



Sundance SPECULATIVE BUY

Current Price: **\$0.50**
Target Price: **\$0.73**

Ticker: **SDL**
Sector: **Materials**

Shares on Issue (m): **2,712.2**
Market Cap (A\$m): **1,356.1**
Net Cash (A\$m): **43.0**
Enterprise Value (A\$m): **1,313.1**

52 wk High/Low: **\$0.67** **\$0.11**
12m Av Daily Vol (m): **27.1**

Directors:

George Jones	Chairman
Gullio Casello	Managing Director
Michael Blakiston	Non-Executive Director
Fiona Harris	Non-Executive Director
Barry Eldridge	Non-Executive Director
Robin Marshall	Non-Executive Director

Substantial Shareholders:

Talbot Group **16.0%**

Share Price Graph



Analysts:
Tim Serjeant
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9 March 2011

Pivotal player

Beauty and the Beast:

Sundance Resources (SDL) has defined a high grade (~62%Fe), >400Mt DSO resource base at its Mbarga (Cameroon) and Nabeba (Republic of Congo) deposits (Mbalam Iron Ore Project). SDL is seeking to establish itself as a 35Mtpa producer from 2015.

Impact:

Positive

There are a number of significant near-term catalysts on the horizon to drive a re-rating:

- March Q - Resource upgrades, maiden reserve completion of the Definitive Feasibility Study (DFS)
- June Q - Finalise development and commercial agreements (Conventions) with respective governments, select Strategic Partner
- December H 2011 - Project financing and Final Investment Decision (FID)

View:

Positive

The logistical challenges associated with greenfields developments should not be underestimated, especially in frontier countries.

However, the prize on offer is significant. SDL shapes as a pivotal player in unlocking the iron ore potential of Central-West Africa. Mbalam could ultimately become part of a ~100Mtpa regional development encompassing Core Mining's Avima (RoC) project, CNME (Belinga), African Aura's at Nkout deposit and Equatorial Resources' (EQX) Badondo project (see Figure 1).

Securing Strategic Partner/Project Financing arrangements will be a significant milestone. Severstal (Russian) already has equity interests in two companies proximal to SDL (Core Mining and African Aura), POSCO (Korean) has had dealings with the Cameroon Government, while two Chinese parties have secured MOUs covering port and rail infrastructure. SDL has flagged it will look to execute a deal similar in nature to the Gindalbie Metals (GBG) - Ansteel Karara JV, whereby a steel mill(s) underwrites the development in exchange for off-take and equity at the project and corporate level. Given the level of interest, SDL may seek multiple partners to maintain corporate appeal whilst still underpinning development of Mbalam.

We present our key modelled project assumptions in Table 2. At this stage, we only model the high grade hematite production and have inflated capital and operating costs by 25% above the 2008 PFS.

Recommendation:

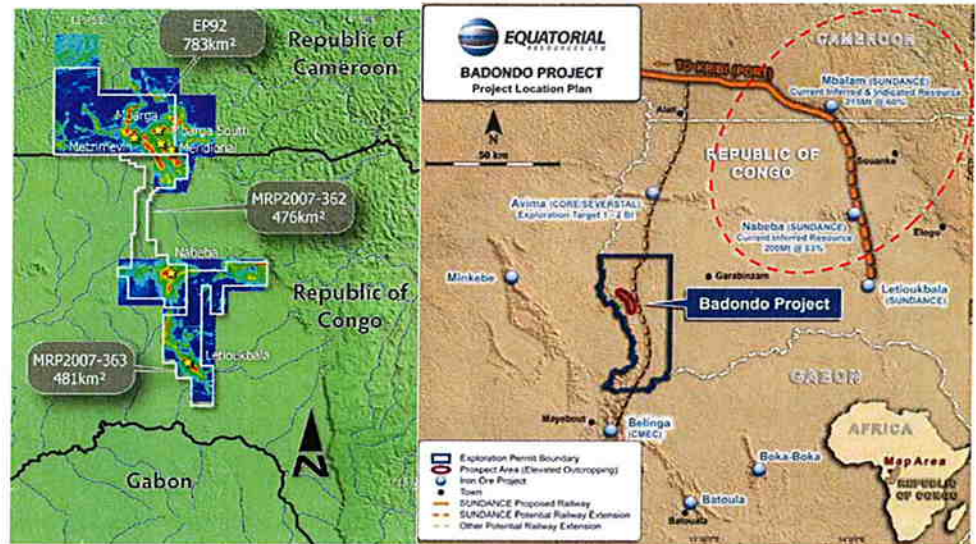
Spec Buy

Argonaut rates SDL a Speculative Buy. Valuation - \$0.73.



Central-West Africa has significant iron ore potential

Figure 1: Regional development potential



Source: SDL and EQX

Comparing the capital intensity of selected proposed iron ore developments

Table 1: Capital intensity of selected iron ore developments (mine, rail, port)

Iron Ore Expansions						
Company	Project	Location	Total Capex est*	Status	Production capacity	Capital Intensity
Citic Pacific	Sino Iron	Cape Preston, WA	5,350	Production	28	194
Zanaga	Zanaga	RoC, Cameroon	7,448	PFS	45	166
Murchison	Oakajee	Geraldton, WA	7,373	DFS	45	164
Aquila	Anketell	Cape Lambert, WA	5,774	DFS	40	144
African Aura	Putu	Liberia	2,500	PFS	20	125
Sundance	Mbalam	RoC, Cameroon	4,200	DFS^	35	120
Fortescue	Solomon	Port Hedland, WA	8,400	Approved	100	84

* Total capex inc mine, port, rail
^ estimate

Source: Argonaut, Company Reports

Key project assumptions

Table 2: Mbalam Iron Ore Project

Key Project Assumptions		
Mbalam Iron Ore Project		
Mining Inventory	Mtpa	350
Production	Mtpa	35
Grade	% Fe	62
Capex^	\$m	4,200
Mine Life	\$m	10
Cash Costs^	\$/t	25
Start	yr	2015
LT Fe price	\$/t	81
Discount Rate	%	15
Fiscal Assumptions^^		
Royalties	%	3
Tax	%	30

^ Argonaut est - 25% increase on 2008 PFS numbers

^^ To be determined

The Cameroon and Congo Government each have a right to a 10% interest.

SDL's respective interest in each project reduces to 81% and 76.5% respectively

Source: Argonaut, SDL

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