

Sundance Resources Limited SDL (\$0.083)

Recommendation: BUY

Africa's iron ore pioneers

Analyst: Rob Brierley

OUR VIEW

It is testament to the quality of the Mbalam-Nabeba project and to the Company's management team that, despite a subdued iron ore price, Sundance Resources (SDL) has been able to make significant progress in unlocking the value of its Central African iron ore assets. The next stage of project development should consist of front end engineering and design on the Mbalam-Nabeba mine, completion of pre-work by rail and port EPC contractor Mota-Engil and arrangement of the necessary debt packages predominantly with export credit organisations and development banks. We have identified substantial upside in SDL from current share price levels and believe that its project will be well timed to enter production during a period of a renewed iron ore supply deficit, hence the Buy recommendation.

Investment Highlights

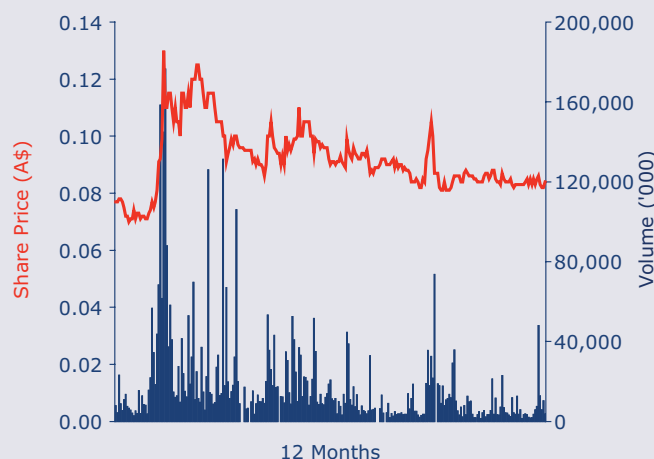
- Mbalam-Nabeba proceeding positively:** SDL has been actively ticking boxes recently in a bid to progress its flagship Mbalam-Nabeba iron ore project, which straddles the border of the Republics of Cameroon and Congo, Central West Africa. Progress includes the signing of the Nabeba Mining Convention with the Congolese government, appointing Mota-Engil Africa as the Engineering, Procurement and Construction contractor for the 510km rail and port infrastructure, appointing South Africa's Standard Bank as the lead financial advisor and securing a take-or-pay offtake agreement with Noble Group for 100% of ore mined with an equity claw back clause. We believe these milestones place SDL in a solid position to reach its goal of financial close by mid-CY2015, followed by 3.5 years of construction and first production sales around the end of CY2018.
- Moving toward financial close:** Standard Bank has been appointed lead financial advisor and has sought Expressions of Interest in debt funding of US\$3.5bn from predominately export credit organisations and development banks. Further funding from Wafin (the investment vehicle of Gennadiy Bogolyubov) of A\$40m in convertible notes with attached options and the roll over of notes of the Investor consortium till November 2016, will see SDL funded till financial close expected in mid-CY2015.
- Iron ore prices to recover:** Iron ore prices have tested and broken below 2012 lows (current prices at cUS\$84/t) due to a recent ramp-up in global supply and increased stockpiling at Chinese ports. We forecast prices to recover by 2019, coinciding with SDL first production, as higher cost producers exit the market. This bodes well for SDL profitability given the low cost nature of its operations, which are stated to be price competitive with the majors at a US\$21/t operating cost and cUS\$62/t break-even cost.
- Attractive long term economics:** The Mbalam-Nabeba Project may have a high capex component of c\$5bn in real 2014 terms, but sees strong cash flows from production revenue reflected from 1H CY2019. Given production of 35Mtpa, a recovery in iron ore prices and SDL's relatively low costs, we ascribe a A\$0.21/sh valuation to SDL.
- Catalysts:** 1) FY2015: Front end engineering and design work on the ore processing plants, associated infrastructure and open pit mines; 2) June 2015: Financial close for the project which will provide funding certainties; 3) 2H CY2015 commencement of construction.

Investment Summary

Year End June 30	2013A	2014F	2015F	2016F
Reported NPAT (A\$m)	(30.8)	(37.6)	(15.6)	(10.4)
Recurrent NPAT (A\$m)	(30.8)	(37.6)	(15.6)	(10.4)
Recurrent EPS (cents)	(1.0)	(1.2)	(0.4)	(0.1)
EPS Growth (%)	na	na	na	na
PER (x)	(8.4)	(6.9)	(19.4)	(62.3)
EBITDA (A\$m)	(28.5)	(41.3)	(20.2)	(14.7)
EV/EBITDA (x)	(9.2)	(6.4)	(15.2)	(44.2)
Capex (A\$m)	25.4	12.5	36.4	371.2
Free Cashflow	(44.3)	(44.8)	(59.8)	(394.0)
FCFPS (cents)	(1.4)	(1.5)	(1.7)	(5.1)
PFCF (x)	(5.8)	(5.8)	(5.1)	(1.6)
DPS (cents)	0.0	0.0	0.0	0.0
Yield (%)	0.0	0.0	0.0	0.0
Franking (%)	0	0	0	0

Company Statistics & Performance

Shares on issue (m)	3,082.0	3mth ADT (\$m)	0.70
Market Cap. (\$m)	258.9	Debt est (\$m)	42.3
52 week range	\$0.07 - \$0.13	Cash est (\$m)	14.3



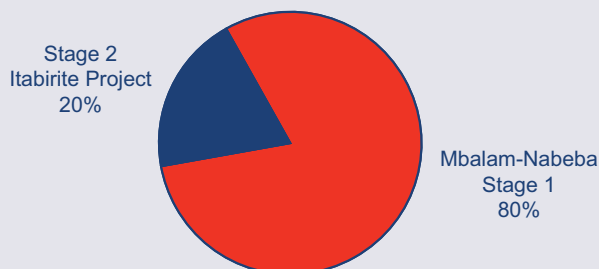
Sundance Resources Limited

\$0.083

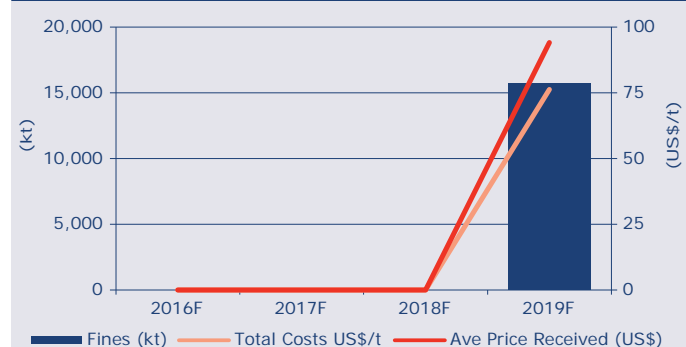
Year End June 30

Valuation	A\$m	A\$/sh
Mbalam-Nabeba Stage 1	983	0.13
Corporate	(86)	(0.01)
Unpaid Capital	524	0.07
Stage 2 Itabirite Project	241	0.03
Cash estimate	15	0.00
Debt incl Con Notes	(45)	(0.01)
Total (@ 10% discount rate)	1,632	0.21
Price Target	1,632	0.21

Valuation Summary of Assets



Iron Ore Production Summary



Reserves & Resources

Hematite Reserves	Mt	% Fe	% Si
Mbarga and Mbarga South	127	63.4	5.77
Nabeba, Nabeba North West, Nabeba South	309	62.3	3.88
Total	436	62.6	4.43

Hematite Resources	Mt	% Fe	% Si
Indicated	748	57.2	9.2
Inferred	27.4	57.4	15.1
Total	775.4	57.2	9.4

Itabirite Resources	Mt	% Fe	% Si
Indicated	2,325	38	44.4
Inferred	1,722	33.9	42.5
Total	4,047	36.3	43.6

Directors

Name	Position
George Jones	Chairman
Wal King	Non-Executive Deputy Chairman
Giulio Casello	Managing Director
Michael Blakiston	Non-Executive Director
Barry Eldridge	Non-Executive Director
Fiona Harris	Non-Executive Director
Robin Marshall	Non-Executive Director
David Southam	Non-Executive Director

Substantial Shareholders	Shares (m)	%
Sichuan Hanlong Group	433.8	14.1
Deutsche Bank AG	238.9	7.8
Credit Suisse AG	238.8	7.7

Commodity Assumptions	2016F	2017F	2018F	2019F
US\$:A\$	0.90	0.88	0.87	0.86
Iron Ore Fines (US\$/t CFR)	86.21	88.32	91.72	94.14
Iron Ore Lump (US\$/t CFR)	92.31	94.55	98.19	100.76

Production Summary	2016F	2017F	2018F	2019F
Mbalam-Nabeba Stage 1				
Fines (kt)	0	0	0	15,750
Op Costs (US\$/t)	0	0	49	49
Shipping Costs (US\$/t)	0	0	12	12
Freight differential (US\$/t)	0	0	13	13
Royalties (US\$/t)	0	0	0	1
Total Costs (US\$/t)	0	0	0	76

Price and Forex	2016F	2017F	2018F	2019F
Ave Price Received (US\$)	na	na	na	94.11

Profit & Loss (US\$m)	2016F	2017F	2018F	2019F
Sales Revenue	0.0	0.0	0.0	1,133.9
Other Income	6.6	7.3	8.4	1.6
Operating Costs	0.0	0.0	0.0	782.4
Net Forex loss / (gain)	0.0	0.0	0.0	0.0
Net Shipping Costs	0.0	0.0	0.0	137.2
Exploration Exp.	2.1	2.1	2.1	2.2
Corporate/Admin	17.7	18.1	18.4	18.8
Other expenses	0.0	0.0	0.0	0.0
EBITDA	(13.2)	(12.9)	(12.2)	195.0
Depn & Amort	0.0	0.0	0.0	45.2
EBIT	(13.2)	(12.9)	(12.2)	149.8
Interest	0.1	0.0	17.6	47.8
MRRT	0.0	0.0	0.0	0.0
Sign Items pre-tax gain/(loss)	0.0	0.0	0.0	0.0
Operating Profit	(13.3)	(12.9)	(29.8)	102.0
Tax expense	(4.0)	(3.9)	(8.9)	30.6
Minorities	0.0	0.0	0.0	0.0
Sign Items post-tax gain/(loss)	0.0	0.0	0.0	0.0
NPAT	(9.3)	(9.0)	(20.9)	71.4
Normalised NPAT	(9.3)	(9.0)	(20.9)	71.4

Cash Flow (US\$m)	2016F	2017F	2018F	2019F
Adjusted Net Profit	(9.3)	(9.0)	(20.9)	71.4
+ Interest/Tax/Expl Exp	(1.8)	(1.8)	10.8	80.6
- Interest/Tax/Expl Inc	9.4	23.5	34.2	50.0
+ Depn/Amort	0.0	0.0	0.0	45.2
+/- Other	0.0	0.0	0.0	0.0
Operating Cashflow	(20.5)	(34.2)	(44.3)	147.2
- Capex (+asset sales)	333.1	194.0	297.3	174.5
- Working Capital Increase	0.0	(190.0)	40.0	160.0
Free Cashflow	(353.6)	(38.2)	(381.6)	(187.3)
- Dividends (ords & pref)	0.0	0.0	0.0	0.0
+ Equity raised	402.2	0.0	0.0	0.0
+ Debt drawdown (repaid)	142.6	129.5	194.3	97.1
Net Change in Cash	191.2	91.3	(187.4)	(90.2)
Cash at End Period	232.1	323.4	136.0	45.8
Net Cash/(Debt)	5.5	(32.7)	(414.3)	(601.7)

Balance Sheet (US\$m)	2016F	2017F	2018F	2019F
Cash	232.1	323.4	136.0	45.8
Total Assets	858.7	979.2	1,152.6	1,321.1
Total Debt	226.6	356.1	550.4	647.5
Total Liabilities	185.7	315.2	509.4	606.6
Shareholders Funds	673.0	664.0	643.1	714.5

Ratios	2016F	2017F	2018F	2019F
Net Debt/Equity (%)	na	4.9	64.4	84.2
Interest Cover (x)	na	na	na	3.1
Return on Equity (%)	na	na	na	10.0

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