



Resource Generation (RES)

Resource Generation. In Person.

BUY

Risk: HIGH

Key Information

Price (\$)	0.20
12 Month Target Price (\$)	0.40
Valuation (\$)	0.50
Market Cap (\$M)	55.43
GICS Sector	Materials
52 week Hi-Lo (\$)	0.45 - 0.18
Daily Vol (M, mth avg)	0.13
Weight of S&P 200 Index (%)	0.00
Cash (\$M)	22.00
Debt (\$M)	20.80
Gearing [ND/(ND+E)] (%)	0.00
Forecast Total Return (%)	105.13

Investment Fundamentals

YE 31 Dec	FY12A	FY13E	FY14E	FY15E
Sales (\$M)	0.0	0.0	0.0	0.0
EBITDA (\$M)	-2.9	-4.2	-4.2	-10.1
Margin (%)	n.a.	n.a.	n.a.	n.a.
NPAT (\$M)	-2.9	-4.3	-6.3	-23.0
EPS (cps)	-1.1	-1.5	-1.1	-1.8
EPS Growth (%)		n.a.	n.a.	60.9
DPS (cps)	0.0	0.0	0.0	0.0
Franking (%)	0.0	0.0	0.0	0.0

Source: Bloomberg

Ratio Analysis

YE 31 Dec	FY12A	FY13E	FY14E	FY15E
PE (x)	-18.0	-12.9	-17.8	-11.0
Yield (%)	0.0	0.0	0.0	0.0

RES vs S&P/ASX Market Index



Performance	1 Mth	3 Mth	12 Mth
Absolute (RES) (%)	0.0	-25.0	-35.0
Rel to Market (%)	3.4	-21.7	-53.7

Major Shareholders

	%
Integrated Coal Mini	10.7
Barsington Ltd	7.5
Scodella Inc	6.2
Uca Funds Management	5.9

Directors and Management

Brian Warner	Non-Executive Chairman
Paul Jury	Managing Director
Steve Matthews	Executive Director
Geoffrey Rose AO	Non-Executive Director

Event

Presentation by Paul Jury (MD) at Shaw Stockbroking.

Highlights

- Entitlement Offer:** RES is undertaking a non-renounceable entitlement offer of 1 new share for every existing, eligible shareholder registered at 7:00pm on 8th July 2013 to raise \$62.6m (at \$0.22/share). Shares deemed ineligible will be placed to institutional and sophisticated shareholders. This offer is not underwritten, however, three groups have indicated that they would be interested in taking up any shortfall (up to ~80% of the offer). The directors of RES will reserve the right to place shortfall shares at their discretion to ensure that no party obtains a position of control.
- Use of Funds:** Assuming completion of the offer, RES would receive \$62.0m in cash (net of costs). There are two main possibilities following the completion of the raise. First, where RES commences construction and either raises debt/ equity in 9-12months time for the shortfall of funds to completion (~US\$245m). Second, where RES leases its Coal Handling and Processing Plant (CHPP), reducing its total capex spend by \$245m and allowing it to complete construction with existing funds. Even in the second case, however, we believe RES might require some additional funds in case of contingencies and or working capital requirements that are larger than what is currently budgeted. In both scenarios the project would be significantly down the risk curve allowing RES to obtain fresh financing on much more favorable terms.
- Progress on CHPP:** RES highlighted that the Dry portion (material handling) of the CHPP (~50% of CHPP Capex) was now in tender phase with bids expected in the coming weeks. Further, the Wet portion (coal preparation) is expected to soon go out for tender. Once complete, these tenders will provide a feasible alternative to seeking further funding via debt/equity 9-12months (assuming no contingencies).
- IPP Opportunities:** RES recently announced Valu Investments as a new offtake party for coal (1Mt for 20 years) replacing Bhushan Steel's previous contract (0.5Mtpa for 20 years). Further, Valu also obtained the right to Build Own & Operate coal fired power stations as an Independent Power Producer (previously held by CESC) at the Boikarabelo mine site. This could potentially provide an offtake for RES's Stage 2 middlings product helping underwrite Stage 2 of the project.

Recommendation

The successful completion of this offer would give RES enough capital to commence construction on site. We estimate that RES would require further financing in about 9-12months time by which time RES would have de-risked the project significantly from where it stands today. **We maintain our BUY rating with a 12-month price target of \$0.40/share.**

Refer to disclaimer on last page



Financial Summary

Market Valuation Metrics

Recommendation	BUY
Risk	HIGH
Price (A\$)	0.20
Target Price (A\$)	0.40
Valuation (A\$)	0.50
Issued Capital (M)	284.2
Market Cap (\$m)	55.4
Year End	30 June

Investment Statistics

YE 30 June	FY12A	FY13E	FY14E	FY15E	FY16E
Shares Outstanding	262.9	284.2	568.9	1,299.7	1,299.7
NPAT (Reported) (\$m)	(1.4)	(4.3)	(6.3)	(23.0)	51.4
NPAT (Underlying) (\$m)	(2.9)	(4.3)	(6.3)	(23.0)	51.4
EPS (Adj \$)	(0.01)	(0.02)	(0.01)	(0.02)	0.04
P/E (x)	n.a.	n.a.	n.a.	(11.0)	4.9
Div (\$)	0.00	0.00	0.00	0.00	0.00
Yield (%)	0.0%	0.0%	0.0%	0.0%	0.0%
Franking (%)	0%	0%	0%	0%	0%
(ND/(ND+E)) (%)	0.0%	9.3%	45.1%	19.1%	16.0%
ROE (%)	-2.1%	-3.1%	-3.2%	-4.9%	10.1%
ROA (%)	-2.0%	-2.6%	-1.9%	-3.8%	8.0%

Profit & Loss Statement (A\$m)

YE 30 June	FY12A	FY13E	FY14E	FY15E	FY16E
Revenue	0.0	0.0	0.0	0.0	219.2
Revenue growth (%)	n.a.	n.a.	n.a.	n.a.	n.a.
EBITDA	(2.9)	(4.2)	(4.2)	(10.1)	88.9
EBITDA margin (%)	n.a.	n.a.	n.a.	n.a.	40.6%
Depreciation & Amortization	(0.1)	(0.1)	(0.1)	0.0	(4.7)
EBIT	(3.0)	(4.3)	(4.3)	(10.1)	84.2
EBIT margin (%)	n.a.	n.a.	n.a.	n.a.	38.4%
Net interest	2.1	0.0	(1.9)	(12.9)	(12.9)
Pretax profit	(2.9)	(4.3)	(6.3)	(23.0)	71.4
Tax	(0.0)	0.0	0.0	0.0	(20.0)
Reported NPAT	(1.4)	(4.3)	(6.3)	(23.0)	51.4
Significant items	(1.4)	0.0	0.0	0.0	0.0
Normalised NPAT	(2.9)	(4.3)	(6.3)	(23.0)	51.4
NPAT margin (%)	n.a.	n.a.	n.a.	n.a.	n.a.

Cashflow Statement (A\$m)

YE 30 June	FY12A	FY13E	FY14E	FY15E	FY16E
EBITDA	(2.9)	(4.2)	(4.2)	(10.1)	88.9
Working Capital Investment (Inc)/Dec	0.0	0.0	0.0	0.0	(9.8)
Gross Cash Flow	(2.9)	(4.2)	(4.2)	(10.1)	79.1
Net interest Paid	1.0	0.0	(1.9)	(12.9)	(12.9)
Tax Paid	(0.0)	0.0	0.0	0.0	(20.0)
Other	0.6	0.0	0.0	0.0	0.0
Operating cashflow	(1.2)	(4.2)	(6.1)	(23.0)	46.3
Investing Activities	(11.1)	(30.1)	(204.0)	(217.7)	(32.4)
Free Cash Flow	(12.4)	(34.3)	(210.1)	(240.7)	13.9
Equity raised	0.0	8.5	62.6	292.3	0.0
Debt Raised/(paid)	0.0	19.4	109.4	0.0	0.0
Dividends paid	0.0	0.0	0.0	0.0	0.0
Other	0	0	0	0	0
Financing cashflow	0.0	28.0	172.0	292.3	0.0
Net change in cash	(12.4)	(6.4)	(38.1)	51.6	13.9

Balance Sheet (A\$m)

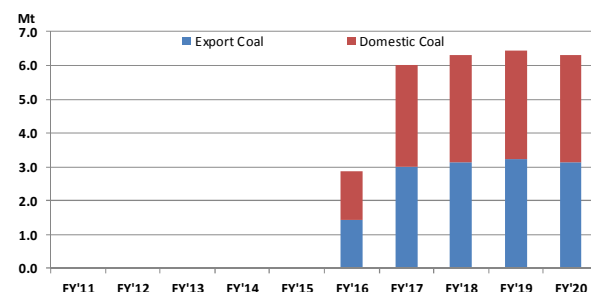
YE 30 June	FY12A	FY13E	FY14E	FY15E	FY16E
Cash	12.1	5.7	(32.4)	19.2	33.1
Property, Plant & Equipment	115.6	145.6	349.5	567.2	595.0
Other	12.7	12.7	12.7	12.7	12.7
Total assets	140.5	164.1	329.9	599.2	640.8
Debt	0.8	20.2	129.6	129.6	129.6
Other	6.4	3.6	3.6	3.6	3.6
Total liabilities	7.2	23.7	133.1	133.1	133.1
Total shareholders equity	133.3	140.4	196.8	466.1	507.7

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Production (Mt)

	FY12A	FY13E	FY14E	FY15E	FY16E
Export	0.0	0.0	0.0	0.0	1.4
Domestic	0.0	0.0	0.0	0.0	1.4
Total	0.0	0.0	0.0	0.0	2.9



Currency Assumptions*

	FY12A	FY13E	FY14E	FY15E	FY16E
A\$:US\$	1.0114	1.0298	0.9550	0.9300	0.9100
ZAR:US\$	0.1250	0.1144	0.1026	0.1066	0.1088
Thermal Coal	113.0	98.0	102.0	108.0	109.0

*Bloomberg & Consensus Economics

Total Resources (100% basis)

	Inferred	Indicated	Measured	Total
Waterberg #1 SW	0.0	0.0	426.3	426.3
Waterberg #1 NE	0.0	551.7	0.0	551.7
Witkopje S & Kalkpan	0.0	0.0	664.2	664.2
Draai Om	791.3	0.0	0.0	791.3
Witkopje N	688.3	0.0	0.0	688.3
Total Resources	1479.6	551.7	1090.5	3121.8

Total Reserves (100% basis)

	Probable	Proven	Total
Waterberg #1 SW	314.2	0.0	314.2
Waterberg #1 NE	0.0	0.0	0.0
Witkopje S & Kalkpan	430.6	0.0	430.6
Draai Om	0.0	0.0	0.0
Witkopje N	0.0	0.0	0.0
Total Resources	744.8	0.0	744.8

Sensitivity Analysis - Changes in Coal Price

Coal Price	Valuation
15% Lower	\$0.21
10% Lower	\$0.31
5% Lower	\$0.41
Base Case (Valuation)	\$0.50
5% Higher	\$0.60
10% Higher	\$0.70
15% Higher	\$0.80

Sensitivity Analysis - Changes in Cost of Equity

Cost of Equity	Valuation
9.50%	\$2.25
11.50%	\$1.30
13.50%	\$0.79
15.5% (Valuation Base Case)	\$0.50
17.50%	\$0.32
19.50%	\$0.21
21.50%	\$0.13

Sensitivity Analysis - Price of Raising Fresh Equity

Price	Valuation
\$0.35	\$0.40
\$0.40	\$0.44
\$0.45	\$0.47
\$0.50 (Valuation Base Case)	\$0.50
\$0.55	\$0.53
\$0.60	\$0.56
\$0.65	\$0.58

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Rating Classification

Buy	Expected to outperform the overall market
Hold	Expected to perform in line with the overall market
Sell	Expected to underperform the overall market
Not Rated	Shaw has issued a factual note on the company but does not have a recommendation

Risk Rating

High	Higher risk than the overall market – investors should be aware this stock may be speculative
Medium	Risk broadly in line with the overall market
Low	Lower risk than the overall market.

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