

Mineral Sands – The Capital Markets Perspective

9 NOVEMBER 2016 – TZMI CONGRESS (HONG KONG)



















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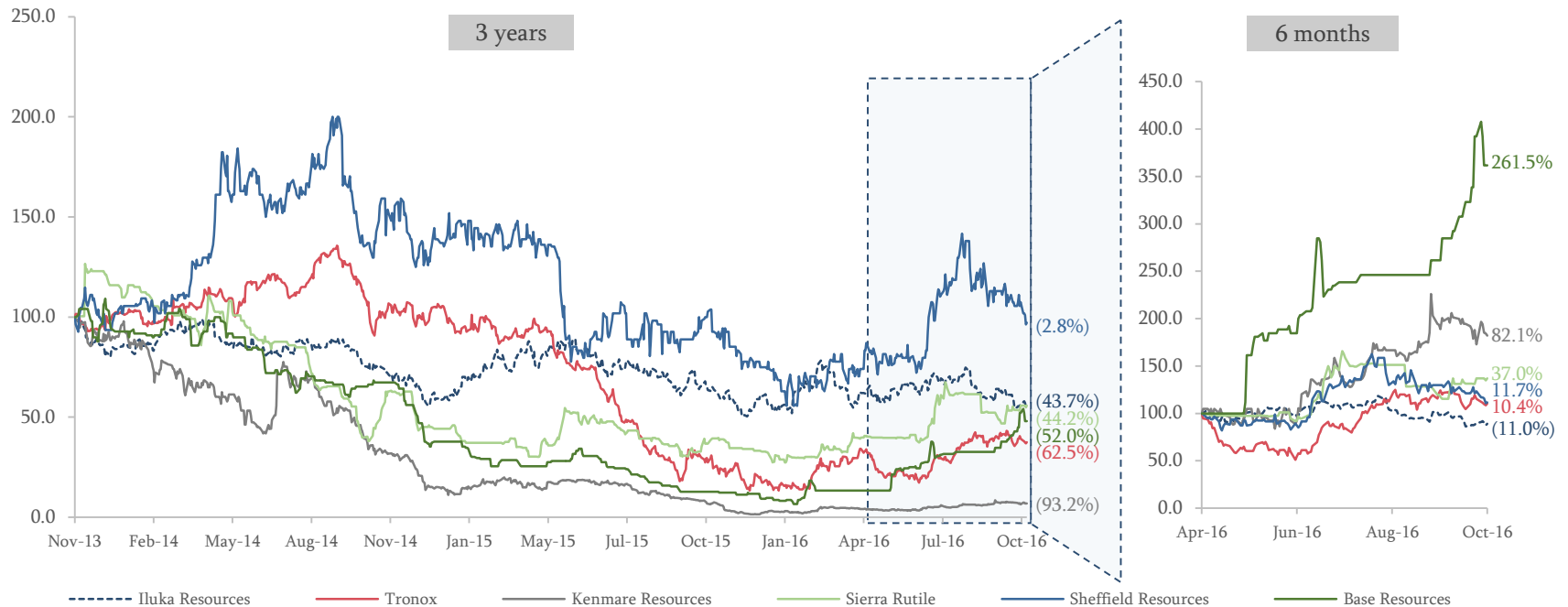


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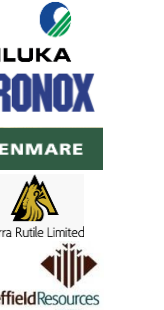
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After several disappointing years, the market finally turned in the summer of this year

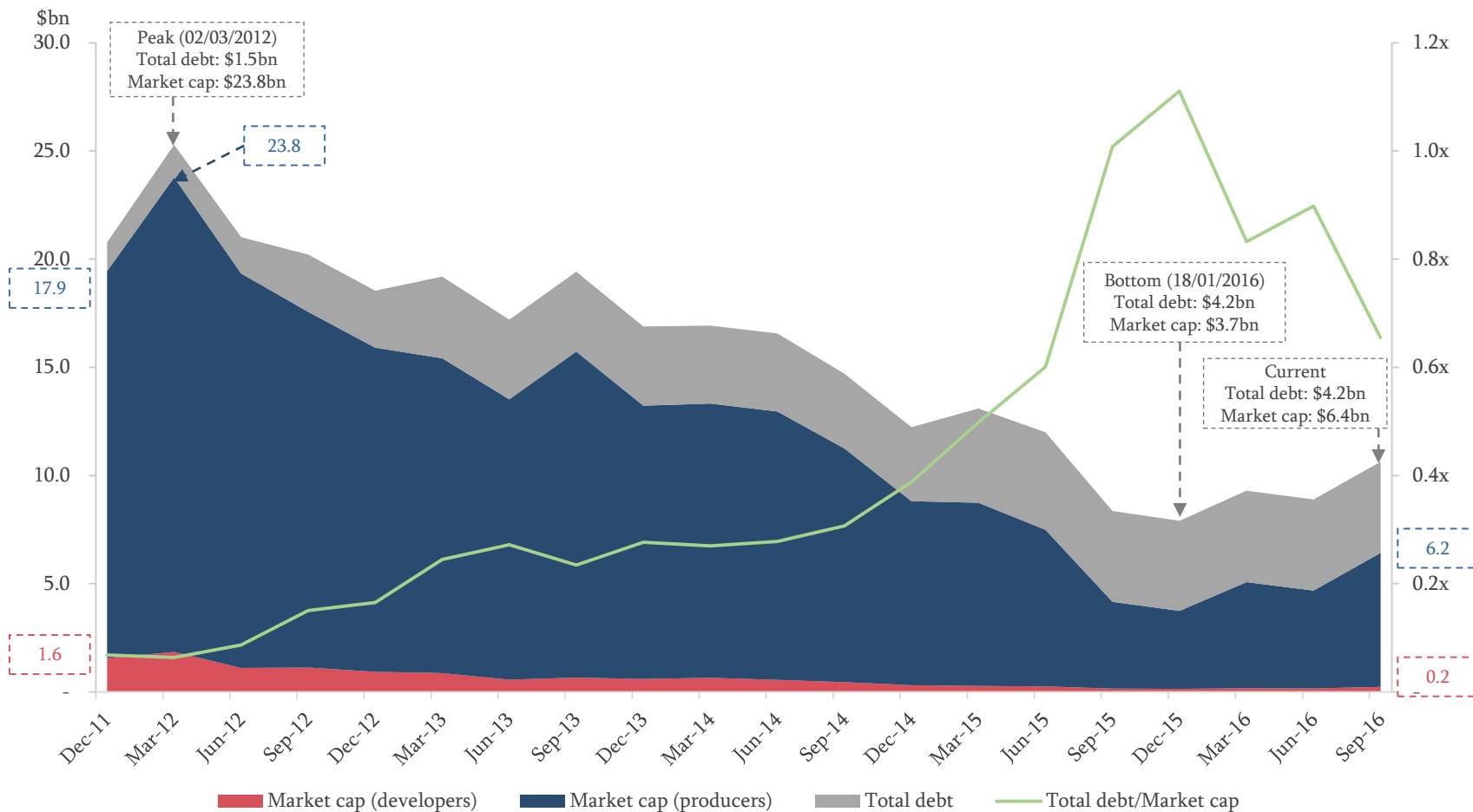
						
Exchange	ASX 	NYSE 	LSE 	AIM 	ASX 	AIM 
Operations						
1 month	(9.4%)	(11.1%)	(3.6%)	16.7%	(13.9%)	38.2%
3 months	(18.7%)	32.0%	36.4%	(16.0%)	(15.3%)	51.6%
6 months	(11.0%)	10.4%	82.1%	37.0%	11.7%	261.5%
1 year	(14.2%)	27.7%	(10.6%)	51.8%	(2.8%)	276.0%
2 years	(22.2%)	(63.4%)	(79.0%)	(11.3%)	(30.9%)	(28.8%)
3 years	(43.7%)	(62.5%)	(93.2%)	(44.2%)	(2.8%)	(52.0%)
Mkt cap (\$mm)	1,802.5	988.2	392.6	227.9	71.9	104.5



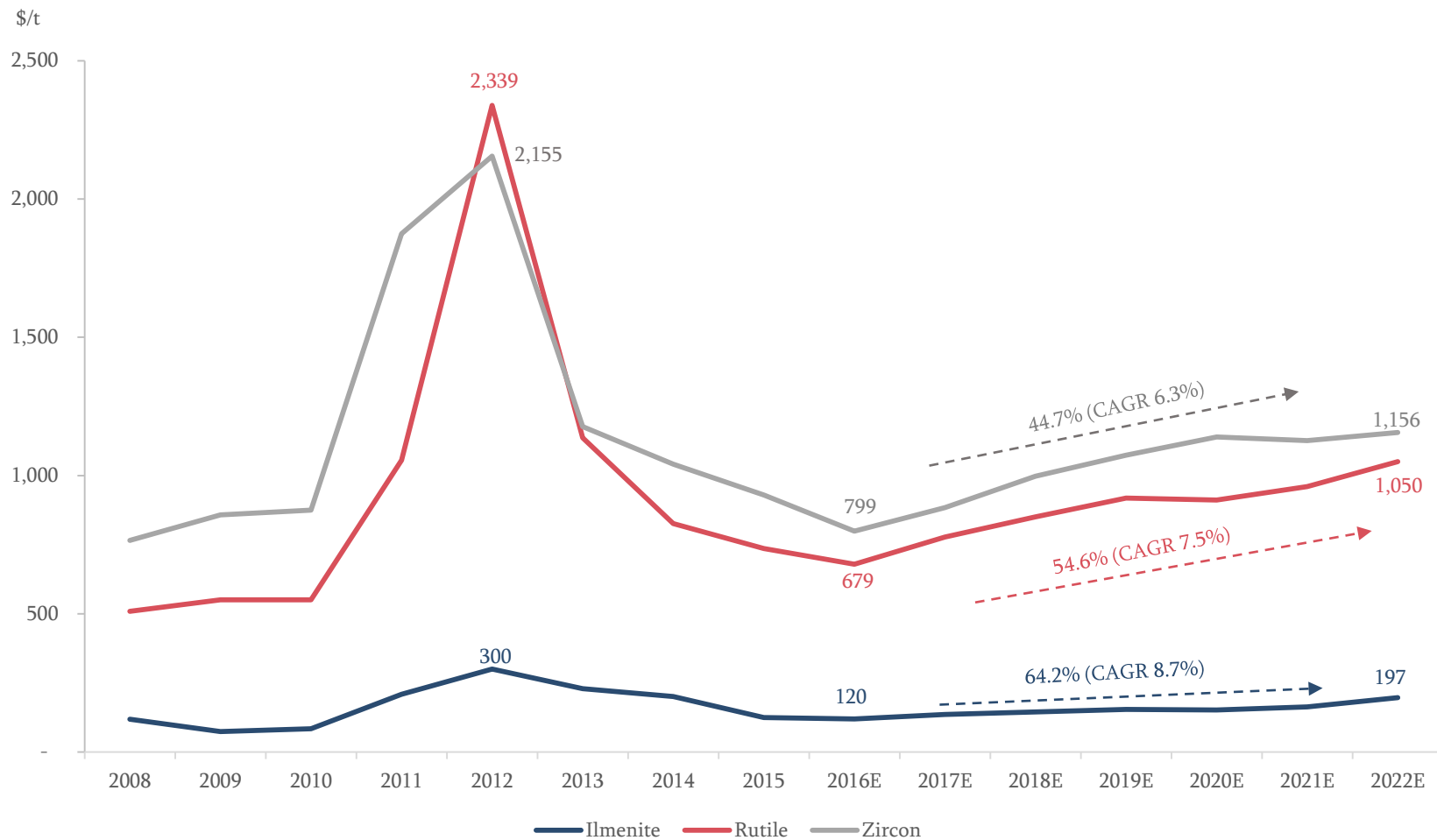
Mineral sands producers stood their ground in a generally disappointing commodity equity market, seen through the lens of the Top 5 producers

	Diversified	Coal	Gold	Copper	Potash	Iron Ore	Nickel & PGM	Mineral sands
Market Cap (\$bn) As of 30/06/11	492.6	155.0	134.1	116.3	97.7	58.6	58.0	10.2
Market Cap (\$bn) At lowest point	267.9	117.1	46.9	76.0	49.6	16.7	35.7	4.2
Date of lowest point	(20/01/2016)	(21/01/2016)	(10/09/2015)	(19/01/2016)	(02/02/2016)	(21/01/2016)	(15/01/2016)	(18/01/2016)
ECM performance since low point	173.7% ↑	76.4% ↑	98.9% ↑	62.5% ↑	17.1% ↑	328.5% ↑	127.6% ↑	44.4% ↑
2011 Dividend yield	1.6%	2.0%	1.0%	3.0%	2.7%	2.2%	2.0%	0.4%
2015 Dividend yield	5.1%	4.9%	0.9%	1.7%	3.0%	6.8%	2.5%	2.0%
Total Shareholder Return Jan 2012 to Dec 2015	(59.1%)	(46.2%)	(69.1%)	(38.4%)	(37.1%)	(71.5%)	(62.3%)	(53.9%)
Top 5 companies								

Considerable erosion of value did not reward investors who held on to their positions through the cycle



For reasons well discussed, the upswing in prices is happening and is expected to run for a couple of years

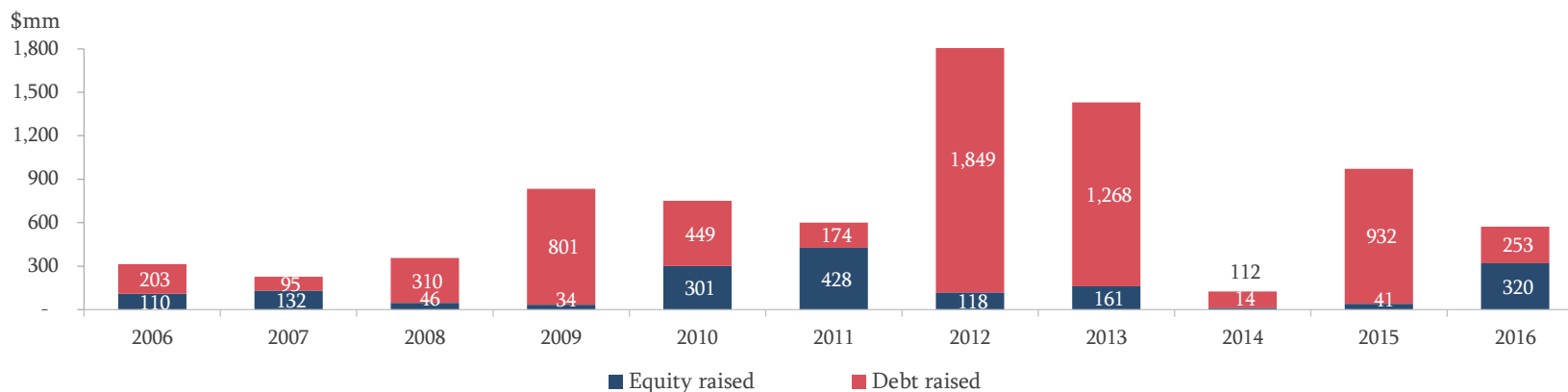


Source: Equity research

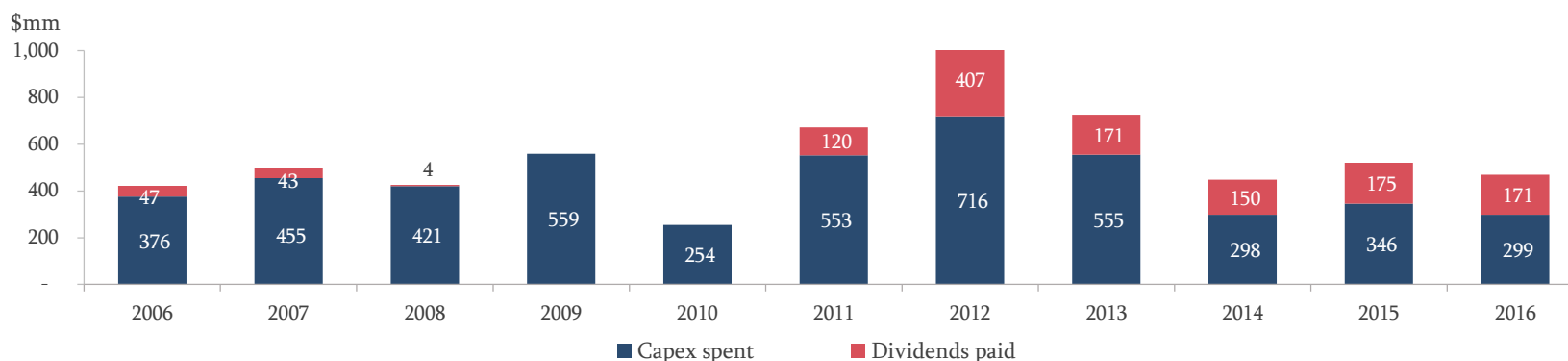
Note: Forecast numbers are average consensus prices from reports by Deutsche Bank, Morgan Stanley, Macquarie, Credit Suisse, UBS (zircon and rutile only), JP Morgan, Mirabaud, Davy and Canaccord Genuity

Historical capital flows in the mineral sands industry followed a typical super-cycle pattern – partially driven by diversification

Capital raised over the last 10 years

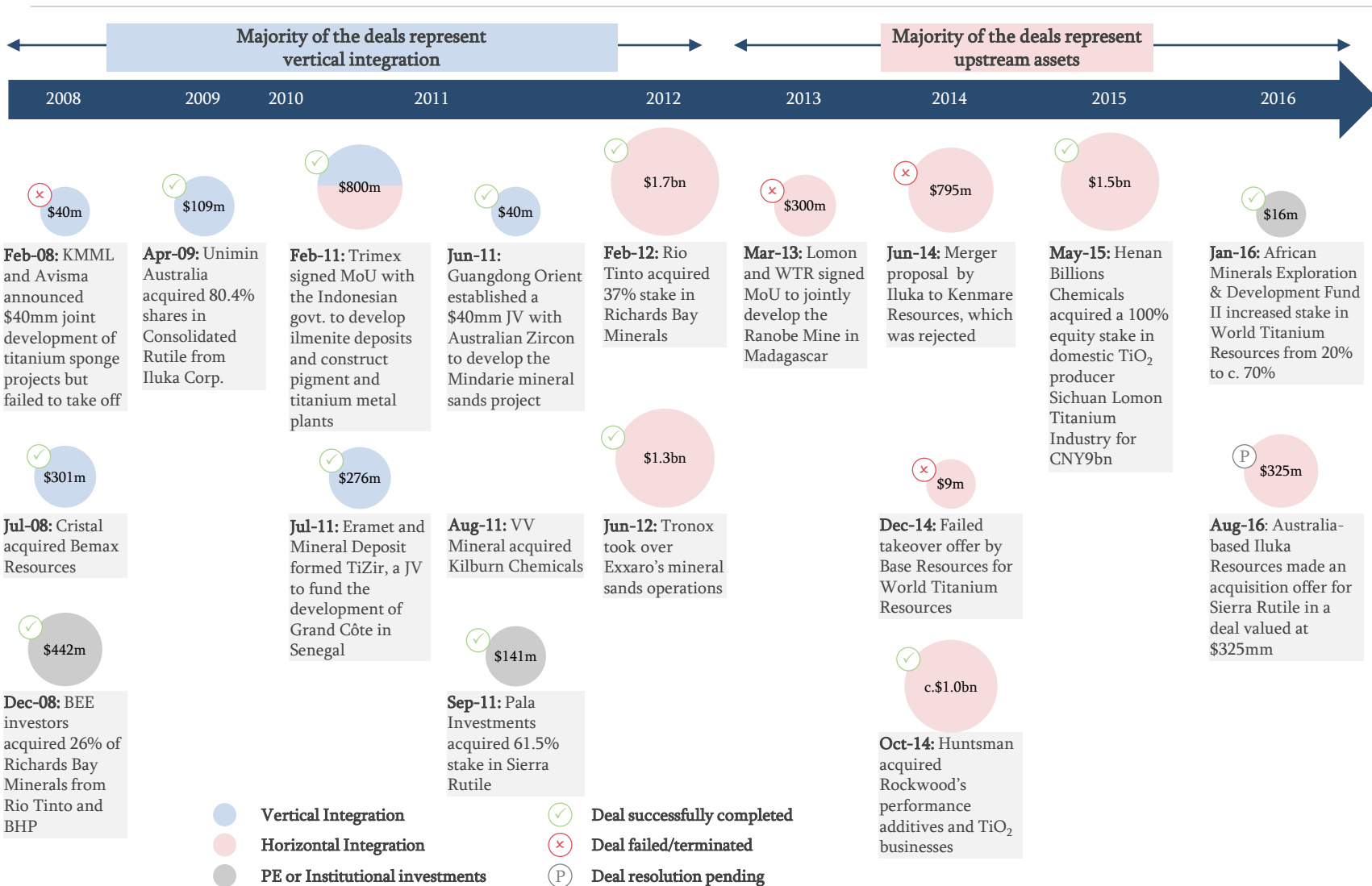


Capital used over the last 10 years



\$1,706mm total equity and \$6,445mm total debt raised since 2006
\$4,834mm total capex spent and \$1,288mm total dividends paid since 2006

M&A in the sector



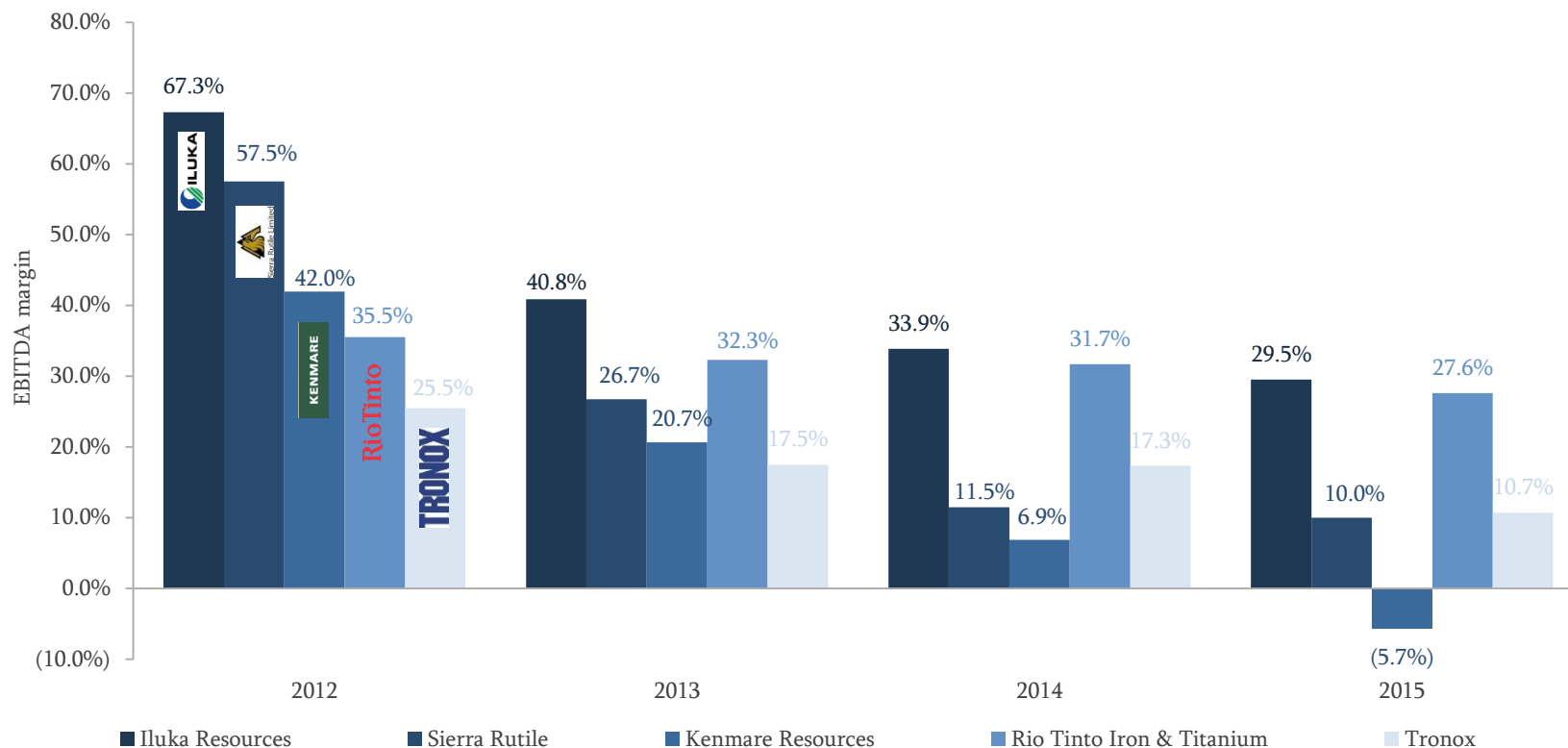
Broker coverage has fallen in line with capital outflows suffered by institutional investors










9 Source: S&P Capital IQ
 Note: Companies included in calculating total market cap, total debt and the mineral sands index (weighted by market cap) are Exxaro, Iluka, Tronox, Kenmare, Sierra Rutile, Base Resources, Sheffield Resources, MZI Resources, Nordic Mining, Mineral Deposits, Titanium Corp, Image Resources, Astron Corp, Rugby Mining, Strandline Resources, World Titanium, Diatrene, Argex Titanium, Austpac Resources, Metallica Minerals, Nevada Resources, Astro Resources, Pathfinder Minerals

EBITDA margins have been steadily declining since 2012

	2012	2013	2014	2015
Mineral sands producers average	45.6%	27.6%	20.2%	14.4%
Top 5 Ni & PGM producers ²	26.8%	27.3%	25.7%	21.6%
Top 5 Cu producers ¹	45.3%	43.3%	43.9%	31.1%



Ilmenite has turned, but zircon still expected to see uncertainty

Broker	Comments
 Deutsche Bank	<ul style="list-style-type: none"> ▲ Expects rutile prices to increase from 2017 to reflect lower grades, mine life depletions, draw down of global inventories and expected improvement in demand ▼ Zircon outlook weak due to supply pressure and competitive pricing from large producers and new entrants
 MACQUARIE	<ul style="list-style-type: none"> ▲ Expects strong recovery in zircon and rutile prices in 2017 (consensus estimates are factoring recovery in 2017)
 CREDIT SUISSE	<ul style="list-style-type: none"> ▲ Expects TiO₂ recovery in 2017: Pigment producers continue to pull forward feedstock volume purchases with the potential for the feedstock market to tighten in 2017
 UBS	<ul style="list-style-type: none"> ▲ After 4 years of declining prices, for both zircon and titanium dioxide feedstock, we believe prices are now in the process of rising or about to rise over the next couple of years Economic improvement in North America, most of Western Europe, China and India coupled with de-stocking and announced price increases both in China and the west has led to improved optimism
 HANNAM & PARTNERS	<ul style="list-style-type: none"> ▲ The industry has moved into a sweet spot for mineral sands pricing, in particular ilmenite, with substantial capacity closures (mainly led by shut-downs of iron ore mines in China) and rising TiO₂ demand (driven by lower inventories) Spot prices for ilmenite in China have doubled from \$70/t (CIF) in Q1 to \$140/t now, which is leading contract prices higher for this year and next
J.P.Morgan	<ul style="list-style-type: none"> ▲ Pigment markets continue to strengthen, with multiple pigment price rises noted in Western and Chinese markets ▼ Zircon markets remain lackluster with consensus expectations for price rises are at a risk of being pushed out
 CANACCORD Genuity	<ul style="list-style-type: none"> ▲ Ilmenite market recovery: Chinese ilmenite production has suffered from mine closures, with other cuts in Russia and Australia, and reductions in ilmenite inventories Titanium dioxide market is beginning to recover ▼ Zircon pricing looks weak due to competitive positioning for sales by producers
 MIRABAUD	<ul style="list-style-type: none"> ▲ One sign of renewed confidence in the outlook is the cash offer by Iluka Resources for Sierra Rutile

Source: Broker reports

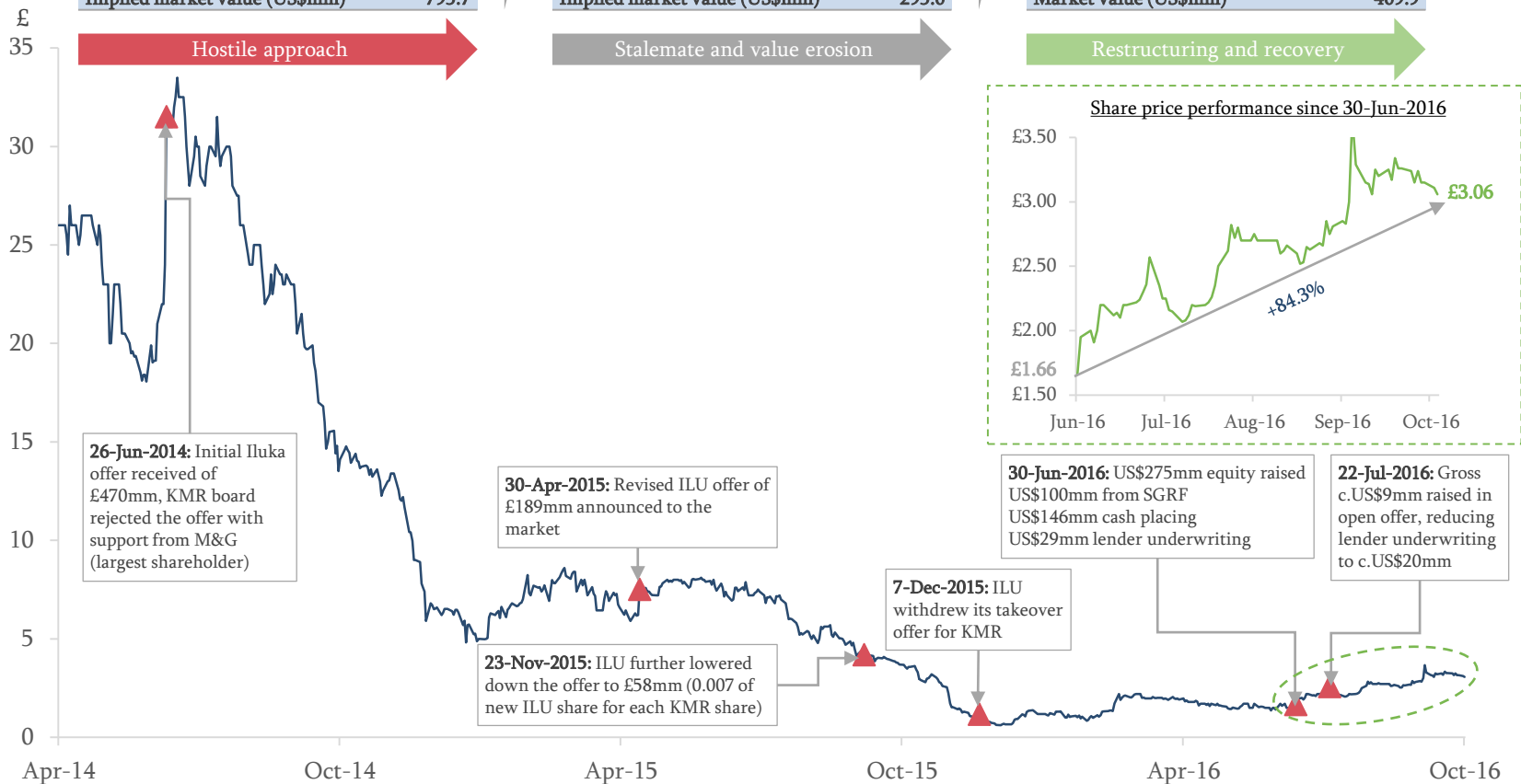
Kenmare Resources – Net debt reduction from US\$378mm to US\$25mm

Successful restructuring and deleveraging leading to impressive share price recovery

Initial ILU offer	26-Jun-2014
Exchange ratio (ILU/KMR)	0.036
Implied share price (GBp)	16.82
Unaffected share price (GBp)	12.00
Premium to unaffected price	40.1%
Implied market value (US\$mm)	795.7

Revised Iluka offer	30-Apr-2015
Exchange ratio (ILU/KMR)	0.016
Implied share price (GBp)	6.80
Unaffected share price (GBp)	3.10
Premium to then share price	119.4%
Implied market value (US\$mm)	295.0

Current capitalization	18-Oct-2016
Share price (GBp)	3.06
Number of shares o/s (mm)	109.6
Market value (£mm)	335.4
USD/GBP exchange rate	1.22
Market value (US\$mm)	409.9



Kenmare Resources – \$275mm equity raise to restructure balance sheet

Financial adviser

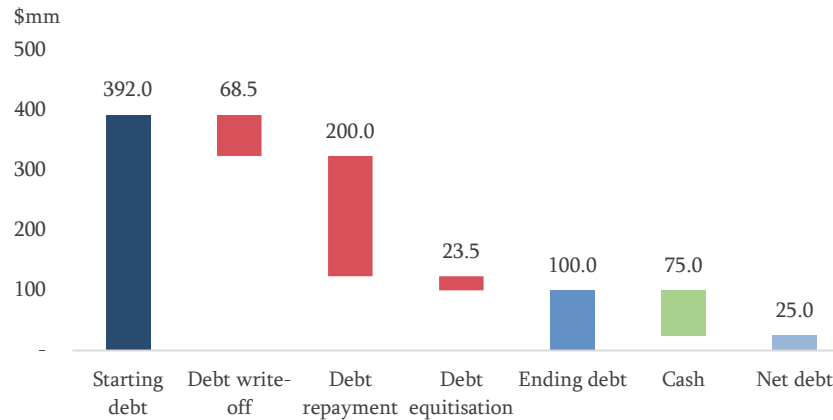
KENMARE

*Firm placing and open offer
June 2016*
\$ 275,000,000

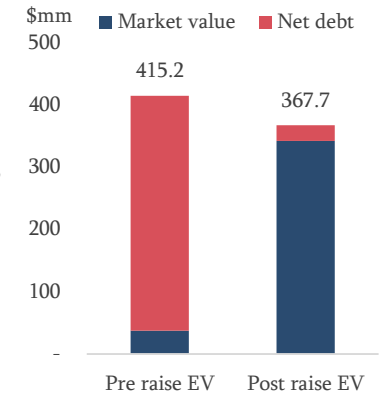
*Debt restructuring
June 2016*
\$ 392,000,000

Financial adviser to
Kenmare Resources plc

Deleveraging – gross debt reduced to \$100mm



Recovery of equity value



Key features

Material deleveraging

Terms

H&P role

- Equity value created through debt repayment, write-down and restructuring
- Gross debt reduced from \$392mm to \$100mm, net debt of \$25mm
- Average borrowing rate reduced from 9.6% to 5.7% in 2016-2020 period and 6.4% afterwards
- Annual interest expense reduced from \$31mm to <\$5mm
- Renegotiated covenants and repayment holiday for 18 months from the close of transaction
- Pre-consolidation issue price of GBp 1.16 which was a 39.8% premium to the undisturbed share price of GBp 0.83 on 17 June 2016
- Underwent 1 for 200 share consolidation, post consolidation issue price of \$3.132/share
- Open offer of 1 new ordinary share for every 71 existing ordinary shares held, gross proceeds of \$8.9mm raised in open offer
- Exchange rates were fixed with lenders and investors prior to transaction notice; thus, GBP fluctuation on Brexit did not have any impact
- Financial adviser to the company, including: \$100mm cornerstone investment by Oman SGRF which anchored the transaction
- Enlisted support from top shareholders & new institutions to participate in the firm placing and helped negotiate deal with lenders
- Defended the company against Iluka takeover offer via alternative refinancing proposals
- Secured Mozambique government's participation via issuance of 5.5mm warrants which can be converted into 5.0% of share capital