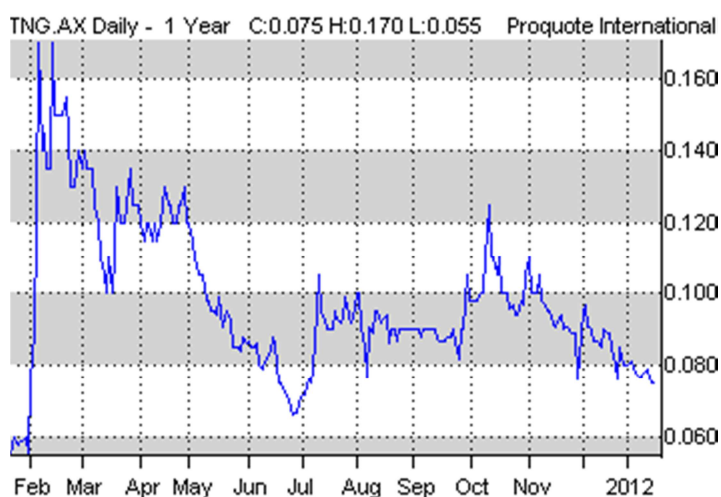


## TNG Limited

7.5¢

First stage of capital raising completed

18 January 2012



<b>Recommendation:</b>	<b>BUY</b>
Sector:	Mining
Target Price:	45¢
Exchange & Ticker:	ASX: TNG
Shares in issue:	344.6m
Fully diluted shares:	363.7m (426m post ECE)
Market cap:	A\$ 26m
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TNG Limited (ASX: TNG) has completed a capital raising of A\$6.6m as part of the first phase of the broader \$13.4m transaction with East China Mineral Exploration & Development Bureau (“ECE”). We view the successful completion of the first stage of the deal as a positive development, and furthermore, securing the funds at a 45% premium to the current share price is a major accomplishment by TNG, given the current state of the global equity market.

- **A\$6.6m cash injection.** Aosu Investment and Development Co Pty (“Aosu”), a subsidiary of ECE, has subscribed for and been issued 59.8m shares in TNG at a price of 11¢ per share to raise gross proceeds of \$6.6m before costs. The transaction is part of the larger \$13.4m ECE transaction announced on the 3rd August 2011. We note that the subscription price of 11¢ represents a 45% premium to the current share price.
- **Fully funded.** As a result of the cash injection, we estimate that TNG is now fully funded through to a decision to commence the DFS at Mount Peake, likely in Q2 2012. The final part of the ECE transaction will see an additional \$6.8m cash injection into TNG, further bolstering the company’s financial position.
- **Use of proceeds.** TNG will use the funds to continue metallurgical test-work for the Mount Peake deposit in addition to directing a portion of the proceeds towards drill-testing new targets in the Mount Peake area. TNG has also repaid a \$2m loan plus interest owing to Aosu. Lastly, TNG anticipates commencing exploration at the company’s newly acquired copper licence in the Northern Territory.
- **FIRB approval Q1.** The final part (remaining \$6.8m) of the ECE transaction needs to be approved by the Australian Foreign Review Board, which TNG anticipates during Q1 2012.
- **No change to target price.** Our target price of A\$0.45 per share remains unchanged, as our base-case valuation is prepared on a fully diluted basis, having already adjusted for the ECE transaction.

We maintain our buy recommendation on the stock and stress that given the company’s strong financial position and momentum at key projects, we see the current discount in TNG shares trading at 7.5¢ as excessive. 2012 has the potential to be a monumental year for TNG and if the quick pace of progress continues, we consider the company’s shares due for an appreciable re-rating.

## First phase of \$13.4m capital funding secured

### **\$6.6m secured at a 45% premium to the current share price**

TNG Limited (ASX: TNG) has completed a capital raising of \$6.6m as part of the first phase of the broader \$13.4m transaction with East China Mineral Exploration & Development Bureau (“ECE”). We view the successful completion of the first stage of the deal as a positive development, and furthermore, securing the funds at a 45% premium to the current share price is a major accomplishment by TNG, given the current malaise in the global equity market.

### **Fully funded for the next big push**

The successful completion of the first part of the transaction will result in an immediate cash injection to TNG of \$6.6m, before costs. We estimate that TNG is now fully funded through to a decision to commence the Definitive Feasibility Study (“DFS”) at Mount Peake, likely in Q2 2012.

The funding also allows the company to press ahead with a drill programme to test new targets at Mount Peake, and also commence work on the company’s new, highly prospective copper licence. Once approval is obtained, the final part of the ECE transaction will see an additional \$6.8m cash injection into TNG, further bolstering the company’s financial position.

### **Target price unchanged at \$0.45 – current discount excessive**

Our target price of A\$0.45 per share remains unchanged, as our base-case valuation is prepared on a fully diluted basis, having already adjusted for the cash and new issue of shares from the soon to be completed ECE transaction. We maintain our buy recommendation on the stock and stress that given the company’s strong financial position and momentum at key projects, we see the current discount in TNG shares trading at 7.5¢ as excessive.

2012 has the potential to be a monumental year for TNG and if the management is successful in developing its projects according to plan and maintaining momentum, we consider the company’s shares due for an appreciable re-rating. We see material up-side from current levels.

## First cash tranche of \$6.6m received from ECE deal

### **Variation to agreement allows first tranche of funding prior to FIRB approval**

Aosu Investment and Development Co Pty (“Aosu”), a subsidiary of ECE, has subscribed for and been issued 59,808,643 shares in TNG at a price of 11¢ per share to raise gross proceeds of \$6,578,950 before costs. The transaction is part of the larger \$13.4m ECE transaction announced on the 3<sup>rd</sup> August 2011. We note that the subscription price of 11¢ represents a 45% premium to the current share price. Following the issue, Aosu will hold a 17% interest in TNG.

TNG signed a Variation Deed on 18<sup>th</sup> January this year in relation to the previous subscription agreement announced on 8<sup>th</sup> November 2011 with Aosu and Ao-Zhong International Mineral Resources Pty Ltd (“Ao-Zhong”). Ao-Zhong is a subsidiary of ECE.

The point to note here is that the Variation Deed allows Aosu to complete its part (\$6.6m) of the total ECE transaction (\$13.4m) immediately, as approval for this part of the transaction from the Australian Foreign Investment Review Board (“FIRB”) is not required. This is because Aosu is an Australian subsidiary of a private Chinese investment group, and not a Chinese State-owned entity, as such FIRB approval is not required. FIRB approval is however, required for the remaining Ao-Zhong investment of \$6.8m.

## Use of proceeds – metallurgical test-work and drilling

TNG plans to use the cash injection to continue and finalise key metallurgical test-work relating to the company's proprietary TIVAN™ process which has the potential to provide significant capital and operating cost advantages over the standard pyrometallurgical processing technology for iron-vanadium deposits. We believe this technology represents a key competitive advantage for Mount Peake and we await further test-work results with interest. TNG anticipates construction of the pilot plant shortly.

The proceeds have also been used to immediately repay a \$2m loan, plus interest owing to Aosu. The loan was provided by Aosu last year for working capital requirements.

TNG also plans to direct a portion of the funds towards drilling at Mount Peake, and other licences in the company's portfolio including the recently acquired copper licence in the Mount Doreen area of the Northern Territory.

At Mount Peake where TNG has outlined a 160Mt total resource to JORC guidelines, the resource remains open to the east. In addition TNG has identified a number of geophysical anomalies to the east of the Mount Peake deposit which the company believes may represent shallow expressions of a larger gabbroic system. TNG plans to drill test these targets from March onwards. The aim here would be to increase the Mount Peake resource, or identify additional resources in potential satellite deposits within trucking distance of the proposed processing plant. TNG believes that the new targets provide the potential to outline a resource of 500-700 Mt, a world class magnitude.

## Director appointment

TNG also reported the appointment of Mr Zhigang Wang, as a non-executive Director, as a result of the completion of Aosu's investment. Mr Wang is Chairman of Aosu, which is part of the Wanlong Group of companies comprising Suzhou Wanlong Electric Group Co.Ltd, and Suzhou Beijia Investment Co Ltd. Wanlong holds 51% of Aosu and Beijia holds the remaining 49%. Mr Wang has a background in electrical engineering and has significant experience with major industrial groups in China.

## Upcoming key catalysts

TNG estimates that it is on track to complete the ECE deal during Q1 2012 if FIRB approval is obtained. We view the following as key catalysts for TNG looking ahead to H1 2012.

- Publication of final PFS report
- FIRB approval and completion of ECE transaction
- Pilot plant test-work
- Commercialisation of TIVAN™ process
- Mount Peake drilling results
- Commence definitive feasibility study
- Exploration results from new copper project
- New project acquisitions

We view the pilot plant test-work and commercialisation of the TIVAN™ process as particularly important share price drivers.

Beyond H1 2012 key catalysts are likely to emerge from the DFS which will consider in more detail commercial options for value-add downstream processing to produce a high value ferro-vanadium product and higher value titanium products. We do not currently factor these developments into our valuation and positive results in this area have the potential to boost our valuation of TNG.

## DISCLOSURES AND RISK WARNING

The recommendation system used for this research is as follows. We expect the indicated target price relative to the FT All Share Index to be achieved with 12 months on the date of this publication. A 'Hold' indicates expected performance relative to this index of +/-10%, a 'Buy' indicates expected outperformance of >10% and a 'Sell' indicates underperformance of >10%.

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