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ARTICLE

## DEVELOPING ETT

Developing the vast Erdenes Tavan Tolgoi coal deposit has been one of the biggest strategic challenges that Mongolia has faced over the past ten years, with various different unsuccessful attempts having been made. These range from the failed auction of 2010, the abortive international IPO in 2012-

13, the blocked deal with Shenhua in 2015, and on the operational side, a difficult contract with Chalco that has kept the business locked down to onerous long-term obligations, and the shift of operations from Macmahon to the mysterious TTJVCo. Meanwhile, the 1072 citizens shares issue remains unresolved and confusing.

### TRADING ETT SHARES

The government's latest proposals include a domestic and international listing of up to thirty per cent of the shares on the MSE and foreign exchanges. This is definitely a positive measure, that would give access to ETT for a number of different stakeholders, encourage positive and improved standards of corporate governance and hopefully at the same time resolve the 1072 shares issue. Certainly, as a first step, it would make sense to list ETT domestically on the MSE, giving

the MSE itself a significant boost, following on from the encouraging Erdene Resources dual listing earlier this month.

*“ A domestic listing would also enable ETT to build up a track record of public accountability and corporate governance, and work to improve its operational and financial position before seeking an international listing. ”*

### INTERNATIONAL LISTING

For various reasons, it will be more difficult for ETT to list internationally.

There needs to be some convergence of the listing rules and legislation between Mongolia and those international exchanges where ETT shares might be traded. Taking Hong Kong as an example, the Hong Kong Listing Rules require an overseas company to demonstrate that its jurisdiction of incorporation there are shareholder protection standards at least equivalent to those of Hong Kong. These rules may be eased somewhat by the ongoing Innovative Companies Consultation launched by the Hong Kong Stock Exchange in February 2018 aimed at broadening the existing listing regime to facilitate the listing of emerging and innovative companies. However, it will be a significant challenge for Mongolia to demonstrate that its corporate governance and shareholder protection standards are at least as strong as those in Hong Kong.

An alternative would be for ETT to incorporate a special purpose company in one of the approved jurisdictions for listing, such as the Cayman Islands (where Mongolian Mining Corporation is incorporated). However, given the recent political furore over offshore jurisdictions, it would be a major stretch for a state-owned enterprise to attempt to list its shares from offshore.

Secondly, on the operational side, ETT remains tied into certain long-term contracts, such as the one entered into with Chalco. While the principal debt has now been paid off, according to media reports the contract terms remain substantially the same for a period of time, including pricing being tied to a Chinese based index. ETT has clearly benefited from an upturn in commodity prices, enabling it to pay off the debt associated with the contract and improving its financial position, but if this is correct, its freedom of manoeuvre may remain somewhat limited.

## DEPOSITARY RECEIPTS

Another potential option for ETT would be to tap the international capital markets by issuing depositary receipts based on underlying MSE listed shares. This is a route that has been adopted by many Russian companies whose corporate governance was

traditionally not robust enough to obtain a primary or secondary listing on international stock exchanges. This is worth investigating if a full international listing is too much of a short-term challenge.

## LINK TO RAILWAY INFRASTRUCTURE

Another issue for ETT derives from the blocked Shenhua transaction in 2015. One of the reasons this transaction was rejected, not necessarily a bad decision for Mongolia in my opinion, was linking development of ETT with development of the railway network. If the government proposes to continue to develop these as one project, there is a risk of there being too many political and other stakeholders to make meaningful progress. The capital expenditure required to develop

railway infrastructure is enormous and needs to be considered from a strategic perspective in the interests of the country as a whole.

*“ It may be preferable to de-link ETT and railway if politically feasible and concentrate on the development of ETT and the Gashuunsukhait border railway link as two entirely separate projects, but proceeding on a parallel timetable. ”*

## POWER INFRASTRUCTURE

While the power solution for Oyu Tolgoi remains a hot topic of discussion, the development of the Tavan Tolgoi Power Project (TTPP) remains a good option for Mongolia. The plant is designed primarily to support Oyu Tolgoi, but if developed independently, could be expanded by including additional units to support the national grid. This would enable TTPP to act as a power hub, supporting regional development over the long term. On the other hand, if OT is required to develop its own power solution, the Mongolian government would effectively be paying for 34% of the project through its

shareholding in OT.

The main issues with developing TTPP are a shortage of available finance, due to the fact that commercial lenders and IFIs are no longer supporting projects based on coal. Secondly, political risk associated with OT is a concern for potential lenders and investors. The more OT is pressured, or perceived to be pressured, the more difficult it is to progress with ancillary projects such as TTPP which depend on the stability of the OT project.

## CONCLUSIONS

As one of the largest coal deposits by reserves in the world, Mongolia needs to find a good solution for the development of ETT. A domestic listing in the first instance would be a positive step, may resolve the long-standing 1072 shares matter, and improve corporate

governance. While an international listing may be a challenge, it is a worthy aspiration. As for power, pursuing TTPP with ETT as the primary source of coal for the power plant remains the better option for both Mongolia and Oyu Tolgoi.

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**NEW NISSAN PATROL**

ЛИЗИНГИЙН НӨХЦӨЛ:

- Урьдчилгаа 0%
- Хүү 1.4%
- Хугацаа 84сар

УРАМШУУЛАЛ:

- XPEL
- Салбар сервисын эрх
- Аш
- Салбарын шилтэй хамгаалалт

ҮНЭ: ₮214.0 сая

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