

LSE Partners with Mongolia Stock Exchange

Major Boost for MSE and Real Coup for LSE

LSE signs strategic partnership with the Mongolian Government. The London Stock Exchange Group (“LSE”) and the Mongolian State Property Committee (“SPC”) have signed an exclusive Strategic Partnership Agreement to restructure and develop the Mongolian Stock Exchange (“MSE”), according to the joint press release made public yesterday. In our view, this is an important milestone in the development of the Mongolian securities market with long term positive impact. According to the agreement, LSE will appoint a **management team** to oversee MSE development and privatization, and will provide **trading and surveillance infrastructure**. The MSE is expected to go through a comprehensive reform and upgrade as LSE plans to be involved from advisory and training on capital markets infrastructure and legislative framework, modernisation of market rules and operations to expansion of tradable asset classes (derivatives and ETFs) and introduction of “international standard Mongolian market index”.

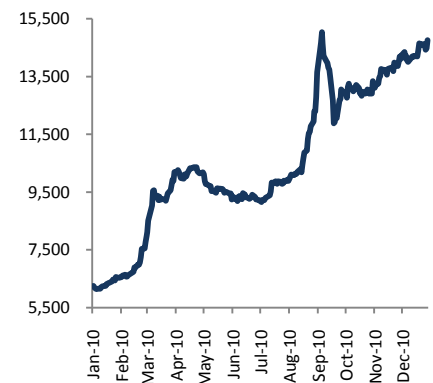
Win-win partnership. In our view, both LSE and MSE will benefit from this partnership. Under LSE management, MSE should become an **effective source of capital for Mongolia companies and widen opportunities for local and international investors with expected IPOs and increased market size**. At the same time, with its expertise and technology, LSE will **gain access** to the resource-rich frontier market and should be able to **compete effectively with large regional stock exchanges** such as the Hong Kong Stock Exchange (HKEx), especially for international IPOs and dual listings of major Mongolian state-owned enterprises (SOEs), most importantly Erdenes Tavan Tolgoi. We view that this partnership **increases LSE’s chances** to become a strategic shareholder when the Mongolia government proceeds with the MSE privatization.

MSE to continue global outperformance. We believe the partnership with LSE will help MSE to become **one of the best performing stock markets** in 2011 and beyond, following its impressive performance in 2010 (Table 1). Such outperformance over the next several years would be based on the expectation that LSE would be able to assist in unlocking the huge potential of the Mongolia capital markets – valuation reating, boost in liquidity, improvement in corporate governance, stronger pipeline of IPOs and equity offerings as well as dual listings by international listed companies with operations in Mongolia. Major IPOs by the Mongolian SOEs and large private sector companies coupled with possible dual listings by Mongolia-focused international listed companies with their current US\$33bn in market capitalization (Table 2) may catapult the Mongolia Stock Exchange into one of the largest frontier markets globally in the next 4-5 years.

In our view, this partnership should accelerate the process of **MSE becoming a viable source of capital for Mongolian companies and an efficient channel for wealth distribution from mineral resources among Mongolian population**. Over the longer term, LSE may assist MSE to become a regional hub for capital raising by resource companies, attracting listings from neighboring countries. We expect Mongolia to emerge firmly on the map of international investors and join the MSCI frontier market index, perhaps as early as this year. We reiterate our key recommendation for investors to gain exposure to the Mongolian local equities as Mongolia is still in the early stage of its 2010-2020 period of the world beating economic growth.

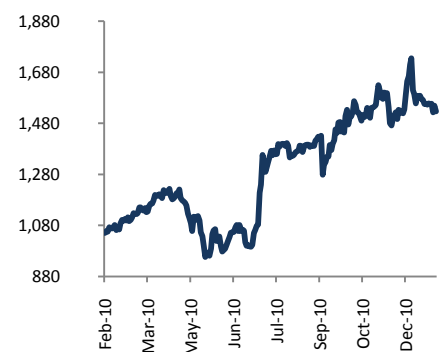
Sardor Koshnazarov
 Head of Research
sardor.koshnazarov@eurasiac.com

MSE Top-20 Index 2010 Performance



Source: Bloomberg

Silk Road Mongolia Index 2010 Performance



Source: Bloomberg

MSE: Background and Development Outlook

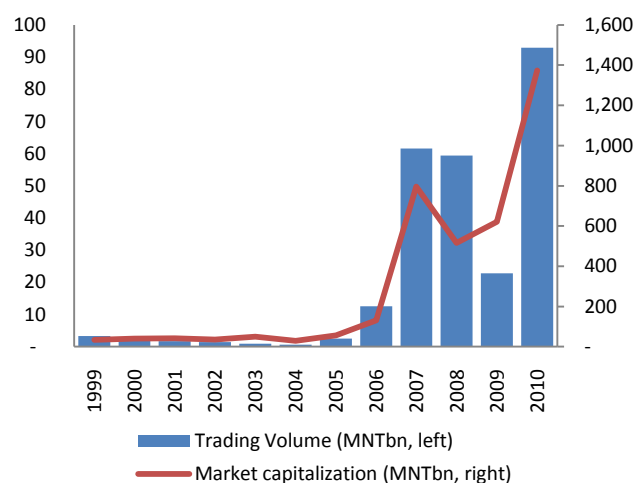
The MSE was established in early 1991 by the government to facilitate the privatization of state-owned holdings following Mongolia’s transition to a market economy. Since its establishment, in total 474 companies were listed at the MSE. Currently, 448,717 domestic and foreign shareholders own shares in MSE-listed companies. MSE was the best performing equity market globally in 2010, with the benchmark MSE Top-20 Index gaining 138%. However, even after this impressive performance, the MSE market capitalization reached only US\$ 1.1bn by the end of 2010.

MSE has massive growth potential as the Mongolian government has approved a list of more than 50 state-owned enterprises (SOEs) that are slated for privatization starting from 2011, including through IPOs. Furthermore, a number of leading domestic private companies are expected to launch substantial capital raisings on the MSE. The most anticipated IPO at the MSE is the offering of Erdenes Tavan Tolgoi LLC, a state-owned holding company for the Tavan Tolgoi mine, the world’s largest untapped coking coal resource. The government company plans the company IPO by the end of 2011 or in 2012. About 30% of the company’s shares will be listed on a combination of domestic and international markets.

We have numerously highlighted in our research reports the urgent need for MSE to undergo prompt and effective reforms in order to become a viable source of much needed capital for Mongolian companies and allow Mongolia to compete successfully for international investor capital. MSE currently faces a number of challenges (lack of IPOs, custody issues, no mechanisms for GDRs and dual listings). To our disappointment, large Mongolian corporates has been so far dismissive of the MSE as a source of capital and busy with their plans for raising financing internationally. Total market capitalization of over 300 Mongolian listed companies is slightly more than US\$1bn which pales in comparison to US\$33bn market capitalization of internationally listed companies which are members of the Silk Road Mongolia Index (see the page 4).

We view the LSE/MSE partnership as highly positive development which should immediately increase the profile of the Mongolian equity market among international investors and bring long term benefits to Mongolia.

MSE Performance



Source: MSE, Eurasia Capital

Major SOEs to be Privatized by 2012

Name	Industry
Thermal Power Station - III	Power Generation
Shivee-Ovoo	Coal Mining
Baganuur	Coal Mining
Mongolia Stock Exchange	Financial
Darkhan Metal Production	Iron Ore Processing
Mongolia Telecom	Airline
Erdenet Thermal Power Station	Power Distribution

Source: Government of Mongolia

Table 1: MSE TOP-20

Name	Price MNT	Market cap US\$'000	Performance	
			2010	y-t-d
Tavan Tolgoi	600 001	254.28	326.7%	4.2%
Baganuur	10 500	183.97	200.0%	3.8%
Shivee Ovoo	14 999	161.97	293.9%	15.4%
APU	2 370	149.45	215.9%	25.6%
Mongolian Telecom	3 750	78.07	52.8%	7.1%
Sharyn Gol	11 500	66.91	519.1%	9.5%
Gobi	5 500	35.78	38.3%	1.8%
Aduunchuluun	12 000	30.43	1539.3%	50.0%
BDSec	2 500	23.46	56.2%	6.0%
Mongolia Development Resources	1 300	14.38	31.3%	0.0%
Khukh Gan	180	14.27	57.1%	-6.4%
State Department Store	415	12.83	13.2%	0.7%
Remicon	81	9.24	-4.0%	25.0%
Mogoin Gol	13 340	8.91	499.0%	13.1%
Genco Tour Bureau	90	8.32	-1.1%	0.0%
Bayangol Hotel	23 700	8.14	32.8%	0.0%
UB Hotel	27 500	7.42	41.0%	0.0%
Makh Impex	2 200	7.19	56.5%	30.6%
Eermel	2 385	6.68	121.1%	-17.0%
Darkhan Nekhii	4 600	4.09	133.3%	-6.1%

Source: MSE, Eurasia Capital. January 18, 2011

Table 2: Silk Road Mongolia Index* Companies

Name	Ticker	Currency	Last Price	MktCap US\$m	Performance		Industry
					2010	y-t-d	
Ivanhoe Mines	IVN:US	USD	25.94	13806.8	66.4%	13.2%	Metals & Mining
Mongolian Mining Corp	975:HK	HKD	10.4	4954.6	29.2%*	14.7%	Metals & Mining
Centerra Gold	CG:CN	CAD	17.22	4112.3	83.7%	-13.2%	Metals & Mining
Southgobi Resources	1878:HK	HKD	109.4	2586.8	-28.0%	9.9%	Metals & Mining
Winsway Coking Coal Holdings	1733:HK	HKD	4.66	2269.9	2620.0%	-0.2%	Metals & Mining
Mongolia Energy Corp	276:HK	HKD	2.39	1876.6	-41.7%	3.0%	Metals & Mining
East Asia Minerals Corp	EAS:CN	CAD	6.65	514.3	76.7%	-18.9%	Metals & Mining
Aspire Mining	AKM:AU	AUD	0.8	426.9	757.1%	66.7%	Metals & Mining
Entree Gold	ETG:CN	CAD	2.97	343	36.1%	-14.4%	Metals & Mining
Petro Matad	MATD:LN	GBP	116	340.7	554.1%	-4.1%	Oil & Gas
Hunnu Coal	HUN:AU	AUD	1.39	293.8	567.5%	3.7%	Metals & Mining
Tavan Tolgoi	TTL:MO	MNT	600006	254.8	326.7%	4.2%	Metals & Mining
Origo Partners	OPP:LN	GBP	42.5	206.1	164.5%	3.7%	Investments
Baganuur	BAN:MO	MNT	10900	184.4	200.0%	3.8%	Metals & Mining
Shivee Ovoo	SHV:MO	MNT	15000	163.2	293.9%	15.4%	Metals & Mining
APU	APU:MO	MNT	2500	145.7	215.9%	25.6%	Beverages
Erdene Resource Development	ERD:CN	CAD	1.52	137.5	342.9%	22.6%	Metals & Mining
Prophecy Resource Corp	PCY:CN	CAD	0.96	131.8	156.0%	-4.0%	Metals & Mining
Xanadu Mines	XAM:AU	AUD	0.76	126	-5.8%*	33.6%	Metals & Mining
Haranga Resources	HAR:AU	AUD	0.67	125.1	19.0%*	4.7%	Metals & Mining
Central Asia Metals	CAML:LN	GBP	90	123.2	-6.0%*	-0.3%	Metals & Mining
Solartech International Hold	1166:HK	HKD	0.04	116.8	-69.0%	-25.0%	Metals & Mining
Mongolia Investment Group	402:HK	HKD	0.12	111.8	-75.8%	-17.6%	Metals & Mining
North Asia Resources Holding	61:HK	HKD	0.97	106.2	-62.0%	6.6%	Metals & Mining
Mongolian Telecom	MCH:MO	MNT	3750	78.2	52.8%	7.1%	Telecommunications
Sharyn Gol	SHG:MO	MNT	11499	67.1	519.1%	9.5%	Metals & Mining
Asia Coal	835:HK	HKD	0.24	52.1	-25.4%	-2.8%	Metals & Mining
Bestway International Holdings	718:HK	HKD	0.13	44.6	-64.7%	-7.8%	Metals & Mining
Gobi	GOV:MO	MNT	5700	35.9	38.3%	1.8%	Textiles
Voyager Resources	VOR:AU	AUD	0.05	33.1	94.4%	-9.3%	Metals & Mining

Source: Bloomberg, Eurasia Capital. January 18, 2011

*Note: MonBiz Mongolia Index and MonBiz Hong Kong Index were acquired by Silk Road Management and renamed to Silk Road Mongolia and Silk Road Hong Kong indices, respectively, on January 11, 2011.

Contacts

Research:

Sardor Koshnazarov	Head of Research, Oil & Gas	sardor.koshnazarov@eurasiac.com
Dosbergen Musaev	Analyst, Strategy	dosbergen.musaev@eurasiac.com
Akmal Aminov	Analyst, Metals & Mining	akmal.aminov@eurasiac.com
Rentsendorj Yondon	Analyst, Mongolia Equities	rentsendorj.yondon@eurasiac.com

Sales and Trading:

Dima Orazimbetov	Director	dima.orazimbetov@eurasiac.com
Zhyldyz Sadyralieva	Associate	zhyldyz.sadyralieva@eurasiac.com
Bolor Ulziisaikhan	Broker	bolor.ulziisaikhan@eurasiac.com
Sherzod Rakhimov	Analyst	sherzod.rakhimov@eurasiac.com
Hoosniddin Hakimov	Analyst	hoosniddin.hakimov@eurasiac.com

Addresses:

MONGOLIA

Suite 71, 7th Floor, Grand Office Center
Jamiyangun Street 12, 1st Khoroo,
Ulaanbaatar
Tel: +976 7013 0078
Fax: +976 7013 0078

HONG KONG

33/F One International Finance Centre
1 Harbour View Street, Central,
Hong Kong
Tel.: +852 2824 8716
Fax: +852 2166 8999

Eurasia Capital is a pan-regional investment bank with a focus on Mongolia and Central Asia. Headquartered in Ulaanbaatar, the Firm offers cross border M&A and advisory, capital raising, sales & trading and research services to its international and regional clients including government agencies, major energy and resource companies, sovereign wealth funds, private equity groups and global portfolio investors. For more info, please visit our website: www.eurasiac.com

DISCLAIMER

This report is made for information purposes only, and does not constitute an offer, solicitation of an offer to purchase, hold, sell, invest or make any other financial decision. In making decisions, investors may rely on their own examinations of the parties and risks involved. Information contained in this report is obtained from the sources believed to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors such information provided "as is" without warranty of any kind and Eurasia Capital Ltd., in particular, make no representation or warranty, express or implied, as to accuracy, timeliness, completeness, merchantability or fitness for any particular purpose of any such information. Under no circumstances, Eurasia Capital Ltd. have any liability to any person or entity (-ies) for (a) any loss or damage in whole or in part caused by, resulting from, or relating to, any error (negligible or otherwise) or other circumstances or contingency within or outside the control of any of their directors, managements, officers, employees, or agents in connection with compilation, analysis, interpretation, communication, publication or delivery of any such information, or (b) any direct, indirect, special, consequential, compensatory or incidental damages whatsoever (including without limitation, loss profits) even if Eurasia Capital Ltd. is advised in advance of the possibility of such damages, resulting from the use of or inability to use, any such information.

©2010 Eurasia Capital Ltd. All rights reserved.