

Silk Road Khans

Here a full review of our 2011 presentation <http://www.scribd.com/doc/100068368/The-Silk-Road-Invest-Case>

The trail crossed an amazing distance, touching innumerable cultures and markets. That made this route extremely valuable to whoever controlled it.



No surprise then that Genghis Khan sought control over this lucrative trade route as he expanded his empire.

Genghis' bloodline knew where the money was at. At first, Genghis and his Mongol hordes had to fight for control of their surrounding territories. Then, these ruthless barbarians systematically eliminated their enemies and took control of both lands and peoples from the Korean peninsula to the Black Sea. Not only was the Silk Road a "cash cow" for the Mongols, the route made for quick movements of armies during campaigns as the empire expanded.

They now controlled major trade routes through their empire. They controlled massive amounts of territory around these routes.

Once these settlements were conquered, the Mongols found themselves in an interesting position. The Mongols were beginning to settle in little towns and villages along the Silk Road.

These villages became wealthy because of all the trade flowing through them. The great nomadic tribes were becoming aristocratic... All because of the money flowing through their realm.

But we see a very different "empire" today.



Gold Rush... and copper, and coal, and uranium, and money !

Mongolia is still largely unsettled, and nomadic tribes roam the Steppes. But this country has become a hotbed of the mining industry. With minerals and metals like copper, coal, gold, uranium and tin, just to name a few, Mongolia is in the midst of a mining boom. This industry has put Mongolia on the main stage.

Companies from Canada, Australia and even the U.S. are interested in tapping Mongolian reserves. -See our other posts [Scouting Emerging Markets : Mongolia](#) [Mongolia Flash-](#)

Canada's Turquoise Hill Resources (formerly Ivanhoe Mines) will start commercial operations in the Oyu Tolgoi copper and gold deposits in the first few months of this year. BHP Billiton and Peabody Energy wanted a 30% to 40% stake in Mongolia's Tavan Tolgoi, the world's biggest untapped coking coal deposit.

Interest in that deposit attracted Korea, Japanese and Chinese companies, too.

The project is still searching for a partner. Mongolian miner Erdenes Tavan Tolgoi owns the mine and could become listed on the London, Hong Kong and Ulan Bator exchanges in the next month or two, raising a potential \$3 billion in an IPO.

China's Chalco is interested in a controlling stake (worth \$926 million) in Mongolian coal miner SouthGobi Resources from Turquoise Hill. And get this: Chinalco – Chalco's parent company – is the largest shareholder in Rio Tinto – who owns Turquoise Hill Resources.

This shifting around of stakes and resources is just the beginning of big names setting up shop in Mongolia. And these big names own a lot of little names with big potential in the area.



Take Turquoise Hill Resources, for example. This company holds a 66% stake in the Oyu Tolgoi mine, a 58% interest in SouthGobi Resources, a 57% interest in Ivanhoe Australia, a copper-gold miner, and a 50% stake in Altynalmas Gold, a private company developing the Kyzyl gold project in Kazakhstan (which we'll talk more about next week).

But Turquoise Hill Resources (TRQ:NYSE) isn't a financial powerhouse. It's got a ways to go before it's fully profitable, though things are headed in the right direction.

In the third quarter of 2012, TRQ had \$77.628 million in net income compared to its \$2.383 million in the third quarter of 2011. But for the first nine months, net income was in the red. This reveals one of the major issues at the heart of the Mongolian mining industry.

The country is at the mercy of commodity prices. It depends heavily on China for its exports, too, so if China's slowing down, so is its consumption of commodities. If Chinese demand falls, so do commodity prices. And Mongolia's growth could dry up quickly. That means companies like Turquoise Hill Resources might stay in the red for longer than they'd like.

The potential in Mongolia – particularly its mining industry – is huge... but it's in its early stages, and the world is still struggling to regain its economic footing. China's slowdown and the paltry growth in developed markets could suppress the growth of Mongolia's mining industry.

In other words, this is a ground-floor opportunity, and one we'll have to stack against other opportunities in the region. Put Turquoise Hill Resources (TRQ:NYSE) on your watch list.