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## ResGen 'due for a run'

[miningmx.com] -- TARGETING coal mining in the Waterberg, exploration group Resource Generation has cleared major hurdles that may bring about a run in its share price, according to RBC Capital Markets.

Reporting annual results on Wednesday, ResGen said it was granted a water-usage licence during the last quarter of the financial year, while an appeal against its mining right had been dismissed. It has also signed a rail-freight agreement with Transnet.

The company's next step is to secure debt and equity funding for the development of the first phase of its six million tonnes per year Boikarabelo project.

"The Eskom domestic offtake agreement is the remaining commercial agreement outstanding – however, we see this as a relatively low-risk item," said RBC Capital Markets in a report issued on Tuesday.

"We believe securing the debt financing will raise confidence in the development, underpinning increased equity value ahead of a likely equity raising late 2012."

RBC said ResGen's valuation remained compelling. "We assume higher capex and a one year delayed start-up relative to management, but our base case net asset value (using US\$90/t LT thermal coal) is A\$1.16. The Stage 2 expansion, which RES plans to fund out of Stage 1 cash flows, would lift our NAV to \$3.30," it said.

"Current macro headwinds and the funding hurdle continue to see the stock discounted; we look for this to unwind as the debt is secured and the thermal coal macro environment improves into year-end and 2013."

RBC has given ResGen a price target of A\$0.70, whereas the stock is currently trading at A\$0.24 (R3.79 on the JSE).

"We have reviewed our modelling, incorporating increased opex estimates, which lowers our NAV from \$1.39 to \$1.16 (Stage 1 only). We assume an equity raising (\$350m at \$0.75) and apply a 25% discount to this in setting our \$0.70 price target."

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