

MEDIA COVERAGE AUSTRALIAN FINANCIAL REVIEW

5 Jan, 2011

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More entrepreneurial than corporate

There's no doubt coal industry veteran Paul Jury knows how to find an attractive deposit. Just ask Xstrata, Glencore, BHP Billiton and Rio Tinto, which have bought the four coal companies in which he has been substantially involved over the past 20 years.

Most of the time, Jury was offered "flattering" senior roles at the acquiring companies. But each time, he turned them down in favour of building up another company himself, just as he is doing now with South Africa-focused coal hopeful Resource Generation.

"I must have preferred the more entrepreneurial path to the more corporate path, I suppose," he tells *The Australian Financial Review*.

Jury has been in the coal business since the early 1980s, when he worked for the Howard Smith Group – then a dominant shareholder in NSW miner Coal & Allied, which was later bought by Rio predecessor CRA.

Jury, who has a finance background, effectively spent his entire career in the coal industry focused on NSW, running companies such as Coal Mines Australia, Oceanic Coal, Nardell Coal and, more recently, Resource Pacific. In the latter, he bought the Newpac mine for \$6 million after Macquarie Bank tipped Nardell into receivership at a time of low coal prices.

Xstrata paid \$1.1 billion for a takeover of Resource Pacific that was completed in March 2008, and Jury walked away with \$32.4 million from his shareholding in the company.

This time around, Jury is doing something more exotic. He is trying to convince Australian investors to back the development of a \$552 million thermal coal mine in South Africa. The Boikarabelo deposit contains a massive resource of 6.4 billion tonnes, but perhaps more importantly, a mineable reserve of 745 million tonnes.

"It is a beast," Jury says. "Boikarabelo is such a standout from a global perspective."

The deposit is in the Waterberg coal basin of South Africa, close to the border with Botswana. The Waterberg is recognised as the future of the South African coal industry as deposits in the Witbank



King Coal . . . Paul Jury loves to build up his own companies and is now focused on South Africa.

Photo: LOUIE DOUVI

region to the south are depleted.

About half of the 6 million tonnes of saleable coal from the first stage of the project would be sold into the domestic South African market to state-owned utility Eskom, which is desperate to boost power generation. But the remainder would be exported to India, China and elsewhere.

India's third-largest power utility, CESC, in September agreed to buy 1 million tonnes of coal in the first three years, rising to 2 million tonnes a year for the next 17 years. CESC has also taken a 10 per cent stake in the company through a share placement.

In December, Resource Generation signed a second 20-year offtake contract with India's Bhushan Steel for at least 500,000 tonnes a year.

Jury says a lot of companies have come to Resource Generation asking to take a substantial stake in the project or to buy all of the coal or underwrite the capital expenditure.

But this doesn't fit into his time-tested model.

"We just don't think it generates enough value for shareholders, selling down at an early stage," he says.

When it comes to building coalminers, by now he has a model. He calls it the "capitalisation model". "You need to have a flexible, open share register so you can raise a lot of money to build the mines," he says.

Jury also tries to avoid distractions, such as outside board seats or making major acquisitions, so he can devote all of his attention to the project at hand. "I am single-minded. Keep your eye on the ball, so to speak," he says.

There are plenty of Australian investors who have backed Jury and his team in previous ventures, but now that the focus is on a project in South Africa, he's found he has a bit more selling to do.

There is a perception in the market, particularly in more recent

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times, that South Africa is an investment destination with high sovereign risk.

"Initially there was a bit of concern expressed by some senior fund managers," Jury says.

However, Jury, who now visits that country every six weeks or so, says in his experience with the development of Boikarabelo many of these fears are overblown.

"There is a perception that being in Africa, things run on 'African time' and it's slower and you have to be a bit more patient," he says. "We have certainly had to be patient at various points in time, particularly with the bureaucracy. But I would think the processes in Australia are no different in some respects."

Just as in Australia, there are substantial infrastructure issues in the coal industry in South Africa. Resource Generation is in talks with state-owned rail provider Transnet about adding capacity to the line to help it export coal from Richards Bay or Durban.

"A lot of investment hasn't occurred in the last decade and a half," Jury says. "A lot of the pre-existing, what I call very sophisticated world-class infrastructure, it is still there, but it is run down."

"In many ways it just needs recapitalising."

Resource Generation, which has a market value of \$124 million, raised \$30 million in November to help build a rail link to the existing line. The company hopes to finalise project financing this year and enter production in 2013.

In light of his track record of developing assets so attractive that larger miners can't resist making a bid, there is certainly a risk that Resource Generation will be snapped up in the future.

Just as in the other cases, Jury has not set out to sell the company, but he admits it is possible another party could bid.

"We always maintain that shareholders have the first and last right to what happens to the company," he says.

"That is their right, so therefore all we can do is work hard for shareholders to make decisions associated with our own value."