

Melbourne

Tel: 61 3) 9226 0000
Fax: 61 3) 9226 0244

Sydney

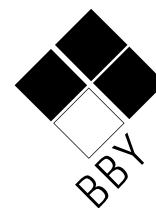
Tel: 61 2) 9226 0000
Fax: 61 2) 9226 0066

London

Tel: 44 207) 618 3730
Fax: 44 207) 618 3777

Internet

http://www.bby.com.au/



Grange Resources Limited.

Excellent buying opportunity. Undervalued

GRR

**A\$2.25
BUY**

20 August 2007

John Veldhuizen
+612 9226 0043
jxv@bby.com.au

We maintain our BUY recommendation on GRR, but have lowered our valuation slightly to A\$5.58/sh (previously 5.69/sh) after a review of our key forecast assumptions and equity dilution adjustment. Key changes to forecast project assumptions include (i) higher FY08 forecast iron ore prices up 20% vs 10% previously. Long term forecast fines prices beyond 2014 remain unchanged at US\$61.5dmtu (ii) delays to production start-up to Dec.H'10 (previously Jun.H.'10) (iii) longer mine life after GRR secures RIO's Southdown tenements which is forecast to contain >300Mt of magnetite resources (iv) higher equity dilution after RIO takes equity in GRR and project funding requirements and (v) additional CAPEX of A\$150M for development of the RIO resource base by 2025. GRR is seeking additional joint venture partners for the Southdown/Kemaman project ideally reducing its equity to 40-50%. GRR is expected to receive final WA Government approval for development of the project, and is expected to secure funding, by early 2008. Project construction should commence by mid-2008. First pellet production is forecast in the Dec.H'10 and target pellet production of 6.8Mtpa during 2011.

Valuation and key assumption highlights

- **Undervalued** – Stock is trading at a 60% discount to our valuation of A\$5.58/sh.
- **Iron ore prices** – We have raised our FY08 iron ore prices by 20% (previously 10%). Long term prices (beyond 2014) remain steady at US\$61.5¢/dmtu.
- **Mine life** – the forecast combined GRR/RIO resource base of 800Mt is sufficient to support a 34 year mine life at an annual concentrate production rate of 6.8Mtpa. The key constraint to expanding production is the planned 40cm diameter slurry pipeline.
- **CAPEX** – A\$150M for development of the RIO resource base by 2025. Expenditure includes resource pre-strip, mine infrastructure and relocation of the South Coast Highway.
- **Equity** – dilution for new shares and options issued to RIO and dilution for forecast project equity funding requirements.

Share price drivers

- **Equity partners** – GRR is well advanced in securing new equity partners to the project.
- **Project approval** – GRR has secured Malaysian Government approval for the proposed Kemaman pellet plant, but awaits WA Ministerial approval for the Southdown project development expected by early 2008.
- **Project funding** – forecast in the Jun.H.'08.

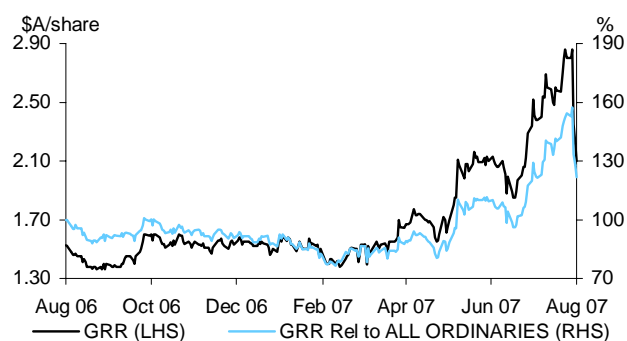
Company Data

Number of shares	106.2M
Market capitalisation	\$303.7M
12 month high/low	\$3.00 / \$1.35
Average monthly turnover	\$9.8M
All Ordinaries Index	5835

Financial Summary (GRR 70% share of the project)

Year end June	2006A	2007F	2008F	2009F	2010F	2011F
EBITDA (\$M)	1.6	(0.1)	0.3	0.7	1.0	347.4
NPAT: (\$M)	1.9	0.6	0.8	13.7	6.3	209.0
EPS (¢/sh)	2.0	0.5	0.3	5.3	2.5	81.1
PER (x)	na	na	na	42.3	91.1	2.8
EBITDA Multiple (x)	na	na	na	na	na	3.2
Cashflow (\$M)	4.1	1.0	12.4	20.1	6.9	307.1
CFPS (¢/sh)	4.3	0.9	5.0	7.8	2.7	119.2
P/CFPS (x)	65.7	na	44.9	28.8	83.2	1.9
Dividend (¢/sh)	0.0	0.0	0.0	0.0	0.0	0.0
Return on Assets (%)	3.2	na	0.1	0.1	5.6	22.9
Return on Equity (%)	3.7	na	0.1	0.1	0.1	19.1
Gearing ND/(ND+E) (%)	0.0	0.0	0.0	41.2	67.7	46.7
Interest Cover (x)	na	na	na	na	na	3.7
EBITDA margin (%)	15.5	na	1.3	16.7	25.0	61.2
EBIT margin (%)	12.2	na	1.3	16.7	25.0	51.3

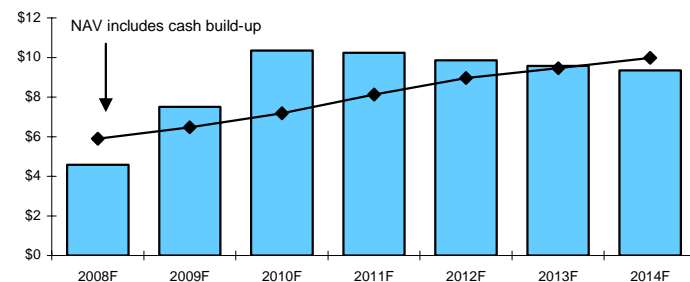
GRR versus ALL ORDINARIES Index



Analysis – GRR (70% project equity)

Year End 30 June																	
PROFIT & LOSS								RESERVES & RESOURCES									
	2006A	2007F	2008F	2009F	2010F	2011F	2012F	2006A	2007F	2008F	2009F	2010F	2011F	2012F			
Sales Revenue	\$M	7.4	0.0	0.0	0.0	559.0	681.5	Resources - Freshwater & Redhill (Royalty interest only)									
Other Income	\$M	2.8	4.0	22.2	4.0	4.0	8.4	10.2	Tonnes	7.8	6.5	5.2	3.9	2.6	1.3	0.0	
Operating Costs	\$M	(4.3)	0.0	0.0	0.0	(200.6)	(261.1)	Grade - gold	g/t	3.1	3.1	3.1	3.1	3.1	3.1	3.1	
State Royalties	\$M	0.0	0.0	0.0	0.0	(16.3)	(19.1)	Contained gold	Koz	766	638	510	383	255	127	0	
Corporate Costs	\$M	(4.1)	(3.7)	(3.7)	(3.3)	(3.0)	(3.0)	Resources & Reserves - Southdown (GRR & BBY estimates)									
Other	\$M	(0.3)	(0.4)	(18.2)	0.0	0.0	0.0	Resources	mt	479	479	479	779	779	765	748	
EBITDA	\$M	1.6	(0.1)	0.3	0.7	1.0	347.4	408.6	Reserves ¹	mt		383	383	623	623	609	592
Depreciation & Am.	\$M	(0.3)	(0.0)	0.0	0.0	(56.4)	(57.6)	Magnetite grade	%		37.3	37.3	37.3	37.3	37.3	37.3	
EBIT	\$M	1.2	(0.1)	0.3	0.7	1.0	291.0	351.0	Weight recovery (DTC) ²	%		37.6	37.6	37.6	37.6	37.6	37.6
Net Interest	\$M	0.6	0.7	0.5	13.0	5.9	(79.5)	(65.2)	Concentrate (Fe)	%		69.0	69.0	69.0	69.0	69.0	69.0
Pre-Tax Profit	\$M	1.9	0.6	0.8	13.7	6.9	211.5	285.8	Silica (SiO ₂)	%		1.9	1.9	1.9	1.9	1.9	1.9
Tax	\$M	0.0	0.0	0.0	0.0	(0.6)	(2.5)	(3.1)	Alumina (Al ₂ O ₃)	%		1.4	1.4	1.4	1.4	1.4	1.4
Other	\$M	0.1	0.0	0.0	0.0	0.0	0.0	0.0	¹ Assumes an 80% conversion to reserves. ² Davis Tube Concentrate (DTC)								
NPAT	\$M	1.9	0.6	0.8	13.7	6.3	209.0	282.7	PRODUCTION (100%) - Magnetite & Iron Pellets								
Reported Profit	\$M	1.9	0.6	0.8	13.7	6.3	209.0	282.7	Tonnes mined	mt	0.0	0.0	0.0	0.0	0.0	46.0	62.0
Dividends Paid	\$M	0.0	0.0	0.0	0.0	0.0	0.0	(47.1)	Strip ratio	mt	0.0	0.0	0.0	0.0	0.0	2.3	2.5
Retained Earnings	\$M	(21.1)	(20.5)	(19.7)	(6.0)	0.3	209.3	445.0	Mill throughput	mt	0.0	0.0	0.0	0.0	0.0	13.9	17.7
CASH FLOW								COSTS									
Revenue	\$M	8.2	3.9	15.6	10.6	4.0	496.7	695.5	Mining costs	US\$/t	0.0	0.0	0.0	0.0	0.0	13.6	13.8
Costs	\$M	(4.8)	0.0	0.0	0.0	0.0	(136.3)	(259.9)	Concentrate costs	US\$/t	0.0	0.0	0.0	0.0	10.0	10.2	10.4
Royalties	\$M	0.0	0.0	0.0	0.0	0.0	(11.3)	(19.6)	Transport	US\$/t	0.0	0.0	0.0	0.0	1.3	1.3	1.4
Net Interest	\$M	0.6	0.7	0.5	13.0	5.9	(37.5)	(67.8)	Royalties	US\$/t	0.0	0.0	0.0	0.0	0.0	3.3	2.9
Tax Paid	\$M	0.0	0.0	0.0	0.0	0.0	(1.5)	(3.1)	Pelletisation costs	US\$/t	0.0	0.0	0.0	0.0	5.5	5.6	5.7
Corporate / Other	\$M	0.0	(3.5)	(3.7)	(3.5)	(3.0)	(3.0)	(3.0)	Depreciation	US\$/t	0.0	0.0	0.0	0.0	0.0	12.1	8.9
Gross Cash Flow	\$M	4.1	1.0	12.4	20.1	6.9	307.1	342.0	Total Cost	US\$/t	0.0	0.0	0.0	0.0	0.0	54.9	52.2
Net Capex	\$M	(0.3)	(7.9)	0.0	(606.6)	(470.7)	(21.9)	(22.5)	CAPEX & DEBT								
Exploration / Mine	\$M	(16.8)	(11.9)	(1.0)	(7.0)	(24.5)	(0.7)	(0.7)	CAPEX	\$M	17.1	19.8	1.0	613.6	495.2	22.6	23.2
Dividends	\$M	0.0	0.0	0.0	0.0	0.0	0.0	0.0	Net Debt	\$M	(8.3)	(4.2)	(316.9)	(169.5)	408.9	524.2	294.0
Other	\$M	0.3	0.1	0.0	0.0	0.0	0.0	0.0	ASSUMPTIONS								
Free Cashflow	\$M	(12.7)	(18.6)	11.4	(593.5)	(488.3)	284.5	318.8	Exchange Rate	A\$/US\$	0.75	0.78	0.78	0.73	0.72	0.72	0.72
Equity Issues	\$M	12.9	15.0	301.3	16.6	0.0	2.5	13.5	Inflation (CPI Index)	%	2.5	2.5	2.5	2.5	2.5	2.5	2.5
Net Borrowings	\$M	0.0	0.0	0.0	429.5	346.6	0.0	(102.1)	Australian tax rate	%	30.0	30.0	30.0	30.0	30.0	30.0	30.0
Other	\$M	(0.7)	(0.4)	0.0	0.0	0.0	0.0	0.0	Malaysian tax rate	%	28.0	28.0	28.0	28.0	28.0	28.0	28.0
Surplus Cash Flow	\$M	(0.4)	(4.1)	312.7	(147.4)	(141.6)	287.0	230.2	Iron Fines Price	US\$/dmu	67.6	76.9	88.5	96.5	91.7	82.5	74.3
BALANCE SHEET								Mine NPV & NAV (Net Appraised Value = NPV less net debt) \$/share									
Cash	\$M	8.3	4.2	316.9	169.5	27.8	314.8	545.0	CAPEX	US\$/t	75.5	76.4	85.8	92.0	88.8	82.6	77.0
Other Current	\$M	3.6	3.5	4.8	3.5	0.5	88.8	84.1	BF Pellet Price (f.o.b)	US\$/t	75.5	86.2	105.3	111.3	108.1	102.1	96.7
Total Current	\$M	11.9	7.7	321.7	172.9	28.3	403.6	629.1	DR Pellet Price (f.o.b)	US\$/t	83.1	84.0	94.4	101.2	97.6	90.8	84.7
Mine Development	\$M	23.4	27.3	28.3	35.3	59.8	57.6	55.4	DR Pellet Price (c.i.f)	US\$/t	83.1	93.7	113.6	120.2	116.7	110.1	104.2
Plant & Equip	\$M	0.7	11.2	11.2	617.8	1,088.5	1,056.9	1,024.8									
Other	\$M	2.7	2.7	2.7	2.7	2.7	2.7	2.7									
Total NC Assets	\$M	26.8	41.2	42.2	655.8	1,151.0	1,117.2	1,082.9									
TOTAL ASSETS	\$M	38.7	48.9	363.9	828.8	1,179.4	1,520.8	1,712.0									
Total Debt	\$M	0.0	0.0	0.0	436.7	839.0	839.0	736.8									
Current Liab	\$M	3.9	0.4	2.7	0.4	0.4	63.0	59.0									
Non Current Liab	\$M	1.0	0.3	9.9	10.2	(47.8)	19.5	67.6									
TOTAL LIAB	\$M	4.8	0.7	12.6	447.2	791.5	921.5	863.4									
NET ASSETS	\$M	33.9	48.2	351.3	381.5	387.9	599.4	848.5									
SH/HLDRS FUNDS	\$M	33.9	49.2	351.3	381.5	387.9	599.4	848.5									
RATIO ANALYSIS																	
EPS	¢	2.0	0.5	0.3	5.3	2.5	81.1	106.0									
PER	x	na	na	na	42.3	91.1	2.8	2.1									
CFPS	¢	4.3	0.9	5.0	7.8	2.7	119.2	128.3									
PCFR	x	51.9	na	44.9	28.8	83.2	1.9	1.8									
DPS	¢	0.0	0.0	0.0	0.0	0.0	0.0	17.7									
EPS growth	%	na	na	na	na	na	na	31									
Interest Cover	x	na	0.2	na	na	na	3.7	5.4									
Gearing: ND/(ND+E)	%	0.0	0.0	0.0	41.2	67.7	46.7	18.4									
EBITDA Margin	%	15.5	na	1.3	16.7	25.0	61.2	59.1									
EBIT Margin	%	12.2	na	1.3	16.7	25.0	51.3	50.7									
Return On Assets	%	3.2	na	0.1	0.1	0.1	19.1	20.5									
Return On Equity	%	3.7	na	0.1	0.2	0.3	48.6	47.2									
								VALUATION (December 2007)									
								Southdown / Kemaman (70%) @ 11.0% DCR									
								A\$m									
								A\$ps									
								Exploration									
								Notional Option / placement value									
								Net Debt									
								Total									

Source: BBY, GRR





This document has been prepared (in Australia) by BBY Limited ABN 80 006 707 777 (BBY), a Participant of Australian Stock Exchange Group and regulated by the Financial Services Authority (FSA) of the United Kingdom.

Analyst Certification

I, John Veldhuizen, research analyst and the author of this report, hereby certify that all of the views expressed in this research report accurately reflect my personal views about any and all of the subject issuer(s) or securities. I also certify that no part of my compensation was, is, or will be directly or indirectly related to the specific recommendation(s) in this report.

Disclosure

BBY and its associates (as defined in the Corporations Act 2001), officers, directors, employees and agents, from time to time, may hold securities in any of the companies to which this document refers and may trade in the securities mentioned either as principal or agent.

BBY does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision.

BBY received during the past 12 months compensation for financial and advisory services from GRR, its parent or its wholly owned or majority owned subsidiary.

Contact with GRR has been made during the preparation of this report for assistance with verification of facts.

Disclaimer & Warning

This document may contain general advice or recommendations which, while believed to be accurate at the time of publication, are not appropriate for all persons or accounts. Before making an investment or trading decision, the recipient must consider Market developments subsequent to the date of this document, and whether the advice is appropriate in light of his or her financial circumstances or seek further advice on its appropriateness or should form his/her own independent view given the person's investment objectives, financial situation and particular needs regarding any securities or Financial Products mentioned herein. Information in this document has been obtained from sources believed to be true but neither BBY nor its associates make any recommendation or warranty concerning the Financial Products or the accuracy, or reliability or completeness of the information or the performance of the companies referred to in this document. Past performance is not indicative of future performance. This document is not an offer, invitation, solicitation or recommendation with respect to the subscription for, purchase or sale of any Financial Product, and neither this document or anything in it shall form the basis of any contract or commitment. Although every attempt has been made to verify the accuracy of the information contained in the document, liability for any errors or omissions (except any statutory liability which cannot be excluded) is specifically excluded by BBY, its associates, officers, directors, employees and agents.

US Investors

This material is intended for use by major U.S. institutional investors (as such term is defined in the U.S. Securities Exchange Act of 1934) and "\$100 million investors" only and not the general investing public or retail customers. "\$100 million investors" means any entity, including any investment adviser (whether or not registered under the U.S. Investment Advisers Act of 1940) that owns or controls (or in the case of an investment adviser, has under management) in excess of US\$100 million in aggregate financial assets (i.e. cash, money-market instruments, securities of unaffiliated issuers, futures and options on futures and other derivative instruments). Transactions by or on behalf of any US person in any security mentioned in this document may only be effected through Jefferies & Company, Inc. ("Jefferies"), a U.S. broker dealer.

The information upon which this material is based was obtained from sources believed to be reliable, but has not been independently verified. Therefore, its accuracy is not guaranteed. Additional and supporting information is available upon request. This is not an offer or solicitation of an offer to buy or sell any security or to make any investment. Any opinion or estimate constitutes the preparer's best judgement as of the date of preparation and is subject to change without notice. BBY or Jefferies or Jefferies International Limited and their associates or affiliates, and their respective officers, directors and employees may buy or sell securities mentioned herein as agent or principal for their own account.

United Kingdom and Canadian Investors

This document may be distributed in the United Kingdom by BBY or Jefferies International Limited (regulated by FSA). None of the investments or investment services referred to in this document are available in the United Kingdom to private customers, as defined by the rules of the FSA. This document is not to be provided to private customers in the United Kingdom.

The investments or investment services referred to in this document are available in Canada only to "Designated Institutions", as defined by the Securities Act (Ontario).

Other International Investors

International investors outside the US, UK or Canada are encouraged to contact their local regulatory authorities to determine whether any restrictions apply to their ability to purchase this investment.

© Copyright BBY Limited

Approved for release by BBY Limited