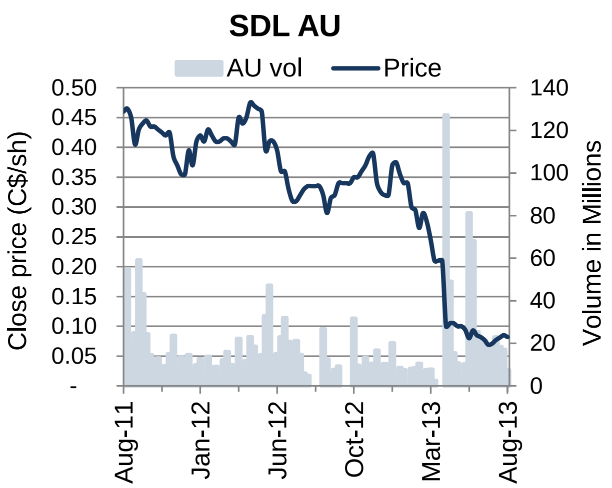
Metals & Mining

Sundance Resources

Transfer of coverage: biggest undeveloped DSO outside majors

SUMMARY			
Rating			SPEC BUY
Target (A$)			0.20
SHARE DATA			
Shares (mm, basic/fully diluted)			3072 / 3072
52-week high/low (A$/sh)			0.39 / 0.07
3M avg daily vol (mm)			25.9
3M avg daily val (A$m)			2.3
Market cap (A$m)			237
Net cash (debt) (A$m)			20
Enterprise value (US$m)			195
1.0xNAV$_{10\%}$ (A$/sh)			1.32
Projected return			157%
FINANCIAL DATA			
Year to Dec	**FY12A**	**FY13E**	**FY14E**
Revenue (A$m)	-	-	-
EBITDA (A$m)	(25.1)	(19.5)	(13.6)
Net income (A$m)	(35.5)	(19.6)	(12.4)
EPS (A$c/sh)	(1.2)	(0.6)	(0.4)
CFPS (A$c/sh)	(0.6)	(0.2)	(0.1)
PER (x)	-	-	-
PCF (x)	-	-	-
EV/EBITDA (x)	-	-	-



SPECULATIVE BUY

SDL AU	**A$0.08**
Target	**A$0.20**

- **Biggest DSO in Africa outside majors with appealing infrastructure agreements:** Mbalam-Nabeba hosts 775Mt of DSO (436Mt in reserve), making it the biggest DSO outside the majors' Simandou in Guinea and Kumba in South Africa. Sundance also has a 25-year rail and port concession, which we think adds to its strategic appeal. Unlike peers, this allows it to 'sublet' the agreement (with government permission), and use foreign labour in construction, which should help attract an infrastructure partner.
- **Frontrunner in the African "Pilbara":** Mbalam-Nabeba and nearby discoveries host over 2.0Bt of DSO. Given this (i) is not controlled by majors, (ii) and already large enough to support >60Mtpa, we think it's one of the last regions that could allow new entrants substantial supply. Sundance is arguably best placed in the region over more logistically challenged Avima and Belinga.
- **New investor remains key:** While the deposit and region are fundamentally outstanding and of strategic importance, markets are more capital constrained now than when the Hanlong bid was launched. As such, interest from other strategics in the next six months remains critical to unlocking the per share value.
- **Transferring coverage with a SPECULATIVE BUY and A$0.20 PT.** Our valuation is based on 0.15xNAV$_{10\%}$ with US$120/t iron ore price assumption. Ahead of an infrastructure partner being selected, we conservatively model first production in 2019 with a two year ramp-up to 35Mtpa. However, management is targeting 2017 with a one year ramp-up which could materially improve our NAV. The stock trades at 0.06xNAV, although we think the project is worth significantly more to potential partners.

Prepared by GMP Securities Europe LLP.
Please see important disclosures on the last page of this report.

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INVESTMENT SUMMARY

Largest undeveloped DSO project, second only to Simandou…

Sundance has a first mover advantage, having pegged, drilled and scoped one of the largest ironstone outcrops in Africa. In terms of size, Mbalam-Nabeba ranks as the biggest undeveloped DSO project in Africa outside the majors, and is second only to Simandou. Unlike many West and Central African peers, the deposit is build-ready with a full feasibility study, rail concession, mining convention and export agreements (for Republic of Congo) in place, and equally as important, is of DSO grade.

…with rail and port concessions offering full integration

We view the government's willingness to agree to let Sundance have first right of refusal on operatorship of rail and port as a key differentiator beyond the quality of the underlying asset. Many deposits in Africa need rail, but concessions are controlled by either inefficient parastatal operators or structured in a way that governments take majority ownership. For any potentially interested rail operator, complete control combined with the ability to sell allocation to other nearby parties such as Core Mining and Afferro should make this an exciting business proposition in its own right, given the aggregate tonnage. We think this is a key point when critically evaluating the likelihood of a strategic investor stepping up.

Ability to use specialist foreign labour is also a key positive

We understand Sundance's mining concession in Cameroon (where most capex will be invested) has no labour restrictions with respect to the mine and infrastructure build. In our view, the ability to use specialist foreign labour is a critical requirement for many strategic investors. For example, Chinese SOEs typically prefer to use their own labour force, which can actually be a restriction in them achieving export-credit style state funding.

Frontrunner in potentially the next Pilbara

The surrounding area to Mbalam-Nabeba already hosts more than 2.0Bt of DSO, enough in our view to justify the region's infrastructure requirement, and to comfortably support well over 60Mtpa. Although nearly every iron ore discovery in West and Central Africa has come from exploring areas with noticeable topographical relief, we do think substantially more DSO is likely to exist in the surrounding areas, taking the regional potential to >5Bt. In our view, Sundance is a c
lear frontrunner in this region, ahead of Avima in ROC (further from rail) and Belinga in Gabon (closer to coast but major rivers to cross and shallow port).

Hanlong overhang largely immaterial compared to finding new strategic

Hanlong continues to hold 434m shares or 14.3% of Sundance, which, following the bid termination, is perceived by some as overhang. That said, we believe uncertainty in capital availability is the key price driver. As such, we view the Hanlong overhang as largely immaterial compared to finding a new strategic to drive the project forward. While closure on financing isn't imminent, we certainly think discussions with steel mills, traders and other iron ore users should confirm interest in the next six to nine months.

African DSO and bDSO iron ore projects

DSO (>55% Fe)	O/ship	Rail, existing?		DSO (Mt)	Fe (%)	SiO_2 (%)	Al_2O_3 (%)	Subsidiary resource	Valuation	Valuation timing
Simandou (Rio/Chinalco)	51/49	650km	No	2,254	65.7	-	-	-	US$3bn	Chinalco US$1.35bn for 45%
Simandou (Vale/BSG)	51/49	650km	No	-	-	-	-	-	US$5bn	Vale US$2.5bn for 51%
Sishen[1] (Kumba)	73.9	860km	Yes	2,152	59.1	-	-	-	US$14bn	Market cap (43Mtpa prod'n)
Mbalam (Sundance)	81-76.5[2]	580km[3]	No	775	57.2	9.2	4.4	4.0Bt @ 38% Fe	US$236m	Market cap
Khumani (Assmang)	50	860km	Yes	727	65.0	4.4	1.45	-	-	Private (10Mtpa prod'n)
Mt Avima (Core)	100	550km	No	690	58.0	10.2	3.8	1.6Bt @ 36% Fe	-	Private
Nimba (Newmont/BHP)	43.5/43.5	300km	Yes	679[4]	64.3	4.69	0.95	123Mt @ 45.3% Fe	-	-
Belinga (Chinese/BHP)	-	450km	No	566[5]	62.0	-	-	-	US$3.5bn	BHP rumoured bid
M'Haoudat (SNIM)	100	700km	Yes	155	60-68	-	-	531Mt @ 38% Fe	-	Private
Tonkolili (African Minerals)	75	170km	Yes	126.5	58.1	2.4	6	1.1Bt @ 40% Fe	US$1.0bn	Market cap
Nimba (Sable)	80	310km	Yes[6]	121	58.0	5.5	4.7	Kpo: 13Bt target	81.83444397	Current market cap
Kalia (Bellzone)	50	286km	No	88	54.1	4.6	5.6	823Mt @ 37% Fe	US$49m	50% of market cap
Mayoko (Exxaro)	80	465km	Refurb.	44	54.9	11.8	4	120Mt @ 46% Fe	US$360m	1Q12 takeover by Exxaro
Nkout (Affero)	100	300km	No	19	60.3	3.9	3.09	265Mt @ 36 Fe	US$135m	Market cap
Telimele (Nemex Res.)	85	135km	Part	17	55.1	2.4	9.05	258Mt @ 37% Fe	US$1m	Market cap
Forecariah (Bellzone)	50	77km	No	3	55.8	8.2	6.6	71Mt @ 35% Fe	US$49m	50% of market cap
bDSO / oxide (35-55% Fe)										
Tonkolili (African Minerals)	75	170km	Yes	1124	40	21.4	11.2	12.4Bt @ 29.3% Fe	-	Subsidiary to DSO
Kalia (Bellzone)	50	286km	No	823	36.8	18.7	15.0	4.6Bt @ 26% Fe	-	Subsidiary to DSO
Abja (Kogi Iron)	75	500km	Part	488	35.4	22.0	14.5	-	US$27m	Market cap
Nkout (Affero)	100	300km	No	265	36.1	37.0	5.85	2.2Bt @ 30.7% Fe	-	Subsidiary to DSO
Telimele (Nemex Res.)	85	135km	Part	258	37.29	9.2	21.1	-	-	Subsidiary to DSO
Mayoko (Equatorial)	100	465km	Refurb.	102	43.9	29.2	6.7	665Mt @ 31% Fe	US$69m	Market cap
Forecariah (Bellzone)	50	77km	No	71.1	34.7	22	16.1	161Mt @ 24% Fe	-	Subsidiary to DSO
Mofe Creek (Tawana)	100	20km	No	GMPe target 100Mt @ 40-50% Fe					US$13m	Market cap
BHP (group)	3.4Bt @ 62.4% reserve in production, 18.1Bt @ 59.3% Fe undevelped Australian DSO									
Rio Tinto (group)	2.8Bt @ 62.8% reserve in production, 16.0Bt @ 57.1% Fe undeveloped mainly Australian[8] DSO									
Vale (group)	15.1Bt @ 56.4% total reserve in Brazil									
Hancock Prospecting	998Mt @ 59.6% reserve in Australia, 2.2Bt @ 56.8% resource in Australia									
Fortescue Mining	7.9Bt @ 56.8% resource in Australia									

(1) Includes Thamazimbi, Sishen and Kolomela, (2) Cameroon and ROC ownership, respectively, (3) 510km to Mbarga, plus 70km to Mt Nabeba, (4) Euronimba marketing materials, (5) Marene 1970, Porter Geoscience, (6) 267km existing, 17km being refurbished, 37km to licence with no rail, (8) 3.8Bt of 15.2Bt in Canada / Guinea

Source: Company data, GMP

VALUATION

We value Sundance on a DCF basis with a 10% discount and US$120/t assumption for 62% fines CIF China. Adding cash and corporate overheads including 8% debit interest on negative cash balances gives 1.0xNAV of A$1.32/sh.

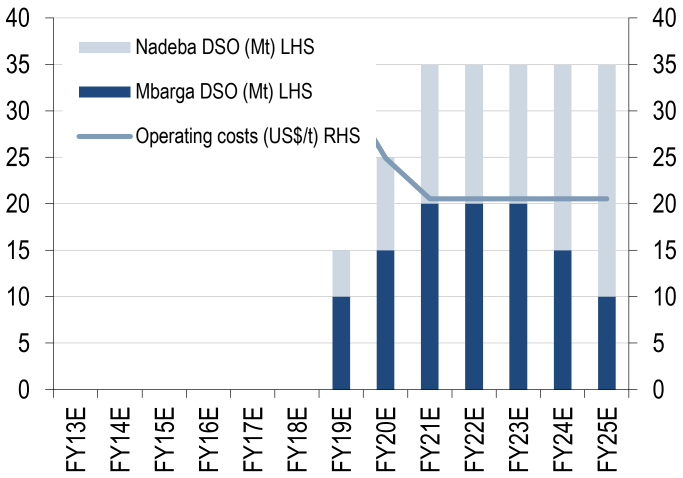
Stage 1 DSO

We model Stage 1 DSO based on existing reserves, which supports a 12-year mine life but importantly leaves plenty of scope for further resource to reserve conversion and thus real potential for the DSO operation's mine life to extend well beyond this.

With regards to first production, we conservatively model 2019, which implies four years to (i) find a strategic, (ii) structure JV/earn-in, (iii) finance, and (iv) build the project. In our view, Sundance could well achieve this beforehand but we feel at this stage it is simply too difficult to speculate on a definitive timetable.

The DFS was completed in 2011, so capex numbers are likely to be slightly out-of-date, in our view. Management is re-tendering EPC contracts in the coming quarters and thus should provide up-to-date capex/opex figures. With build not set to start until 2014 at the earliest, we model 10% escalation to factor for any capex creep. We model Stage 1 DSO using our LT iron price of US$120/t for 62% fines CIF China together with a 10% discount rate which drives our 1.0xNAV project valuation of US$3.8bn or A$1.36/sh.

GMPe production and ramp-up schedule



Source: GMP

Stage 1 DSO project parameters

		DFS	GMPe
DSO mineable reserve	Mt	350	436
First production date	-	4Q14	1Q19
Production	dmpta	35	35
DSO product grade	%Fe	64	62
Mine life	years	10	12
Operating costs	US$/t FOB	21	21
Mining and processing	US$m	914	1,005
Rail	US$m	2,019	2,212
Port	US$m	537	600
Sub-total	US$m	3,471	3,817
EPCM, owers cost & contni'gy	US$m	1,214	1,002
Total capex	**US$m**	**4,686**	**4,819**
Iron ore price	US$/t CIF	65^	120
Discount	%	12%	10%
NPV	**US$m**	**4,300**	**3,768**

^Escalating beyond 2020

Source: Company data, GMPe, ^escalating / inflation adjusted with no deduction of minority payments which are accounted for in GMP valuation

Stage 2 itabirite

We value Stage 2 assuming a 1.4bt itabirite reserve with a 38% ROM grade, which conservatively only represents 35% of the existing resource or ~8% versus the exploration target. We model first concentrate in 2028E followed by a four year ramp-up to 30Mtpa as mining rates essentially double, and processing, most notably crushing requirements, step up. Given the time to first production and thus the time value effects of money, we retain management's preliminary capex estimate of US$3.1bn and model FOB costs at US$41/t as small deviations prove to be largely immaterial from a valuation standpoint. This drives our 1.0xNAV project valuation of US$235m or A$0.09/sh using a 10% discount rate and US$120/t LT 62% Fe price.

Stage 2 – GMPe project parameters

		GMPe
Mineable inventory	Mt	1,431
Grade	%Fe	38%
Production	Mtpa	7.2
Plant recovery	%	84%
Mass pull	%	48%
Operating cost	US$/t	41
Capex	US$m	513
Iron ore price	US$/t CIF	120
Discount	%	10%
NPV	**US$m**	**235**

Source: Company data

Valuation: transfer with SPECULATIVE BUY rating at A$0.20/sh target

We conservatively ascribe a 0.15xNAV multiple to our SOTP valuation, which we feel balances the development and dilution risk against the fundamental value of the asset. As such, we transfer coverage with a SPECULATIVE BUY rating and A$0.20/sh PT.

GMPe production and ramp-up schedule

	O/ship	US$m	NAVx	US$m	A$/sh
Mbalam DSO	85%	3,768	0.2	565.2	0.20
Mbarga Itabirite	85%	235	0.2	35.3	0.01
Cash	-	18	0.2	2.7	0.00
Debt	-	-	0.2	-	-
Cash from options	-	-	0.2	-	-
SG&A and central costs	-	(371)	0.2	(55.6)	(0.02)
Valuation (fully diluted)		**3,650**	**-**	**547**	**0.20**

Source: GMP

Stage 1 DSO project parameters

To discount rate	US$80t	US$100t	US$120t	US$140t	US$160t
12% discount	(0.11)	0.02	0.13	0.24	0.34
10% discount	(0.13)	0.05	0.20	0.35	0.48
8% discount	(0.14)	0.10	0.30	0.49	0.67

To NAVx @ 10%	US$80t	US$100t	US$120t	US$140t	US$160t
0.10xNAV	(0.08)	0.04	0.13	0.23	0.32
0.15xNAV	(0.13)	0.05	0.20	0.35	0.48
0.20xNAV	(0.17)	0.07	0.26	0.46	0.64

Source: Company data, GMPe

Upside

- Reserve growth: We model life of reserve of only 436Mt of DSO. In all likelihood, much of the non-reserve 339Mt of DSO will come into reserve.
- Capex savings from China: While capital estimates typically rise from BFS to construction, we do note that the Chinese can build more cheaply where Chinese labour is allowed. The clear exception is Citic Pacific where the reverse occurred, but we note that that project relied on Australian labour.
- Finance cost saving: We model 7% finance cost on negative cash balances, but note that Chinese partners could lower this cost. On a like-for-like basis, our 20c valuation lifts 11% to 22c at 3% costs. Similarly, a build operate transfer contract could make further savings as infrastructure is outsourced.

Risks

- Development: Given capital markets are more constrained than when Hanlong originally bid, the financing requirement makes Mbalam-Nabeba a challenging project to fund through vanilla debt/equity. As such, the key development risk hinges almost entirely on securing a strategic partner that can either part fund or develop the project.
- Slow Chinese growth/macro weakness: China's new government has overcooked its policy of slowing growth, resulting in a sharper than expected slowdown, which would result in further weakness in iron ore prices.
- Cash position: Sundance had A$19.6m cash as of June 2013 and on average has a cash burn A$10m per quarter. We understand cost-cutting measures have been put in place to reduce this.

Catalysts

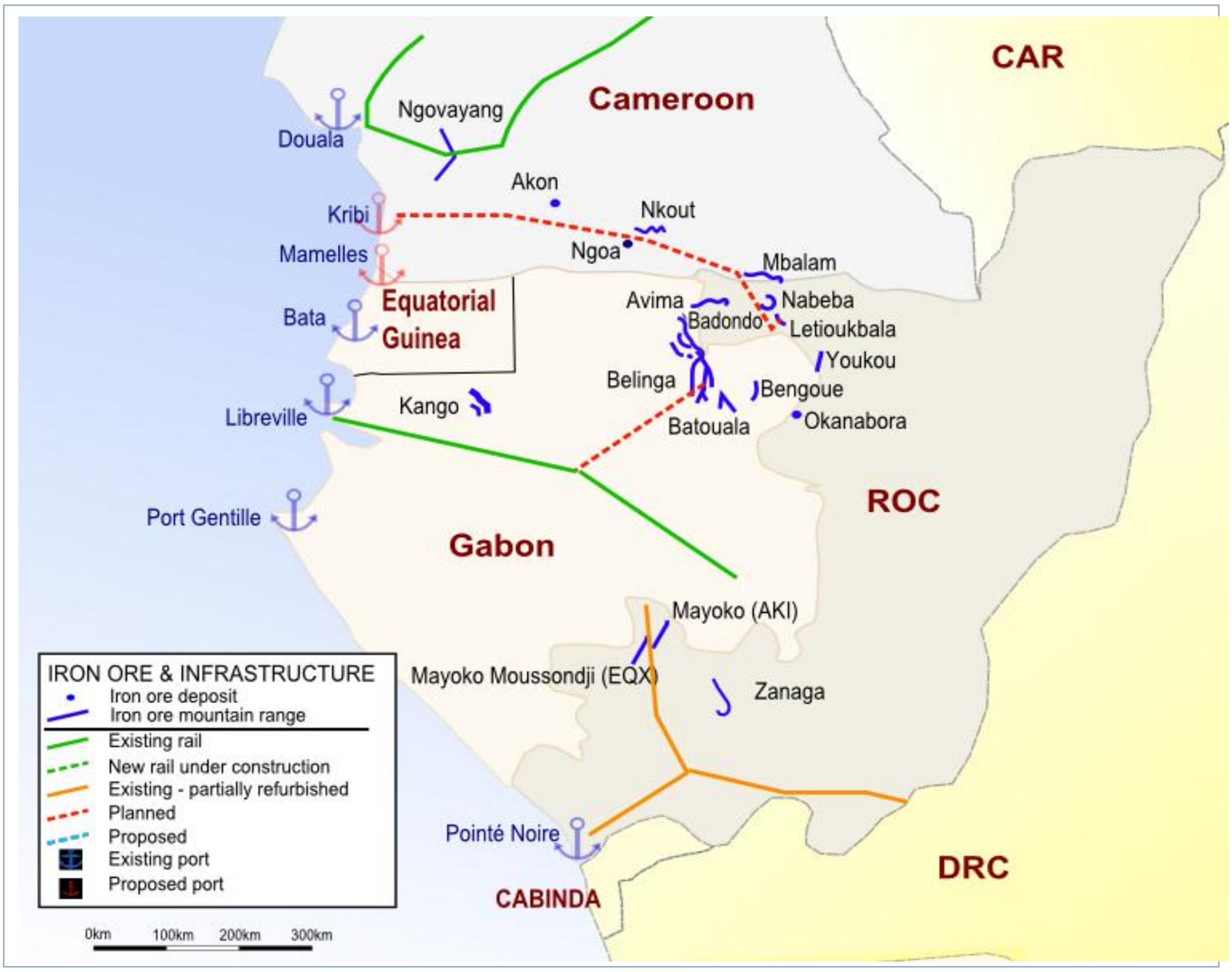
- 2H13: Update on EPC process for the port and rail infrastructure.
- 2014: Financing and mine-build details

– 2019: GMPe modelled first production

COMPANY OVERVIEW

Sundance Resources is an ASX-listed Central African iron ore pre-producer focussed on developing the Mbalam-Nabeba project. The project consists of the Mbarga deposit in Cameroon, which has both DSO and an itabirite resource, and the Ndeba DSO deposit in the Republic of Congo. The company has undertaken a significant exploration program in recent years, drilling a 4.0Bt itabirite resource at 36% Fe and a DSO reserve of 436Mt at 63% Fe.

Central Africa iron ore ranges and deposits



Source: Company data, GMP

Brief history: Sundance listed on the ASX in 1993 but only began to actively acquire iron ore assets in 2006. In 1Q06, the company acquired Cam Iron, which held the Mbalam project in Cameroon, paying A$250k and 140m shares at A$c2.5, and granting a 5% free carry to BFS. In addition, A$150k and 80m shares at A$c2.5 were issued when the market capitalisation reached A$25m.

In mid-2006, Sundance commenced a PFS on the Mbalam project, and the following year, extended the exploration permit to the south. In May 2008, a maiden JORC DSO resource of 190Mt at 60% Fe for Mbarga was announced, followed by an initial itabirite resource of 1.2Bt at 38% Fe.

In 3Q08, Sundance increased its ownership in Congo Iron to 85%, giving it access to the Nabeba and Ibanga deposits in the Republic of Congo (ROC). By 2010, a 200Mt initial DSO resource was outlined and a feasibility study for the Mbalam-Nabeba project was submitted to the Cameroon government. In 3Q10, Sundance signed an MOU with China Rail and China Harbour Engineering to establish scope, cost and a delivery programme for a rail and port solution for the DSO operation.

More recently, in 2011, Sundance published a DFS outlining a 10-year, 35Mtpa DSO operation for US$4.7bn capex. Operating costs pre-royalty of US$21.2/t compared to US$18.3/t in the PFS. Together with the Stage 1 DFS, Sundance reported a Stage 2 PFS for later years' mining of the underlying itabirite material at Mbarga to produce 35Mtpa of haematite concentrate, adding a further 15 years of production at US$40/t.

Hanlong tables a bid for Sundance: After discussions with various strategics, largest shareholder Hanlong Mining tabled a bid to acquire Sundance for A$c50/sh in mid-2011, valuing the company at A$1.43. In 3Q11, Hanlong raised its bid by 14% to A$c57/sh, which was unanimously accepted by the Sundance board subject to NDRC (Chinese regulator) and Australian regulatory approval.

Work continued on the project with the overall DSO resource increased to 775Mt at 57% Fe (from 522Mt at 61% Fe) and a maiden 1.4Bt itabirite resource delineated at Nabeba in mid-2012. The NDRC granted provisional approval, provided a "reasonable acquisition price" was agreed following weakness in spot iron prices. The Sundance board agreed to a revised A$c45/sh bid and a new deal timetable.

Deal falls over, but not because of quality: Hanlong failed to produce credit approved term sheets as per the timetable agreed under the Scheme Implementation Agreement (SIA) and the deal looked to be in trouble after media reported that the Hanlong Chairman had been detained by the police. In April 2013, Sundance reported that it had terminated the SIA, bringing an end to the bid process. In our view, this was more to do with Hanlong's inability to negotiate the Chinese regulatory system as the deposit quality remains biggest-in-class, in our view.

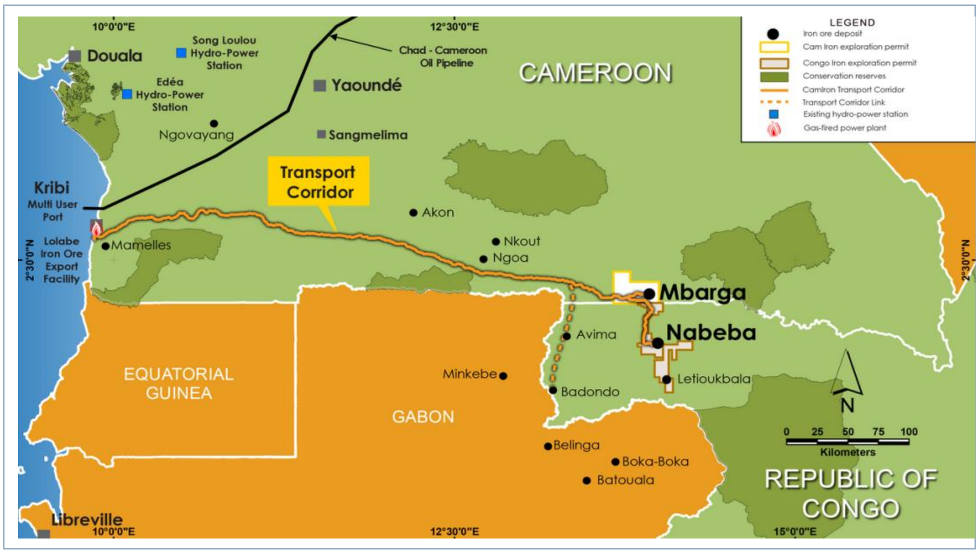
Fully permitted… The Mbarga mining convention, including key fiscal terms, was agreed in November 2012 and the Congo mining permit was granted earlier this year in February. This, together with the Environmental approvals received from both governments with regards to the mines, port and railways, now concludes the permitting process for both deposits.

…with new plan and potentially new development partner: Sundance has entered into discussions with other parties that have expressed an interest in the project and is evaluating the potential to JV the project at mine level only or together with the rail and port infrastructure. Management stated that it has "received encouraging support" for potential JV out of China but also from non-Chinese companies. While discussions are ongoing, Sundance will run an alternative process for the development of the port and rail infrastructure through EPC contracts or an infrastructure consortium.

MBALAM-NABEBA PROJECT

The Mbalam-Nabeba project comprises the development of the Mbarga and Nabeba deposits in the Republic of Cameroon and ROC, respectively. The project straddles the borders where both countries meet, some 485km east of the coastal town of Kribi. The plan is to develop both deposits concurrently with the Stage 1 DSO expected to produce 35Mtpa over a 10-year mine life. The Stage 2 itabirite is envisaged to come on-stream once the DSO resource depletes, although we see real potential for satellite targets at Ndeba to add to the DSO inventory.

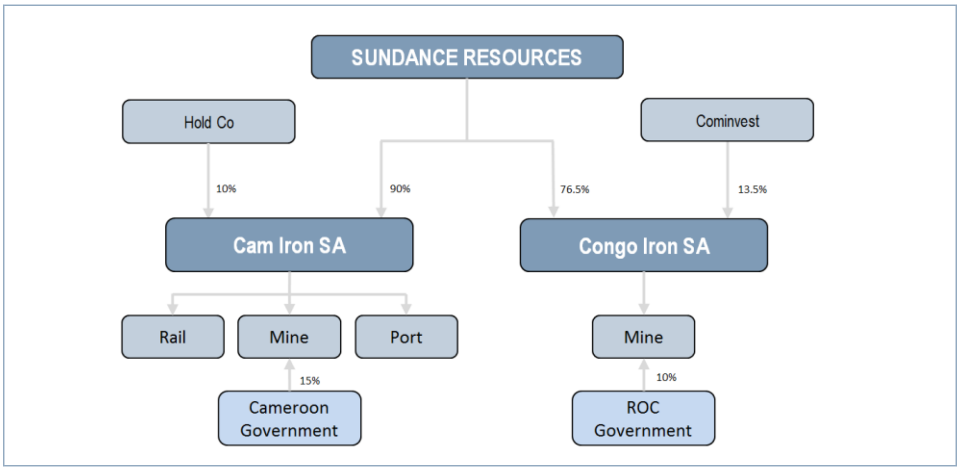
Sundance resources project location in Cameroon and ROC



Source: Company data

<u>Ownership:</u> Sundance holds a 90% interest in Mbarga and an 85% interest Nabeba. The minority interests include Hold Co SA (Cameroon deposits) and Congo Mining Investments SA (ROC deposits), which are locally backed companies. The Cameroon and ROC governments have the right to a 10% free carried interest in each deposit within their respective countries, which on a pro-rata basis reduces other minority interests but also Sundance's interest to 76.5% in both projects. However, in practise this is likely to look different, given a JV with a strategic looks very likely.

Sundance Resources project ownership structure



Source: Company data

Competitive fiscal terms: Both Cameroon and ROC have broadly similar fiscal terms. Royalties are slightly higher in the ROC, at 3.0% versus 2.5%, but somewhat offset by slightly lower corporate tax compared to Cameroon. While the mining convention signed with the government of Cameroon outlined fiscal and legal terms, these are not finalised for ROC, but we envisage similarly attractive terms/holidays.

African iron ore producing country fiscal codes

Country	Gov carry type	Gov carry precentage	Gov buy-in percentage	Corporate tax rate	Royalty	Dividend witholding tax
ROC	Free	10%	-	34%	3.0%	20.0%
Liberia	Free	15%	-	30%	4.5%	5.0%
Cameroon	Free	10%	10%	35%	2.5%	16.5%
Guinea	Free	15%	35%	35%	3.0%	10.0%
Gabon	-	-	-	35%	3-5%	10.0%

Source: Company data, GMP

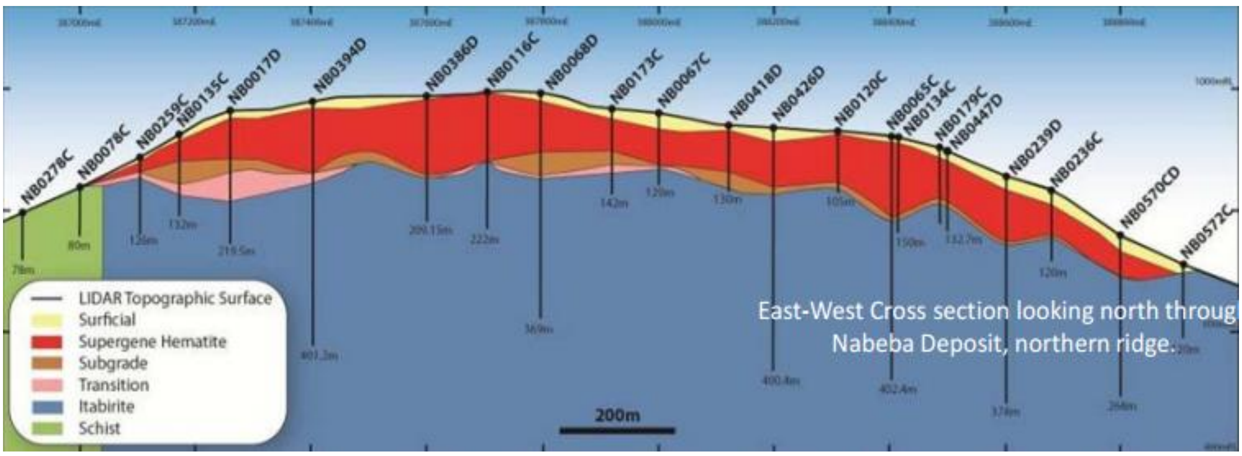
Geology and resource: The Mbalam-Nabeba project covers 1,740km^2 with 775Mt of high-grade haematite DSO at surface. Mineralisation at both locations is similar, with a ~40-50m deep enriched haematite cap over lower-grade itabirite mineralisation. Drilling so far has outlined 4.0Bt of coarse-grained itabirite with a 36.3% Fe grade, although the wider permit is believed to host 9.3-13.2Bt of itabirite with 30-40% Fe grades (exploration target).

Sundance Resources' reserve and resource statement

Sundance group	Tonnes (Mt)	Fe (%)	SiO_2 (%)	Al_2O_3 (%)	P (%)	LOI (%)
Proved	-	-	-	-	-	-
Probable	436	62.6%	4.43%	2.55%	0.09%	2.8%
Total reserve	**436**	**62.6%**	**4.43%**	**2.55%**	**0.09%**	**2.8%**
Measured	-	-	-	-	-	-
Indicated	748	57.2%	9.20%	4.40%	0.10%	3.8%
Inferred	4,047	36.3%	43.59%	1.44%	0.04%	1.3%
Total resource	**4,795**	**39.5%**	**38.23%**	**1.90%**	**0.05%**	**1.7%**

Source: Company data

Nabeba deposit cross section schematic



Source: Company data

Mineralisation broadly similar at both deposits: The Nabeba deposit has three distinct domains which include (i) a relatively thin surficial high-grade blanket with a high-grade Fe but elevated levels of alumina, (ii) an enriched supergene which combined with similar material found at Mbarga forms the bulk of the DSO reserves and (iii) a sub-grade layer with elevated silica levels but lower levels of alumina versus the surficial blanket at surface. The domains are similar at Mbarga but with the inclusion of a (i) transitional zone which contains elevated silica and (ii) phosphorous area with high levels of phosphorous. Moreover, there is a fifth type of mineralisation known as hypogene which comprises near-vertical silica-rich zones within the underlying itabirite.

DSO qualities support blending for high-quality product: With 748Mt of DSO in the indicated category, we remain confident this should convert over the life of mine and thus add to the existing 436Mt reserve. The DSO deposits at Mbarga and Nabeba have different metallurgical characteristics, with Mbarga ore hosting higher silica with pockets of high phosphorous. However, metallurgical test work has shown Mbarga can be blended with lower silica Nabeba to produce a single, high-quality product.

We note that compared to the 62% Fe Platts specification guide, alumina remains slightly above the allowable limits, although somewhat offset by grade and very low silica content. Moreover, this compares well to DSO produced by BHP Billiton and Rio Tinto in the Pilbara, which we flag are seeing rising alumina, and is well within the limits of the Platts 58% Fe specifications. As such, we agree with management that Mbalam-Nadeba product should not incur penalties.

DSO product characteristics versus Platts 62% specification

Mbalam-Nabeba	Fe (%)	SiO_2 (%)	Al_2O_3 (%)	P (%)	LOI (%)
DSO product	>63%	3.64%	2.54%	0.08%	<2.5%
Platts 62% Fe spec	62%	4.50%	2.00%	0.08%	-
Platts 58% Fe spec	58%	5.00%	4.00%	0.05%	-
Platts 52% Fe spec	52%	8.00%	8.00%	0.06%	-

Source: Company data, GMP, Platts

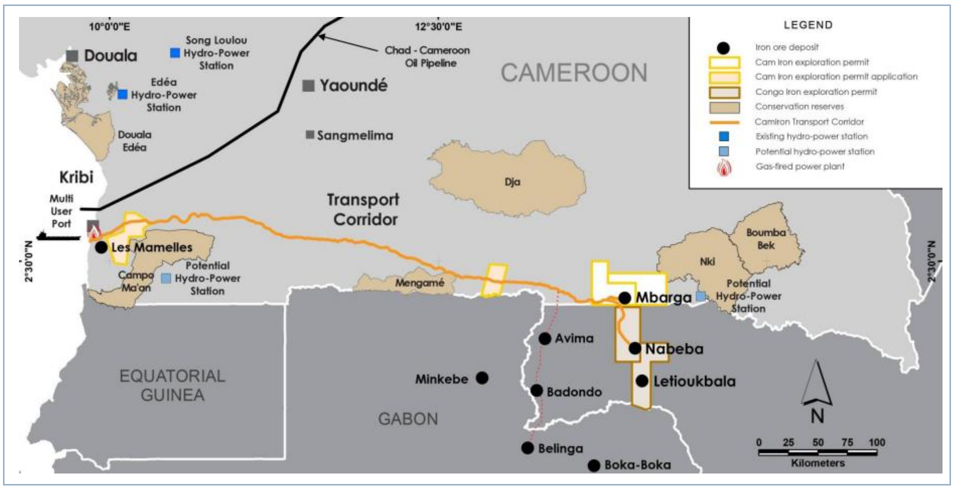
Exploration potential: On our estimation, existing reserves support a 12-year DSO operation, assuming a ~35Mtpa run rate, but we think there is real potential for additional DSO to extend this further. Management believes 90-150Mt of DSO could be added from (i) regional targets, (ii) extensions and (iii) resource conversion. We note that existing reserves comprise just 58% of the overall DSO resource in the indicated category, which for an iron ore deposit offers a high degree of confidence.

At Nabeba, exploration is focussed on hill peaks and some of the ridges, so there is potential for significant additions there from infill drilling, in our view. Regionally, there are three satellite targets with DSO potential in Cameroon; these include Meridional, Merzimevin and the more distant Letioukbala to the south of Nabeba. Beyond this, there is a plethora of itabirite across the wider permit (exploration target estimated at 9.0-13.2Bt) although the immediate focus is to add high-grade, low-deleterious DSO.

STAGE 1 – DSO

Sundance completed a DFS for Stage 1 in April 2011, outlining a 10-year, 35Mtpa simple crush and screen DSO operation for US$4.7bn capex. The project requires rail and, as a consequence, c.55% of the capex requirement is for infrastructure; this includes a 510km heavy gauge railway and deep water port facility near Kribi.

Project location with proposed rail alignment and port



Source: Company data

Mining and processing: The strip ratio is low at less than 1.0 over LOM, and mining is to be carried out using conventional truck and shovel methods. Processing methods are relatively simple and similar to those used for DSO production in the Pilbara, Western Australia. The Nabeba plant will comprise a single dry plant with a two-stage crush followed by a screening phase. At Mbarga, processing will also be dry to start with but also include a wet plant and gravity circuit in later years.

Rail operatorship agreement in place: Sundance has secured the right, under a concessionary agreement with the government, to build and operate a 510km rail line which connects Mbarga to the proposed port location at Lolabe. Government has the right to a 15% carried interest (10% free carry and 5% loaned carry) in the RailCo with Sundance. Importantly, Sundance can transfer operatorship (i.e., 'sublet' to infrastructure operator) with governmental approval. Also, there are no restrictions on local labour regarding the build, which makes attracting Chinese SOEs significantly easier, in our view.

The rail build entails the clearing of dense jungle and construction of a 510km heavy gauge rail line from Mbarga to Lolabe as well as a 70km spur between Nabeba and the plant. The rail involves a single track with six passing lanes and is designed to handle 35Mtpa, but more long-term, has the potential to expand to 100Mtpa. We note that third-party access to the rail is permitted. For example, Core Mining, owners of the nearby Avima deposit, has the option to upgrade or twin-track the line to gain access, but at their own cost.

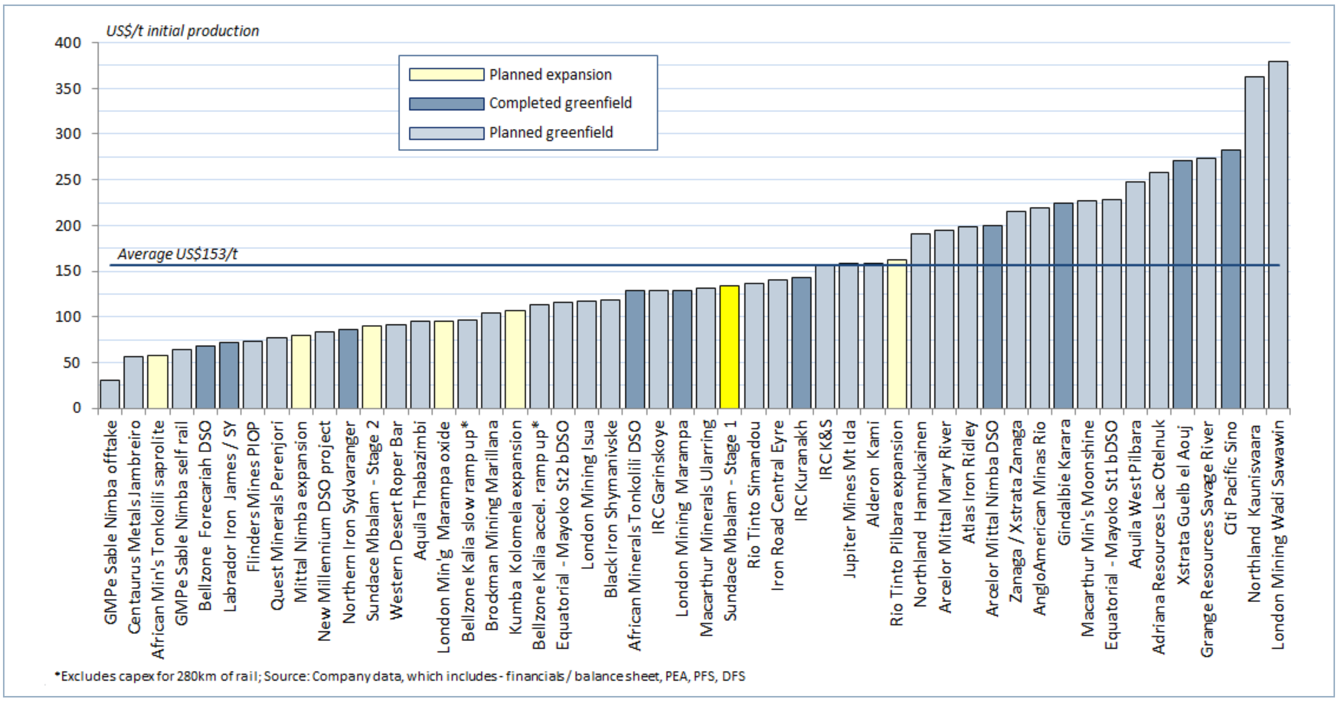
No fatal flaws but challenges remain: We do not see any fatal flaws in the proposed rail build. The alignment appears well within allowable design limits for a heavy gauge rail, in our view. In fact, the only challenging section is near the port, where a 600m elevation drives a gradient of ~1.2%, an acceptable uphill-empty number. Another point is that only nine bridges (c.650m combined length) are needed. This helps keep build costs down. That said, we flag that few lines, let alone heavy gauge tracks, have been built in sub-Sahara Africa in the last 30 years outside of South Africa.

Deep water port: Sundance plans to construct a port facility at Lolabe, some 35km south of the town of Kribi on the Cameroon coast. The proposed area boasts favourable bathymetry for a deep water port facility capable of handling Capesize vessels (~150k dwt). Port facilities are expected to include (i) an ore car dumper with a supporting stacker/reclaimer, (ii) a rock breakwater and (iii) a 1km jetty with a loading capacity of 45Mtpa. Interestingly, a 2km dredge channel would be needed to achieve a 21m draft, which compares favourably to other world-class DSO port facilities, including BHP's Port Hedland, which maintains a plus 30km channel.

Project development: Initially, Sundance planned to split the project build into smaller EPC contracts to be tendered separately, with Chinese SOEs looking the likely suitors. However, this was side-lined during the Hanlong bid process. Following the bid termination, focus is now on examining the various development options, which include (i) JV, (ii) earn-in or (iii) to award EPC contracts. While a JV or earn-in appears the more likely funding/development route given these capital-constrained markets, Sundance will continue to run an EPC tendering process in parallel.

Capex intensity below peer average: The DFS outlined capex of US$4.7bn, which gives a capital intensity of US$134/t based on nameplate run rate of 35Mtpa of production. This sits below our mid-point for global development projects and expansions, some of which have been scrapped owing to increased iron ore price volatility and weakness. However, given the scale of the project and the infrastructure needs, we think there is some risk of capex creep between now and first production.

Capital intensity based on DFS estimate compared to other development projects globally



Source: Company data

STAGE 2 – ITABIRITE

The Stage 2 involves the development and beneficiation of the large but lower grade itabirite which sits beneath the enriched haematite cap (DSO). Together with the Stage1 DFS, Sundance also published a PEA for Stage 2 which outlined a 35Mtpa concentrate pellet operation over a plus 15-year mine life. Capex is estimated at US$3.1bn and is expected to be funded by cash flows generated from the earlier DSO operation. On our estimation, Sundance would have sufficient cash to commence the build from CY05 of the DSO operation.

Mining and processing: Mining is expected to be a continuation of the DSO operation, albeit double the tonnage given the lower itabirite grade and the beneficiation required to support an unchanged 35Mtpa run rate. However, LOM strip ratio is estimated at only 0.4:1 over LOM as DSO mining essentially acts a pre-strip for the underlying itaberite. The PFS proposes grind and float beneficiation at Mbarga with a pellet plant at Lolabe port to produce a premium concentrate and pellet product with a 47% mass recovery. The itabirite is coarse-grained and thus should recover well, in our view.

Power: Like most Brazilian concentrate production, lower grade itabirite requires beneficiation, which, in turn, is more power-intensive than conventional DSO. It is estimated Stage 2 requires 350MW of power. With this in mind, Sundance has identified a number of potential hydro sites, most notably on the Dja and Ivindo Rivers in Cameroon and Gabon, respectively. The scale and transmission distance mean capex is likely to be in the order of US$1.0-2.0bn, which has not been included in the overall capex estimate as Sundance believes (i) there will be sufficient capacity in the grid or (ii) that a dedicated facility could be built and financed through a third-party arrangement. Either way, while this adds c.20-30% to the preliminary capex estimate, first and foremost is the financing of the DSO operation, which, in our view, remains the key challenge.

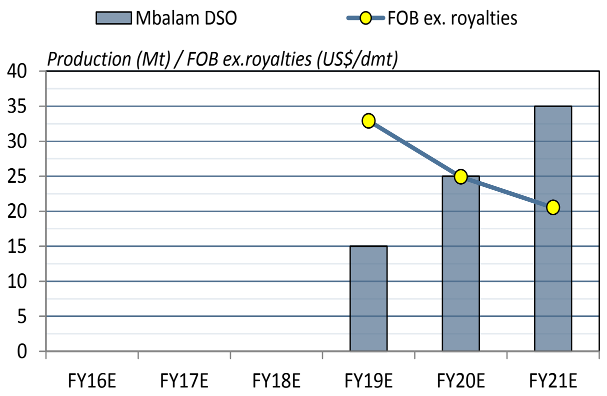
Ticker: SDL AU	Share price	A$0.08/sh	Stock rating:	SPEC BUY	Implied return:	157%
Analyst: Brock Salier	Market cap	A$237m	Target price:	A$0.20/sh	Market P/NAV	0.06x

Year to June

Ratio analysis	FY12A	FY13E	FY14E	FY15E	FY16E
Average shares outstanding (m)	2,952	3,072	3,072	3,072	3,072
P/CF (x)	-	-	-	-	-
P/FCF (x)	-	-	-	-	-
EV/EBITDA (x)	-	-	-	-	-
Total debt / total assets (%)	-	-	-	-	-
Income statement (yr to Jun)	**FY12A**	**FY13E**	**FY14E**	**FY15E**	**FY16E**
Revenue (A$m)	-	-	-	-	-
COGS (A$m)	(2.7)	-	-	-	-
Gross Profit (A$m)	**(2.7)**	**-**	**-**	**-**	**-**
Admin expense (A$m)	(2.5)	1.9	1.2	0.7	0.1
Finance cost (A$m)	2.5	1.9	1.2	0.7	0.1
Other (A$m)	(25.4)	(17.0)	(12.0)	(10.0)	(9.0)
PBT (A$m)	**(25.3)**	**(17.6)**	**(12.4)**	**(10.9)**	**(10.5)**
Tax (A$m)	-	-	-	-	-
PAT (A$m)	**(25.3)**	**(17.6)**	**(12.4)**	**(10.9)**	**(10.5)**
Exchange differences (A$m)	(13.5)	(2.0)	-	-	-
Minorities (A$m)	3.4	-	-	-	-
Attrib. net income (A$m)	**(35.5)**	**(19.6)**	**(12.4)**	**(10.9)**	**(10.5)**
EBITDA (A$m)	*(25.1)*	*(19.5)*	*(13.6)*	*(11.6)*	*(10.6)*
Cash flow statement (yr to Jun)	**FY12A**	**FY13E**	**FY14E**	**FY15E**	**FY16E**
(Loss) / profit before tax (A$m)	(19.7)	(19.5)	(13.6)	(11.6)	(10.6)
D&A (A$m)	-	-	-	-	-
Changes in working capital (A$m)	-	-	-	-	-
Other (A$m)	2.8	13.9	9.2	6.7	5.1
CFO (A$m)	**(17.0)**	**(5.6)**	**(4.4)**	**(4.9)**	**(5.5)**
PP&E (A$m)	(1.2)	(5.6)	(5.6)	(5.6)	(1,152)
Exploration (A$m)	(40.9)	(11.8)	(5.6)	(5.6)	(2.2)
Other (A$m)	-	-	-	-	-
CFI (A$m)	**(42.1)**	**(17.4)**	**(11.1)**	**(11.1)**	**(1,154)**
Proceeds from share issue (A$m)	47.8	-	-	-	-
Repayment of debt (A$m)	-	-	-	-	-
CFF (A$m)	**47.8**	**-**	**-**	**-**	**-**
Net increase in cash (A$m)	(11.2)	(23.0)	(15.6)	(16.1)	(1,160)
Effect of f-x on cash (A$m)	(0.1)	-	-	-	-
Cash at end of period (A$m)	**59.1**	**36.1**	**20.5**	**4.5**	**(1,155)**
Balance sheet (yr to Jun)	**FY12A**	**FY13E**	**FY14E**	**FY15E**	**FY16E**
Cash (A$m)	59.1	36.1	20.5	4.5	(1,155)
AR (A$m)	1.2	1.4	1.4	1.4	1.4
Inventory (A$m)	2.9	3.3	3.3	3.3	3.3
PP&E and mine develop (A$m)	169.1	182.8	193.9	205.0	1,359.0
Other (A$m)	0.9	0.9	0.9	0.9	0.9
Total assets (A$m)	**233.2**	**224.5**	**220.1**	**215.1**	**209.7**
Accounts payable (A$m)	5.2	6.0	6.0	6.0	6.0
Debt (A$m)	-	-	-	-	-
Other (A$m)	-	-	-	-	-
Total liabilities (A$m)	**5.2**	**6.0**	**6.0**	**6.0**	**6.0**
Issued capital (A$m)	402.5	414.5	422.5	428.5	433.5
Reserves & accum losses (A$m)	(166.2)	(185.9)	(198.3)	(209.2)	(219.7)
Non-controlling interests (A$m)	(8.2)	(8.2)	(8.2)	(8.2)	(8.2)
Liabilities + equity (A$m)	**233.2**	**226.4**	**221.9**	**217.0**	**211.5**

Year to June

Input costs	FY18E	FY19E	FY20E	FY21E	FY22E
CIF 62% Fe fines (US$/dmtu)	199	199	199	199	199
Fully diluted shares (m)	3,072			12M low:	A$0.07/sh
Resource / Reserve	**Mt**	**%Fe**	**Mt (Fe)**	**Attrib.**	**USc/t Fe**
Reserves (P&P)	436	63%	273	232	84
Resource (M&I + Inf)	4,795	40%	1,895	1,611	12
Production (100% basis)	**FY18E**	**FY19E**	**FY20E**	**FY21E**	**FY22E**
DSO fines production (Mt)	-	15	25	35	35
BF concentrate (Mt)	-	-	-	-	-
Total Fe production (Mt)	**-**	**15**	**25**	**35**	**35**
FOB cost ex.royalty (US$/t)	-	33	25	21	21
FOB cost incl.royalty (US$/t)	-	36	28	23	23



SOTP valuation	O/ship	US$m	NAVx	US$m	A$/sh
Mbalam DSO	85%	3,768	0.15	565	0.20
Mbarga Itabirite	85%	235	0.15	35	0.01
Cash	-	18	0.15	3	0.00
Debt	-	-	0.15	-	-
Cash from options	-	-	0.15	-	-
SG&A and central costs	-	(371)	0.15	(56)	(0.02)
Valuation (fully diluted)		**3,650**		**547**	**0.20**

Valuation over time	FY13	FY14	FY15	FY16	FY17
A$/sh (1.0xNAV)					
1xNAV + cummulative cash	1.32	1.32	1.45	1.18	1.13

Valuation sensitivities (Ac/sh) to LT China CIF 62%Fe price :

To discount rate	US$80t	US$100t	US$120t	US$140t	US$160t
12% discount	(0.11)	0.02	0.13	0.24	0.34
10% discount	(0.13)	0.05	0.20	0.35	0.48
8% discount	(0.14)	0.10	0.30	0.49	0.67

To NAVx @ 10%	US$80t	US$100t	US$120t	US$140t	US$160t
0.10xNAV	(0.08)	0.04	0.13	0.23	0.32
0.15xNAV	(0.13)	0.05	0.20	0.35	0.48
0.20xNAV	(0.17)	0.07	0.26	0.46	0.64

Source: GMPe

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