

MEDIA COVERAGE



ResGen Waterberg mine hangs on rail

Eskom offtake still outstanding, company says bank funding reliant on Transnet allocation agreement

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By Allan Seccombe

Australia's Resource Generation (ResGen) hopes to raise the first tranche of funding for its \$750m coal mine in the Waterberg early next year, but much depends on securing a rail contract with Transnet, CEO Paul Jury said yesterday.

Sidney-listed ResGen has a secondary listing on the JSE, where it is probably the bourse's most illiquid stock — not a single trade has been recorded since the shares were listed on July 14 2010. The JSE's system showed an offer yesterday to buy ResGen shares at 2c each, but no counter offers from sellers.

Mr Jury hopes interest will grow once ResGen has secured rail capacity from Transnet.

Financiers for half the capital want to see a signed contract with Transnet before they will commit funds. The balance will come from equity. The talks with Transnet have taken two years to secure a firm allocation to transport coal from the Boikarabelo project.

Transnet wants first to determine the demand for rail capacity from the Waterberg and complete an allocations study by about October. ResGen has proposed its take-or-pay commitment become firm by December if those studies were not completed by then.

"We would go to our banks with a contract that had this conditionality," he said. The condition was that once the allocation was confirmed by Transnet, ResGen could then draw down on funding but it would allow the banks' due diligence studies to start.

All the regulatory requirements such as mining rights, water-use licence and environmental approvals are in place.

The last hurdle is securing a rail contract.

"An Eskom offtake is also still outstanding, but we understand bank funding is reliant on the Transnet agreement only given the (most) of the project cash flows are from the export tons," RBC Capital Markets said.

MEDIA COVERAGE

The equity portion would kick in after the bank funding. "We do have a desire to raise as much equity as we can from the South African institutional market because we've had very little trading on the JSE and we want to stimulate that listing as much as possible," Mr Jury said.

"At this stage none of the brokers in SA have picked up the stock. We have a lead manager in SA, one of the majors, which will participate in the equity raising. I'll be doing presentations to get institutions across the line in understanding who we are and what the project is," he said.

"I think the brokers have looked at the lack of volumes and are not putting elbow grease into trading the stock. They just don't see volumes as sufficient to provide them with a return. I'm not overly impressed," he said.

"We have tried ... to get some trading going but it's not something they were prepared to do.

"Once we get the bank financing I'm confident people will have a much more positive view on our ability to deliver."

Not only were the Transnet talks about allocation on the line but a "fair and equitable" tariff, based on what Exxaro, the biggest coal miner in the Waterberg, Limpopo, secured for its railed coal, a number ResGen had factored into its plans, he said.

"The economics of our project are based on that expectation and what Transnet has given us for a tariff and what we've responded with put us very close together."

The tariff could make up 47% of the cost of coal delivered to an east coast port, he said, declining to say which of three harbours – Richards Bay, Durban or Maputo – would be used for ResGen's 6-million tons of annual exports.