

AUSTRALIAN

# RESEARCH

INDEPENDENT INVESTMENT RESEARCH

**TNG Limited (ASX: TNG)**

**Flash Note - KfW IPEX-Bank Mandated as  
Lead Debt Arranger for Mount Peake**

December 17, 2018

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**Note:** This note is based on information provided by the company as at 17 December, 2018.

Investment Profile	
Share Price - 14 Dec, 2018	A\$0.12
12 month L/H	A\$0.082/ 0.22
Valuation	A\$0.60/share
Issued Capital:	
Ordinary Shares	963.5 m
Unlisted Options	12.5 m
Fully Diluted	976.0 m
Market Capitalisation	A\$115.6 m
Cash - Sept 30, 2018	A\$13.9 m
Subsequent Placement	A\$3.87 m
R & D Refund	A\$1.55 m

Board and Management	
Paul Burton: Managing Director	
Mr Greg Durack: Non-Executive Director	
Mr Rex Turkington: Non-Executive Director	
Mr John Davidson: Non-Executive Director	

Major Shareholders	
V. M. Salgaocar	9.73%
WWB Investments	8.30%
Aosu Investments	5.83%
Board and Management	2.62%
Top 20	36.78%



Senior Analyst – Mark Gordon

The investment opinion in this report is current as at the date of publication. Investors and advisers should be aware that over time the circumstances of the issuer and/or product may change which may affect our investment opinion.

### KFW IPEX-BANK MANDATED AS LEAD DEBT MANAGER FOR MOUNT PEAKE

- ◆ **KFW IPEX-Bank has been mandated to structure the total debt package of up to US\$600 million (~A\$830 million) to underpin the financing of TNG’s 100% owned Mount Peake Vanadium-Titanium-Iron Project.**
- ◆ **The mandate will commence on January 15, 2019, with KfW IPEX-Bank to structure, coordinate, lead and manage the debt finance syndicate; this will also include advising the Company on the best strategy to maximise cover instruments from export credit agencies (“ECA”).**
- ◆ **The final capital requirements will be ascertained following lenders’ due diligence and the ongoing Mount Peake Front-End Engineering and Design (“FEED”) study: the due diligence will also determine appropriate amounts of contingency, working capital, debt service reserve and owner’s costs which will help determine the debt structure.**
- ◆ **In association with SMS Finance and TNG, KfW IPEX-Bank has had input into the capex and opex assumptions used in the ongoing FEED study, with the study being led by SMS Group, TNG’s strategic engineering and construction partner.**
- ◆ **KfW IPEX-Bank, as a part of the broader Frankfurt headquartered, German government-owned KfW Group, is one of the leading global providers of export credit and project financing.**
- ◆ **In view of the progress made and further de-risking, we have updated our valuation to A\$0.60/share**

### IIR’S COMMENTS

The signing of the mandate with KfW IPEX-Bank is a critical, and one of the final steps leading to the development of the Company’s Mount Peake Vanadium-Titanium-Iron Project, located in the Northern Territory of Australia.

One of the strengths of going down this finance route is the potential to access ECA cover, which can result in relatively low interest rates, thus reducing the cost of financing when compared with other debt finance options.

The signing of the financing mandate is the culmination of a year where major advances have been made towards project implementation, with milestones including:

- ◆ Territory and Federal Government environmental approvals for the Mount Peake mine site,
- ◆ Execution of the Mount Peake Project Native Title Agreement with the Central Lands Council and the Eynewantheyne Aboriginal Corporation RNTBC,
- ◆ Signing of a binding titanium products term sheet; and,
- ◆ Grant of the Mining and Ancillary Leases at Mount Peake.

The grant of the Mount Peake site leases is one of the last of the major permitting processes prior to construction and development of the Project - the granting of the leases was contingent upon the environmental approvals and the Native Title Agreement. The latter will ensure that employment opportunities, training and other benefits will flow back to the Native Title holders and local communities from the Project.

Remaining major permitting activities include environmental approvals for the Darwin TIVAN® plant site, with work on the Environmental Impact Statement (“EIS”) ongoing, and due for completion in early 2019.

Another significant factor in obtaining finance is having offtake agreements in place, with the titanium products agreement being the final one for the three products to be produced from Mount Peake - the other agreements in place include:

- ◆ A binding life-of-mine offtake agreement with South Korean company WOOJIN Metals for a minimum of 60% of the vanadium output - this includes a technology transfer agreement; and,

- ◆ A binding Term Sheet for a life-of-mine offtake agreement with Gunvor (Singapore) for iron products, with these expected to be largely pig iron.

This titanium binding Term Sheet was signed with the Switzerland based specialty chemicals distributor "DKSH" for the life-of-mine offtake of 100% (up to 150,000 tpa) of titanium products, which are initially to include products for the outdoor coating industry - it is expected that the terms will be settled, and a final binding offtake agreement be executed within six months of the October 30, 2018 execution of the Term Sheet.

In our view this is the most significant of the offtake agreements, with, at current prices, our modelling indicates that titanium products provide over 50% of project revenue.

Also on the titanium front the Company has entered into a binding Heads of Agreement with German technology provider, T-Cons, for the supply of a titanium dioxide pigment production technology package. This package includes the new sulphate-based TiO<sub>2</sub> production route, that directly uses feedstock produced by the TIVAN® process without any intermediate upgrading.

This progress on the Project has also come at a time of continuing strong prices for the Project's products, with these being positive for the already strong project economics.

With ~A\$18 million in the bank, the Company is now largely funded through to the main project development funding, with this expected to be finalised, with all going well, in early to mid 2020.

## VALUATION

- ◆ We have updated our indicative valuation for TNG (Table 1), with changes in the model including:
  - Updating the AUD:USD exchange rate from 0.75 to 0.72,
  - Increasing the risk multiplier to 70% to reflect the advances in the Project,
  - Increasing cash and current shares on issue to reflect the current position.
- ◆ We have left other parameters the same, including capex - the continuing input of KfW IPEX-Bank into the FEED study and the ongoing association with SMS should mitigate the chance of significant increases in capex as we have seen on some other projects using this funding route; in addition our modelling indicates that the Project is fairly insensitive to changes in capex as shown in Table 2.
- ◆ This is based on a conceptual 70:30 debt:equity mix.

**Table 1: TNG indicative base case valuation**

TNG indicative base case valuation					
Asset	Value (A\$m)	Risk Factor	Risked (A\$m)	Risked/Share	Notes
Mount Peake	\$2,171	70%	\$1,520	\$0.594	Post-tax NPV <sub>8</sub>
Cash	\$18.00	100%	\$18.00	\$0.007	Current
Todd River Holding	\$0.53	100%	\$0.53	\$0.000	Current
<b>Total</b>	<b>\$2,190</b>	<b>N/A</b>	<b>\$1,539</b>	<b>\$0.601</b>	
Diluted Shares	2,561 m	Tax Status	Post Tax		30% equity funding
Mount Peake Prices	V <sub>2</sub> O <sub>5</sub>	Pig Iron	TiO <sub>2</sub>	AUD:USD	
	\$16,500/tonne	\$350/tonne	\$3,000/tonne	0.72	IIR scenario

Source: IIR analysis

**Table 2: Un-risked Mount Peake sensitivity analysis**

Un-risked Mount Peake sensitivity analysis						
Change	V <sub>2</sub> O <sub>5</sub> Price	TiO <sub>2</sub> Price	Pig Iron Price	Exchange Rate	Opex	Capex
-15%	\$1,918	\$1,558	\$1,936	\$3,469	\$2,813	\$2,307
-10%	\$2,002	\$1,762	\$2,014	\$2,989	\$2,599	\$2,262
-5%	\$2,087	\$1,967	\$2,093	\$2,559	\$2,385	\$2,217
0%	\$2,171	\$2,171	\$2,171	\$2,171	\$2,171	\$2,171
5%	\$2,256	\$2,376	\$2,250	\$1,821	\$1,957	\$2,126
10%	\$2,341	\$2,581	\$2,329	\$1,503	\$1,744	\$2,081
15%	\$2,425	\$2,785	\$2,407	\$1,212	\$1,530	\$2,036

Source: IIR analysis

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