

18 July, 2011

Sundance Resources Ltd¹ (SDL - ASX)

Last: A\$49

HOLD ↓

Target: A\$58 ↓

WHAT'S CHANGED

	New	Old
Rating	Hold	Buy
Target	A\$0.58	A\$0.70
NAV/share (A\$)	NC	0.72

SHARE DATA

Shares - m (basic/fully diluted)	2,710.0m/2,506.5m
52-week high/low	A\$0.67/A\$0.11
Free float	81%
3M average daily volume	29.0m
3M average daily value	US\$11.2m
Market capitalisation	US\$1,540m
Enterprise value	US\$1,445m
Dividend yield	0.0%
Total projected return	18%

SUMMARY METRICS

Key assets	Mbarga, Cameroon Nabeba, Congo		
FY ending June	2010	2011E	2012E
GMP lump ore (US\$/LTU)	139	229	282

A\$1.43bn bid from Hanlong Mining

Hanlong looking to buy Sundance for A\$50/share

This morning Sundance Resources reported that it has received an offer from its largest shareholder Hanlong Mining to acquire the remaining 81.4% stake in the company that it doesn't own already for A\$50/sh, valuing the company at A\$1.43bn. The price represents a 25% premium to Sundance's closing price on Friday and a 47% premium to its 20 day VWAP. The Sundance board has advised investors to take no action as it believes that the bid undervalues the company. It added that discussion with strategic partner continues.

Difficult to see another bid...

The bid values Sundance at US\$1.53/ferrous resource tonne vs the current African explorer developer average of US\$1.29/t, although it is some way below recent transaction multiples which range from US\$0.45/t for Xstrata's acquisition of Sphere Minerals to US\$9.55/t for Equatorial's recent acquisition of a 19.9% share in African Iron. The average level is around US\$4.00/t for development assets. We believe at this stage that we are unlikely to see a competing bid for the company, although there are other ways management could defend the approach.

...but announcement of strategic partner could still de-rail it

We see the best way that management could defend the approach as being the announcement of a strategic partner for the project. We have calculated previously that if SDL were to surrender 50% of its share in Mbalam to strategic investor it would increase our per share valuation of the project from A\$0.72 to A\$1.01. Hence, we believe that if management can announce a new strategic deal then we believe it could still be accretive. However given current market conditions we believe that management has a relatively short window to do so.

Lowering price target; downgrade to Hold

We are changing our valuation methodology for Sundance following the bid. We now use a weighted average between our DCF-derived sum of the parts valuation and the current bid. We attribute a 30% chance that management will be able to announce an accretive strategic investment in the near-term and 70% that the current bid may be the best offer. Our weighted average valuation falls to A\$0.58 from A\$0.72. We lower our price target to A\$0.58 and downgrade to Hold. We advise investors to sit tight until there is clarity on whether management can find a strategic investor.



HANLONG MINING OFFERS A\$1.43BN FOR SUNDANCE RESOURCES

This morning Sundance Resources reported it received notice from Hanlong Mining Investment Pty Limited (Hanlong) of its intention to make a conditional cash offer for Sundance at a price of A\$0.50/share under a scheme of arrangement. The proposal is conditional on, amongst other things, majority Sundance board support. The Sundance board advised shareholders to take no action at this stage.

Details of the offer have not been made available, including a list of all conditions and a closing date. The offer is at a 25% premium to Friday's closing price and a 47% premium to the 40 day VWAP.

Hanlong owns 18.6% of Sundance following its acquisition of the Talbot Group's 16% stake in the company in March 2011.

Hanlong Mining is part of Hanlong Group which, according to its website, is one of China's largest private enterprises with AUM of over Rmb36bn (US\$5.6bn) and annual revenues of Rmb16bn. Hanlong Mining has two areas of focus, Carbon Steel Materials and Sustainable Energy. It is a JV partner on the Spinifex Ridge Mo/Cu project in Australia with Moly Mines. It is arranging a US\$500m project finance facility. Hanlong recently made a US\$155m bid to acquire Bannerman Resources, which is developing the Etango uranium project in Namibia.

Hanlong and the Spinifex Ridge project

Hanlong's only other large scale investment in the mining industry is through its holding in Moly Mines and its Spinifex Ridge molybdenum/copper project. Hanlong bought into Moly Mines via a \$200m equity and debt funding package on 23 April 2010, acquiring a 55.49% share.

It also committed to securing a US\$500m project finance loan facility for drawdown by 30 September 2010. In the event the company received a letter of commitment for US\$250m from China Development Bank in January 2011 and a further commitment to a US\$500m facility to supersede the previous facility in April 2011. The paperwork was only signed in June 2011.

Potential read through to Mbalam

Seeing that Hanlong seems to have had trouble sourcing only a US\$500m project financing facility for Spinifex Ridge we do wonder how easy it will find it to source US\$4.5bn in project financing for the Mbalam DSO project and would note that it is likely in our view that if Hanlong does end up developing the project construction would be likely to be delayed significantly beyond where it could start if Sundance is able to source a strategic investor. We believe that if Sundance were developing the project construction could start in 2011; this would be better for other iron ore developers in the area.

IS ANOTHER BID LIKELY?

We regard it as highly unlikely that there will be another outright bid for the company. While an interesting project, we believe that Mbalam is too small to attract the majors (such as BHP Billiton and Rio Tinto) and even the second tier iron ore players.

In our view one of the main factors that makes Mbalam attractive for an investor is the first mover advantage with respect to the rail and port infrastructure solution. We believe that this would make Mbalam much more suitable for a Chinese investor. We believe it is highly unlikely that a Chinese company would bid against another Chinese company at the company level although a strategic investment may still be a possibility..

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African iron ore explorer/developer valuation comparison

Iron ore	Key ops	Ticker	Shares o/s m	Price Local CCY	Mkt cap US\$m	EV US\$m	Ownership %	Resource Mt	Grade %	Fe resource Mt	EV/Resource US\$/t	
Explorers/developers												
African Iron	Republic of Congo	AKI AU	479.5	0.28	142	89	80%	26	56%	15	6.05	
African Minerals	Sierra Leone	AMI LN	328.0	613.50	3,233	1,465	75%	9,563	31%	2,987	0.49	
Avonlea Minerals	Namibia	AVZ AU	83.4	0.12	11	9	95%	495	24%	119	0.07	
Bellzone Mining	Guinea	BZM LN	721.3	39.75	461	195	85%	3,273	23%	765	0.25	
Equatorial Resources	Republic of Congo	EQX AU	101.6	2.86	308	284	100%	NA	NA	NA	NA	
London Mining	S. Leone, S. Arabia, G'land	LOND LN	113.9	395.75	724	621	87%	1,997	34%	687	0.90	
Sundance Resources	Cameroon	SDL AU	2871.6	0.49	1,493	1,404	81%	2,245	42%	936	1.50	
Zanaga Iron Ore	Republic of Congo	ZIOC LN	280.4	148.00	667	619	50%	2,010	34%	680	0.91	
Ex-Australia explorer/developer average					7,177							1.29

Source: Bloomberg, GMP

Recent iron ore sector takeout multiples

Date	Acquirer	Target	Country	Develop't Stage	Stake acqu'd %	Price US\$m	Impl. value US\$m	Resource Mt	Grade %	Ferrous res. Mt	EV/Fe res US\$/tonne
Mar-10	Chinalco	Simandou 3 & 4	Guinea	Dev't	47%	1,350	2,872	2,393	66%	1579	1.82
Jul-10	Cape Lambert Resources	DMC Mining	Republic of Congo	Expl'n	100%	42	42	33	56%	18	2.27
Jul-10	Posco	Australian Premium project	Australia	Expl'n/Dev't	25%	162	661	649	57%	370	1.79
Aug-10	Atlas Iron	Aurox Resources	Australia	Expl'n	100%	130	130	456	45%	204	0.64
Sep-10	ENRC	Bahia Minerals	Brazil	Dev't	50%	670	1,340	1,808	32%	579	2.32
Nov-10	ArcelorMittal SA	Baffinland Iron Mines	Canada	Expl'n/Dev't	100%	431	431	865	65%	566	0.76
Nov-10	Wah Nam International Hldgs	Brockman Resources	Australia	BFS/Dev't	55%	516	932	1,528	43%	651	1.43
Nov-10	Xstrata	Sphere Minerals	Mauritania	Expl'n/Dev't	100%	514	514	3,456	33%	1137	0.45
Nov-10	African Iron	DMC Mining	Republic of Congo	Expl'n	100%	83	83	33	56%	18	4.49
Dec-10	Atlas Iron	Giralia Resources	Australia	Expl'n	100%	825	825	397	56%	223	3.70
Jan-11	Baffinland Iron Ore	ArcelorMittal/Nunavut	Canada	Dev't	100%	490	490	865	65%	566	0.87
Jan-11	Cliffs Natural Resources*	Consolidated Thompson	Canada	Prod'n	100%	5,000	5,000	1,916	30%	566	8.84
Jan-11	Regent Pacific Group Limited	BC Iron Ltd	Australia	Dev't	80%	263	329	80	57%	46	7.19
Jun-11	Equatorial Resources	African Minerals	Republic of Congo	Expl'n	16%	28	177	33	56%	18	9.55
Jul-11	Hanlong	Sundance Resources	Cameroon & ROC	Dev't	100%	1,430	1,436	2,245	42%	936	1.53

Source: Bloomberg, Company data, GMP

ONUS NOW ON MANAGEMENT TO FIND A STRATEGIC INVESTOR

However, we do believe that there is one way for management to defeat the bid. Management has been looking for a strategic partner to develop the project for over 6 months now and has recently said that it is close to announcing one. We believe that if management were to announce a strategic investor within the near future then that could stave off a bid.

Our sum of the parts valuation for Sundance (based on DCFs for the Mbalam DSO and Mbarga itabirite projects) yields a value of A\$2.1bn or A\$0.72/sh for Sundance. We apply a 70% discount to Mbalam and a 75% discount to Mbarga because of the lack of funding.

Our scenario analysis for a strategic partnership suggests that Sundance would sell 50% of its share in both projects at the asset level in exchange for the strategic partner guaranteeing finance for the infrastructure development, leaving Sundance with only its share of mine development capex. In this case we would apply a discount of 30% to our DCF for Mbalam and 40% for Mbarga

because we would assume that finance was in place. Based on these assumptions, our valuation for Sundance would rise to A\$1.01/share.

Our conclusion based on this scenario analysis is therefore that if management were able to find a strategic investor it would be valuation accretive.

The question is now whether management can either finalise negotiations with or find a strategic investor in time?

CHANGES TO OUR VALUATION METHODOLOGY

While we believe that if management delivers a strategic investor it would be worth more than the current bid, we remain very much aware of the fact that in current market conditions investors may prefer to have cash in hand rather than waiting in case a higher price can be realised over time.

We also note that Hanlong's offer is conditional upon majority Sundance board support. We believe that there must therefore be some uncertainty over whether a deal will go through at this level.

As a result we are altering our valuation methodology following the bid. We are now using a weighted average between our DCF-derived sum of the parts valuation and the bid level. We apply a 35% weighting to our DCF-derived valuation and a 65% weighting to the bid level.

This lowers our price target to A\$0.58 from A\$0.70.

WAIT FOR CLARITY; HOLD FOR THE TIME BEING

We are lowering our rating to Hold from Buy and we advise investors to sit tight for the time being until:

1. We find out whether Sundance can secure a strategic investor under valuation accretive terms.
2. We see the details of Hanlong's offer particularly with regards to the conditions and closing date.

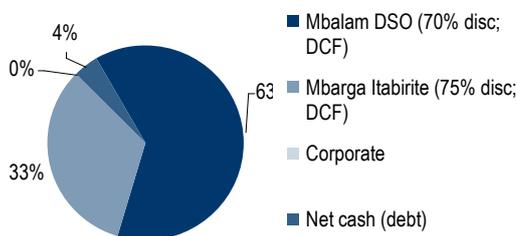
If Sundance management is unable to find a strategic investor within the near-term we believe that this offer is likely to be the best that investors get in the near term.

Sundance Resources financial summary

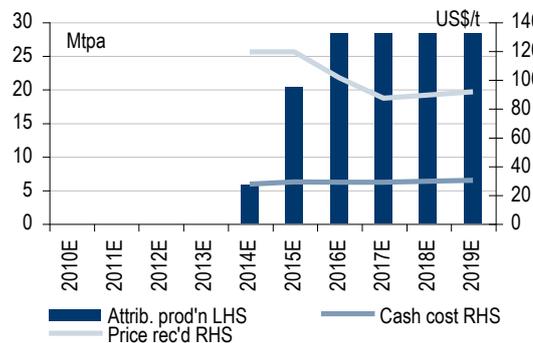
Year-end 30 June

Valuation	A\$m	A\$/sh
Mbalam DSO (70% disc; DCF)	1343	0.45
Mbarga Itabirite (75% disc; DCF)	701	0.24
Corporate	-	-
Net cash (debt)	89	0.03
NAV	2,134	0.72
Price target		0.57

Asset valuation summary



Iron ore production summary (company average)



Reserves & resources (Mt)	Total	Fe %	Ferrous
Mbarga DSO (90%)			
Reserves			
M&I resource	152	61%	92
Total resource	194	60%	117
Mbarga itabirite (90%)			
Reserves			
M&I resource	1,288	38%	489
Total resource	2,093	38%	795
Nabeba DSO (85%)			
Reserves			
M&I resource	-	0%	-
Total resource	170	63%	107
Company (attributable)			
Reserves			
M&I resource	1,440	40%	581
Total resource	2,456	41%	1,019

Source: Company data, GMP estimates

Forecast assumptions	2009	2010	2011E	2012E	2013E
US\$/A\$		1.13	1.04	1.02	1.02
Iron ore lump (US\$/LTU)		139	229	282	253
Iron ore fines (US\$/LTU)		108	189	231	208
Attributable production summary					
	2009	2010	2011E	2012E	2013E
Mbalam DSO (Mtpa)		NA	NA	NA	NA
Cash costs (US\$/t)					
Mbarga Itabirite (Mtpa)		NA	NA	NA	NA
Cash costs (US\$/t)					
All mines (Equity share; Mtpa)		NA	NA	NA	NA
Cash costs (US\$/t)		NA	NA	NA	NA
PROFIT & LOSS (A\$m)					
	2009	2010	2011E	2012E	2013E
Revenues	-	-	-	-	-
Cost of sales	-	-	-	-	-
EBITDA	-	-	-	-	-
D&A	3	3	2	68	135
EBIT plus inv't income & pension	-8	-5	-4	-71	-137
Net interest income/(expense)	-	-	1	1	-
Other financials income/(expense)	-2	-0	-0	-0	-0
Adjusted PTP*	-14	-10	-4	-69	-137
Taxation	-	-	-	-	-
Post-tax income	-14	-11	-4	-69	-137
Minority interests	1	1	0	3	7
Net income (adjusted earnings*)	-14	-9	-3	-66	-130
Per share data (US\$)					
EPS (adjusted, basic*)	-0.01	0.00	0.00	-0.02	-0.05
EPS (adjusted, diluted*)	-0.01	0.00	0.00	-0.02	-0.04
Shares outstanding (period avge, basic)	1,918	2,406	2,790	2,871	2,871
Shares outstanding (fully diluted)	1,993	2,507	2,966	2,966	2,966
BALANCE SHEET (A\$m)					
	2009	2010	2011E	2012E	2013E
Assets					
Cash & equivalents	20	77	125	-	-
Net tangible fixed assets	6	7	36	1,629	3,155
Total assets	124	187	259	1,727	3,253
Liabilities					
Interest bearing debt	-	-	-	-	-
Total liabilities	2	8	-	-	-
Shareholders equity	122	177	233	1,554	2,928
Minority interests	0	2	26	173	325
Net debt	-20	-77	-125	-	-
CASH FLOW (A\$m)					
	2009	2010	2011E	2012E	2013E
Pre-tax profit	-14	-11	-4	-69	-137
Depreciation & amortisation	3	3	2	68	135
Net change in working capital	1	1	-3	-	-
Total cash from operating activities	-9	-5	-2	2	-1
Net capital expenditure	-32	-24	-10	-1,661	-1,661
Net (acquisitions)/disposals	-	-	-	-	-
Cash from investing activities	-32	-24	-10	-1,661	-1,661
Cash from financing activities	17	86	60	-	-
Net cash flow	-24	57	48	-1,659	-1,662
PROFITABILITY & VALUATION					
	2009	2010	2011E	2012E	2013E
EBIT margin, %	NM	NM	NM	NM	NM
ROIC (EBIT), %	NM	NM	NM	NM	NM
EV/EBITDA, x	NM	NM	NM	NM	NM
PE (adj.), x	NM	NM	NM	NM	NM

* excluding non-recurring items



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BUY. These stocks will have 15% or greater (small cap) or 10% or greater (large cap) total return potential.

SPECULATIVE BUY. These stocks will have a 30% or greater total potential return and they will have a speculative component which could be material to the return expectations.

HOLD. Small cap stocks ranked Hold will have a total return potential of 0% to 15%; large cap stocks ranked Hold will have a total return potential of 0 to 10%; and stocks that have a speculative component which could be material to the return expectations ranked HOLD will have a total return potential of 0% to 30%.

REDUCE. Companies ranked Reduce have a negative potential total return.

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