

# Sundance tracks industry experience

Flagship iron-ore project has been mixed blessing from the start for junior



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**S**undance Resources Ltd took another step forward in its ambition to mine iron ore in central Africa with its recent selection of Mota-Engil Africa to build its rail and port facilities in Cameroon. While success beckons, the company's colourful history is a case study in some of the major industry trends over the past decade.

In November 2006, the *Mining Journal* published a report recording a share placement by Sundance Resources at A\$0.08. Funds were to be used to help complete the pre-feasibility study at the Mbalam iron-ore property in Cameroon.

Now, Sundance is possibly further away from production than it was supposed to be when *Mining Journal* reported strong investor demand pushing up the size of the 2006 raising by 50% to A\$30 million (US\$28 million). The Sundance experience brings to mind five industry-wide influences that have impacted investment returns:

▼ **New frontiers:** Crumbling political and investment barriers allowed geologists to head into parts of the world that had long been inaccessible to the small, ambitious explorer. Hundreds of Canadian and Australian companies began looking for projects in places they had not been before.

An unfortunate sense of entitlement accompanied some. They expected swift recognition of the benefits they would bring from mineral discoveries. Many had failed to appreciate the intricacies of local politics or were simply oblivious to the right of emerging nations to go about development at their own speed.

Companies boldly asserted timetables based on when they thought governments should approve projects. Sundance fell into this trap. Governments are now generally clearer about what they want and companies less arrogant in their dealings.

▼ **Exaggerated claims:** A tendency for over-excited claims about the speed of development has continually afflicted investment opportunities. Here the Sundance path to development is especially illustrative. Certainly, there were some unexpected macro events intervening. But was it ever likely that all necessary permitting, offtake agreements, engineering studies and impact assessments for such a massive project were going to be



**Sign of progress... Sundance Resources has won government approvals on its long road to development of the Mbalam-Nabebe project**

completed within 12 months, as the company had once asserted?

The information from Sundance this month points to a 2019-20 production start and not 2011 – or even 2017, which had been the publicly targeted date as recently as early 2014.

Pressures for early production abound, with so-called challenging timetables proffered in response. The result is projects still far more likely to come in late than early.

The adjustment to real time has still not been completed, but investors are learning to wait. Or, perhaps more accurately, they are learning to go somewhere else having been shown so emphatically by Sundance Resources and so many others that they actually had many years up their sleeves before an investment commitment was needed.

▼ **Rising Chinese influence:** The Chinese involvement in the industry has gone through several stages, starting with some wild buying by state-owned enterprises. Once the Chinese central government had identified a series of strategic resources on which the economy would depend for growth, a plethora of more entrepreneurial types emerged as middle men presenting themselves as having access to great wealth.

Sundance Resources eventually hooked up with Hanlong Mining in a lopsided deal that allowed the putative buyer to lever down the buying price repeatedly while painting Sundance into a nearly inescapable commercial corner. In the nick of time for Sundance, Hanlong fell victim to its own murky behaviour. The company's chairman was sentenced to death in late May for corruption and murdering business rivals.

The extremities of the Hanlong experience have not been typical, but nor has the involvement of Chinese financiers been an unalloyed source of beneficence for the industry. Some-

times, for investors, their arrival has been a sign to sell rather than buy.

▼ **New funding sources:** As western capital sources dried up, the industry had to re-think how development could occur. Pre-payment mechanisms, offtake agreements and other customised funding arrangements have loomed larger as sources of finance.

Trading houses have kept some projects going when they were otherwise endangered, but there has been a cost. Some have extracted marketing and sales fees to cover the cost of their capital, an advantage not available to other investors. They have compromised governance by sitting on boards. They have ripped out potential takeover premiums by tying up output another buyer of the company might have wanted. Those sitting on large share positions as part of their deals have gained effective options, which have also deflected potential buyers, over the ownership of companies.

Many of these lessons have been learned, but companies are still forced into the arms of dealmakers able to extract far more favourable terms than the more passive equity investors facing ongoing dilution of their economic interests.

Sundance Resources has appointed its trading house benefactor rather than have a steel maker with a real appetite for product as its offtake partner. Adeptly, the deal allows Sundance to claw back some of the trading house share of product to which it is entitled while still having a sufficiently robust agreement to help underwrite financing of the project. Lessons are being learned.

▼ **Too big to succeed:** Mbalam always had the makings of a world class iron-ore mining development. Despite its obvious attributes, however, the deposit presented a mixed blessing for a weakly capitalised company seeking to retain a meaningful economic exposure while needing others to foot a large share of the pre-production development costs.

Except for when the market was at its frothiest, the gap between corporate market value and project cost was always a daunting impediment to raising the required amount of capital. The market value of Sundance has had to retreat repeatedly as the extent of the resulting dilution had to be reappraised.

Given risk appetite and the cost of funds, big mines, exciting projects and company transforming development stories no longer equate automatically with good investments. ▼