

Haranga Resources Limited

Latest independent assessment completed

Haranga Resources (HAR) announced on 9 October 2013, that an updated independent techno-economic (TE) assessment was completed on the group's Selenge Iron Ore Project in Northern Mongolia - after the May 2013 release of a significantly increased Measured and Indicated JORC Compliant Resource of 254Mt of magnetite ore @ 17% Fe (= 43Mt contained iron). **Consultants GHD value the Project at A\$458 million.** Key assumptions include: 1) a 16-year LOM, 2) annual production of 3Mt of 62% Fe concentrate (150µ), 3) a concentrate selling price of US\$131.50/t and cash costs (excluding royalty) of A\$64/t, 4) pre-production capex of A\$562m and, 5) a 12.5% discount rate.

Impact on valuation and recommendation

Largely due to the inclusion of A\$130m for a 43km railway connection, the latest capex estimate of A\$562m is significantly higher than the prior capex estimate of US\$407m (A\$432m). The revised TE assessment also assumes a 16 year LOM @ 3Mtpa of 62% Fe conc., versus a prior profile of 15 years @ 4Mtpa of 66% Fe conc. After adjusting for the above changes, and pushing out our forecast production start-date by two-years to 2017 (2015 previously), **our estimated NPV_{12.5} for the Selenge Project has fallen by 27% to A\$454m (100%) from A\$621m (100%).** On a fully-diluted basis - assuming forecast capital raisings required to fund the equity component of pre-production capex are made at an issue price of A\$0.08ps (~current share price levels) - we calculate HAR's un-risked equity value at A\$0.16ps (TP of A\$0.12ps @ a 25% risk-weighting). We note that our un-risked equity value increases significantly to A\$0.35ps if we assume an equity issue price of A\$0.21ps (≅ HAR's average 2012-2013 YTD share price). In light of this upside potential, we maintain a **Speculative Buy (Higher risk) recommendation.**

HAR has Mongolia's largest JORC-compliant iron ore Resource, and the latest independent TE assessment supports the economic feasibility of the Selenge Project. **The group is transitioning into a development phase from a successful exploration phase, and is currently progressing with relevant Government ministries to obtain a mining license.** However, securing near-term funding to advance the Project is, we suggest, HAR's most pressing challenge. On that front, we note that the business climate appears to be improving in Mongolia, with the approval on 3 October 2013 of a new Investment Law to replace the controversial SSEFIL. A pick-up in investor sentiment towards Mongolia, and a concomitant increase in FDI, could be important share price catalysts.

Key Financials

Year-end December	FY12A	FY13E	FY14E	FY15E	FY16E
Spot Iron Ore (CFR US\$/t)	133	134	115	105	100
Selenge ARP (US\$/t)	na	na	na	123	119
USD/AUD (average)	0.97	1.04	1.11	1.18	1.25
Sales volume (Mt)	na	na	na	na	na
Revenue (A\$m)	1	0	0	0	0
EBITDA (A\$m)	-3	-4	-5	-5	-5
Cash costs (A\$/t)	na	na	na	na	na
Reported NPAT (A\$m)	-3	-4	-5	-3	-3
Normalised NPAT (A\$m)	-3	-4	-5	-3	-3
EPS Reported (A\$)	-0.01	-0.01	-0.02	-0.004	0.00
EPS Normalised (A\$)	-0.01	-0.01	-0.02	0.00	0.00
DPS (A\$)	0.00	0.00	0.00	0.00	0.00
ROE (%)	nm	nm	nm	nm	nm
Net debt / (cash) (A\$m)	-3	-1	9	208	407
Capex (A\$m)	-12	-6	-3	-281	-281

Source: Iress, Company Data, Ord Minnett Est. Share price: \$ 0.070 Oct 17, 2013

HAR A\$0.07 (TP A\$0.12)

Recommendation
Speculative Buy

Risk Assessment
Higher

Resources – Iron Ore

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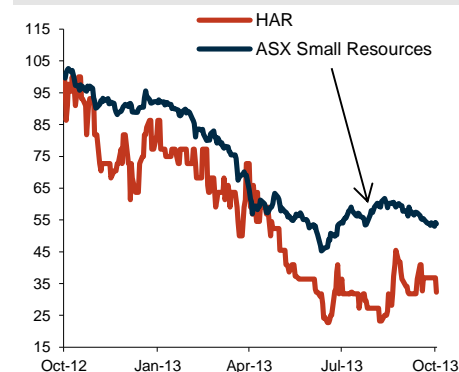
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Haranga Resources Limited

ASX Code	HAR
52 week range	\$0.05-\$0.22
Market Cap (AS\$m)	17
Shares Outstanding (m)	242
Av Daily Turnover	140,294
ASX All Ordinaries	5,282
FY13E BV per share (A\$)	0.10
EPS FY13E (A\$)	-0.01
Net Debt FY13E (A\$m)	-1

Relative price performance



Source: Iress

Consensus earnings

	FY13E	FY14E
NPAT (A\$m) (C)	na	na
NPAT (A\$m) (OM)	-4	-5
EPS (A\$) (C)	na	na
EPS (A\$) (OM)	-0.01	-0.02
Target Price (Consensus)		na
Target Price (Ord Minnett)		A\$0.12

Source: Bloomberg, Ord Minnett

Company Review

Ord Minnett Research

Table 1: Estimated NPV (A\$m nominal) of The Selenge Iron Ore Project (254Mt Resource base)

(A\$m)	2013	2014	2015	2016	2017	2018	2019	2020	2021 - 2032	Total
Opening mine inventory (Mt)	254	254	254	254	254	238	222	206	-	-
Closing mine inventory (Mt)	254	254	254	254	238	222	206	190	-	-
Ore Mined (Mt)	-	-	-	-	16	16	16	16	190	254
Sales of iron ore concentrate (Mt)	-	-	-	-	3.0	3.0	3.0	3.0	35	47
Average Received Price (A\$/t)	159	149	145	148	152	155	158	162	185	178
Revenue	-	-	-	-	455	464	475	485	6,496	8,374
Mining costs	-	-	-	-	(94)	(96)	(98)	(100)	(1,294)	(1,682)
Processing costs	-	-	-	-	(43)	(44)	(45)	(46)	(623)	(801)
Admin costs	-	-	-	-	(3)	(3)	(3)	(3)	(39)	(50)
Operating (C1) costs	-	-	-	-	(140)	(143)	(146)	(149)	(1,956)	(2,533)
Transportation costs	-	-	-	-	(87)	(89)	(91)	(93)	(1,229)	(1,589)
Corporate costs	(4)	(5)	(5)	(5)	(5)	(6)	(6)	(6)	(79)	(120)
Royalty costs	-	-	-	-	(23)	(23)	(24)	(24)	(325)	(419)
Total cash costs	(4)	(5)	(5)	(5)	(256)	(261)	(266)	(271)	(3,588)	(4,660)
EBITDA	(4)	(5)	(5)	(5)	199	204	208	213	2,908	3,714
Interest payments on project debt	-	-	-	-	(31)	(31)	(25)	(19)	(19)	(125)
EBT	(4)	(5)	(5)	(5)	168	172	183	195	2,890	3,589
Tax	-	-	-	-	(32)	(33)	(35)	(38)	(577)	(715)
EAT	(4)	(5)	(5)	(5)	136	139	148	157	2,313	2,873
Cash inflow from equity raising	-	-	85	85	-	-	-	-	-	170
Cash inflow from debt financing	-	-	196	196	-	-	-	-	-	392
Debt principal repayment	-	-	-	-	-	(78)	(78)	(78)	(157)	(392)
Project Capex	-	-	(281)	(281)	-	-	-	-	-	(562)
Maintenance/other capex	-	-	-	-	(20)	(20)	(20)	(21)	(283)	(364)
Project cashflow	(4)	(5)	(5)	(5)	116	41	49	58	1,873	2,118

Discount rate (Cost of Equity)	12.5%
NPV (A\$m) (100% basis)	454
NPV (A\$m) (80% HAR interest)	363

The average Fe grade for the 254Mt resource base is 17.2%, comprised of 199.9Mt @ 16.4% Fe at the Dund Bulag deposit and 54.5Mt @ 20.3% at the combined Bayantsogt and Undur Ukhaa deposits. We assume an average metal recovery rate of 66.5%.

Source: Company, Ord Minnett forecasts

Note: We assume that project capex of A\$562m (based on October 2013 Independent Techno-Economic Assessment) is funded via a 70:30 debt to equity financing split. We assume an 8% interest rate on project debt, a 25% corporate tax rate, a 5% royalty rate and a 12.5% discount rate.

Company Review

Ord Minnett Research

Table 2: Forecast unit revenue and cost assumptions (US\$ nominal per tonne of concentrate)

(US\$/t of concentrate)	2013	2014	2015	2016	2017	2018	2019	2020	2021 - 2032	Total	
Benchmark iron ore (62% Fe CFR)	134	115	105	100	102	104	106	108	123	118	Our LOM unit costs of US\$79/t (including royalty expenses) are above HAR's estimate of A\$64/t (excluding royalty expenses)
Y-o-Y % change in benchmark price	nc	-14%	-9%	-5%	2%	2%	2%	2%	-	2%	
Discount for shipping to China	(10)	(10)	(10)	(10)	(10)	(10)	(10)	(10)	(10)	(10)	
Benchmark iron ore (62% Fe FOB)	124	105	95	90	92	94	96	98	113	108	
Premium for Fe content	6.5%	6.5%	6.5%	6.5%	6.5%	6.5%	6.5%	6.5%	6.5%	6.5%	
Premium / (discount) for Al,Si,P,S content	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	
Selenge concentrate mine-gate price	131	112	101	96	98	100	102	105	121	115	
Transport charge to China frontier	22	22	22	23	23	24	24	25	28	26	
Average received price (US\$/t)	153	134	123	119	121	124	127	129	149	141	
Mining costs	na	na	na	na	(25)	(26)	(26)	(27)	(30)	(29)	
Processing costs	na	na	na	na	(12)	(12)	(12)	(12)	(14)	(14)	
Admin. Costs	na	na	na	na	(1)	(1)	(1)	(1)	(1)	(1)	
Operating (C1) costs	na	na	na	na	(37)	(38)	(39)	(40)	(45)	(43)	
Transportation costs	na	na	na	na	(23)	(24)	(24)	(25)	(28)	(26)	
Corporate costs	na	na	na	na	(1)	(1)	(2)	(2)	(2)	(2)	
Royalty costs	na	na	na	na	(6)	(6)	(6)	(6)	(7)	(7)	
Unit cash costs	na	na	na	na	(68)	(70)	(71)	(72)	(82)	(79)	
Y-o-Y % change in unit cash costs	na	na	na	na	na	2%	2%	2%	-	2%	
Unit EBITDA (US\$/t)	na	na	na	na	53	54	56	57	67	62	
Unit EBITDA margin (%)	na	na	na	na	44%	44%	44%	44%	45%	44%	
<i>USD/AUD exchange rate</i>	<i>1.04</i>	<i>1.11</i>	<i>1.18</i>	<i>1.25</i>	<i>1.25</i>	<i>1.25</i>	<i>1.25</i>	<i>1.25</i>	<i>1.25</i>	<i>1.26</i>	
Average received price (A\$/t)	159	149	145	148	152	155	158	162	185	178	
Unit cash costs (A\$/t)	na	na	na	na	(85)	(87)	(89)	(90)	(103)	(100)	

Source: Company, Ord Minnett forecasts

- **Average received price** : calculated as estimated 62% Fe benchmark price adjusted for Fe content, product quality and transport costs to the China border
- **Transport costs**: assumes current road-to-rail transport costs of US\$1.50/t and railway costs to the China border of US\$20/t
- **Mining costs**: assumes current mining costs (incl. drilling and blasting) of of US\$0.80 and US\$3.20 per tonne of waste and ore respectively
- **Royalty costs**: assumes constant royalty rate on revenue of 5%
- **Commodity price and cost inflation**: 2% per annum

Valuation and risks

Valuation

Underpinned by our estimated NPV_{12.5} of A\$363m (HAR 80% interest) for the 254Mt Selenge Project Resource base, we calculate HAR's un-risked enterprise value at A\$391m (A\$0.16ps on a fully-diluted basis). Attaching a 25% risk-weighting to this valuation to account for project financing, development, and timing (production start-date) uncertainty, and adjusting for FY12A debt and cash, we calculate HAR's risk-weighted equity value at A\$289m (A\$0.12ps on a fully-diluted basis).

Estimated NPV_{12.5} value of the Selenge Project Resource base: A\$363m (HAR 80%)

Table 3: Calculation of HAR equity value (in A\$m and A\$ per share)

	(A\$m)	A\$ per share	Resource (Mt)	A\$ per t of resource
Selenge Project Iron Ore Resources NPV (80% interest)	363	0.15	204	1.78
Selenge exploration target upside	18	0.01	40	0.45
Other Projects	0	0.00		
Total un-risked enterprise value	381	0.16		
Risk-weighting	25%			
Total risked enterprise value	286	0.12		
FY12A cash	3	0.00		
FY12A debt	0	0.00		
Equity value (risked)	289	0.12		

Current number of shares in issue (m)	242
Current number of options (m)	51
Estimated shares from non-project equity issue (m)	0
Estimated shares from project funding equity issue (m)	2,125
Estimated fully diluted no. of shares (m)	2,418

25% risk-weighted equity value: A\$0.12 per share

Source: Ord Minnett forecasts

Note: 204Mt resource calculated as the 254Mt resource base x 80%. Our valuation of A\$18m for Selenge exploration target upside is based on 40Mt (50Mt exploration target x 80%) and a unit NPV of A\$0.45/t (75% discount to our estimated A\$1.78/t NPV for Selenge.) We attach zero value to HAR's other Mongolian Projects (Khundlun, Shavdal, Tumurtei Khudag). We assume a 70:30 debt:equity split for the A\$562m pre-production capex and **assume the A\$170m in project equity funding is raised in 2015/2016 at an issue price of A\$0.08 per share (≅ HAR's current share price level).**

Risks

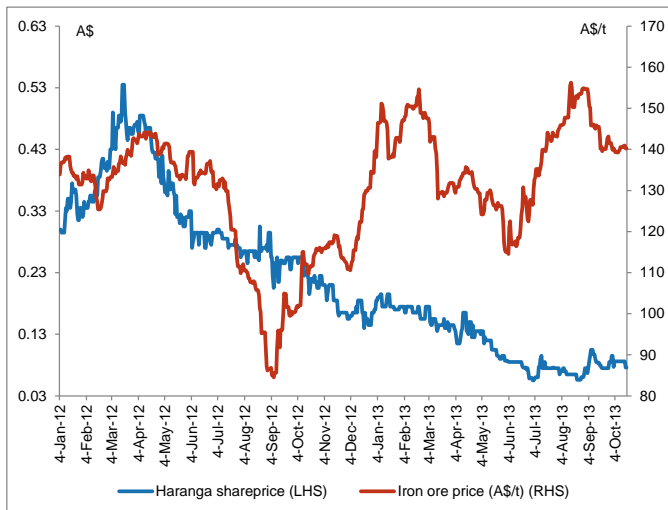
Risks to our valuation include but are not limited to:

Near-term funding: HAR cash balance at the end of June 2013 was A\$3.8m. We suggest that HAR will need additional near-term funding (A\$10m) for ongoing corporate expenses, ongoing drilling to extend the resource base, a full feasibility study, and potentially, to fund small scale mining of shallower higher-grade zones that can be beneficiated via simple dry magnetic separation. **Iron ore price:** We assume a long-term benchmark iron ore price of US\$100/t. A lower than expected iron ore price environment will negatively impact the Selenge Project NPV. **Infrastructure:** HAR may have to secure access agreements to existing rail spurs prior to constructing their own rail spur connecting Selenge to the TMR. In addition, HAR will need to secure sufficient power (electricity) and water for the proposed mine and plant. **Sovereign risk:** Whilst the political and investment environment is improving, Mongolia is an emerging economy, and sovereign risk is present. **Exploration/resource:** Whilst the Selenge Project resource has increased significantly to 254Mt from 33Mt, the final mine inventory (tonnage/grade) is unknown at this point. In addition, the final resource yield (metal recovery) and saleable product concentrate grades have to be finalised after further metallurgical tests.

Positive developments in Mongolia

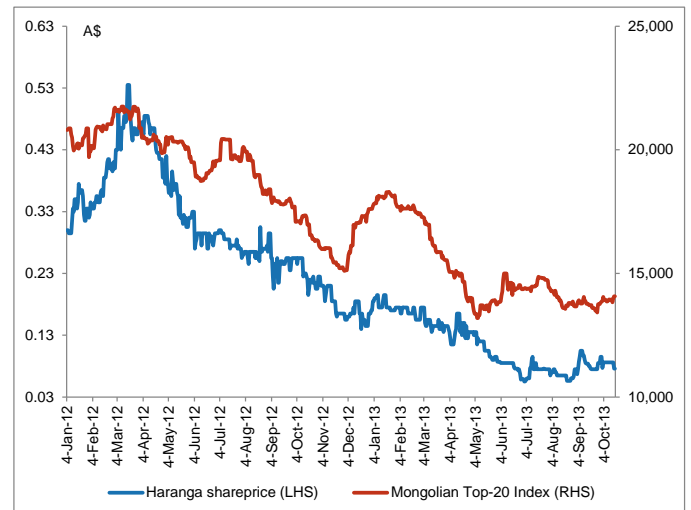
We suggest that the downward trend in the Mongolian stock market seen over the past two years largely reflects investor concern over developments in the state's political and legislative/regulatory climate. We believe that these concerns - rather than the iron ore price – are also behind HAR's weak share price performance.

Chart 1: HAR share price vs iron ore price (A\$/t)



Source: Bloomberg, compiled by Ord Minnett

Chart 2: HAR share price vs Mongolian stock exchange

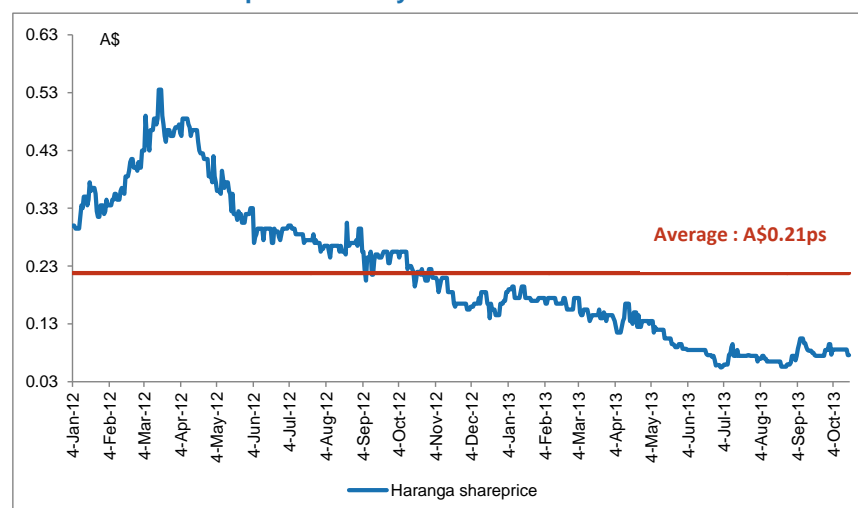


Source: Bloomberg, compiled by Ord Minnett

We note however, that the fall in both the Mongolian stock market and HAR's share price appears to have plateaued (possibly on the back of peaceful Presidential elections in June). Importantly, we suggest that Mongolia may have turned the corner in terms of its business operating environment (particularly for the resources sector). **On 3 October 2013, the Mongolian Parliament approved a new Investment Law to replace the controversial SSEFIL (Strategically Significant Entities Foreign Investment Law).** It reflects the intention of the Government to remove the concept of strategic sectors and return to the less complicated registration process that (once) made Mongolia an attractive private foreign direct investment destination. While this step will be welcomed by foreign and domestic investors alike, the effectiveness of the new law will depend upon whether the Government has the political will to streamline its bureaucracy and facilitate registration procedures in order to increase capital flows into Mongolia.

An improvement in investor perceptions of the business climate in Mongolia could be a key driver for HAR's share price

Chart 3: HAR share price January 2012 - Present



Source: Bloomberg, compiled by Ord Minnett

For NPV per share purposes, we assume forecast equity issues at A\$0.08ps (~current price).....significantly below HAR's average 2012-2013 share price of A\$0.21

Company Review

Financial Statements

Haranga Resources Limited (HAR)

Year ending December

Profit & Loss Statement (A\$m)	FY12A	FY13E	FY14E	FY15E	FY16E
Revenue	1	0	0	0	0
Operating costs	0	0	0	0	0
Transport costs	0	0	0	0	0
Other (Royalty/Corporate)	(4)	(4)	(5)	(5)	(5)
EBITDA	(3)	(4)	(5)	(5)	(5)
Depreciation & Amortisation	0	0	0	0	0
Operating profit	(3)	(4)	(5)	(5)	(5)
NOI	0	0	0	0	0
EBIT	(3)	(4)	(5)	(5)	(5)
Interest income	0	0	0	0	0
Interest expense	0	0	0	0	0
Tax expense & minority interest	0	0	0	2	2
Reported NPAT	(3)	(4)	(5)	(3)	(3)
Normalised NPAT	(3)	(4)	(5)	(3)	(3)
EBITDA Margin (%)	nm	nm	nm	nm	nm
Operating profit margin (%)	nm	nm	nm	nm	nm
EPS Reported (A\$)	(0.01)	(0.01)	(0.02)	(0.00)	(0.00)
EPS Normalised (A\$)	(0.01)	(0.01)	(0.02)	(0.00)	(0.00)
EPS growth (%)	nm	nm	nm	nm	nm
DPS (A\$)	0.00	0.00	0.00	0.00	0.00
Dil Av no. of shares (m)	245	293	293	824	1887
Dil YE no. of shares (m)	278	293	293	1,355	2,418

Cash Flow Statement (A\$m)	FY12A	FY13E	FY14E	FY15E	FY16E
EBITDA	(3)	(4)	(5)	(5)	(5)
Investment in working capital	0	1	(2)	0	0
Tax expense	0	0	0	1	1
Operating Cash Flow	(3)	(3)	(7)	(4)	(4)
Capex	(12)	(6)	(3)	(281)	(281)
Other investments	(0)	0	0	0	0
Investing Cash Flow	(13)	(6)	(3)	(281)	(281)
Net interest received / (paid)	0	0	0	0	0
Debt draw down / (repayment)	0	0	10	201	201
Dividends paid	0	0	0	0	0
Equity raised / (repaid)	6	6	0	85	85
Financing Cash Flow	6	6	10	286	286
Non-operating & Other	(0)	0	0	1	1
Inc/(Dec) in Cash	(9)	(3)	0	2	2

Balance Sheet (A\$m)	FY12A	FY13E	FY14E	FY15E	FY16E
Cash & Deposits	3	1	1	3	5
Receivables	0	2	0	0	0
Inventories	0	0	0	0	0
Other Current Assets	0	0	0	0	0
PPE and Exploration & Development	25	31	34	315	596
Deferred tax asset	0	0	0	0	0
Other Non Current Assets	0	0	0	0	0
Total Assets	29	34	36	319	602
Payables and other current Liabilities	1	4	0	0	0
Short Term Debt	0	0	10	15	20
Long Term Debt	0	0	0	196	392
Other Non Current Liabilities	0	0	0	0	0
Total Liabilities	1	4	10	211	412
Total Equity	28	30	26	108	190
Net Debt (Cash)	(3)	(1)	9	208	407

Major Shareholders	%	Date
Lippo Capital	13.4%	
Amarbaatar Chultem	12.4%	Oct-13
Golden Rain Holdings	6.2%	

Source: Company, Bloomberg, Ord Minnett forecasts

Calc. of ARP (US\$/t and A\$/t)	FY12A	FY13E	FY14E	FY15E	FY16E
Spot Iron Ore (US\$/t) CFR 62% Fe		134	115	105	100
Less shipping costs (US\$/t) to obtain FOB price		-10	-10	-10	-10
Premium for Fe grade & quality (Al, Si, P) (US\$/t)		8	7	6	6
Transport costs to China border (US\$/t)		22	22	22	23
Average received price (ARP) (US\$/t)		153	134	123	119
USD:AUD exchange rate (annual average)		1.04	1.11	1.18	1.25
Average received price (ARP) (A\$/t)		159	149	145	148

Production Profile (Mt)	FY12A	FY13E	FY14E	FY15E	FY16E
Bayantsogt	0.0	0.0	0.0	0.0	0.0
Dund Bulag	0.0	0.0	0.0	0.0	0.0
Group	0.0	0.0	0.0	0.0	0.0

Unit data (A\$/t)	FY12A	FY13E	FY14E	FY15E	FY16E
Revenue	-	-	-	-	-
Mining costs	-	-	-	-	-
Processing costs	-	-	-	-	-
Admin. Costs	-	-	-	-	-
Unit operating (C1) costs	-	-	-	-	-
Transport costs (to China border)	-	-	-	-	-
Corporate costs	-	-	-	-	-
Royalty costs	-	-	-	-	-
Unit concentrate cash costs	-	-	-	-	-

JORC Resource and Reserve Estimates (Selenge) as at May 2013

	Status	Mt	Fe%	Fe contained (Mt)
Dund Bulag	M/I	200	16.4	33
Bayantsogt (includes 0.6Mt inferred)	M/I	36	22.8	8
Undar Ukhua	M/I	18	15.4	3
Total	M/I	254	17.2	44

Additional Exploration Target

Dund Bulag / Bayantsogt / Undar Ukhua / Huiten Gol Betw een 50-100Mt

Leverage	FY12A	FY13E	FY14E	FY15E	FY16E
Net Debt/Equity	na	na	na	na	na
Net Debt/Total Assets	na	na	na	na	na
Interest Cover (x)	na	na	na	na	na

Valuation Ratios (x)	FY12A	FY13E	FY14E	FY15E	FY16E
Normalised P/E	nm	nm	nm	nm	nm
Price/OP Cash Flow	nm	nm	nm	nm	nm
EV (A\$m)	16	19	28	227	426
EV/EBITDA	nm	nm	nm	nm	nm
ROE (%)	nm	nm	nm	nm	nm

NPV Valuation	NPV (A\$m)	A\$ per share	Ore NPV (A\$/t)*
Selenge Project (80% HAR share)	363	0.15	1.78
Exploration upside / Other projects	18	0.01	
Un-risked enterprise value	381	0.16	
Risk-weighting (discount)	25%		
Total risked enterprise value	286	0.12	
FY12A cash	3	0.00	
FY12A debt	0	0.00	
Equity value (risked)	289	0.12	

* NPV per tonne of ore

Company Description

Haranga Resources Limited (HAR) is an emerging iron ore developer with four iron ore projects located in Mongolia. The group is targeting large, economic magnetite skarn deposits in order to develop and produce iron ore for domestic and export (NE China) markets. The group's flagship project (Selenge, 80% interest) consists of five contiguous licences covering ~450km² within the premier iron ore province in Mongolia. The current resource at Selenge is 254Mt @ 17.2% Fe; management indicates an additional exploration target of between 50-100Mt.

Please contact your Ord Minnett Adviser for further information on our document.

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SPECULATIVE BUY	We expect the stock's total return (nominal yield plus capital appreciation) to exceed 20% over 12 months. The investment may have a strong capital appreciation but also has high degree of risk and there is a significant risk of capital loss.
BUY	The stock's total return (nominal dividend yield plus capital appreciation) is expected to exceed 15% over the next 12 months.
ACCUMULATE	We expect a total return of between 5% and 15%. Investors should consider adding to holdings or taking a position in the stock on share price weakness.
HOLD	We expect the stock to return between 0% and 5%, and believe the stock is fairly priced.
LIGHTEN	We expect the stock's return to be between 0% and negative 15%. Investors should consider decreasing their holdings.
SELL	We expect the total return to lose 15% or more.
RISK ASSESSMENT	Classified as Lower, Medium or Higher, the risk assessment denotes the relative assessment of an individual stock's risk based on an appraisal of its disclosed financial information, historic volatility of its share price, nature of its operations and other relevant quantitative and qualitative criteria. Risk is assessed by comparison with other Australian stocks, not across other asset classes such as Cash or Fixed Interest.

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