



Resource Generation (RES) Domestic Offtake Secured

BUY

Risk: HIGH

Key Information

Price (\$)	0.20
Target Price (\$)	0.50
Market Cap (\$M)	56.85
GICS Sector	Materials
52 week Hi-Lo (\$)	0.45 - 0.18
Daily Vol (M, mth avg)	0.15
Weight of S&P 200 Index (%)	0.00
Cash (\$M)	35.00
Debt (\$M)	20.80
Gearing [ND/(ND+E)] (%)	0.00
Forecast Total Return (%)	150.00

Investment Fundamentals

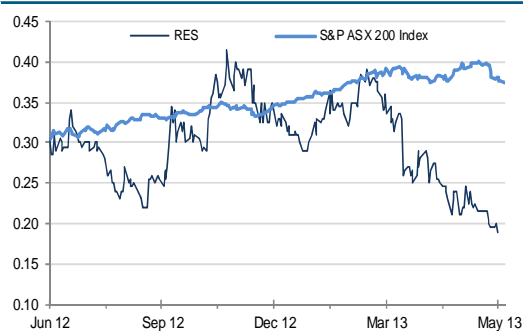
YE 31 Dec	FY12A	FY13E	FY14E	FY15E
Sales (\$M)	0.0	0.0	0.0	0.0
EBITDA (\$M)	-2.9	-4.2	-4.2	-10.1
Margin (%)	n.a.	n.a.	n.a.	n.a.
NPAT (\$M)	-2.9	-4.3	-6.2	-43.7
EPS (cps)	-1.1	-1.5	-0.9	-6.0
EPS Growth (%)		n.a.	n.a.	600.1
DPS (cps)	0.0	0.0	0.0	0.0
Franking (%)	0.0	0.0	0.0	0.0

Source: Bloomberg

Ratio Analysis

YE 31 Dec	FY12A	FY13E	FY14E	FY15E
PE (x)	-18.4	-13.2	-23.5	-3.4
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) (%)	-9.5	-44.1	-40.6
Rel to Market (%)	-4.8	-40.2	-60.9

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

RES announced a significant domestic coal offtake contract with Noble group.

Highlights

- Domestic Offtake Signed:** RES announced a significant domestic offtake agreement with its strategic partner, Noble Group (Noble). The contract is for 3Mtpa of middlings coal for a term of 8 years. This contract is a major positive for RES as it now underwrites nearly all production from stage 1 (6Mt total, comprising 3Mt middlings and 3Mt of export thermal coal) of the Boikarabelo Project.

- Export Offtakes in Place:** RES has offtake agreements for the majority of its stage 1 export thermal coal in place. These are detailed below:

Offtake Agreements		
Bhushan Steel	CESC India	Noble Group
	Yr 1-3: 1Mtpa	Yr 1-8: 0.5Mtpa
0.5Mtpa for 20 years	Yr 4-6: 3Mtpa*	Yr 9-12: 1.5Mtpa
	Yr 7-38: 4Mtpa*	Yr 13-14: 2Mtpa
		Yr 15-35: 2.5Mtpa

*(Some qty dependant on Stage 2)

- Transnet Freight Rail (TFR):** RES also reported that regular logistics meetings are being held with TFR to plan the timely delivery of haulage services following the commencement of production at Boikarabelo. It is understood that TFR is making good progress with first upgrade works on the Thabazimbi rail line which will help ensure initial capacity requirements are met.

- Project Finance:** With nearly all production from Stage 1 now underwritten, we expect RES's ongoing negotiation with previous and new banks to take a turn for the positive. We expect project financing (on commercial terms) to be significantly more likely now, which should enable the project to go ahead.

Recommendation

The announcement for the offtake of domestic coal is a significant step towards project financing. The strategic partnership with Noble has proven to be highly fruitful thus far for RES as it has provided RES with a US\$123 million loan facility, an export coal contract over Stage 1 and Stage 2 production of over 60Mt and this domestic coal offtake contract from Stage 1 of the project totalling 24Mt of middlings product. RES has now achieved all major hurdles in obtaining project finance including its haulage contract with TFR, coal offtake contracts and all required licences and permits for production. We believe RES now has a strong base from which to continue discussions with previous and new banks and equipment providers. We continue to take a conservative stance on equity participation and coal prices and maintain **our price target of 0.50/share and BUY recommendation**. We only value Stage 1 in our estimates. Inclusion of Stage 2 has the potential to increase our valuation to \$1.39/share.

Refer to disclaimer on last page



Financial Summary

Market Valuation Metrics

Recommendation	BUY
Risk	HIGH
Price (A\$)	0.20
Target Price (A\$)	0.50
Issued Capital (M)	284.2
Market Cap (\$m)	56.8
Year End	30 June

Investment Statistics

YE 30 June	FY12A	FY13E	FY14E	FY15E	FY16E
Shares Outstanding	262.9	284.2	733.3	733.3	733.3
NPAT (Reported) (\$m)	(1.4)	(4.3)	(6.2)	(43.7)	31.8
NPAT (Underlying) (\$m)	(2.9)	(4.3)	(6.2)	(43.7)	31.8
EPS (Adj \$)	(0.01)	(0.02)	(0.01)	(0.06)	0.04
P/E (x)	n.a.	n.a.	n.a.	(3.4)	4.6
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%	10.4%	9.0%	50.8%	50.0%
ROE (%)	-2.1%	-3.1%	-1.7%	-13.9%	9.5%
ROA (%)	-2.0%	-2.6%	-0.9%	-6.7%	4.7%

Profit & Loss Statement (A\$m)

YE 30 June	FY12A	FY13E	FY14E	FY15E	FY16E
Revenue	0.0	0.0	0.0	0.0	225.3
Revenue growth (%)	n.a.	n.a.	n.a.	n.a.	n.a.
EBITDA	(2.9)	(4.2)	(4.2)	(10.1)	83.0
EBITDA margin (%)	n.a.	n.a.	n.a.	n.a.	36.8%
Depreciation & Amortization	(0.1)	(0.1)	(0.1)	0.0	(5.2)
EBIT	(3.0)	(4.3)	(4.3)	(10.1)	77.8
EBIT margin (%)	n.a.	n.a.	n.a.	n.a.	34.5%
Net interest	2.1	0.0	(1.9)	(33.6)	(33.6)
Pretax profit	(2.9)	(4.3)	(6.2)	(43.7)	44.2
Tax	(0.0)	0.0	0.0	0.0	(12.4)
Reported NPAT	(1.4)	(4.3)	(6.2)	(43.7)	31.8
Significant items	(1.4)	0.0	0.0	0.0	0.0
Normalised NPAT	(2.9)	(4.3)	(6.2)	(43.7)	31.8
NPAT margin (%)	n.a.	n.a.	n.a.	n.a.	n.a.

Cashflow Statement (A\$m)

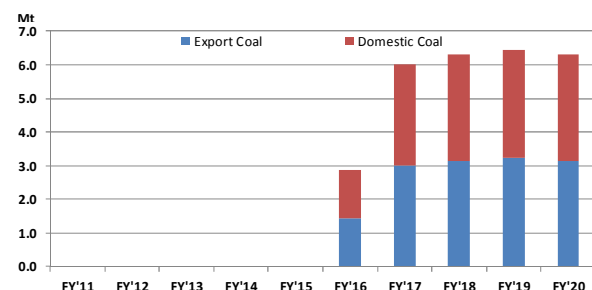
YE 30 June	FY12A	FY13E	FY14E	FY15E	FY16E
EBITDA	(2.9)	(4.2)	(4.2)	(10.1)	83.0
Working Capital Investment (Inc)/Dec	0.0	0.0	0.0	0.0	(10.8)
Gross Cash Flow	(2.9)	(4.2)	(4.2)	(10.1)	72.2
Net interest Paid	1.0	0.0	(1.9)	(33.6)	(33.6)
Tax Paid	(0.0)	0.0	0.0	0.0	(12.4)
Other	0.6	0.0	0.0	0.0	0.0
Operating cashflow	(1.2)	(4.2)	(6.1)	(43.7)	26.2
Investing Activities	(11.1)	(32.0)	(237.4)	(246.6)	(35.9)
Free Cash Flow	(12.4)	(36.2)	(243.5)	(290.3)	(9.8)
Equity raised	0.0	8.5	224.5	0.0	0.0
Debt Raised/(paid)	0.0	19.3	316.6	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	27.9	541.1	0.0	0.0
Net change in cash	(12.4)	(8.3)	297.6	(290.3)	(9.8)

Balance Sheet (A\$m)

YE 30 June	FY12A	FY13E	FY14E	FY15E	FY16E
Cash	12.1	3.8	301.4	11.2	1.4
Property, Plant & Equipment	115.6	147.5	384.8	631.3	662.1
Other	12.7	12.7	12.7	12.7	12.7
Total assets	140.5	164.0	698.9	655.2	676.2
Debt	0.8	20.1	336.7	336.7	336.7
Other	6.4	3.6	3.6	3.6	3.6
Total liabilities	7.2	23.7	340.3	340.3	340.3
Total shareholders equity	133.3	140.4	358.7	315.0	336.0

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	1.0345	0.9875	0.9400	0.9100
ZAR:US\$	0.1250	0.1221	0.1234	0.1221	0.1206
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	\$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% (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 (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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