



AUSTRALIA

SDL AU Outperform

Price (at 06:10, 31 Jul 2014 GMT) A\$0.08

Valuation A\$ 0.12

- DCF (WACC 15.0%)

12-month target A\$ 0.12

12-month TSR % +42.9

Volatility Index Very High

GICS sector Materials

Market cap A\$m 259

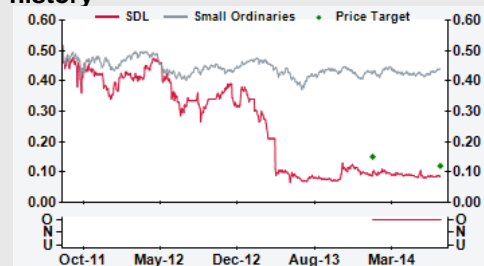
30-day avg turnover A\$m 0.4

Number shares on issue m 3,082

Investment fundamentals

Year end 30 Jun		2013A	2014E	2015E	2016E
Revenue	m	0.0	0.0	0.0	0.0
EBIT	m	-31.0	-25.2	-14.2	-14.5
Reported profit	m	-31.6	-27.2	341.2	-8.5
Adjusted profit	m	-31.8	-27.1	-160.9	1.6
Gross cashflow	m	-27.1	-27.6	-158.9	3.6
CFPS	¢	-0.9	-0.8	-4.5	0.1
CFPS growth	%	-27.3	11.5	-475.7	nmf
PGCFPS	x	nmf	nmf	nmf	81.9
PGCFPS rel	x	nmf	nmf	nmf	10.23
EPS adj	¢	-1.0	-0.8	-4.5	0.0
EPS adj growth	%	-20.8	26.0	-493.1	nmf
PER adj	x	nmf	nmf	nmf	182.1
PER rel	x	nmf	nmf	nmf	13.97
Total DPS	¢	0.0	0.0	0.0	0.0
Total div yield	%	0.0	0.0	0.0	0.0
ROA	%	-12.7	-9.2	-1.9	-1.3
ROE	%	-13.1	-10.0	-22.5	0.2
EV/EBITDA	x	-9.0	-11.1	-21.4	-20.8
Net debt/equity	%	-6.1	-5.0	-43.1	-33.4
P/BV	x	1.0	1.0	0.3	0.3

SDL AU vs Small Ordinaries, & rec history



Note: Recommendation timeline - if not a continuous line, then there was no Macquarie coverage at the time or there was an embargo period.

Source: FactSet, Macquarie Research, July 2014

(all figures in AUD unless noted)

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31 July 2014

Macquarie Securities (Australia) Limited

Sundance Resources

Funding hurdle not yet cleared

Event

- SDL has released its June quarter update.

Impact

- Appoints EPC infrastructure partner:** SDL appointed Mota-Engil as the EPC (Engineering, Procurement and Construction) contractor to build the port and rail infrastructure for its Mbalam-Nabeba iron-ore project in Africa during the quarter. Mota-Engil has significant experience in Africa and is currently building Vale's Nacala railway in Malawi.
- Infrastructure project includes port and rail:** Mota-Engil will be responsible for the 510km railway from the Mbarga mine to the Port at Lolabe in the Cameroon and the 70km rail spur from the Nabeba mine in the Republic of Congo to Mbarga (Mbalam). In addition, Mota-Engil will also construct a 35mtpa deep water export facility that is capable of handling China-max bulk carriers.
- Financial adviser and debt arranger also appointed:** SDL has also appointed Standard Bank as financial adviser and mandated lead debt arranger for the project. Discussions with export credit agencies, development funds and commercial banks are well advanced. SDL aims to complete financial close for the infrastructure project in the next 12 months.
- Mining agreements secured:** On 24 July SDL secured the mining convention for the Nabeba project in Cameroon. The securing of the Mining convention clears the way for the development of Nabeba, which occurs in conjunction with Mbalam in the Cameroon in our development scenario.
- Strengthens board and management:** During the quarter SDL appointed former Leighton Holdings CEO Wal King as Non-Executive Deputy Chairman. Alan Rule was appointed as CFO having spent the past 12 months as CEO of Paladin Energy.

Earnings and target price revision

- We make modest changes to our medium-term forecast losses over the next three years. Our price target falls 20% to \$0.12 to reflect the inclusion of a modest iron-ore price discount for SDL's product in line with its peers.

Price catalyst

- 12-month price target: A\$0.12 based on a DCF methodology.
- Catalyst: Securing the equity and debt funding packages for the Mbalam-Nabeba remains the key hurdle for SDL over the next 12 months

Action and recommendation

- Maintain Outperform:** SDL owns the largest iron-ore development project outside of the majors with its Mbalam-Nabeba project potentially able to produce at 35mtpa for over 20 years. SDL has appointed an EPC contractor to build the project but has yet to secure a funding/development partner, which remains the key hurdle to getting Mbalam-Nabeba into production.

Fig 1 SDL summary financials

Sundance Resources							
ASX: SDL	Price: (A\$ps)	0.084		Year end:	Jun	Rating: Outperform	Up/dn
	Mkt cap: (A\$m)	259		Diluted shares (m)	3082.0	Target: 0.12	43%
ASSUMPTIONS		FY11	FY12	FY13	FY14e	FY15e	FY16e
Exchange Rate	A\$/US\$	0.99	1.03	1.03	0.92	0.89	0.90
Spot iron-ore (62% CIF)	US\$/t	163	151	128	122	110	108
RATIO ANALYSIS		FY11	FY12	FY13	FY14e	FY15e	FY16e
Diluted share capital	m	2,742	2,952	3,074	3,541	3,541	3,541
EPS (diluted and pre sig. items)	A¢	-0.8	-0.9	-1.0	-0.8	-4.5	0.0
P/E	x	-10.5x	-9.8x	-8.1x	-11.0x	-1.8x	182.1x
CFPS	A¢	(2.2)	(0.6)	(0.6)	(0.6)	(0.0)	(4.1)
P/CF	x	-3.7x	-14.7x	-13.3x	-14.8x	-250.6x	-2.0x
DPS	A¢	0.0	0.0	0.0	0.0	0.0	0.0
Dividend yield	%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Franking Level	%	0%	0%	0%	0%	0%	0%
Book value per share	x	0.08	0.08	0.08	0.08	0.32	0.29
P/Book value	x	1.1x	1.1x	1.1x	1.0x	0.3x	0.3x
R.O.E. (pre sig items)	%	-10%	-11%	-13%	-9%	-14%	0%
R.O.A. (pre sig items)	%	-11%	-11%	-12%	-9%	-1%	-2%
Interest Cover	x	8.5x	10.2x	19.9x	-3.3x	-27.1x	1.2x
EBITDA per share	A\$ps	-0.01	-0.01	-0.01	-0.01	0.00	0.00
EV/EBITDA	x	-9.1x	-8.7x	-8.5x	-10.4x	18.9x	6.7x
EARNINGS		FY11	FY12	FY13	FY14e	FY15e	FY16e
Sales Revenue	A\$m	0	0	0	0	0	0
Other Revenue	A\$m	0	0	0	0	0	0
Total Revenue	A\$m	0	0	0	0	0	0
Operating Costs	A\$m	0	0	0	0	0	0
Operational EBITDA	A\$m	0	0	0	0	0	0
Exploration Expense/Write-offs	A\$m	0	0	0	0	0	0
Corporate & Other Costs	A\$m	(21)	(23)	(29)	(23)	(12)	(12)
EBITDA	A\$m	(21)	(23)	(29)	(23)	(12)	(12)
D&A	A\$m	(2)	(3)	(2)	(2)	(2)	(2)
EBIT	A\$m	(23)	(26)	(31)	(25)	(14)	(14)
Net Interest	A\$m	3	3	2	(8)	(1)	13
Profit Before Tax	A\$m	(20)	(23)	(29)	(33)	(15)	(2)
Tax Expense	A\$m	0	0	0	4	(146)	4
Minorities	A\$m	(2)	(2)	(2)	2	0	0
Adjusted NPAT	A\$m	(22)	(25)	(32)	(27)	(161)	2
Associates	A\$m	0	0	0	(0)	502	(10)
Reported NPAT	A\$m	(22)	(25)	(32)	(27)	341	(8)
CASHFLOW		FY11	FY12	FY13	FY14e	FY15e	FY16e
Net Profit	A\$m	(22)	(25)	(32)	(27)	341	(8)
Interest/Tax/D&A	A\$m	(43)	3	2	4	160	(148)
Working Capital/other	A\$m	3	6	10	4	(502)	10
Net Operating Cashflow	A\$m	(62)	(17)	(19)	(20)	(1)	(146)
Capex	A\$m	(3)	(42)	(26)	(23)	0	0
Investments	A\$m	0	0	0	0	476	0
Sale of PPE and Other	A\$m	0	0	0	0	0	0
Free cash flow	A\$m	(65)	(59)	(46)	(43)	475	(146)
Dividends Paid	A\$m	0	0	0	0	0	0
Debt	A\$m	0	0	5	(0)	0	0
Equity Issuance	A\$m	58	48	1	38	0	0
Other	A\$m	0	0	0	0	0	0
Net Financing Cashflow	A\$m	58	48	6	38	0	0
Net change in cash	A\$m	(6)	(11)	(39)	(5)	475	(146)
BALANCE SHEET		FY11	FY12	FY13	FY14e	FY15e	FY16e
Cash	A\$m	70	59	20	14	489	343
PP&E & Mine Development	A\$m	142	169	229	272	0	0
Exploration	A\$m	0	0	0	0	0	0
Total Assets	A\$m	220	233	254	294	995	839
Debt	A\$m	0	0	5	0	0	0
Total Liabilities	A\$m	5	5	12	5	(140)	(187)
Total Net Assets / Equity	A\$m	214	228	242	288	1,135	1,026
Net Debt / (Cash)	A\$m	(70)	(59)	(15)	(14)	(489)	(343)
Gearing (net debt/(nd + equity))	%	(49%)	(35%)	(7%)	(5%)	(76%)	(50%)
Gearing (net debt/equity)	%	(33%)	(26%)	(6%)	(5%)	(43%)	(33%)
ATTRIBUTABLE MINE OUTPUT		FY11	FY12	FY13	FY14e	FY15e	FY16e
Iron-ore Mined (kt)							
Mbalam-Nabeba hematite	kt	0.0	0.0	0.0	0.0	0.0	0.0
Mbalam-Nabeba itabirite	kt	0.0	0.0	0.0	0.0	0.0	0.0
Mbalam-Nabeba JV	kt	0.0	0.0	0.0	0.0	0.0	0.0
Cash costs							
Mbalam-Nabeba hematite	(US\$/t)	na	na	na	na	na	na
Mbalam-Nabeba itabirite	(US\$/t)	na	na	na	na	na	na
OPERATIONAL OUTLOOK							
RESERVES AND RESOURCES (ATTRIBUTABLE)							
Iron-ore hematite reserves							
Project	Mt	Fe	CaFe	SiO2	Al2O3	P	LOI
Mbarga DSO	83.9	63.6%	64.7%	4.6%	2.3%	0.08%	1.7%
Mbarga transition	43.1	63.0%	63.8%	8.0%	1.2%	0.05%	1.3%
Total Mbarga	127.0	63.4%	64.4%	5.8%	1.9%	0.07%	1.6%
Nabeba DSO	249.7	62.8%	64.8%	3.3%	3.0%	0.10%	3.1%
Nabeba transition	59.6	60.1%	62.6%	6.5%	2.1%	0.08%	4.0%
Total	436.3	62.6%	64.4%	4.5%	2.6%	0.09%	2.8%
Iron-ore itabirite resources							
Project	Mt	Fe	CaFe	SiO2	Al2O3	P	LOI
Mbarga	207.3	56.6%	57.8%	13.3%	3.2%	0.08%	2.0%
South Mbarga	20.7	57.5%	59.4%	10.4%	3.6%	0.07%	3.2%
Total Mbarga	243.2	56.8%	58.1%	13.0%	3.3%	0.08%	2.1%
Nabeba Main	472.0	57.9%	60.4%	7.6%	4.7%	0.11%	4.1%
Nabeba Northwest	50.3	52.8%	57.3%	9.2%	5.6%	0.09%	7.9%
Total	765.5	57.2%	59.5%	9.4%	4.3%	0.10%	3.8%
Iron-ore itabirite resources							
Project	Mt	Fe	CaFe	SiO2	Al2O3	P	LOI
Mbarga	2,325	38.0%	38.1%	44.3%	0.4%	0.0%	0.3%
Nabeba	1,722	33.9%	34.8%	42.5%	2.7%	0.1%	2.6%
Total	4,047	36.3%	36.7%	43.6%	1.4%	0.0%	1.3%
EQUITY DCF VALUATION							
Projects	A\$m	A\$ps					
Mbalam-Nabeba JV	476	0.13					
Exploration	0	0.00					
Other	0	0.00					
Undeveloped Resources	0	0.00					
Unpaid capital	0	0.00					
Corporate/forwards	(53)	(0.01)					
Net cash (debt)	14	0.00					
Net Equity Value (@ 15% WACC)	437	0.12					
Price Target	(1x NPV)	0.12					

Source: SDL, Macquarie Research, July 2014

Important disclosures:

Recommendation definitions

Macquarie - Australia/New Zealand

Outperform – return >3% in excess of benchmark return
 Neutral – return within 3% of benchmark return
 Underperform – return >3% below benchmark return

Benchmark return is determined by long term nominal GDP growth plus 12 month forward market dividend yield

Macquarie – Asia/Europe

Outperform – expected return >+10%
 Neutral – expected return from -10% to +10%
 Underperform – expected return <-10%

Macquarie First South - South Africa

Outperform – expected return >+10%
 Neutral – expected return from -10% to +10%
 Underperform – expected return <-10%

Macquarie - Canada

Outperform – return >5% in excess of benchmark return
 Neutral – return within 5% of benchmark return
 Underperform – return >5% below benchmark return

Macquarie - USA

Outperform (Buy) – return >5% in excess of Russell 3000 index return
 Neutral (Hold) – return within 5% of Russell 3000 index return
 Underperform (Sell) – return >5% below Russell 3000 index return

Volatility index definition*

This is calculated from the volatility of historical price movements.

Very high-highest risk – Stock should be expected to move up or down 60–100% in a year – investors should be aware this stock is highly speculative.

High – stock should be expected to move up or down at least 40–60% in a year – investors should be aware this stock could be speculative.

Medium – stock should be expected to move up or down at least 30–40% in a year.

Low-medium – stock should be expected to move up or down at least 25–30% in a year.

Low – stock should be expected to move up or down at least 15–25% in a year.

* Applicable to Asia/Australian/NZ/Canada stocks only

Recommendations – 12 months

Note: Quant recommendations may differ from Fundamental Analyst recommendations

Financial definitions

All "Adjusted" data items have had the following adjustments made:

Added back: goodwill amortisation, provision for catastrophe reserves, IFRS derivatives & hedging, IFRS impairments & IFRS interest expense
 Excluded: non recurring items, asset revals, property revals, appraisal value uplift, preference dividends & minority interests

EPS = adjusted net profit / epowa*

ROA = adjusted ebit / average total assets

ROA Banks/Insurance = adjusted net profit / average total assets

ROE = adjusted net profit / average shareholders funds

Gross cashflow = adjusted net profit + depreciation

*equivalent fully paid ordinary weighted average number of shares

All Reported numbers for Australian/NZ listed stocks are modelled under IFRS (International Financial Reporting Standards).

Recommendation proportions – For quarter ending 30 June 2014

	AU/NZ	Asia	RSA	USA	CA	EUR	
Outperform	51.67%	60.69%	34.67%	42.33%	55.41%	44.84%	(for US coverage by MCUSA, 6.76% of stocks followed are investment banking clients)
Neutral	33.00%	23.93%	38.67%	50.92%	38.51%	35.87%	(for US coverage by MCUSA, 7.25% of stocks followed are investment banking clients)
Underperform	15.33%	15.38%	26.67%	6.75%	6.08%	19.28%	(for US coverage by MCUSA, 0.48% of stocks followed are investment banking clients)

SDL AU vs Small Ordinaries, & rec history



(all figures in AUD currency unless noted)

Note: Recommendation timeline – if not a continuous line, then there was no Macquarie coverage at the time or there was an embargo period.

Source: FactSet, Macquarie Research, July 2014

12-month target price methodology

SDL AU: A\$0.12 based on a DCF methodology

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Date	Stock Code (BVG code)	Recommendation	Target Price
16-Jan-2014	SDL AU	Outperform	A\$.15

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