

Sun International Resources

Major technological breakthrough

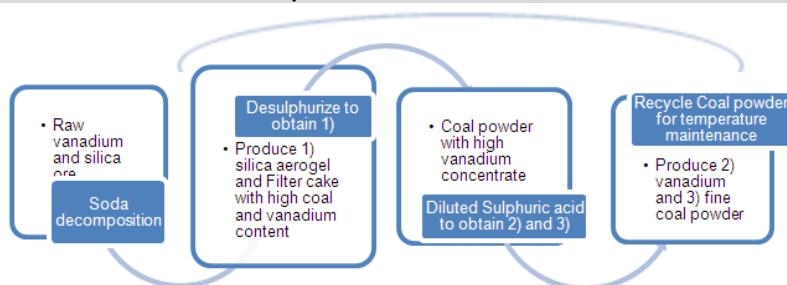
to summarize...

- Adopt of a new name, Sun International Resources, the company is positioned to be a significant player in resources sector.
- Resources acquisition with China angle. Investment in iron ore, vanadium and silica mining resources in Indonesia and China.
- Major breakthrough in the technology of extracting mineral resources; patented technology monetizing tailing minerals to support vanadium extraction.
- Stable income generated from 1) online gaming software and 2) resort operation to support the long-term resources business development.

Breakthrough in technology of extracting mineral with waste-free emission.

Sun International Resources (SIR) has achieved a breakthrough in the technology of extracting vanadium mineral resources. The new technology allows no discharge of 1) waste residue, 2) waste gas and 3) waste water as well as enhances the vanadium extraction recovery rate by 50% to 60% as compared to the traditional baking and direct leaching method. The new method can be applied on specific vanadium and silica mine, e.g. the Jinguang mine to be acquired. Under the new extraction method, there are three key economic recoverable minerals produced including 1) silica aerogel 2) coal powder 3) ammonium metavanadate (vanadium). Illustration 1 shows the simplified extraction and processing flow:

Illustration 1. New vanadium production method



Source: SBI E2-Capital

Table 1. Vanadium Ore Pentoxide Min 98% Europe RMB/t V205

Vanadium Ore Pentoxide Min 98% Europe RMB/t V205						
ASP	2008	2009	2010	2011	2012	2013
(RMB/t)						
Average	177,918	75,258	86,375	82,382	69,541	80,823
Year high	95,397	95,397	95,397	89,162	76,692	84,174
Year low	79,186	79,186	79,186	76,068	63,598	75,445

Source: SBI E2-Capital

Please refer to important disclosures at the end of this report

Ticker	8029 HK
Rating	Not Rated
Price (HK\$)	0.97
Target Price (HK\$)	n.a.
12m Price Range (HK\$)	0.51 - 1.97
Market cap. (US\$m)	115.4
Daily t/o (US\$m)	0.4
Free float (%)	55.7

Financial summary

Year to Mar	10A	11A	12A
Turnover (HK\$m)	181	201	234
Net Profit (HK\$m)	252	69	88
EPS (HK\$)	0.21	0.06	0.07
P/E (x)	3.6	13.1	10.3
P/B (x)	0.6	0.6	0.6
EV/EBITDA (x)	3.9	20.6	10.1
Yield (%)	-	-	-
ROE (%)	28%	6%	7%
ROCE (%)	37%	4%	5%
N. Gear. (%)	Net Cash	11%	12%

Source: SBI E2-Capital

	11F	12F	13F
Consensus EPS (HK\$)	-	-	-
Previous earnings (HK\$m)	-	-	-
Previous EPS (HK\$)	-	-	-

Price performance

	1m	3m	12m
Relative to HSI (%)	30.7	3.1	(49.0)
Actual price changes (%)	24.4	6.6	(46.7)



Source: Bloomberg

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Background Information

Investment in mining resources with China angle. In July 2011, Sun international announced to change the company name from Sun International Group to Sun International Resources and adopted a Chinese name of '太陽國際資源有限公司'. The change in company name demonstrated the determination of the company to focus on resources segment in coming years. Company's interest in resources industry has come to light since its first acquisition of Indonesian iron sand mine since 2009. Quickly in 2010, SIR acquired another iron ore project in Indonesian, and entered into an S&P agreement to acquire a vanadium and silica mine in China. We expect SIR will further acquire mining assets in worldwide with China angle. The brief overview on past acquisitions completed in relation to mining assets and ongoing acquisition projects:

- **Acquisition of Indonesian iron sand project.** On 17 July 2009, SIR acquired a company which owns an iron sand mining project in Indonesia at a consideration of HK\$8.4m for 54% equity interest in the target company or 51.3% benefit interest in target assets. The iron ore mine has an average Fe grade of 38%, and total iron ore reserves and resources of 80.6m tones. The target company has an estimate business value of HK\$544.1m.
- **Acquisition of Indonesian iron ore project.** In early 2010, SIR further expanded its resources arm in Indonesia. The iron ore mine has an average Fe grade of 41%, and total iron ore reserves and resources of 6.4m tones. SIR acquired 54% of the target company or 51.3% economic benefit of the mine for a consideration of HK\$76.5m. According to the third party evaluation, the fair value of the project was worth HK\$317.1m.
- **S&P agreement to acquire Vanadium and silica mine in China.** In Dec 2010, SIR entered into an S&P agreement that the company agreed to acquire 35% interest in a vanadium and silica mining project in China for a consideration of HK\$280m. According to the company announcement, based on the preliminary review, the ore deposit has mineral resources of 1m tones of vanadium pentoxide and 58.5m tonnes of silica ore.

Mineral assets overview

1) Vanadium and silica mining project to be acquired in China.

In Dec 2010, Sun International entered into an S&P agreement to acquire a Vanadium and silica mine in China. Pursuant to the S&P agreement, SIR agreed to purchase 35% interest in a vanadium and silica mine in China for a consideration of HK\$280m. Based on preliminary review on the project, the ore deposit contains 1m tones of vanadium pentoxide and 58.8m tones of silica ore.

Brief introduction of vanadium pentoxide and silica:

- **Vanadium pentoxide:** Vanadium is a chemical element with the symbol V and atomic number 23. Approximately 85% of vanadium products are processed into vanadium pentoxide for chemical applications or into ferrovanadium used to produce high strength steels, which is economic favourable. It is said that the strength of steel containing 0.1% vanadium can be improved by 10% to 20% as compared with steel without vanadium. Vanadium pentoxide is also used in ceramics. The current price level is around US\$7~8/ pounds
- **Silica:** Silica is a chemical compound known as silicon dioxide. Silica is commonly found in nature as sand or quartz. It is used primarily in the production of glass products, optical fibers for telecommunications and primary raw material for different whiteware ceramics such as earthenware, stoneware, porcelain and industrial Portland cement.

2) Indonesian iron ore projects.

2.1. Iron sand mine in Ende Flores, Indonesia

Sun International acquired this mine in 2009 at a consideration of HK\$8.4m for 51.3% economic beneficial interest. The mine is located in Ende Flores, Nusa Tenggara Timur in Indonesia with mining permitted area of 44.1km². The mine is an iron sand mine, with average Fe content of 38% and indicated and inferred iron ore resources of 80.6m tonnes. The estimated mining life is around 20 years. According to third party valuer, the project was worth over HK\$544.1m. The mine is located close to sea transportation, 3.5km away from the nearest pier, and is surrounded by highway. Two major benefits in this project are low shipping costs to China and low mining cash costs. Transportation cost is often the most significant cost for iron ore mining company, which can be over 50% of miners total cash costs. The iron sand mine is located near the pier, therefore the transportation cost to pier from plant is low, while Indonesia is located, relatively close to China as compared to other resources countries, e.g Australia, South Africa, Canada. Despite the low Fe grade in iron sand in this project, the mining and processing cash cost is not high. The iron sand can be easily mined and extracted, without major crushing process.

2.2 Iron ore mine in Padang, Indonesia

Another iron ore mine is located in Padang, Sumatra, Indonesia with an aggregate mining area of 0.44km². The mine is laterite iron ore mine, with average Fe content of 41% and indicated and inferred iron ore resources of 6.4m tonnes. The acquisition was processed in 2010, SIR purchased 54% beneficial interest in the (95% owned) iron ore mining asset for a consideration of HK\$76.5m. The mine is 92km distant from Padang City. Exploration and production were commenced since mid-2009 with daily mining capacity of 3,000 tonnes iron ore to produce 57%+ high grade iron ore concentrate. All necessary mining licenses are in place. According to third party valuer (Grant Sherman Appraisal), the estimate value of the overall project is HK\$317.1m. This mine is now a major supplier of Burwill Holdings, which is engaged in trade in steel and steel processing.

Mining status update. Pursuant to the latest announcement, Indonesia has enforced a new regulation on 11 May 2012 that mine owners in Indonesia need to obtain the ore exporter status and an ore export approval issued by Minister of Trade of the Republic of Indonesia for ore export. SIR's two iron mines are currently pending for the Export Approvals. Since mining products at this stage can only sell locally at a relatively low price as compared to international spot price, company has suspended the mining operation since July 2012.

Background Information:

Indonesia is located in Southeast Asia. Indonesia is a resources rich country. The major commodity in the country is coal, copper, nickel, tin, bauxite and gold. And there is raising emphasis on iron ore. Indonesia has a number of types of iron ore. We divide them into three groups, laterite iron ore, primary iron ore and iron sand. Their deposits volume allocation in Indonesia is around 75%, 17% and 8% respectively. Simply speaking, primary iron ore is a high grade iron ore with good Fe content between 40%~ 70% can be haematite or magnetite. Laterite iron ore and iron sand are what SIR found in its Indonesian iron ore assets. Laterite iron ore are the products of rock decay that have content of the oxides of iron with Fe content varied between 35% and 55% whereas iron sand usually contains high titanium oxide while their Fe content can vary substantially, between 10% and 60%. The merit of iron sand perhaps is the low mining costs and low processing costs, which is often compensated by high % of titanium content and low Fe content.

Table 2. mineral assets summary

Assets	Total Resources and Reserve	Estimated fair value (HK\$m)	Effective % of ownership	Attributable Res and Reserve
China				
▪ Vanadium and silica mine		1,074	35.0%	
Vanadium	1.0m tonnes		35.0%	0.35m tonnes
Silica	58.5m tonnes		35.0%	20.5m tonnes
Indonesia				
▪ Iron sand mine	80.6m tonnes	544.1	51.3%	41.3m tonnes
▪ Iron ore mine	6.4m tonnes	317.1	51.3%	4.1m tonnes

Source: SBI E2-Capital

Other businesses

Sun International also engaged in business of information technology, entertainment and resort operation. They provide a stable income source to support the long-term development of mining business. Table 3 and 4 show the key financial summary of the group and earning breakdown. Brief introduction of other businesses:

- **Online gaming software (I.T.).** SIR engages in online gambling software development business with focuses on customers in South East Asia region. Principal business activities include 1) provision of software and hardware solutions to online gambling operators 2) IT systems for casino management solution, such as rolling system, Baccarat display and membership systems etc. Computer software solution and services segment currently contributed around 61% of turnover and 94% of segment profit with a segment profit margin of 77% in FY03/12A.
- **Hotel Services in Philippines.** SIR commences in hotel services operation since 2008. Major asset is the leasing agreement entered into with First Cagayan Leisure and Resort Corporation for a term of 25 years in relation to the utilization of the Land for the development of the Prestigious and Leisure Resort in Philippines. The resort has total 265 rooms with an average occupancy rate of over 90%. Hotel services segment contributed around 36% of turnover and 37% of segment profit with segment profit margin of 51% in FY03/12A.

Table 3. P&L financial summary

HK\$m	FY03/10A	FY03/11A	FY03/12A
Revenue	181.4	201.3	234.1
Computer Software Solution and Services	88.2	102.3	142.3
Hotel Services	83.1	82.9	84.0
Mining Services	5.8	11.2	7.7
Entertainment operations	4.3	4.9	0.1
Cost of goods sold	(53.7)	(45.1)	(39.4)
Gross profit	127.7	156.2	194.7
Other income	10.0	2.6	6.7
Selling and marketing expenses			
Administrative expenses	(63.6)	(78.9)	(74.1)
Amortization	(29.9)	(5.9)	(15.6)
Fair value charge in derivative financial Instrument		(3.5)	(4.0)
Impairment loss	(121.7)		
Gain on bargain purchas	355.1		
Other operating expenses	(13.7)	(11.1)	(6.0)
Operating profit	264.0	59.4	101.7
Share of profit of an associate			(1.5)
Finance costs	(0.0)	(6.9)	(7.8)
Profit before tax	264.0	52.5	92.4
tax	(9.8)	52.6	(11.2)
Total profit	254.2	105.1	81.2
Net profit	251.5	68.7	87.6
MI	2.7	36.3	(6.3)

Source: SBI E2-Capital

Table 4. B/S financial summary

HK\$m	FY03/10A	FY03/11A	FY03/12A
Non-current assets	1,634	1,915	1,899
Property, plant and equipment	23	32	32
Investment properties	68	75	77
Goodwill	420	420	420
Intangible asset	1,081	1,076	1,092
Interest in an associate		280	279
Exploration and Evaluation Assets	42	34	
Current assets	176	270	261
Inventories	7	22	42
Trade and other receivables	94	72	140
Prepayments, deposits and other receivables	31	16	19
Derivative Financial Instrument		12	2
Tax recoverable	0	1	1
Bank balances and cash	44	147	58
Non-current liabilities	334	568	347
Deferred taxation	334	269	266
Convertible notes/Bank borrowings		159	81
Promissory note		140	
Current liabilities	56	51	194
Accruals and other payable	19	20	22
Trade payable	2	2	2
Deposits received	1	1	1
Amonut due to a related company	3		
Amonut due to shareholder	24	25	25
Promissory Note	7		140
Tax payables	0	3	3
EQUITY	1,421	1,566	1,620

Source: SBI E2-Capital

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