

Haranga Resources Limited

Second largest iron ore resource in Mongolia

Event

Haranga Resources (HAR) announced today (7 May 2013), that results from 2011 and 2012 drilling programmes have defined a **new JORC Code compliant resource of 254Mt of iron ore @ 17.2% Fe** (44Mt contained metal) at the group's Selenge Iron Ore Project in Northern Mongolia. This compares to the group's **prior stated resource of 33Mt @ 22.4% Fe** (8Mt contained metal). HAR expects that further drilling can expand the resource base, and indicates an additional 50-100Mt exploration target. HAR is currently in the process of applying for a Mining Licence, and then progressing to carry out a full Feasibility Study.

Impact on valuation and recommendation

The increased and enhanced 254Mt JORC compliant resource (~100% measured & indicated) is significantly higher than our 200Mt resource forecast, and ~6% above our assumed 240Mt Selenge Project mine inventory (see initiating coverage report "*Mongolia - coming in from the cold*", 30 April 2013). On the negative side, the average resource grade of 17.2% Fe is significantly below our previous forecast mine inventory grade of ~20% Fe. Adjusting for higher than originally forecast tonnage, but lower than originally forecast Fe grade, we calculate a **revised (risk-weighted) NPV-based target price for HAR of A\$0.33 per share** (A\$0.36 previously). At the current share price of A\$0.12, we believe that this Mongolian-based emerging iron ore developer offers significant upside. **We maintain a Speculative Buy (Higher risk) recommendation.**

Investment case

- We suggest that the resource increase announced today removes a lot of project resource risk. HAR's revised resource base of 254Mt ore / 44Mt metal is now second only to Mongolia's largest iron ore producer - the neighbouring (15km) privately-owned Eruu Gol mine (~300Mt ore/108Mt metal). We believe that Eruu Gol is potentially looking to list on the HKSE in 2014; based on the US\$700m cash consideration CIC paid for a 35% interest in Eruu Gol in 2009, we calculate that an IPO could be valued at ~US\$2bn; Eruu Gol's listing, would, we believe, provide a useful see-through into HAR's valuation.
- As a result of a decline in fixed capital investment in Mongolia, many elements of the 2012 legislation (SSEFIL, Mining Law) are currently either under review or have been repealed. We believe that HAR could become the target of corporate activity – at either project or equity level - as investors take advantage of a more business-friendly environment in Mongolia after the June 2013 Presidential election. In addition, we suggest that HAR's share price could benefit as the market re-evaluates Mongolian sovereign risk.

Key Financials

Year-end December	FY12A	FY13E	FY14E	FY15E	FY16E
Spot Iron Ore (CFR US\$/t)	133	124	100	102	104
Selenge ARP (US\$/t)	na	na	na	120	123
USD/AUD (average)	0.97	0.95	0.93	1.02	1.08
Sales volume (Mt)	na	na	na	4.0	4.0
Revenue (A\$m)	1	0	0	491	529
EBITDA (A\$m)	-3	-4	-4	217	234
Cash costs (A\$/t)	na	na	na	69	74
Reported NPAT (A\$m)	-3	-4	-4	108	121
Normalised NPAT (A\$m)	-3	-4	-4	108	121
EPS Reported (A\$)	-0.01	-0.01	-0.01	0.13	0.15
EPS Normalised (A\$)	-0.01	-0.01	-0.01	0.13	0.15
DPS (A\$)	0.00	0.00	0.00	0.00	0.04
ROE (%)	nm	nm	nm	52%	40%
Net debt / (cash) (A\$m)	-3	-1	292	199	99
Capex (A\$m)	-12	-10	-410	-15	-16

Source: Iress, Company Data, Ord Minnett Est. Share price: \$ 0.120 May 07, 2013

HAR A\$0.12 (TP A\$0.33)

Recommendation
Speculative Buy

Risk Assessment
Higher

Resources – Iron Ore

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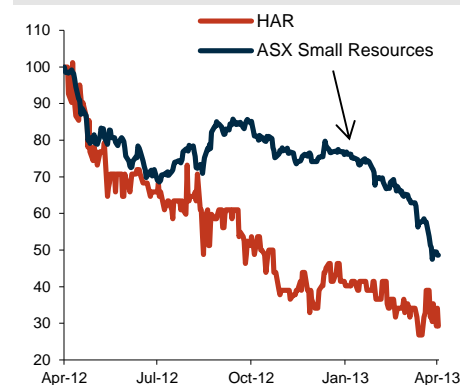
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Haranga Resources Limited

ASX Code	HAR
52 week range	\$0.11-\$0.40
Market Cap (Sm)	27
Shares Outstanding (m)	242
Av Daily Turnover	113,915
ASX All Ordinaries	5,125
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	-4
EPS (A\$) (C)	na	na
EPS (A\$) (OM)	-0.01	-0.01
Target Price (Consensus)		A\$0.62
Target Price (Ord Minnett)		A\$0.33

Source: Bloomberg, Ord Minnett

Note: A\$0.62 consensus price is from OML's TP of A\$0.33 and one other analyst's TP of A\$0.90

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 - 2027	Total
Opening mine inventory (Mt)	254	254	254	231	208	185	162	139	-	-
Closing mine inventory (Mt)	254	254	231	208	185	162	139	116	-	-
Ore Mined (Mt)	-	-	23	23	23	23	23	23	116	254
Sales of iron ore concentrate (Mt)	-	-	4.0	4.0	4.0	4.0	4.0	4.0	20	44
Average Received Price (A\$/t)	135	110	123	132	144	154	164	167	179	162
Revenue	-	-	491	529	578	616	655	670	3,605	7,144
Mining costs	-	-	(103)	(111)	(121)	(129)	(137)	(140)	(747)	(1,487)
Processing costs	-	-	(49)	(53)	(57)	(61)	(65)	(66)	(355)	(705)
Admin costs	-	-	(2)	(2)	(2)	(3)	(3)	(3)	(18)	(34)
Operating (C1) costs	-	-	(154)	(166)	(181)	(192)	(204)	(209)	(1,120)	(2,226)
Transportation costs	-	-	(91)	(98)	(107)	(114)	(121)	(123)	(662)	(1,317)
Corporate costs	(4)	(4)	(4)	(5)	(5)	(5)	(6)	(6)	(37)	(75)
Royalty costs	-	-	(25)	(26)	(29)	(31)	(33)	(33)	(180)	(357)
Total cash costs	(4)	(4)	(274)	(295)	(322)	(342)	(364)	(371)	(1,999)	(3,975)
EBITDA	(4)	(4)	217	234	256	273	292	298	1,606	3,169
Interest payments on project debt	-	-	(23)	(18)	(14)	(9)	(5)	-	-	(69)
EBT	(4)	(4)	194	215	242	264	287	298	1,606	3,100
Tax	-	-	(39)	(42)	(44)	(47)	(49)	(52)	(279)	(552)
EAT	(4)	(4)	154	174	198	217	238	247	1,327	2,547
Cash inflow from equity raising	-	123	-	-	-	-	-	-	-	123
Cash inflow from debt financing	-	287	-	-	-	-	-	-	-	287
Debt principal repayment	-	-	(57)	(57)	(57)	(57)	(57)	-	-	(287)
Project Capex	-	(410)	-	-	-	-	-	-	-	(410)
Maintenance/other capex	-	-	(15)	(16)	(18)	(19)	(20)	(21)	(133)	(243)
Project cashflow	(4)	(4)	82	100	123	141	160	226	1,194	2,017

Discount rate (Cost of Equity)	15%
NPV (A\$m) (100% basis)	621
NPV (A\$m) (80% HAR interest)	497

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%. Actual yield and concentrate metrics will be determined by management during 2013.

Source: Company, Ord Minnett forecasts

Note: We assume that project capex of A\$410m (based on a 2012 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 15% discount rate (CoE). Cost estimates are based on HAR's preliminary scoping study (techno-economic) estimates.

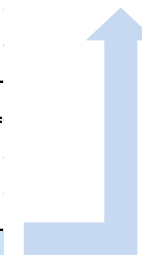
Company Review

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 - 2027	Total
Benchmark iron ore (62% Fe CFR)	124	100	102	104	106	108	110	113	122	115
Y-o-Y % change in benchmark price	nc	-19%	2%	2%	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)	114	90	92	94	96	98	100	103	112	105
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	121	96	98	100	102	105	107	109	119	111
Transport charge to China frontier	22	22	22	23	23	24	24	25	27	25
Average received price (US\$/t)	142	118	120	123	126	128	131	134	146	136
Mining costs	na	na	(25)	(26)	(26)	(27)	(27)	(28)	(30)	(28)
Processing costs	na	na	(12)	(12)	(12)	(13)	(13)	(13)	(14)	(13)
Admin. Costs	na	na	(1)	(1)	(1)	(1)	(1)	(1)	(2)	(1)
Operating (C1) costs	na	na	(38)	(39)	(39)	(40)	(41)	(42)	(46)	(43)
Transportation costs	na	na	(22)	(23)	(23)	(24)	(24)	(25)	(27)	(25)
Corporate costs	na	na	(1)	(1)	(1)	(1)	(1)	(1)	(4)	(3)
Royalty costs	na	na	(6)	(6)	(6)	(6)	(7)	(7)	(7)	(7)
Unit cash costs	na	na	(67)	(69)	(70)	(71)	(73)	(74)	(84)	(77)
Y-o-Y % change in unit cash costs	na	na	na	2%	2%	2%	2%	2%	-	2%
Unit EBITDA (US\$/t)	na	na	53	54	56	57	58	60	62	59
Unit EBITDA margin (%)	na	na	44%	44%	44%	44%	44%	45%	43%	43%
<i>USD/AUD exchange rate</i>	<i>0.95</i>	<i>0.93</i>	<i>1.02</i>	<i>1.08</i>	<i>1.15</i>	<i>1.20</i>	<i>1.25</i>	<i>1.25</i>	<i>1.25</i>	<i>1.19</i>
Average received price (A\$/t)	135	110	123	132	144	154	164	167	179	162
Unit cash costs (A\$/t)	na	na	(69)	(74)	(80)	(86)	(91)	(93)	(105)	(92)

As a result of lowering the Project Fe grade to ~17% from our original forecast of ~20%, our forecast LOM unit cash costs have increased to US\$77/t from A\$71/t



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 NPV₁₅ of A\$497m for the 254Mt Selenge Project resource base, we calculate HAR's un-risked enterprise value at A\$532m (A\$0.64 per share on a fully-diluted basis). Attaching a 50% 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\$269m (A\$0.33 per share on a fully-diluted basis).

Estimated NPV₁₅ value of the Selenge Project resource base: A\$497m

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)	497	0.60	204	2.44
Selenge exploration target upside	24	0.03	40	0.61
Other Projects	10	0.01		
Total un-risked enterprise value	532	0.64		
Risk-weighting (% chance of NPV not being realised)	50%			
Total risked enterprise value	266	0.32		
FY12A cash	3	0.00		
FY12A debt	0	0.00		
Equity value (risked)	269	0.33		

Risk-weighted equity value: A\$0.33 per share

Current number of shares in issue (m)	242
Current number of options (m)	51
Estimated shares from potential 2013 equity issue (m)	40
Estimated shares from project funding equity issue (m)	492
Estimated fully diluted no. of shares (m)	825

Source: Ord Minnett forecasts

Note: 204Mt resource calculated as the 254Mt resource base x 80%. Our valuation of A\$24m for Selenge exploration target upside is based on 40Mt (50Mt x 80%) and a unit NPV of A\$0.61/t (75% discount to our estimated A\$2.44/t NPV for Selenge.) We attach a nominal value of A\$10m to HAR's other Mongolian Projects (Khundlun, Shavdal, Tumurtei Khudag). We assume A\$10m in equity is raised (at an issue price of A\$0.20 per share) to fund 2013 drilling and feasibility study expenses. We assume a 70:30 debt:equity split for the A\$410m pre-production capex and **assume the A\$123m in project equity funding is raised in 2014 at an issue price of A\$0.25 per share (equivalent to HAR's average 2012-2013 share price).**

Risks

Risks to our valuation include but are not limited to:

Near-term funding: HAR cash balance at the end of March 2013 was A\$7.5m. We believe that HAR will need additional funding (A\$10-A\$15m) for ongoing corporate expenses, a 2013drilling programme 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 (particularly the draft Mining Law). **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.

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	491	529
Operating costs	0	0	0	(154)	(166)
Transport costs	0	0	0	(91)	(98)
Other (Royalty/Corporate)	(4)	(4)	(4)	(29)	(31)
EBITDA	(3)	(4)	(4)	217	234
Depreciation & Amortisation	0	0	0	(32)	(34)
Operating profit	(3)	(4)	(4)	185	200
NOI	0	0	0	0	0
EBIT	(3)	(4)	(4)	185	200
Interest income	0	0	0	0	2
Interest expense	0	0	0	(21)	(17)
Tax expense & minority interest	0	0	0	(55)	(64)
Reported NPAT	(3)	(4)	(4)	108	121
Normalised NPAT	(3)	(4)	(4)	108	121
EBITDA Margin (%)	nm	nm	nm	44%	44%
Operating profit margin (%)	nm	nm	nm	38%	38%
EPS Reported (A\$)	(0.01)	(0.01)	(0.01)	0.13	0.15
EPS Normalised (A\$)	(0.01)	(0.01)	(0.01)	0.13	0.15
EPS growth (%)	nm	nm	nm	nm	12%
DPS (A\$)	0.00	0.00	0.00	0.00	0.04
Dil Av no. of shares (m)	245	313	579	825	825
Dil YE no. of shares (m)	278	333	825	825	825

Cash Flow Statement (A\$m)	FY12A	FY13E	FY14E	FY15E	FY16E
EBITDA	(3)	(4)	(4)	217	234
Investment in working capital	0	1	(2)	(32)	(2)
Tax expense	0	0	0	(41)	(46)
Operating Cash Flow	(3)	(2)	(6)	144	185
Capex	(12)	(10)	(410)	(15)	(16)
Other investments	(0)	0	0	0	0
Investing Cash Flow	(13)	(10)	(410)	(15)	(16)
Net interest received / (paid)	0	0	0	(21)	(15)
Debt draw down / (repayment)	0	0	297	(57)	(57)
Dividends paid	0	0	0	0	(36)
Equity raised / (repaid)	6	10	123	0	0
Financing Cash Flow	6	10	420	(79)	(109)
Non-operating & Other	(0)	0	0	(15)	(17)
Incl(Dec) in Cash	(9)	(2)	4	35	42

Balance Sheet (A\$m)	FY12A	FY13E	FY14E	FY15E	FY16E
Cash & Deposits	3	1	5	41	83
Receivables	0	2	0	56	61
Inventories	0	0	0	42	45
Other Current Assets	0	0	0	0	0
PPE and Exploration & Development	25	35	445	428	411
Deferred tax asset	0	0	0	0	0
Other Non Current Assets	0	0	0	0	0
Total Assets	29	38	451	567	600
Payables and other current Liabilities	1	4	0	66	71
Short Term Debt	0	0	10	10	10
Long Term Debt	0	0	287	230	172
Other Non Current Liabilities	0	0	0	0	0
Total Liabilities	1	4	297	306	254
Total Equity	28	34	154	262	346
Net Debt (Cash)	(3)	(1)	292	199	99

Major Shareholders	%	Date
Lippo Capital	13.4%	
Amarmaar Chultem	12.4%	Apr-13
Geotress LLC	4.1%	

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		124	100	102	104
Less shipping costs (US\$/t) to obtain FOB price		-10	-10	-10	-10
Premium for Fe grade & quality (Al, Si, P) (US\$/t)		7	6	6	6
Transport costs to China border (US\$/t)		22	22	22	23
Average received price (ARP) (US\$/t)		142	118	120	123
USD:AUD exchange rate (annual average)		0.95	0.93	1.02	1.08
Average received price (ARP) (A\$/t)		135	110	123	132

Production Profile (Mt)	FY12A	FY13E	FY14E	FY15E	FY16E
Bayantsogt	0.0	0.0	0.0	1.0	1.0
Dund Bulag	0.0	0.0	0.0	3.0	3.0
Group	0.0	0.0	0.0	4.0	4.0

Unit data (A\$/t)	FY12A	FY13E	FY14E	FY15E	FY16E
Revenue	-	-	-	123	132
Mining costs	-	-	-	26	28
Processing costs	-	-	-	12	13
Admin. Costs	-	-	-	1	1
Unit operating (C1) costs	-	-	-	39	41
Transport costs (to China border)	-	-	-	23	25
Corporate costs	-	-	-	1	1
Royalty costs	-	-	-	6	7
Unit concentrate cash costs	-	-	-	69	74

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

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

Additional Exploration Target

Dund Bulag / Bayantsogt / Undar Ukhaa / Huiten Gol Between 50-100Mt

Leverage	FY12A	FY13E	FY14E	FY15E	FY16E
Net Debt/Equity	-12%	-3%	190%	76%	29%
Net Debt/Total Assets	-12%	-3%	65%	35%	16%
Interest Cover (x)	na	na	na	9	12

Valuation Ratios (x)	FY12A	FY13E	FY14E	FY15E	FY16E
Normalised P/E	nm	nm	nm	1.0	0.9
Price/OP Cash Flow	nm	nm	nm	0.7	0.6
EV (A\$m)	23	25	318	225	126
EV/EBITDA	nm	nm	nm	1.0	0.5
ROE (%)	nm	nm	nm	52%	40%

NPV Valuation	NPV (A\$m)	A\$ per share	Ore NPV (A\$/t)*
Selenge Project (80% HAR share)	497	0.60	2.44
Exploration upside / Other projects	34	0.04	
Un-risked enterprise value	532	0.64	
Risk-weighting (discount)	50%		
Total risked enterprise value	266	0.32	
FY12A cash	3	0.00	
FY12A debt	0	0.00	
Equity value (risked)	269	0.33	

* 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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Company Review

Ord Minnett Limited
ABN 86 002 733 048
ASX Market Participant
AFS Licence Number 237121

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Guide to Ord Minnett Recommendations

Our recommendations are based on the total return of a stock – nominal dividend yield plus capital appreciation – and have a 12-month time horizon.

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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Note: Ord Minnett has not conducted a site-visit to HAR's projects in Mongolia.

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