

BBY Company Research		13 June 2013	
Resource Generation Limited			
RES	A\$0.20	TARGET PRICE	A\$0.60
		STRONG BUY	2.0X
Resource Generation Ltd., through subsidiaries, explores for and produces coal in Africa.		Mike Harrowell +61 2 9226 0043 mrh@bby.com.au	Kurt Worden +61 2 9226 0100 kew@bby.com.au



This report is current at the date of publishing. Please speak with your advisor about updates to or the currency of this report.

An energetic management team determined to deliver a larger scale project

We have initiated coverage on Resource Generation (RES) with a Strong Buy recommendation and a price target of A\$0.60/sh. On consensus forecasts, we generate an NPV of A\$0.29/sh for the 6Mtpa Stage 1, A\$1.15/sh for the 24Mt Stage 2, and A\$0.60/sh on FY17 eps at 10x discounted back to today. The RES share price has not fared well post the company's decision to walk away from the debt funding offer from the banking syndicate in March 2013 (see price chart). Both the company fundamentals and the price chart point to a rapid return to the A\$0.30/sh level on resolution of debt funding, much of which could come from suppliers. Finally, the delivery of project milestones to date is a testament to the energy of the management, which we see as a major company asset, and the best assurance of returns to shareholders.

- ◆ The Noble Group involvement in a placement at A\$0.40/sh, the provision of an A\$123M facility, the underwriting of 8 years of domestic coal sales, and taking 2.5Mtpa of exports for 35 years is a positive for the company that the market has left unrecognised for now.
- ◆ RES could flip the current funding negativity and return to over A\$0.30/sh quickly, by exploiting the current equipment supplier and constructor interest in supplying mobile and fixed plant in lease or BOOT form. Combined with local rail funding support, the residual debt and equity funding load could be zero to US\$107M, depending on EPCM and contingency allocations (see Table 2).
- ◆ The Boikarabelo Project (74% RES) has 744Mt of reserves, and an additional 2Bt of resources. Stage 1 will deliver 3Mtpa of export coal at a cost of A\$55-60/t FOB against a quality adjusted consensus thermal coal price of US\$95/t, and 3Mtpa of domestic thermal coal at a steady indexed margin of A\$7.50/t. The domestic sales will cover most of the interest bill.
- ◆ We have used Consensus Economics USDZAR forecasts of around 9.2, vs current spot of 10.2. If we were to use 10.2 and our base, our Stage 1 NPV increases to A\$0.46/sh, and our export cost falls to A\$50-55/t FOB.
- ◆ Securing access to the Transnet rail for an initial 6Mtpa was a defining achievement. RES management are proactively assisting Transnet by providing engineering and analytical assistance, and is prepared to purchase critical land and other assets to drive the delivery of the 46Mtpa rail capacity to the Waterberg.

Company Data

Number of shares	285M
Market capitalisation	\$56M
Free Float	60.7%
12 month high/low	\$0.45/\$0.18
Average monthly turnover	\$1M
% S&P/ASX 200	n/a
% All Ordinaries	n/a
ESG Disclaimer Score (Ranking)	n/a
GICS Industry Group	Energy

BBY vs Consensus

	BBY FY1	Consensus FY1	% Difference
EBITDA (\$m)	(2.6)	(4.0)	(34.3)
NPAT (\$m)	(1.6)	(4.0)	(60.3)
EPS (c/sh)	(0.6)	(2.0)	(70.1)

BBY Technical View – as at 13/06/2013

Exit price	\$0.35	Resistance	\$0.25
Trend	Bearish	Support	\$0.15
Prepared by RXL			

Earnings summary (AUD)

Year end June	2012A	2013F	2014F	2015F
Net Attributable Profit (\$M)	0.6	(16)	(0.9)	(0.9)
Reported Profit (\$M)	0.6	(16)	(0.9)	(0.9)
EPS (¢)	0.3	(0.6)	(0.3)	(0.2)
P/E (x)	99.6	(32.7)	(74.8)	(121.1)
CFPS (¢)	(0.6)	(2.9)	(16)	(3.7)
P/CF (x)	(46.1)	(6.6)	(12.0)	(5.2)
DPS (¢)	0.0	0.0	0.0	0.0
EV/EBITDA (x)	(54.8)	(23.9)	(44.8)	(173.6)
Franking (%)	0.0	0.0	0.0	0.0

RES share price performance



Financial Summary

Resource Generation Limited

Share Price (A\$) **\$0.20**

Mkt Cap (A\$M)

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Year ending June 30

Profit & Loss (A\$M)	2012A	2013F	2014F	2015F
Total Revenue	1.4	0.0	0.0	0.0
Growth (%)		(100.0)		
EBITDA	(1.4)	(2.6)	(2.5)	(2.6)
Growth (%)		(86.1)	5.0	(5.5)
Dep'n and amort'n	(0.1)	(0.1)	0.0	0.0
EBIT	(1.5)	(2.7)	(2.5)	(2.6)
Net interest expense	2.1	0.8	1.2	1.3
PBT	0.6	(1.9)	(1.3)	(1.3)
Growth (%)		nm	30.9	2.7
Tax	0.0	0.3	0.4	0.4
NPAT Underlying attrib.	0.6	(1.6)	(0.9)	(0.9)
Growth (%)		nm	41.2	2.7
NPAT Reported	0.6	(1.6)	(0.9)	(0.9)
Normalised NPAT	0.6	(1.6)	(0.9)	(0.9)
Ord Shares	257.9	284.7	559.7	559.7
Options	0.0	5.0	5.0	5.0
Fully Diluted	257.9	289.7	564.7	564.7
FD Wgtd Av Shares	193.4	266.1	358.4	564.7

Cashflow (A\$M)	2012A	2013F	2014F	2015F
Customer receipts	0.0	0.1	0.0	0.0
Supplier Payments	(1.7)	(8.0)	(2.5)	(2.6)
Net interest paid	1.0	0.0	(3.3)	(18.5)
Taxes Paid	0.0	0.0	0.0	0.0
Net operating cash flow	(1.2)	(7.8)	(5.8)	(21.2)
Capex	(11.8)	(21.1)	(150.1)	(305.9)
Net investing cash flow	(9.9)	(18.9)	(153.5)	(324.4)
Dividends paid	0.0	0.0	0.0	0.0
Net financing cash flow	(1.3)	27.4	252.6	290.1
Net Change in cash	(13.2)	0.6	93.3	(55.5)
Net cash at end of period	7.6	7.2	103.7	27.7
Free cash flow	(1.2)	(7.8)	(5.8)	(21.2)

Balance sheet (A\$M)	2012A	2013F	2014F	2015F
Cash	12.1	12.8	106.1	50.6
Receivables	0.8	0.0	0.0	0.0
Inventories	0.4	0.0	0.0	0.0
Current assets	13.3	12.8	106.1	50.6
Tangible Assets	115.6	6.0	156.1	462.0
Investments	0.0	0.0	0.0	0.0
Goodwill	0.0	0.0	0.0	0.0
Total assets	140.5	162.9	447.9	779.0
Payables	2.9	0.0	0.0	0.0
Current Term debt	0.8	0.0	0.0	0.0
Long term debt	0.0	20.0	162.6	452.7
Total liabilities	7.2	23.5	199.5	531.5
Total Shareholder Equity	133.3	139.4	248.4	247.5

Key Assumptions	2012A	2013F	2014F	2015F	2016F
US\$/A\$	1.032	1.036	1.009	0.978	0.948
ZAR/A\$	8.020	8.969	9.224	9.031	9.071
Semi Soft Coking Coal (US\$/t)	170.4	120.3	119.0	124.4	123.3
Thermal Coal (AP4) (US\$/t)	110.6	89.3	97.6	101.3	104.5
Eskom contract price (ZAR/t)	0.0	0.0	0.0	0.0	259.6
Boikarabelo					
ROM Coal Production (kt)	0.0	0.0	0.0	0.0	5,000.0
Yield (%)	0.0%	45.0%	45.0%	45.0%	45.0%
Saleable Production (kt)	0.0	0.0	0.0	0.0	2,250.0
Prime Coal (kt)	0.0	0.0	0.0	0.0	1,100.0
Domestic Thermal Coal (kt)	0.0	0.0	0.0	0.0	1,150.0
Operating Cost (ZAR/t)	0.0	0.0	0.0	0.0	0.0
Capex (ZAR'M)	0.0	0.0	1,371.6	2,757.7	1,709.7

Investment summary	2012A	2013F	2014F	2015F
NPAT reported	0.6	(1.6)	(0.9)	(0.9)
NPAT Underlying	0.6	(1.6)	(0.9)	(0.9)
EPS Reported	0.3	(0.6)	(0.3)	(0.2)
EPS Underlying	0.3	(0.6)	(0.3)	(0.2)
EPS Growth (%)		nm	56.4	38.2
P/E Underlying (x)	99.6	(32.7)	(74.8)	(121.1)
Dividend (¢/sh)	0.0	0.0	0.0	0.0
Payout Ratio (%)	0.0	0.0	0.0	0.0
Gross Yield (%)				
Net Yield (%)				
Franking (%)	0.0	0.0	0.0	0.0

Key Ratios	2012A	2013F	2014F	2015F
Profitability (%)				
EBITDA	(1.4)	(2.6)	(2.5)	(2.6)
EBITDA/Rev (%)	(97.7)	na	na	na
EBIT	(1.5)	(2.7)	(2.5)	(2.6)
EBIT/Rev (%)	(105.1)	na	na	na
NPAT	0.6	(1.6)	(0.9)	(0.9)
NPAT/Rev (%)	39.6	na	na	na
ROE (%)	0.9	(1.2)	(0.5)	(0.4)
ROA (%)	(1.8)	(1.8)	(0.8)	(0.4)
ROIC (%)	(2.2)	(1.4)	(0.8)	(0.4)

Financial Strength				
Debt to equity (%)	0.6	14.4	65.5	182.9
Net debt (\$M)	(11.4)	7.2	56.5	402.1
Net debt to equity (%)	(8.5)	5.2	22.8	162.4
Net Debt to EBITDA (%)	8.0	(2.8)	(22.6)	(152.5)
Interest Cover EBIT (x)	na	na	na	na
Current Ratio (x)	3.2	23.6	196.1	93.6
Quick Ratio (x)	3.1	23.6	196.1	93.6

Valuation				
Operating cash flow	(1.2)	(7.8)	(5.8)	(21.2)
CFPS (¢ - FD)	(0.6)	(2.9)	(1.6)	(3.7)
Price/CF	(46.1)	(6.6)	(12.0)	(5.2)
BV per share (\$)	0.5	0.5	0.4	0.4
Price/Book Value (x)	0.6	0.4	0.4	0.4
NTA (\$)	133.3	139.4	248.4	247.5
NTA per share (\$)	0.5	0.5	0.4	0.4
Price/NTA (x)	0.6	0.4	0.4	0.4
EV/Sales (x)	53.5			
EV/EBITDA (x)	(54.8)	(23.9)	(44.8)	(173.6)
EV/EBIT (x)	(50.9)	(23.2)	(44.8)	(173.6)

NPV Summary	A\$M	Resources		
Boikarabelo 74%	137.2		Mt	Cat.
Other Operations	0.0	Reserves Mt		
Total Operations	137.2	Waterberg SW	314.2	Prob
MRRT	0.0	Witkopje S	430.6	Prob
Administration	(21.8)	Total	744.8	
Exploration	0.0	Resources Mt		
Written Down Value of Assets	0.0	Kalkpan	204.0	Meas
Other Expenses	0.0	Waterberg NE	551.7	Indic
Realised FX Gains	0.0	Draai Om	791.3	Inf
Dividends	0.0	Witkopje N	688.3	inf
Proceeds from Asset Sales	0.0	Total	2,235.3	
Net working capital	(2.0)			
Other	(31.0)			
Total	82.4			
Cash	10.3			
Owed by Minorities	10.9			
Debt	(20.0)			
NPV A\$m	83.6			
NPV A\$/sh	0.29			
6Mtpa Case				

Source: BBY, Company Reports. BBY contributes all company estimates to Bloomberg, Thomson Reuters, FactSet and Capital IQ.

The ESG (Environmental, Social, Governance) score is a measure of the sustainability and ethical impact of an investment in this company or product. ESG scores range from 0.1 (min) to 100 (max). ESG scores are provided to BBY by Bloomberg and are only available for those companies that disclose ESG data to Bloomberg.

Crash through funding strategy

In March 2013, RES rejected a funding package from a syndicate of banks, on the basis that the terms were not commercial. The problems were the size of the upfront fees to the banks, and the size of the contingencies that drove an excessive requirement for equity. That package was for a US\$630M capital cost, with Eskom supplying the power. While the offer was rejected by RES, it is a clear indication that the banks have completed their reviews of the project, cleared respective credit committees, and that the project is currently bankable.

The company is continuing to whittle down the net upfront cost that it will have to finance directly. Eskom has contracted to supply Stage 1 power, resulting in US\$120M being removed from the capex, which is now at US\$630M. Caterpillar and Komatsu are competing to supply the US\$102M mobile fleet. The company is in discussions with possible Build Own Operate Transfer (BOOT) suppliers for the Coal Preparation Plant, which could remove US\$245M from the funding balance, leaving US\$223M plus the contingency (currently US\$60M) to fund through RES debt and equity. We assume an issue of A\$110M, but it could be substantially less (see Table 2). We have also assumed that interest is payable on debt/leases as incurred, whereas RES is likely to get a payment holiday until after ramp up.

The Boikarabelo project (74% net interest) is half domestic and half export thermal coal sales. On Consensus currency and coal price assumptions, the NPV lies between A\$0.29/sh (Stage 1 only) and A\$1.15/sh (including Stage 2 24Mtpa by 2024).

Because of its strategic position in the Waterberg, and given the shortage of domestic power coal in South Africa, once in operation RES will be a growth stock, leveraging off its large resource base.

On earnings assuming consensus assumptions, Stage 1 trend earnings are A\$0.09/sh from FY17. Given the growth potential, we would expect a PER of at least 10x, which becomes A\$0.61/sh when discounted back to today at a 10.1% WACC.

**Table 1. NPV A\$0.29/sh on Stage 1, Table 2. Funding scenarios
A\$1.15/sh on Stage 2**

	Stage 1	Stage 2	Funding	Option 1	Option 2
Boikarabelo 74%	137.23	414.76	Total Capex	630	630
Other Operations	0.00	0.00	Current Cash	-22	-22
Total Operations	137.23	414.76	Possible Equipment Lease	-102	-102
Administration	-21.84	-21.84	Possible Rail Link Loan		-51
Net working capital	-2.00	-3.55	Noble project loan	-123	-123
Other	-31.01	-57.54	Less Noble Debenture	20	20
Total	82.37	331.83	Possible CHPP lease		-245
Cash	10.32	10.32	Debt/Equity needed		
Owed by Minorities	10.87	10.87	Incl EPCM & Cont.	403	107
Debt	-20.00	-20.00	If no contingency	343	47
NPV A\$m	83.56	333.02	If no EPCM	279	0
NPV A\$/sh	0.29	1.15	(see Table 8 for capex detail)		
Issued Shares M	289.70	289.70			

Source: BBY estimates

Source: BBY Estimates

Our earnings and balance sheet modelling assume that RES has to fund 100% of the capex, but will be compensated from the BEE partner's 26% of cash flow until all RES contributions are recovered. In the above NPV, we show the NPV of RES' 74% share of Boikarabelo, and the present book value of amounts to be recovered from the BBE partner (A\$10.87M).

RES is sensitive to coal prices and currencies. We see little further downside in coal prices in AUD, because of the lack of profitability across the entire Australian coal industry. We expect the ZAR to remain under pressure relative to the AUD, reflecting both the higher inflation and low gold price.

Table 3. NPV sensitivity to A\$ coal prices

Coal Price A\$/t AP2	80	90	100	110	120
Stage 1	-0.33	0.11	0.54	0.97	1.40
Stage 2	0.03	1.05	2.06	3.08	4.10

Source: BBY estimates

We assume a South African inflation rate of 5.5%pa, offset by a USDZAR depreciation. However, our base for the USDZAR over the next 12 months is around May consensus of 9.2, compared to the spot rate 10.2. If we start our ZAR depreciation from spot, the Stage 1 NPV increases from A\$0.29/sh to A\$0.46/sh. In our view, the ZAR is likely to contribute positive surprise to our earnings and NPV.

**NPV Stage 1 up to
A\$0.46/sh if we start at
USDZAR spot of 10.2**

Noble's involvement adds funding and strengthens project

Cash at 31 March 2013 was A\$25.7M after receiving the A\$20M from the Noble debenture and A\$8.5M from the share placement.

Noble acquired a 7.5% stake in RES for A\$0.40/sh and has provided a US\$123M loan facility, which can be drawn down until 31 December 2013, and is repayable 21 months after the first draw down. Part of that loan will be used to repay the Noble \$20M debenture, which is due by December 2013.

Caterpillar Finance has offered to provide an equipment funding facility.

Table 4. Strong news flow over last year or two

Date	Event
4-Jun-13	Domestic offtake contract with Noble signed
3-Apr-13	Noble becomes a substantial shareholder
19-Mar-13	Bank syndicate term sheet offer rejected by ResGen
1-Jan-13	Noble provides A\$20M via a debenture due Dec. 2013
1-Jan-13	Noble contracts 2.5Mtpa export coal
13-Nov-12	Port access contracted with Bidvest
23-Aug-12	Eskom puts additional resources to RES
22-Aug-12	Eskom contracts to supply power from 2014
27-Jun-12	Transnet signs 10yr take or pay haulage contract for up to 6Mtpa
4-May-12	Water Use Licence received for Stage 1
23-Mar-12	National Environmental Management Act approval received
7-Jun-11	CESC/RPG Group extends purchase contract to 139Mt over 38 years
7-Jun-11	CESC subsidiary subscribes for 12.195M shares at A\$0.82/sh
31-Mar-11	New BEE partner buys out old partner for ZAR80M loaned by RES
15-Dec-10	Bhushan Steel contracted to purchase 0.5Mtpa over 20 years
24-Nov-10	Ledjadja ownership increased to 74%

Source: RES

Customer contracts in place

RES has 3 export contracts for its prime 5960 Kcal/Kg thermal coal.

1. CESC 38 year contract for 2Mtpa of prime thermal coal delivered to India from Stage 1 and 1Mtpa from Stage 2, subject to when Stage 1 commences.
2. Bhushan Steel 20 year contract for 0.5Mtpa of prime thermal coal.
3. Noble has entered into a 35 year offtake contract for up to 2.5Mtpa with exclusive marketing rights for Boikarabelo.

Noble has also signed a contract to purchase 3Mtpa of the middlings coal for placement into the domestic South African market over 8 years, with the announcement indicating the pricing is at commercial terms, which will assist funding, which we take to mean fixed pricing. Noble's position has been de-risked, in that there has been a successful test burn of the coal by Eskom, using the drill core from six large diameter cores taken in FY12, and there is an agreed framework for a bankable off-take MOU. Two Mpumalanga based power stations are target customers.

Supplier contracts in place

In June 2012, Transnet contracted to haul 4Mtpa from 1 July 2014, 5Mtpa from 1 July 2015, and 6Mtpa from 1 July 2016, on a take or pay basis, for 10 years (ie to 30 June 2024).

Transnet will not commit to a firm Stage 2 volume until it determines the overall line capacity and allocations of tonnage out of the Waterberg coal fields. This study was due by December 2012, but is still pending. Transnet is planning to upgrade to 26 tonne axle loads lifting the rail capacity to 46Mtpa from Waterberg.

RES believes that it has a role to drive the rail capacity study, and has seconded engineering capacity to Transnet to assist and maintain the momentum of the process.

On 13 November 2012, the project signed a port access contract with Bidvest subsidiary Bulk Connections giving RES access to sufficient stockpile capacity to ship coal at least once per week. 66 by 45,000 tonne Handimax cargoes in a year would be 3.0Mtpa. The contract starts in early 2015, and is take or pay, but is likely to be renegotiated.

Eskom committed to providing sufficient power to supply Stage 1, eliminating the need for a 45MW power station and US\$120M of Stage 1 capital.

Table 5. Contracted tonnages for rail, port and offtake tonnages

YE Dec	ROM	Exp prod	Midd Prod	Total Prod	Rail	Port	CESC Stage 1	Noble Exp	Bhu-shan Expt	Total Exp	Noble Domestic	Total	CESC Stage 2
2015	14	2.8	3.3	6.0	4.0	3.5	1.0	0.5	0.5	2.0	3.0	5.0	
2016	14	2.8	3.3	6.0	5.0	3.5	1.0	0.5	0.5	2.0	3.0	5.0	
2017	14	3.0	3.0	6.0	6.0	3.5	1.0	0.5	0.5	2.0	3.0	5.0	
2018	14	3.3	2.8	6.0	6.0	3.5	2.0	0.5	0.5	3.0	3.0	6.0	1.0
2019	14	3.5	3.0	6.5	6.0	3.5	2.0	0.5	0.5	3.0	3.0	6.0	1.0
2020	25	6.0	5.5	11.5	6.0	3.5	2.0	0.5	0.5	3.0	3.0	6.0	1.0
2021	25	7.0	5.0	12.0	6.0	3.5	2.0	0.5	0.5	3.0	3.0	6.0	1.0
2022	25	6.5	5.0	11.5	6.0	3.5	2.0	0.5	0.5	3.0	3.0	6.0	2.0
2023	47	11.0	10.0	21.0	6.0	3.5	2.0	1.5	0.5	4.0		4.0	2.0
2024	47	13.5	10.0	23.5	6.0	3.5	2.0	1.5	0.5	4.0		4.0	2.0
2025	47	12.0	7.5	19.5			2.0	1.5	0.5	4.0		4.0	2.0
2026	47	12.5	7.5	20.0			2.0	1.5	0.5	4.0		4.0	2.0
2027	47	11.5	12.5	24.0			2.0	2.0	0.5	4.5		4.5	2.0
2028	47	12.0	13.0	25.0			2.0	2.0	0.5	4.5		4.5	2.0
2029	47	11.5	12.5	24.0			2.0	2.5	0.5	5.0		5.0	2.0
2030	47	18.5	18.0	36.5			2.0	2.5	0.5	5.0		5.0	2.0
2031	47	18.5	17.0	35.5			2.0	2.5	0.5	5.0		5.0	2.0
2032	47	15.0	11.0	26.0			2.0	2.5	0.5	5.0		5.0	2.0
2033	47	14.0	10.0	24.0			2.0	2.5	0.5	5.0		5.0	2.0
2034	47	12.0	10.5	22.5			2.0	2.5	0.5	5.0		5.0	2.0
2035	47	13.0	11.0	24.0			2.0	2.5		4.5		4.5	2.0
2036	47	13.0	11.0	24.0			2.0	2.5		4.5		4.5	2.0
2037	47	13.0	11.0	24.0			2.0	2.5		4.5		4.5	2.0
2038				0.0			2.0	2.5		4.5		4.5	2.0
2039				0.0			2.0	2.5		4.5		4.5	2.0
2040				0.0			2.0	2.5		4.5		4.5	2.0
2041				0.0			2.0	2.5		4.5		4.5	2.0
2042				0.0			2.0	2.5		4.5		4.5	2.0
2043				0.0			2.0	2.5		4.5		4.5	2.0
2044				0.0			2.0	2.5		4.5		4.5	2.0
2045				0.0			2.0	2.5		4.5		4.5	2.0
2046				0.0			2.0	2.5		4.5		4.5	2.0
2047				0.0			2.0	2.5		4.5		4.5	2.0
2048				0.0			2.0	2.5		4.5		4.5	2.0
2049				0.0			2.0	2.5		4.5		4.5	2.0
2050							2.0			2.0		2.0	2.0
2051							2.0			2.0		2.0	2.0
2052							2.0			2.0		2.0	2.0

Source: RES Presentation September 2011 and later releases

All approvals for the 6Mtpa Stage 1 have been received

Mine fully approved

Consent received under National Environmental Management Act in March 2012. A Life of mine development consent enables construction of mine and rail link. The land for the rail link and the mine has been purchased. Mining rights for 30 years have been approved, and a water allocation from bore field approved May 2012. The water for Stage 2 has also been secured by RES constructing a sewerage treatment plant for a significant town in the region.

Black Empowerment (BEE) partner changed

Quality BEE partner

RES has facilitated the buyout of its previous BEE partner by lending its new BEE partner ZAR 80M (\$11.5M) to facilitate the acquisition of 26% of Ledjadja Coal P/L. The first tranche of ZAR60M was paid in May 2011, and the second tranche of ZAR10M was paid on 30 September 2011, with the final tranche of ZAR10M on 30 September 2012. The loan is secured over the partner's shares in Ledjadja. Interest is payable at the prime rate quoted by the Standard Bank of South Africa plus 3%. Currently, the bank's prime rate is 8.5%, making the interest payable to RES is 11.5%.

Table 6. Boikarabelo Project Stage 1 forecast detail 100% basis

YE June	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
ROM Coal Production kt	0	0	0	5.0	13.1	13.3	13.3	13.3	13.3	13.3	13.3
Saleable Production kt	0	0	0	2.3	5.9	6.0	6.0	6.0	6.0	6.0	6.0
Export Thermal Coal kt	0	0	0	1.1	2.9	3.0	3.0	3.0	3.0	3.0	3.0
Domestic Thermal Coal kt	0	0	0	1.2	3.0	3.0	3.0	3.0	3.0	3.0	3.0
Coal Sold kt	0	0	0	2.3	5.9	6.0	6.0	6.0	6.0	6.0	6.0
Project/Expn Capex ZARm	0	1372	2758	1692	0	0	0	0	0	0	0
Project/Expn Capex A\$m	0	149	305	187	0	0	0	0	0	0	0
US\$/A\$	1.036	1.009	0.978	0.948	0.922	0.902	0.888	0.895	0.896	0.896	0.896
ZAR/A\$	8.97	9.22	9.03	9.07	9.18	9.34	9.49	9.59	9.60	9.60	9.60
ZAR/US\$	8.66	9.14	9.23	9.57	9.95	10.35	10.69	10.71	10.71	10.71	10.71
Thermal Coal (AP2)	89.3	97.6	101.3	104.5	104.1	100.6	99.5	101.9	96.5	90.9	93.1
Eskom Margin ZAR/t	70.0	70.0	70.0	70.0	70.0	70.0	70.0	70.0	70.0	70.0	70.0
Eskom contract price ZAR/t	0.0	0.0	0.0	259.6	263.2	268.0	273.0	278.0	283.2	288.6	294.0
Eskom contract price A\$/t	0.0	0.0	0.0	14.3	28.7	28.7	28.8	29.0	29.5	30.1	30.6
Cash Costs ex Royalty											
Cash Costs ZAR/t FOB	0.0	0.0	0.0	0.0	380.8	382.1	389.1	397.4	401.1	405.2	410.8
Cash Costs A\$/t FOB	0.0	0.0	0.0	0.0	41.9	41.9	42.4	42.9	42.9	43.0	43.3
Cash Costs - prime ZAR/t FOB	0.0	0.0	0.0	0.0	529.0	532.3	538.9	545.6	552.4	559.2	566.2
Cash Costs - prime A\$/t FOB	0.0	0.0	0.0	0.0	58.2	58.4	58.7	58.9	59.1	59.4	59.7
Cash Costs – Dom. ZAR/t FOR	0.0	0.0	0.0	0.0	189.4	190.8	193.2	195.6	198.0	200.5	203.0
Cash Costs – Dom. A\$/t FOR	0.0	0.0	0.0	0.0	20.8	20.9	21.0	21.1	21.2	21.3	21.4
Newcastle Kcal/kg	6300	6300	6300	6300	6300	6300	6300	6300	6300	6300	6300
Export Kcal/kg gar	5960	5960	5960	5960	5960	5960	5960	5960	5960	5960	5960
Revenues US\$m											
Prime Coal	0	0	0	111	290	290	287	294	278	262	269
Domestic Thermal Coal	0	0	0	31	79	78	77	78	79	81	82
Total US\$m	0	0	0	141	369	368	363	372	358	343	351
Total A\$m	0	0	0	150	401	408	409	415	399	383	392
Unit Cash Costs ZAR\$/t											
Mining Saleable	59	111	117	123	127	130	134	137	140	144	147
Upgrade Saleable	21	40	42	44	46	47	48	49	51	52	53
Admin	10	18	19	20	20	21	21	22	22	23	24
Rail/Port (export only)	162	301	317	335	346	354	363	372	382	391	401
Export Cost ZAR/t fob ex Royalty	252	469	495	522	539	552	566	580	595	610	625
Ave Cost ZAR/t fob ex Royalty	0	0	0	178	363	375	385	394	404	414	424
Ave Royalty ZAR/t	0	0	0	13	26	26	26	27	23	20	20
Cost Calculation ZARm											
Prime Coal	0	0	0	582	1563	1657	1699	1741	1785	1829	1875
Domestic Thermal Coal	0	0	0	218	580	594	609	624	640	656	672
Cost to fob ZARm	0	0	0	800	2143	2251	2307	2365	2424	2485	2547
Total Royalty ZARm	0	0	0	57	154	156	158	162	141	119	121
Cash Costs ZARm	0	0	0	857	2296	2407	2465	2527	2565	2604	2668
Depreciation Rate ZAR/t	37.50	35.47	36.44	37.43	38.44	39.20	39.68	40.18	40.68	41.18	41.69
Profit & Loss A\$m											
Revenue	0	0	0	150	401	408	409	415	399	383	392
Cash Costs	0	0	0	-88	-233	-241	-243	-247	-253	-259	-265
Royalty	0	0	0	-6	-17	-17	-17	-17	-15	-12	-13
EBITDA	0	0	0	56	151	150	150	152	132	111	114
Depreciation	0	0	0	-10	-26	-26	-26	-27	-27	-28	-29
EBIT	0	0	0	46	125	124	123	125	105	83	85
Tax Paid (6mth lag)	0	0	0	0	-32	-39	-36	-37	-38	-25	-25
Capex	0	-150	-305	-189	-5	-5	-5	-5	-5	-6	-6
Free Cash Flow After Tax	0	-150	-305	-133	113	106	109	109	89	81	83
NPV	177	345	693	903	879	859	835	808	798	796	792
NPV 74%	131	255	512	668	650	636	618	598	591	589	586

Source: BBY Estimates. 2013 NPV of A\$131M for 74% is at June 2013, vs our Dec 2013 NPV of A\$137.23M

Model Assumptions

Our currency and coal price assumptions come from Consensus Economics May 2013 publication for currency and April 2013 for commodities. The export coal price is ex Newcastle Australia by quarter to Q3 2015 and the long term price. The USDZAR forecast is to Q1 2015.

We have discussed previously the USDZAR, and noted the current spot is 10.2, some 10% less than the current Q1 2015 estimate. Beyond the Consensus forecast period, we assume the USDZAR declines by 3% pa in line with the differential in inflation. About 50% of the capex is in ZAR, however, we have assumed for modelling purposes that 100% of costs are in USD, so the valuation experiences no benefit of lower capex if the ZAR remains at current levels or falls.

We assume all debt funding is in USD.

We inflate South African operating costs by 5.5%pa, 3% above our long term inflation forecast for the US of 2.5%pa.

Our volume assumptions are in line with the company's published schedule, except we start Stage 1 production on January 2016, some six months behind the company's current expectations, and 12 months behind potential take or pay obligations, on which the company expects to negotiate deferrals.

Stage 2 steps up in two stages, with the step to 11Mtpa from January 2021, and 24Mtpa from January 2024. The capital cost of the expansion from 6Mtpa to 24Mtpa is estimated to be US\$800M in today's dollars. We do not produce more than 24Mtpa, even though the schedule in Table 4 peaks at 36Mtpa.

Export coal pricing

The prime thermal coal product will be a 15% ash 5960Kcal/Kg gar specification in line with the Platts Richards Bay standard specification of 6,000 kcal/kg NAR, max sulphur 1%, 16% ash max. We base our forecast prices on the Australian Newcastle price from Consensus Economics and adjust for energy content (ie Kcal/Kg). The Platts Newcastle specification is 6,080 kcal/kg NAR (6,300 kcal/kg GAR), max sulfur 0.7%, 13% ash max.

Table 7. Comparative coal quality

Air Dried basis	RES Export	RES Domestic	Newcastle
Top Size mm	50	50	50
Inherent Moisture	4.7%	4.2%	2.5%
Ash	14.0%	31.5%	14.5%
Volatiles	35.6%	28.2%	30.0%
Sulphur	0.91%	0.9%	0.6%
Gross as received Kcal/Kg	5960	4543	6322

Source: RES, Platts, TEX

Domestic coal pricing

Domestic coal sales contracts are generally struck on a margin over operating cost set on a return on capital basis. This is why RES is so reluctant to publish its operating costs. It is also common to sell to export as well as local customers from one mine to disguise the split of opex and capex as much as possible. While this makes sense commercially, it does leave investors with less guidance than usual on what costs will be.

We have estimated a flat margin of ZAR70/t on top of our estimated costs of production of ZAR189.4/t Free on Rail (FOR), giving a total domestic selling price of ZAR259.4/t rising with costs. The capex to FOR is ZAR 5355M (Table 7), or ZAR892/t. Our estimated ZAR70/t is a pre-tax return of 7.8%, which we believe would be the bottom end on likely outcomes in a 5.5% inflation setting.

Capex and Opex

Stage 1 is designed to produce 6Mtpa of saleable product at a cost of US\$630M including contingency and excluding power supply. There has been no publication of operating costs, but we estimate the total cash costs for the export coal is ZAR/t (US\$55/t FOB), and domestic thermal coal costs of ZAR161.50/t Free on Rail (US\$19.00/t) excluding royalties, or ZAR189.4/t including royalties.

As at March 2013, mine construction had commenced, with A\$6.3M spent in the March quarter, and A\$8.2M planned expenditure in the June quarter.

Stage 2 Expansion fully utilizes first shovel and adds second truck fleet and a tripling of the Coal Preparation Plant. We estimate the capital cost will be US\$800M.

Table 8. Capex for Stage 1 and Stage 2

Stage 1 capex last published by RES in Oct 2012 presentation

Capex	Stage 1 6Mtpa			Stage 2 24Mtpa		
	US\$M	ZAR BN	Split	US\$M	ZAR BN	Split
Mining Fleet	102	867	16%	200	1700	25%
Infrastructure	108	918	17%	0	0	0%
Coal Processing Plant	245	2083	39%	440	3740	55%
Rail Link	51	434	8%	0	0	0%
Power Station	0	0	0%	0	0	0%
EPCM	64	544	10%	80	680	10%
Contingency	60	510	10%	80	680	10%
Total	630	5355	100%	800	6800	100%

Source: RES for Stage 1, BBY for Stage 2

Table 9. Opex for Stage 1 and 2 in US\$ and ZAR per tonne saleable product

Cost split published by RES in Mat 2012 presentation

Opex	US\$/t	ZAR/t	Split	Mining Cost Est.	
Mining	12.50	106	23%		
Coal Processing Plant	4.35	37	8%	Movement Cost \$/t	2.50
Admin	1.63	14	3%	Strip BCM:t	0.6
Royalty	1.63	14	3%	SG Waste t/BCM	2.5
Logistics	0.54	5	1%	Movement t/t ROM	2.5
Rail	25.54	217	47%	Cost \$/t ROM	6.25
Port	8.15	69	15%	Yield	50%
Total	54.35	462	100%	Cost US\$/t Product	12.50

Source: RES cost split, BBY for Mining Cost Estimate, used to populate the other costs from the split

We have estimated the operating costs using the May 2012 cost split, and our detailed estimate of the US\$12.50/t mining cost. From that, and the split percentages, we derive the other costs, which appear to be reasonable. Our royalty calculation in the model assumes a 10% charge on Free On Rail margin, and work out to be more like US\$3/t.

For Stage 2 capex, we have tripled the spend on mobile fleet and Coal Processing, and added 10% each for contingency and EPCM. RES has indicated that shovel capacity will not be fully utilized in Stage 1, and the Stage 1 coal handling capacity will also not be fully utilized. Power is likely to come from Eskom or a third party.

Tasmanian asset sale

RES has sold its Tasmanian coal assets sold for A\$1.5M and a royalty of A\$1.20/t coal sold. RES has retained its Cameroon uranium prospects.

Resources and reserves

On 21 August 2012, RES announced that Exxaro had exercised a put option to sell coal tenements to the south of the Boikarabelo project, subject to approval by the Department of Mineral Resources (DMR) under Section 11 of the Mineral and Petroleum Resources Development Act, 2002. If granted, RES reserves would increase from 636Mt to 744.8Mt.

The coal tenements are contiguous to the company’s existing tenements and are highlighted in red on the map in Chart 3, including Swelpan and Kleinpan, which land is owned by RES. The consideration payable is not material to the company’s existing cash reserves and is not due to be paid until the DMR has approved the transfer to Ledjadja, Resource Generation’s BEE subsidiary. From prior experience with Section 11 approvals, this process is not likely to be completed before mid-2013.

In recent publications, RES has referred to probable reserves of 744.8Mt from 9 seams, and from 35% of the resource area, and excludes any reserves from the measured resource at Kalkpan.

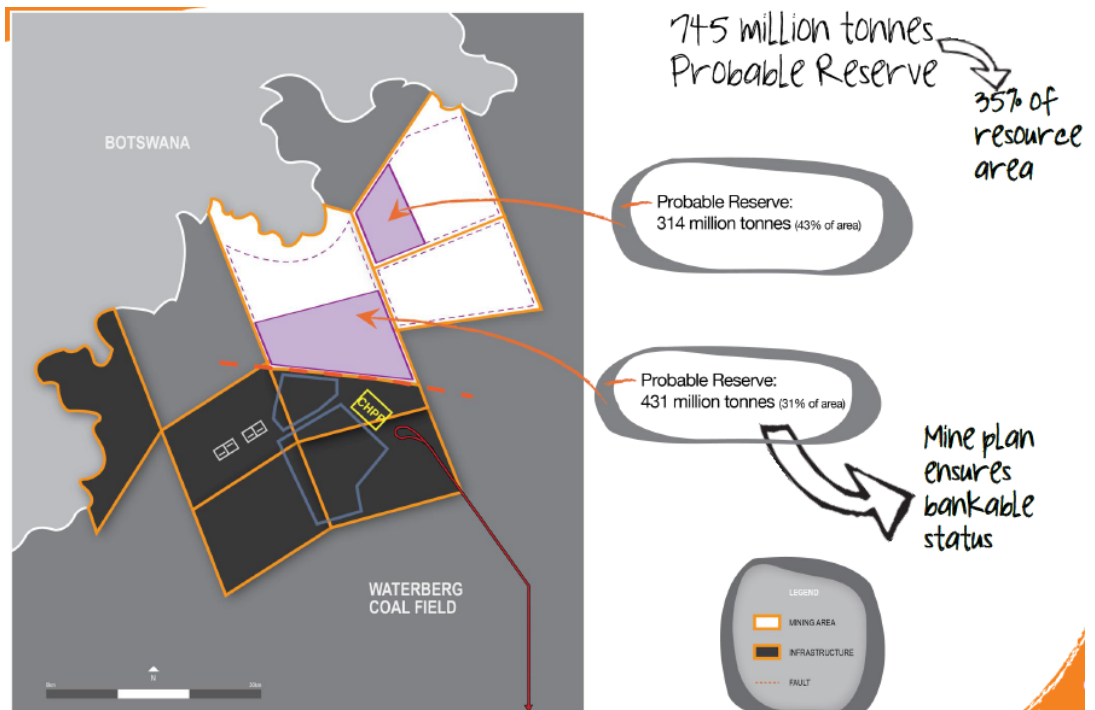
Table 10. Resources and reserves

20-Oct-10	Resource Inferred	Resource Indicated	Resource Measured	Reserve Probable
Waterberg #1 SW			426.3	314.2
Waterberg #1 NE		551.7		
Witkopje S			460.2	430.6
Kalkpan			204.0	
Draai Om	791.3			
Witkopje N	688.3			
Total	1479.6	551.7	1090.5	744.8
With Additional Leases	1479.6	1526.2	1090.5	853.6

Source: RES

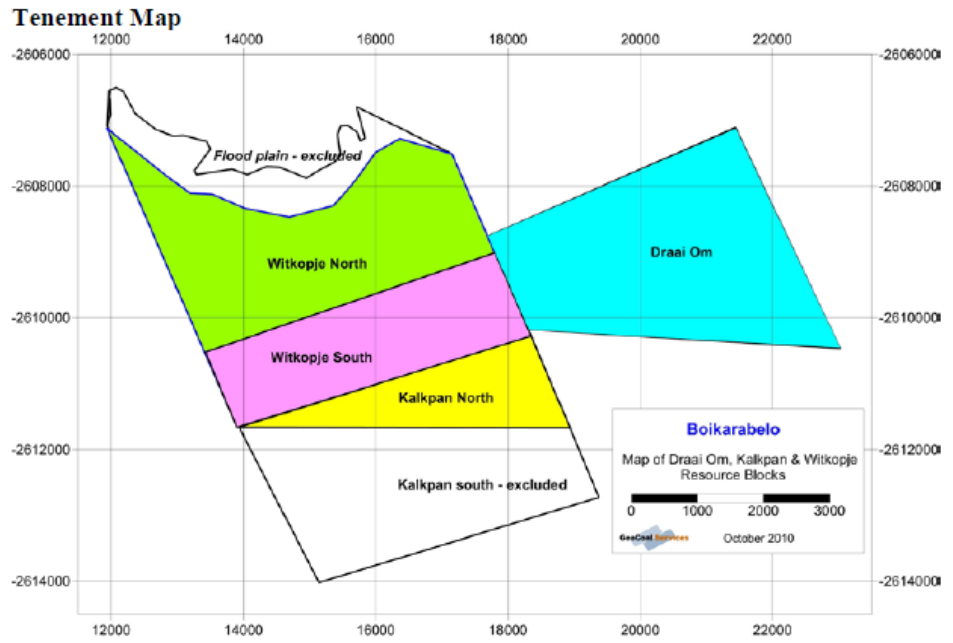
The surface plant will be located south of the fault that cuts off the bottom of the Kalkpan lease. The initial mine plan is based on reserves in Kalkpan North and part of Witkopie South (431Mt) and will be followed by production from the Witkopje N and Draai Om then Waterberg #1 SW.

Chart 1. Initial mine layout



Source: RES Presentation June 2011

Chart 2. Ledjadja tenement map



Source: RES 20 Oct 2010

These are the leases that make up the Ledjadja Coal Co, which was acquired in 2009 and 2010.

Chart 3. Tenement map if Exxaro purchase is approved by Government



Source RES 23 Aug 2012

The red dotted lines show the leases that RES is buying from Exxaro. The North West lease is adjacent to the initial mine, and would be the logical extension before the Waterberg Lease to the north. The surface plant is immediately to the west of the lower set of leases. RES already owns the land over the two western tenements of the proposed acquisition package.

Directors & Management

Brian Warner - Non-Executive Chairman

Mr Warner has considerable experience and skills in both the mining and finance industries. He recently retired as the senior resources analyst at Citibank, a position he had held for 6 years. Brian is a metallurgist and in his early career worked with Peko Wallsend, Agnew Nickel Mining and Seltrust as a metallurgist, project manager and operations manager. His last 20 years were as a senior mining research analyst with several international merchant banking groups including Citibank, Deutsche Bank and Credit Suisse First Boston.

Paul Jury - Managing Director

Mr Jury has over 30 years' experience in managing businesses, the last 25 years being in the coal sector. Paul's positions have included Chief Financial Officer of Coal & Allied Industries Limited, Finance Director of Coal Mines Australia Limited, Executive Chairman of Oceanic Coal Australia Limited and Managing Director of Resource Pacific Holdings Limited.

Steve Matthews - Executive Director

Mr Matthews has over 25 years corporate finance and commercial experience, including 14 years in the coal industry. Steve's previous positions were as a senior executive with Coal Mines Australia Limited, Billiton Coal Australia, BHP Billiton's Hunter Valley Energy Coal division and Resource Pacific Holdings Limited.

Geoffrey (Toby) Rose AO - Non-Executive Director

Toby is a geologist with more than 45 years' experience in the NSW coal and minerals industry. He was awarded the Order of Australia for contributions to mining and minerals research. For 10 years until 1992 Toby was Director General of the New South Wales Department of Mineral Resources and Chair of the Mines Subsidence Board. Subsequent directorships include non-executive roles with Coal Mines Australia Limited, Billiton Coal Australia and Resource Pacific Holdings Limited.

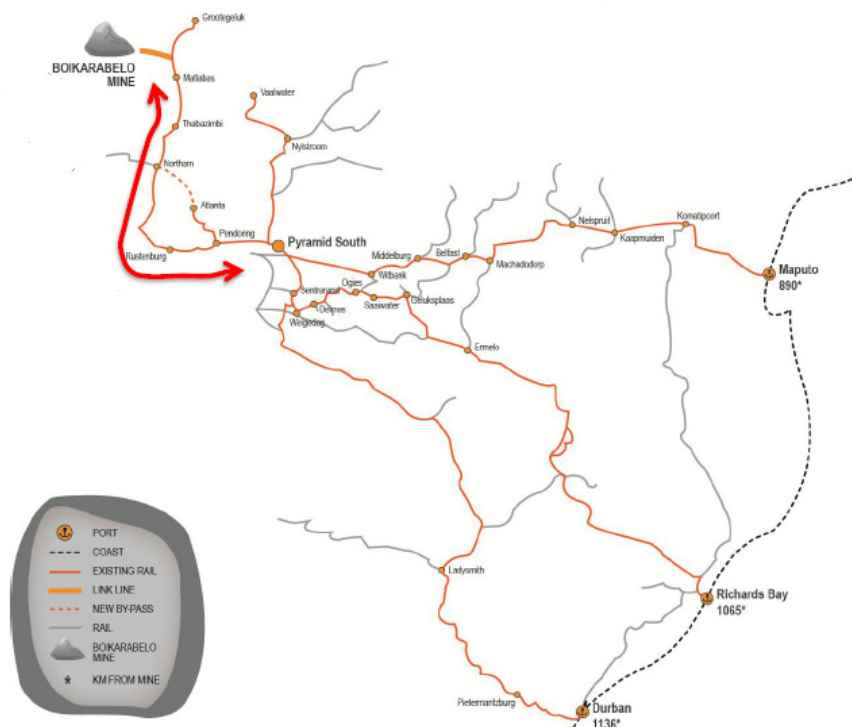
Shareholders

Table 11. Major shareholdings

Insiders		Institutions	
CECSC	10.7%	Colonial First State	4.6%
Noble Group	7.5%	UCA Funds Mgmt	2.8%
Scodella	6.2%	UBS Global Dimensional Fund Advisors	1.4%
Paul Jury	5.4%	TCW Asset Mgmt	0.1%
ResGen Share Plan	3.7%	Other	0.1%
Others	9.1%		
Total	42.6%		9.4%

Source: Factset

Chart 4. Location map and rail to ports

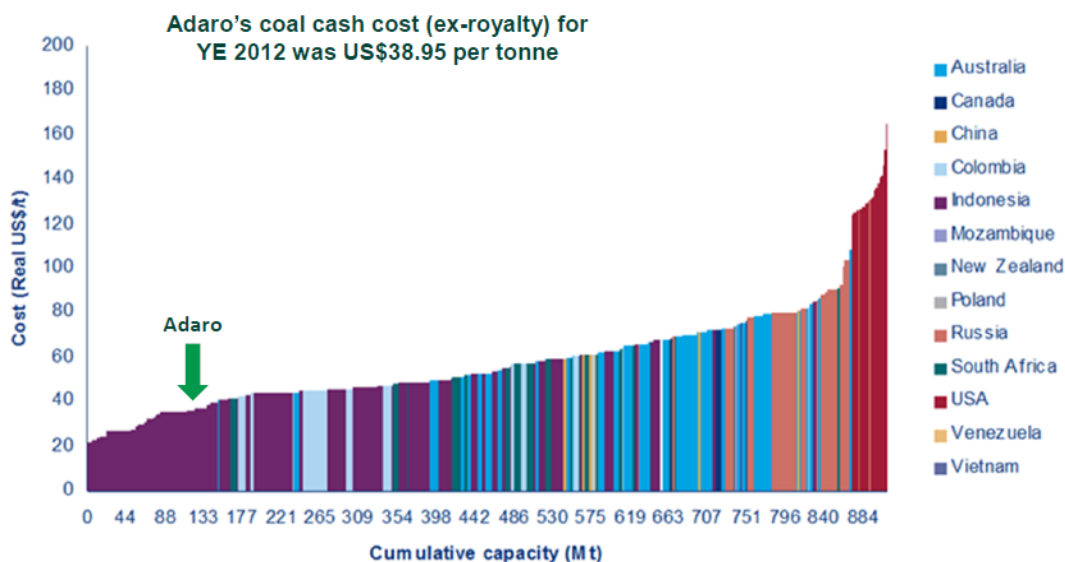


Source: RES

Asian Thermal Coal Outlook

The following demand and cost outlook data has come from an Adaro Energy presentation dated April 2013, which quoted Wood Mackenzie data dated November 2012. RES export coal is forecast to be US\$50-55/t FOB depending on the USDZAR, which would place it in the lower half of the cost curve below. The top of the cost curve is solidly in the US, making the US\$ coal price the legitimate reference currency.

Chart 5. Global thermal coal cost curve (normalized to 6000Kcal/Kg FOB)



Source: Adaro, quoting Wood Mackenzie

Chart 6. Thermal coal cost landed in South China

Consensus Thermal coal prices near and long term are around US\$100/t FOB Australia, which is consistent with the US being the marginal supplier.

Origin	CV	FOB cost (US\$)	Freight (US\$)	CIF (US\$)	CIF South China @ 6000 (US\$)
Indonesia	4700	49.00	8.00	57.00	72.77
South Africa	6000	62.00	15.00	77.00	77.00
Colombia	6000	53.00	26.50	79.50	79.50
USA - Illinios	6000	60.00	25.00	85.00	85.00
Australia	6000	73.00	13.50	86.50	86.50
Russia	6000	79.00	8.00	87.00	87.00
USA - PRB	4700	67.00	15.50	82.50	105.32
USA - CAPP	6500	112.00	27.00	139.00	128.31

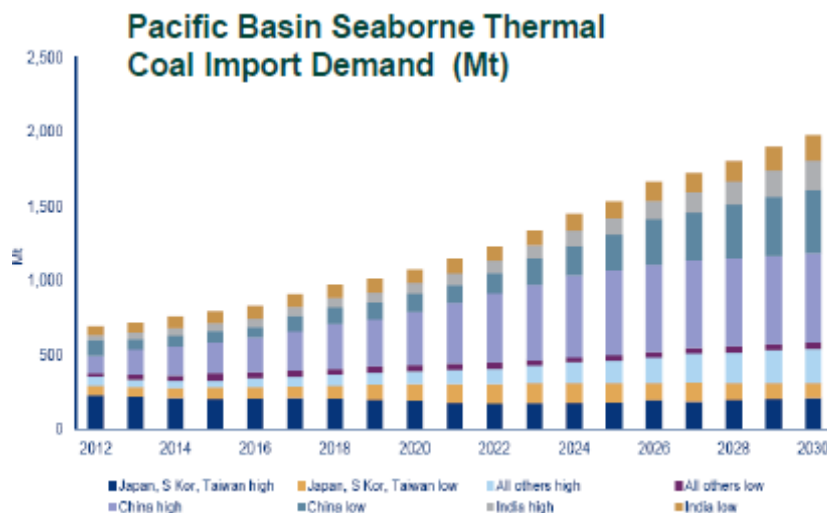
Source: Wood Mackenzie, 2011; AXS Marine, November 29th 2012; Adaro Analysis, 2012

Source: Adaro, quoting Wood Mackenzie

RES would be shipping from South Africa to its customers in India, but if it were shipping to China, it would be paying freight of US\$10.95/t on top of its US\$50-55/t FOB cost, ie US\$61-66/t, making it in line on a 6000Kcal/kg basis to the lowest end of the spectrum in the above table.

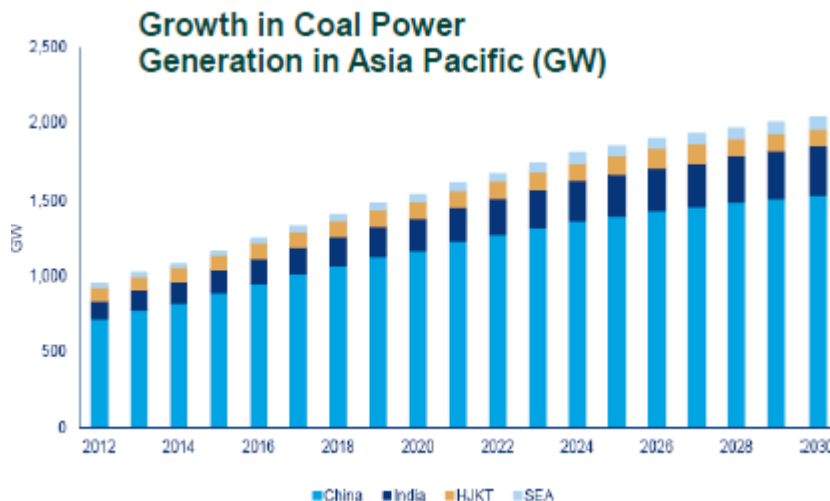
In the June quarter, we have seen US producers Alpha Natural Resources and Arch Coal closing mines. These are coking coal operations, but are still symptomatic of the US being at the top of the cost curve.

Chart 7. Pacific Basin Seaborne Thermal Coal Demand



Source: Adaro, quoting Wood Mackenzie

Chart 8. Electricity from Coal in Asia



Source: Adaro, quoting Wood Mackenzie

Wood Mackenzie expects 216GW of coal fired electricity generation to be commissioned in the next three years, mainly in China. Huaneng, a major Chinese power generator is burning 296g/KWhr.

Assuming a 75% load factor, the 216GW would amount to 59,130GWhr or 17.5Mtpa of additional coal demand.

In 2012, India experienced extended blackouts over extended regions as the power generation system failed to supply demand. In the medium term, we see no real alternative to coal fired power generation in these major emerging regions.

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Contact with RES has been made during the preparation of this report for assistance with verification of facts.

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Secondary recommendation - Market weight relative to the All Ordinaries under a weighting range of 0-3, with intervals of 0.5 (7 point scale). 1.0 indicates a market weight position in the stock while a weight over 1.0 indicates an overweight position.

Monitor - Describes stocks whose company fundamentals and financials are being monitored, or for which no financial projections or opinions on the investment merits of the company are provided.

It is permitted for the total expected returns to be temporarily outside the prescribed ranges due to extreme market volatility or other justifiable company or industry-specific reasons.

Free Float (float / current shares outstanding) *100 - This float figure is the number of shares that are available to the public and is calculated by subtracting the shares held by insiders and those deemed to be stagnant shareholders. Stagnant holders include ESOP's, ESOT's, QUEST's, employee benefit trusts, founding shareholder equity stake plus senior management equity stake, corporations not actively managing money, venture capital companies and shares held by Governments.

Terminal Value methodology - BBY's Discounted Cash Flow (DCF) valuation applies a terminal growth rate to the last forecast year's cash flow and discounts the amount using Weighted Average Cost of Capital (WACC). The Terminal Value is tested using ASX-listed company multiples. For resource companies there is no terminal value because cashflows are forecast to the end of mine life.

Valuation Methodology

BBY's methodology for assigning ratings may include the following: market capitalisation, maturity, growth/value, volatility and expected total return over the next 12 months. The price targets are based on several methodologies, which may include, but are not restricted to, analyses of market risk, growth rate, revenue stream, discounted cash flow (DCF), EBITDA, EPS, cash flow (CF), free cash flow (FCF), EV/EBITDA, P/E, PE/growth, P/CF, P/FCF, premium (discount)/average group EV/EBITDA, premium (discount)/average group P/E, sum of parts, net asset value, dividend returns, and return on equity (ROE) over the next 12 months.

Technical Analysis

BBY Technical Analysis is provided by Anson Rosewall (ATR) or Richard Lane (RXL). Anson Rosewall and Richard Lane are representatives of BBY Limited.

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