ore project, in a major show of faith in its consortium partners, rival miners and the grand plan to build an African iron ore industry.

Rio plans to mine iron ore from two tenements in the Simandou mountains through the "Simfer" consortium, which features four Chinese companies including state-owned steel and aluminium giants Chinalco and Baowu.

The Simandou mountains in Guinea contain high-grade iron ore **Rio Tinto**

Despite those powerful partners participating in the Simfer consortium, the $US100 million loan was made by Rio individually, and was designed to fund ongoing studies until a final feasibility study and funding agreement for the rail and port can be struck with the Guinean government and a rival mining consortium.

The railway will traverse close to 600 kilometres of Guinean countryside on its way to a river port and trans-shipping operation in the Morebayah Estuary.

The cost of the transport infrastructure is yet to be confirmed, but it is expected to cost between $US12 billion and $US20 billion.

Rio transferred the $US100 million to the rival "Winning" consortium that will mine iron ore from two tenements in the Simandou mountains that are adjacent to where the Rio's "Simfer" consortium will mine.

Rio transferred the money to the rival consortium because Winning will initially own the company that will build the railway and port infrastructure.

Rio's Simfer consortium is expected to acquire a 34 per cent stake in the Winning companies building the transport infrastructure and eventually fund 50 per cent of the costs.

But those transactions will not occur until a feasibility study and final funding agreement is reached, meaning Rio's $US100 million loan provides some valuable short-term liquidity to Winning.

"Rio Tinto will provide $US100 million of interim funding to WCS [Winning] to finance its construction program, demonstrainting our total commitment to the Simandou project and to our partners," Rio's acting general director for Guinea, Samuel Gahigi, said in a LinkedIn post.

A statement issued jointly by the Simfer and Winning consortia on October 3 made clear that final agreements over the carve-up of the costs were not completed, despite preliminary deals for the two consortia to split the costs equally.

"Investments into the infrastructure joint venture vehicle remain subject to a number of conditions, including the finalisation and approval of the feasibility study and capital funding requirements for the project by all partners and regulatory approvals including competition authorities, and other government approvals from the Guinean and Chinese states," said the Simfer and Winning consortia in the joint statement.

Rio chief Jakob Stausholm has said in the past two years that Simandou is certain to go ahead and it would be "dangerous" for ownership of the transport infrastructure to be separated from the mine owners.

Rio Tinto chief Jakob Stausholm. **Hollie Adams**

Rio's share of the Simandou transport costs is expected to be between $US3 billion and $US5 billion.

Once built, the transport infrastructure will be transferred to a company called CTG, which will be 42.5 per cent owned by Simfer consortium, 42.5 per cent owned by Winning Consortium and the remaining 15 per cent will be owned by the Guinean government.

The Guinean government was this week offering five-year bonds worth 3 trillion Guinean francs – the equivalent of about $550 million – with the goal of spending the money on unnamed "infrastructure" projects, according to Bloomberg reports.

The Guinean government bonds were expected to attract an interest rate of 13 per cent.

Like neighbouring Mali, Burkina Faso and Gabon, Guinea is currently ruled by a military junta, which overthrew democratically elected president Alpha Conde in September 2021.

The leader of the ruling junta, Mamadi Doumbouya, is now considered "interim president" and has reportedly pledged he will not stand in any future democratic elections, which he has hinted are unlikely to occur before 2025.

Mr Doumbouya did not provide any clarity on the timeline for a return to democratic rule in Guinea during a 21-minute speech to the UN General Assembly on September 21.

He used the speech to challenge developed nations to address the causes of military coups in Africa, rather than simply denounce the overthrowing of democracies.

"We are neither pro nor anti-American. We are neither pro nor anti-Chinese. Nor pro or anti-French nor pro nor anti-Russian, nor pro nor anti-Turkish. We are simply pro-African. That is all," he said, according to a translated version of his speech published on the United Nations website.

Winning Consortium chairman Sun Xiushun praised Mr Doumbouya's regime in a statement published on Winning's website.

"We extend our sincere gratitude to the Government of the Republic of Guinea for their vision and support under the leadership of President Mamadi Doumbouya, as well as to all our industrial partners," he said.

Fortescue has remained bullish about mining iron ore in Gabon, despite a military coup in the nation in August.

Thriving ASX-listed gold miner Perseus has also urged investors to not view all African coups as a bad thing, saying they sometimes replaced "substandard" governments.

CLSA analyst Rob Stein reported earlier this year that Winning had selected rail and port infrastructure for Simandou that was typical of their experience in bauxite mining, and was therefore smaller than the transport infrastructure used to export Australian iron ore from the Pilbara region.

The smaller transport infrastructure – including a river port rather than an ocean port – will keep initial costs down and allow a speedier development to give the Simandou partners the best chance of meeting the Guinean government's ambitious goal of exporting iron ore by 2025.

But the selection of smaller and cheaper infrastructure will limit export volumes, with CLSA saying the Simandou rail and port could carry close to 60 million tonnes per year of iron ore by 2030; well below the 895 million tonnes that Australia shipped in the financial year ended June 30.

The Simandou partners will need to conduct a secondary wave of investment in rail and port infrastructure if they want to increase Simandou's export capacity to the 150-million tonne range that was named as the project's potential capacity when it was revived by Winning in 2019.

That second wave of infrastructure spending could involve duplication of railways or replacement with a track that can carry heavier loads; such as the type of railways that Rio, BHP, Fortescue and Roy Hill own in the Pilbara.

Winning has disclosed in documents that it eventually hopes to replace the river port in the Morebayah Estuary with a larger deep-water ocean port at the end of a peninsula called Matakong island.

Rio is not the only Australian listed company hoping to build a future in Guinean iron ore; Arrow Minerals controls iron ore tenements at “Simandou North” and may one day use the third-party transport infrastructure that Rio and its partners will create.

The Rio executive in charge of its Guinean operations, Bold Baatar, said Rio had “strengthened” its partnership with Winning and momentum was building at Simandou.

“We are already progressing critical path works across our sites and we are committed to working closely with all our partners to realise the extraordinary potential that Simandou offers for the people of Guinea, today and for future generations,” he said in a statement issued on October 3.

Source: https://www.afr.com/companies/mining/rio-tinto-in-157m-first-shout-for-simandou-20231006-p5ea82