Sundance Resources Ltd

14 January 2011

Strategic partner & DFS imminent

We rate SDL a Buy and our valuation is now $1.07/sh (previously $0.83). At spot iron ore prices and currency, our valuation increases to over $3.50/sh.

Over the next few months SDL will announce a strategic partner and the results of its definitive feasibility study for the Mbalam iron ore project. We think these announcements will highlight that the market is over-estimating SDL's capital raising requirement. SDL's sell-down of the Mbalam project will likely be sufficient to fund its equity contribution for the project's capex. It is unlikely there will be a large (+$500m) dilutionary capital raising event.

Benefits from buy-in include debt financing and iron ore off-take
A strategic partner will: (1) take equity in the Mbalam project, we think through paying capital expenditure; (2) facilitate debt financing; (3) sign iron ore off-take agreements; and (4) assist in providing labour for the project's construction. We think a Chinese steel producer is a likely partner.

DFS: Mbalam to produce 35Mtpa high grade DSO for +10 years
The Mbalam iron ore project is a large-scale with:

1. the potential to produce +35Mtpa, high grade (62% Fe), 10-year direct shipping ore (DSO) from its current resources;
2. low operating costs of ~US$20/t FOB, compared with other ASX listed iron ore companies delivering at costs of US$27-72/t FOB over FY09-10;
3. a large (2.3bt @ 38% Fe) itabirite resource, capable of supporting a +15 year 35Mtpa high grade pellet and concentrate development on completion of the DSO project; and
4. resource upside through exploration or acquisition of additional tenements in the Mbalam region.

Market is overestimating SDL's capital raising requirement
We estimate the Mbalam project capex to be around $3.8b. Assuming a strategic partner gears the project to 70% debt, its buy-in value for 50% equity will likely meet SDL's capex contribution. However, we do factor in SDL raising up to $250m equity to kick-start the Mbalam development and/or consolidate additional iron ore tenements in the Mbalam region.

Upcoming news flow / work program:

- **First quarter of 2011:** Complete bankable/definitive feasibility study including reserve/resource upgrade;
- **First quarter of 2011:** Announce strategic partner for the Mbalam project;
- **First half of 2011:** Ratify Mbalam Convention with Rep. of Cameroon and Rep. of Congo Governments and obtain regulatory approvals;
- **Second half of 2011:** Commence site construction; and
- **Throughout 2011:** Results from regional exploration.

Rating	**BUY**

Sundance Resources Ltd (SDL)

Last price	A$0.57/sh
Shares	2,710m
Market cap	A$1,531m
Net cash	A$61m
EV	A$1,471m

Source: Iress

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Investment thesis: Large, DSO pure-play

We rate SDL a Buy and our valuation is $1.07/sh:

- **Large scale, low operating cost projects:** SDL's Mbalam project will produce 35Mtpa of 62% Fe DSO at a cash cost of around US$20/t FOB for 10 years, ramping up from 2014. This cost is highly competitive compared with other ASX listed iron ore producers (Table 1);
- **Capital costs comparable with other major projects:** We estimate that the capital cost of the Mbalam project will be around US$3.8b (versus SDL's PFS estimate of US$3.36b). Our estimate is less than US$110/t of annual production, also competitive with other major iron ore projects which we think are now averaging around US$140/tpa;
- **Strategic partner announcement imminent:** We expect SDL to announce a strategic partner over the next few months. We think that this partner will likely be a Chinese steel producer (like the Gindalbie Metals – Ansteel deal), and will buy into the project through facilitating finance for the US$3.8b project;
- **Definitive Feasibility Study due Q1 2011:** SDL expect to complete its Definitive Feasibility Study for the Mbalam project by the end Q1 2011 for the commencement of construction in mid-2011;
- **Significant corporate appeal:** SDL is one of few iron DSO pure-plays with a large scale, low cost project. Global diversified majors have recently shown interest in Africa for iron ore developments (Xstrata, Rio Tinto, Vale and BHP Billiton all have African projects). Steel companies are also looking for projects to secure long term supply, reducing their dependence on the iron ore majors (Vale, RIO and BHP);
- **Resource defined, now for exploration upside:** SDL's current DSO resource is 415Mt (62% Fe), adequate to support a 35Mtpa 10-year operation. Upside from additional targets may improve the project's economics and extend the DSO mine life; and
- **Potential to establish a new iron ore province:** We expect SDL to participate in consolidation of iron ore projects in the immediate region. SDL has the most advanced project in terms of resource size, government relations and infrastructure development. Being first mover will be an advantage in the consolidation process.

Valuation: +$3.50/sh at spot prices & FX

Our $1.07/sh valuation is based on the iron ore and currency assumptions outlined in Table 2. These prices are conservative given that current iron ore spot prices are over US$160/t (Figure 1).

Table 3 highlights the substantial upside to our equity value of SDL under flat iron ore price scenarios. We have held the US$/A$ exchange rate at parity for these scenarios.

Table 3: SDL valuation scenarios at constant prices and US$/A$ parity

Iron ore price (fines)	US$/t	80	100	120	140	160
SDL valuation	**A$/sh**	**1.16**	**1.75**	**2.34**	**2.94**	**3.53**

Source: Bell Potter Securities estimates

Table 1: ASX listed iron ore production cost estimates

US$/t FOB	FY09	FY10
Atlas Iron Ltd (AGO)	60	72
BHP Billiton Ltd (BHP)	27	37
Fortescue Metals (FMG)	49	55
Mt Gibson Iron Ltd (MGX)	41	49
Rio Tinto Ltd (RIO)	33	34

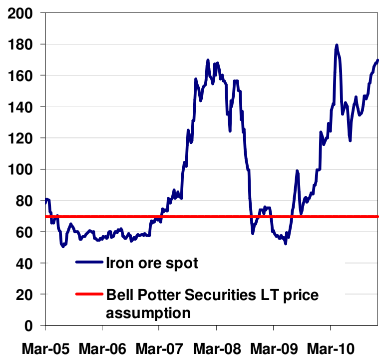
Source: Company reports & Bell Potter Securities estimates

Table 2: Iron ore price (fines, FOB Pilbara) scenario

	USc/dmtu	US$/A$
FY12	185	0.85
FY13	169	0.82
FY14	142	0.80
FY15	121	0.77
LT	110	0.76
	US$/t	
FY12	117	
FY13	107	
FY14	90	
FY15	77	
LT	70	

Source: Bell Potter Securities estimates

Figure 1: Spot iron ore (fines) US$/t FOB Pilbara equivalent



Source: Platts & Bell Potter Securities estimates

Mechanics of the strategic partner buy-in

Partner likely to meet SDL's capex contribution for 50% equity
We think that a strategic partner can buy-in to 50% the Mbalam project through arranging debt finance and contributing SDL's equity proportion of the capital expenditure. This outcome is value accretive for both SDL and the strategic partner.

Access to debt financing is key to strategic partner synergies
It is likely that the strategic partner will be a Chinese steel producer with significant access to debt and equity finance. A precedent to this is Ansteel's Karara joint venture with Gindalbie (ASX: GBG). The ability of the partner to fund a large proportion of the project's capex using debt, substantially increases the project's NPV.

Increase in valuation to $1.16/sh from strategic partner buy-in
Table 1 highlights the substantial uplift to the Mbalam project's NPV if a strategic partner can increase gearing to 70%. This level of gearing is consistent with the debt to be arranged by Ansteel for the Gindalbie-Ansteel Karara joint venture. The value uplift, plus the partner's payment of SDL's share of capital costs, more than offsets the dilution to SDL. Our previous valuation had conservatively assumed gearing of 30%.

Table 4: Impact of strategic partner buy-in

		Previous	***New***
		SDL (100%)	**SDL (50%)**
			+ partner (50%)
		30% gearing	**70% gearing**
WACC (nominal)	%	13.1%	8.6%
Total project NPV	**A$m**	**2,340**	**5,373**
SDL share of project NPV	%	100%	50%
SDL share of project NPV	A$m	2,340	2,687
Project capex (100%)	A$m		3,808
Debt	A$m		2,666
Equity	A$m		1,142
Effective payment to SDL through capex	A$m		571
Project value to SDL	**A$m**	**2,340**	**3,258**
Corporate costs	A$m	-51	-75
Total	A$m	2,289	3,183
Cash/(Debt) at 30 September 2010	A$m	61	61
SDL equity value	A$m	2,350	3,244
Shares on issue	m	2,786	2,786
SDL equity value (undiluted)	**A$/sh**	**0.84**	**1.16**
SDL equity value (assumes $250m raising)			**1.07**

Source: Bell Potter Securities estimates

SDL ASX comparables

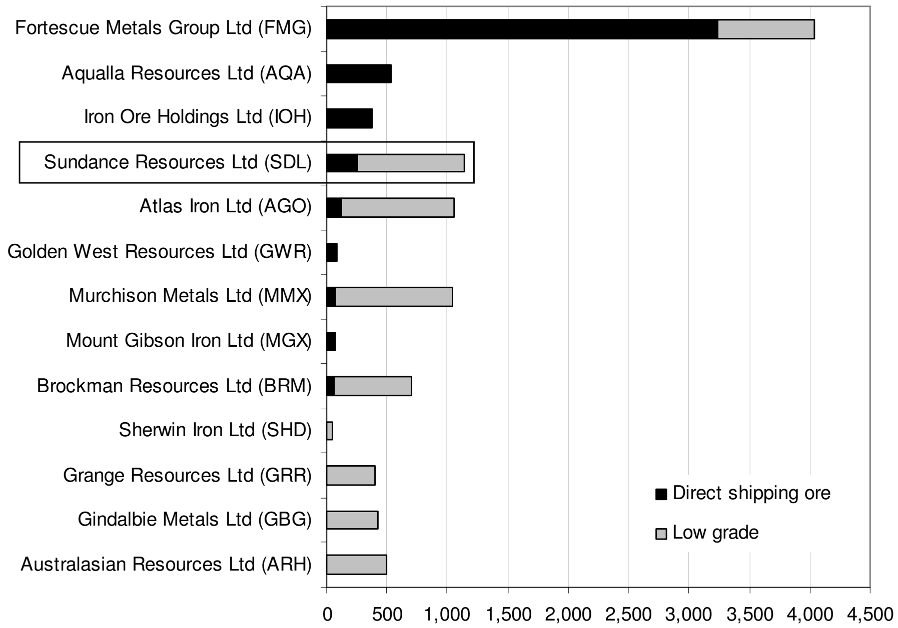
Table 5: ASX listed iron ore producers and developers

Company	EV US$m	DSO Mt	% Fe	Non-DSO Mt	% Fe	Total Fe Mt	EV/Fe US$/t
Aqualla Resources Ltd (AQA)	3,367	926	57%			532	6.33
Atlas Iron Ltd (AGO)	1,716	204	57%	2,466	38%	1,053	1.63
Australasian Resources Ltd (ARH)	230			1,605	31%	500	0.46
Brockman Resources Ltd (BRM)	716	102	56%	1,528	43%	707	1.01
Fortescue Metals Group Ltd (FMG)	23,005	5,697	57%	2,460	33%	4,034	5.70
Gindalbie Metals Ltd (GBG)	1,120			1,259	34%	429	2.61
Golden West Resources Ltd (GWR)	144	148	59%			87	1.64
Grange Resources Ltd (GRR)	858			960	42%	399	2.15
Iron Ore Holdings Ltd (IOH)	299	647	57%			372	0.80
Mount Gibson Iron Ltd (MGX)	2,094	109	62%			67	31.34
Murchison Metals Ltd (MMX)	543	133	56%	3,086	31%	1,038	0.52
Sherwin Iron Ltd (SHD)	28			100	48%	48	0.58
Sundance Resources Ltd (SDL)	**1,460**	**415**	**62%**	**2,325**	**38%**	**1,140**	**1.28**
Average							3.42
Average (in production)							4.98
Average (developers & exploration)							1.63

Note: AQA also has significant coal assets

Source: Company reports & Bell Potter Securities estimates

Figure 2: Iron ore resources (Fe Mt)



Source: Company reports & Bell Potter Securities estimates

Mbarga project summary

Mbalam project: Two stage development for +35Mtpa product
The Mbalam project is the development of the Mbarga and Nabeba iron ore mines in the Republic of Cameroon and the Republic of Congo (Congo-Brazzaville) respectively.

There are two stages to the development:

- Stage 1: 35Mtpa, 10-year direct shipping ore (62% Fe); and
- Stage 2: 35Mtpa, 15-year DR pellet and blast furnace concentrates.

Expansion potential through exploration or consolidation

- The prospectivity of the Mbalam area is such that there is likely to be exploration success at targets close to Mbarga and Nabeba. It is therefore likely that the DSO Stage 1 will extend beyond the initial 10-year life;
- Given its first mover advantage with respect to government relations and infrastructure development, SDL may participate in the consolidation of other stranded iron ore deposits located nearby in Cameroon, Congo-Brazzaville and/or Gabon; and
- There is potential for the project to be expanded beyond 35Mtpa through additional port infrastructure and train sets.

Stage 1: +35Mtpa DSO from 2014 for 10 years

We estimate the capital cost of Stage 1 to be around US$3.8b (including 20% contingency. This compares with SDL's preliminary feasibility study estimate of US$3.36b.

Stage 1 key features are:

- Integrating two mines to deliver +35Mtpa iron DSO for at least 10 years ramping up from 2013:
  - Mbarga (Republic of Cameroon): 15-20Mtpa iron DSO;
  - Nabeba (Republic of Congo) 15-20Mtpa iron DSO transported 40km north to Mbarga (via rail spur) for crushing and blending with Mbarga ore;
- Construction of a rail corridor approximately 480km in length, linking the Mbarga mine to port infrastructure; and
- Construction of port infrastructure approximately 50km south of Kribi (Cameroon), capable of loading 300kt bulk (ChinaMax) vessels at a rate of 35Mtpa.

Stage 2: DR pellets + blast furnace concentrates

Stage 2 key features are:

- Investment in processing facilities to beneficiate the low grade (38% Fe) itabirite ore into high grade pellets for direct reduction (DR pellets) and high grade concentrates for blast furnace applications;
- Mine and processing facilities capable of delivering +35Mtpa of product at a cost of around US$40/t; and
- A mine life in excess of 15 years, depending on iron ore pricing outcomes.

Capital and operating costs

- We estimate the capital cost of the project to be around US$3.8b and operating costs for the Stage 1 DSO project of around US$20/t; and
- For the Stage 2 itabirite development, we have modeled a capital cost of US$2.4b and operating costs of US$40/t FOB.

Capex of US$3.8b versus SDL estimate of US$3.36b

SDL's prefeasibility study capital cost estimate for the Mbalam project was US$3.36b. This cost was based on one mine and plant at Mbarga and rail infrastructure linking Mbarga to a port south of Kribi.

Our US$3.8b estimate incorporates the current plan of two mines (Mbarga and Nabeba). The additional capital cost reflects the mine site infrastructure required for Nabeba and a rail spur linking the Nabeba mine to Mbarga.

Table 6: Capital cost estimates US$

	Original SDL PFS estimates	Bell Potter estimate adjustment for Nabeba	Bell Potter estimate
Mine & plant	358	179	537
Rail	1,472	123	1,595
Port	505		505
Indirects	465		465
Contingency 20%	560	122	682
Total	**3,360**	**424**	**3,784**

Source: SDL and Bell Potter Securities estimates

Operating costs: We estimate ~US$20/t FOB

Key to the low operating costs are:

- Low strip ratio (<0.4:1): The elevated nature of the orebody and near surface mining lends itself to low strip ratio open pit mining; and
- Dedicated infrastructure: The dedicated 480km rail line and port, capable of loading 300kt (ChinaMax) bulk carriers will keep rail and port costs relatively low.

Table 7: Stage 1 Opex expected to be around US$20/t

	US$/t
Mining	3.50
Crushing / processing	6.50
Rail & port	7.00
Royalty	1.00
Contingency	2.00
Total	**20.00**

Source: SDL & Bell Potter Securities estimates

Operating costs are competitive compared with other ASX producer

Our analysis of other ASX listed iron ore producers shows that average costs over the FY09-10 period have ranged US$27-72/t FOB. The major producers' (BHP, RIO and FMG) costs have ranged US$27-55/t FOB.

Table 8: Operating costs of ASX listed iron ore producers US$/t FOB

	FY09	FY10
Atlas Iron Ltd (AGO)	60	72
BHP Billiton Ltd (BHP)	27	37
Fortescue Metals (FMG)	49	55
Mount Gibson Iron Ltd (MGX)	41	49
Rio Tinto Ltd (RIO)	33	34

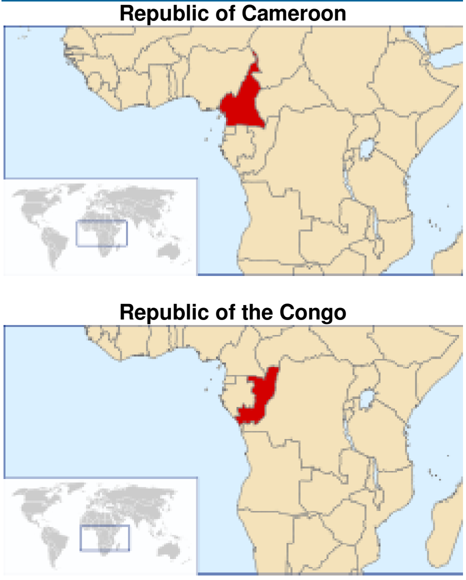
Source: Company reports & Bell Potter Securities estimates

Project location: Cameroon & Congo

The Mbalam project straddles the borders of the Republic of Cameroon and the Republic of the Congo (Congo-Brazzaville), around 450km off the west coast of Africa.

A significant part of the project's development has been the drafting of a Project Convention. The Convention sets out government agreements with respect to land access, infrastructure development, tax and royalty regimes.

Figure 3: Country locations



Source: Wikipedia

Tax and royalty regimes: Internationally competitive

At this stage we have assumed that the tax and royalty regimes for the Mbalam project will be internationally competitive. However, this is yet to be ratified in the Project Convention.

We assume a corporate tax rate of 30% and mine gate royalty of 2.5%
In our modelling, we have assumed a corporate tax rate of around 30% and a mine gate royalty of 2.5%. The corporate tax rates in the Republic of Cameroon and the Republic of the Congo are 38.5% and 38% respectively. Given the scale, local importance and need for international competitiveness of the project, we assume a more favourable taxation outcome will be negotiated.

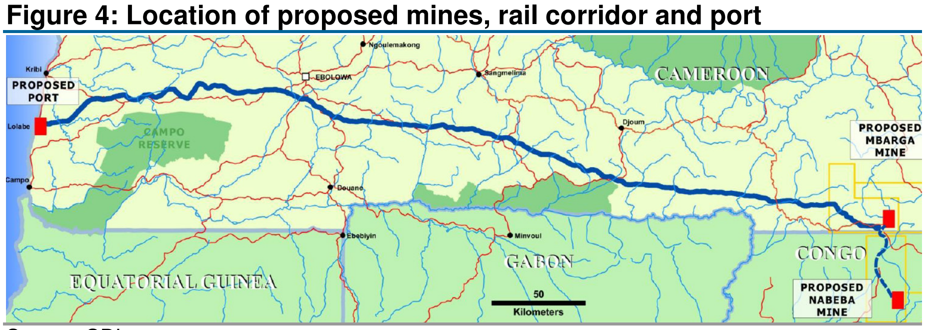
Project ownership: Vendor partners and government free carry
Pre-government free carry, SDL has 90% equity in the Mbarga (Cam Iron SA) and 85% equity in Nabeba (Congo Iron SA). Vendor partners hold the remaining shares. We have modelled the Cameroon and Congo to take a 10% free carry in the projects, reducing SDL's equity in Mbarga to 81% and Nabeba to 76.5%.

Infrastructure: +480km rail & port for 35Mtpa

Rail design and costings completed by Calibre Rail and now China Rail
As part of the DFS, SDL commissioned Calibre Rail to design and cost a heavy gauge rail line capable of accommodating 32t axle wagons. More recently, SDL has signed a MOU with a subsidiary of China Rail to establish a scope and cost program for delivery of track and rolling stock, and to establish the terms of an EPC contract under which China Rail would deliver the infrastructure.

Deep water port to accommodate 300kt China-max bulk carriers
DFS studies were completed by Sogreah (France) for a single berth 35Mtpa port development. SDL has subsequently signed a MOU with China Harbour Engineering Company to establish a scope, cost and delivery program for the proposed port.

Figure 4: Location of proposed mines, rail corridor and port



Source: SDL

Project site

SDL has set up onsite improvements as follows:

- Exploration camp capable of housing more than 200 people and includes onsite preliminary assay testing facilities;
- Local access roads have been renovated enabling access around the project to drill locations;
- A landing strip located between Mbarga and Nabeba in the Republic of Congo has been re-cleared; and
- An access road linking the Nabeba deposit to the landing strip has been cleared.

Figure 5: Mbarga exploration camp

Source: SDL

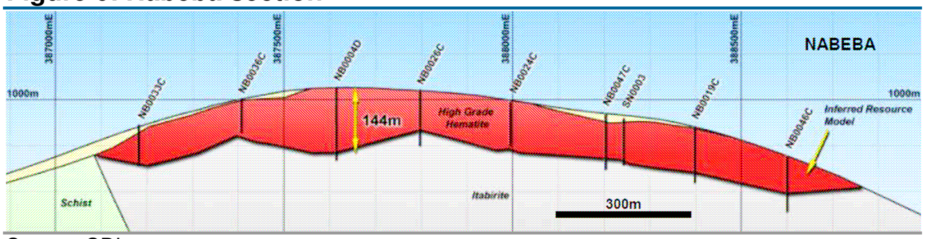
Mbarga and Nabeba resources

SDL's Mbarga and Nabeba resources were drilled following the analysis of previous BRGM drilling completed in the 1980s. BRGM is le Bureau de Recherches Géologiques et Minières, a French public institution with responsibilities including geological surveying.

High grade (DSO) hematite cap overlies large itabirite resource

The geology of the Mbarga and Nabeba resources is such that a high grade direct shipping hematite cap (averaging 62% Fe) of up to around 140m depth overlies lower grade (38% Fe) itabirite mineralisation (Figure 6). The elevated nature of the resource, with minimal cover, will enable relatively low strip ratio, low cost mining from surface.

Figure 6: Nabeba section



Source: SDL

DSO resource and product specifications

DSO qualities support integration and blending of Mbarga and Nabeba
To date, SDL has delineated similar size resources at both Mbarga and Nabeba. However, a key difference between the two resources is the concentration of silica (impurity). Blending the lower silica Nabeba ore with the higher silica Mbarga ore will enable SDL to deliver a product matching premium iron ore specifications.

Table 9: Mbarga and Nabeba DSO resource

Deposit	Category	Mt	Fe %	SiO2 %	Al2O3 %	P %	LOI %
Mbarga, South Mbarga & Metzimevin	Indicated & inferred	215.2	60.2	9.8	2.3	0.08	1.6
Nabeba North	Inferred	200.2	63.1	2.5	3.4	0.09	3.2
Total indicated & inferred resource		**415.4**	**61.6**	**6.3**	**2.8**	**0.08**	**2.4**

Source: SDL

Product specification: Premium quality sinter fines at 62.5% Fe
The friable nature of the high grade resource means that essentially all of the product will be sold as sinter fines. SDL expects processing the ore to involve a simple crush, screen then blending route. Table 10 outlines SDL's expectations with respect to end product specifications.

Table 10: Mbarga / Nabeba blended product specification

Mtpa	Fe %	SiO2 %	Al2O3 %	P %	LOI %
35.0	62.5	<5.5	<2.5	0.08	2.4

Source: SDL

Itabirite production on exhaustion of DSO resource

Analysis by SDL to date suggests that the development of the underlying itabirite resource could yield two high grade concentrate products:

1. a direct reduction (DR) grade pellet at 4-8Mtpa; and
2. a blast furnace (BF) grade concentrate.

The planned processing route involves grind and float beneficiation then pelletising at a facility constructed near to the port. Natural gas is available near the port site for pelletising.

Table 11: Itabirite resource

		Mt	Fe %
Mbarga	Indicated	1,431	38
Mbarga	Inferred	894	38
Total		**2,325**	**38**

Source: SDL

High grade product will offset declining grades in established regions
The Fe grades of iron ore from established mining regions has declined over recent years. Steel producing companies are looking for strategies to offset this decline in their iron ore input mix. The development of the itabirite resource to produce high grade products concentrate products is therefore attractive to steel producers and potential strategic partners.

Table 12: Target itabirite concentrate product specifications

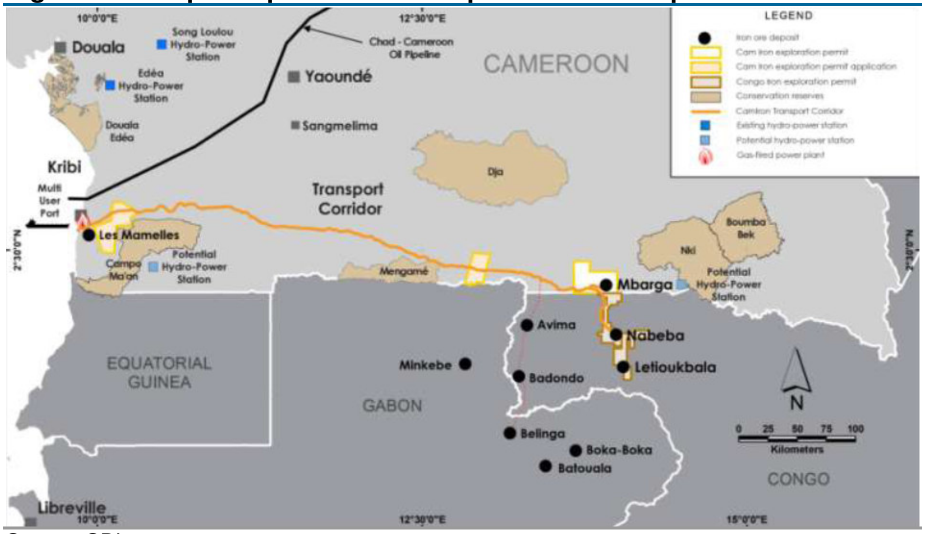
	Fe %	SiO2 %	Al2O3 %	P %	Grind size (P80 microns)
DR Grade	68.0	1.8	0.2	0.03	53
BF Grade	66.0	4.1	0.3	0.03	75

Source: SDL

Regional iron ore development

SDL is the only group with a late stage iron ore mine and infrastructure development in the immediate region. Within around 150km of the Mbarga and Nabeba resources are several other iron ore deposits (Figure 7). We expect SDL to be a key participant in developing a Cameroon/Congo/Gabon iron ore province.

Figure 7: SDL participate in iron ore province development



Source: SDL

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