



## AUSTRALIA

RES AU Outperform

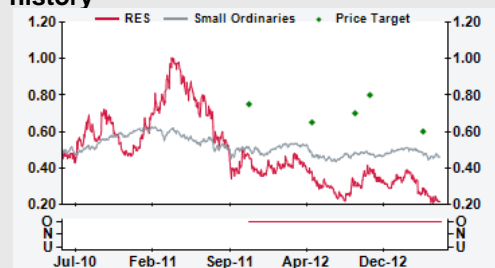
Price (at 05:55, 22 May 2013 GMT) A\$0.22

<b>Valuation</b>	<b>A\$</b>	<b>0.51</b>
- DCF (WACC 13.9%, beta 1.5, ERP 0.1%, RFR 0.1%)		
<b>12-month target</b>	<b>A\$</b>	<b>0.60</b>
<b>12-month TSR</b>	<b>%</b>	<b>+179.1</b>
<b>Volatility Index</b>		<b>High</b>
<b>GICS sector</b>		<b>Energy</b>
<b>Market cap</b>	<b>A\$m</b>	<b>61</b>
<b>30-day avg turnover</b>	<b>A\$m</b>	<b>0.0</b>
<b>Number shares on issue</b>	<b>m</b>	<b>284.7</b>

### Investment fundamentals

Year end 30 Jun		2012A	2013E	2014E	2015E
Revenue	m	0.0	0.0	0.0	0.0
EBIT	m	-1.5	-3.1	-3.3	-3.6
Reported profit	m	0.6	-1.9	-9.0	-17.6
Adjusted profit	m	0.6	-1.9	-9.0	-17.6
Gross cashflow	m	0.7	-1.8	-8.9	-17.4
CFPS	¢	0.3	-0.7	-3.4	-6.8
CFPS growth	%	nmf	nmf	-398.2	-96.1
PGCFPS	x	82.7	nmf	nmf	nmf
PGCFPS rel	x	8.51	nmf	nmf	nmf
EPS adj	¢	0.2	-0.7	-3.5	-6.8
EPS adj growth	%	nmf	nmf	-374.9	-94.9
PER adj	x	98.6	nmf	nmf	nmf
PER rel	x	5.49	nmf	nmf	nmf
Total DPS	¢	0.0	0.0	0.0	0.0
Total div yield	%	0.0	0.0	0.0	0.0
ROA	%	-1.1	-1.4	-0.8	-0.6
ROE	%	0.4	-1.4	-3.8	-5.5
EV/EBITDA	x	-34.1	-16.0	-15.3	-14.3
Net debt/equity	%	-8.5	8.6	-1.5	77.1
P/BV	x	0.4	0.4	0.2	0.2

### RES AU vs Small Ordinaries, & rec history



Note: Recommendation timeline - if not a continuous line, then there was no Macquarie coverage at the time or there was an embargo period.

Source: FactSet, Macquarie Research, May 2013

(all figures in AUD unless noted)

### Analyst(s)

Macquarie First South Securities (Pty) Ltd  
**James Oberholzer**  
 +27 11 583 2367 james.oberholzer@macquarie.com  
**Kieran Daly**  
 +27 11 583 2208 kieran.daly@macquarie.com  
 Macquarie Securities (Australia) Limited  
**Andrew Sullivan**  
 +61 2 8237 6271 andrew.sullivan@macquarie.com

24 May 2013

# Resource Generation

## Funding now firmly the key issue

### Event

- Post recent management interaction we update our view on ResGen's current funding status (and highlight the necessity for further funding shortly).
- We review Eskom's appetite for coal from The Waterberg to supply its Mpumalanga power stations following our recent attendance at the CoalTrans SA conference where various presentations focussed on the potential of The Waterberg coalfield.

### Impact

- Following a different path for funding.** ResGen was unsuccessful in securing project debt financing for Stage 1 of its Boikarabelo project, rejecting 'uncommercial' offers from various lenders. Subsequently, a strategic partnership with Noble Group (raising ~US\$100m) has allowed for pre-construction activities to begin but a further ~US\$350-400m is required imminently or construction will be delayed.
- Fully funded or a staged approach? That is the question.** In the absence of attractive debt financing, we think that an equity issuance is likely to be the next step. It is unlikely that ResGen will be able to raise the full requirement through equity up front and, thus, an increasingly likely option is for the company to raise sufficient equity capital to commence and advance project construction, and re-approach the debt markets, at a later stage, for the balance.
- Eskom needs Waterberg coal...** Depleting resources, deteriorating mining conditions in Mpumalanga and competition with exports continues to bring into question Eskom's security of coal supply. The power utility is currently expecting a shortfall of ~40mtpa post 2018 (~30% of annual demand) and is thus actively pursuing opportunities for contracting supply from The Waterberg. We believe, given the relatively advanced stage of the Boikarabelo project, that ResGen is well placed to meet some of this demand.
- ...but at what price?** We estimate that Eskom would need to offer between R200-R250/t (real 2013\$ FOR) on a contract basis for coal supplied from The Waterberg in order to provide an acceptable return on investment for any new development. Adding to this ~R130/t for rail transport to Mpumalanga, results in a 10-30% premium to the current marginal delivered cost per tonne to Eskom. However, if the 18% CAGR in coal costs that Eskom has experienced over the past 7 years is to continue, we see this shift as a natural progression and ultimately less value-destructive for Eskom.

### Earnings and target price revision

- EPS changes are a function of financing movements; given that first revenue will only be generated in FY16, EPS changes are immaterial.

### Price catalyst

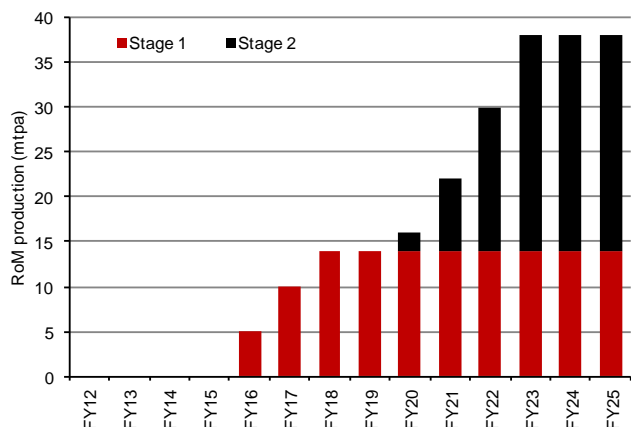
- 12-month price target: A\$0.60 based on a DCF methodology.
- Catalyst: Securing funding; Domestic offtake agreement; TFR progress.

### Action and recommendation

- Maintain Outperform.** Our base case valuation remains conservative, applying a 50% discount to Stage 2 of Boikarabelo. We see the biggest risks as timely access to rail facilities and the ability to secure sufficient funding.

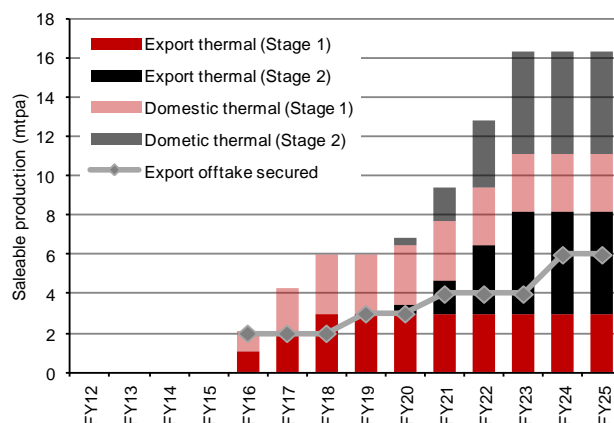
Investment Positives	Investment Negatives/Risks
<p><b>Attractive valuation</b></p> <p>Based on our conservative assumptions and a significant (50%) discount to NPV for Stage 2 of the Boikarabelo project, we value ResGen at A\$130m or A\$0.51/sh. The resultant 12m forward target price of A\$0.60/sh offers ~180% upside to the current A\$0.22 share price.</p>	<p><b>Delivery of rail dependent on Transnet Freight Rail (TFR)</b></p> <p>Notwithstanding that ResGen has secured a 10-year take-or-pay contract with TFR, the biggest risk to the investment case in our view surrounds <b>timely access</b> to rail facilities in order to export coal via Durban as well as to supply Eskom's Mpumalanga power stations.</p>
<p><b>Large, shallow, resource allowing for low cost opencast mining</b></p> <p>ResGen has 3.1bn tonnes of coal resources in a ~120m multi-zone seam under only 20m of overburden in the Waterberg coalfield. The resource allows for low cost open pit mining in an area where Exxaro Resources (EXX SJ, R147, Outperform, TP: R190) has been mining the same "seam" since 1980.</p>	<p>Physical delivery to the contract will be dependent on the completion of minor upgrades on the existing line as well as a longer-term solution that potentially involves building a completely new heavy-haul line from The Waterberg. While we believe that there is a firm intention to open up The Waterberg, the timing of this investment is uncertain. We provided a detailed analysis of TFR's planned upgrades in a previous ResGen report <a href="#">Boxes ticked...time to execute</a>.</p>
<p><b>Mining tenure and major regulatory approvals secured</b></p> <p>The company has a 30-year mining right for the project and owns the surface rights over the planned mining area. The mine has received National Environmental Management Act (NEMA) approval and an Integrated Water Use Licence (IWUL) for Stage 1. The Stage 2 IWUL application has been submitted.</p>	<p><b>Project delays are a realistic risk</b></p> <p>Initial planning was for mine and related infrastructure construction to commence in early 2013, resulting in first production 24 months later. There is likely to have already been some slippage in this timeline due to the delays and then difficulties in obtaining project financing. We conservatively only model first commercial production towards the end of FY16.</p>
<p><b>Off-take agreements in place for export coal</b></p> <p>ResGen has three agreements in place for the majority of the <b>export</b> coal produced in Stage 1 and Stage 2 of the Boikarabelo project. Contracted parties include Integrated Coal Mining Ltd, Bhushan Steel and Noble Group.</p> <p>Discussions with Eskom to secure an off-take agreement for <b>domestic</b> thermal coal are at an advanced stage.</p>	<p>While the company has commenced pre-construction activities (roadworks and water and power connections) at Boikarabelo, construction will not be given the green light until further funding has been secured. Any further delays would not impact the project timeline but may also result in upward revisions in project capex.</p>
<p><b>Rail and port access contracts signed</b></p> <p>The company has a long-term (10 year) take-or-pay rail haulage contract with Transnet Freight Rail (TFR). This provides ResGen with the opportunity to rail its Stage 1 production to export ports (3mtpa) and into Eskom's Mpumalanga power stations (3mtpa).</p> <p>ResGen has signed a port access contract (for Stage 1) with Bulk Connections – a division of Bidvest Group (BVT SJ, R258, Neutral, TP: R248) at the multi-purpose Durban Terminal. Refer to previous research <a href="#">Minor deferment to project timeline</a> that deals with the cost implications of this.</p>	<p><b>Funding shortfall, potential equity issuance</b></p> <p>Credit approved offers of project finance were rejected by the company as these included unacceptable commercial conditions.</p> <p>ResGen has secured ~US\$100m (net of debenture) in debt funding from Noble Group and received an offer from Caterpillar Finance for a US\$100m equipment finance facility. Given the ~US\$630m (including debt funding and contingencies) project capex required for Stage 1, ResGen will need to source alternative funding. We anticipate this will be met through a combination of debt and equity.</p>
<p><b>Fully black empowered</b></p> <p>Black Economic Empowerment (BEE) legislation requires that all mining assets are 26% black-owned by 2014 and both of ResGen's South African JV's have met this criterion - Ledjadja at 26% black-owned and Waterberg One at 30%.</p>	<p><b>Domestic off-take would provide further comfort</b></p> <p>ResGen will generate a significant middlings coal from Stage 1 (3mtpa) and Stage 2 (6mtpa) suitable for local power station consumption (Eskom or Independent Power Producers).</p>
<p><b>Experienced management team</b></p> <p>Both the executive and the management teams have significant experience in managing and operating coal mines. Paul Jury (MD) and Steve Matthews (FD), between them, have many years of coal experience having worked at Coal &amp; Allied Industries, Coal Mines Australia, Oceanic Coal Australia and Resource Pacific. Hennie van den Aardweg – GM and Andy McLeod – Mine Manager between them have 47 years coal industry experience with Hennie having worked for Total Coal and Andy for AngloCoal SA and Australia.</p>	<p>ResGen is targeting to supply Eskom's Mpumalanga power stations. While no supply contract has to date been signed, ResGen has indicated that negotiations with Eskom are at an advanced stage. A firm domestic offtake contract would provide comfort, in our view.</p> <p>While we are relatively comfortable that ResGen will be able to place some of the domestic thermal coal for Stage 1 to Eskom's nearby Matimba or Medupi power stations, some form of long term supply contract is a prerequisite for Stage 2 to happen, in our view.</p>

**Fig 1 Forecast ROM production for Boikarabelo**



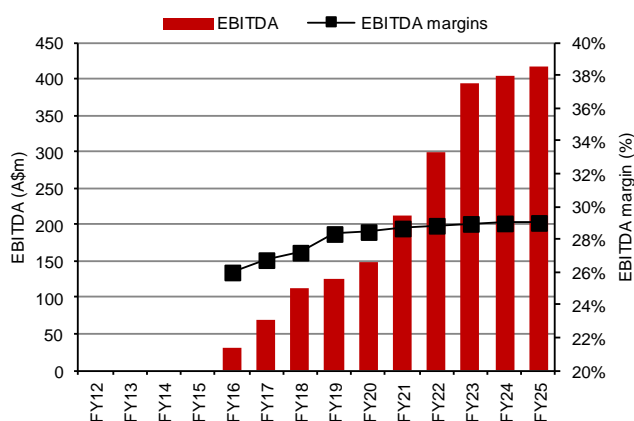
Source: Company data, Macquarie Research, May 2013

**Fig 2 Offtake agreements in place for the majority of export production.**



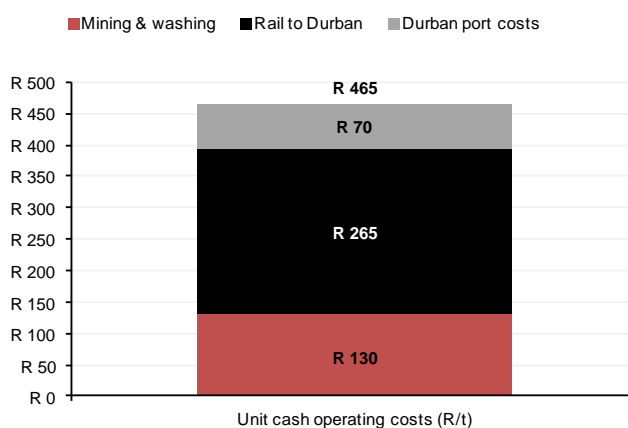
Source: Company data, Macquarie Research, May 2013

**Fig 3 Forecast EBITDA & margins**



Source: Company data, Macquarie Research, May 2013

**Fig 4 Unit cash cost for exports (Real 2012\$)**



Source: Company data, Macquarie Research, May 2013

**Fig 5 Key assumptions for Boikarabelo**

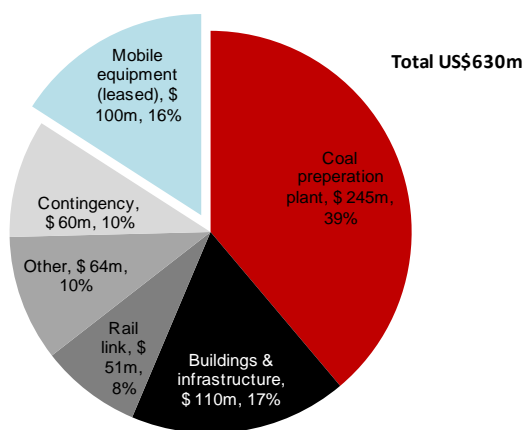
Parameter	Units	Stage 1	Stage 2
<b>Timeline</b>			
Initial production	FY	2016	2020
Full production	FY	2018	2023
<b>Capital</b>			
Capital cost	Rbn	5,500	4,000
Capital intensity	R/annual t	917	389
<b>Volumes</b>			
ROM production	kt	14,000	24,000
Saleable production	kt	6,000	10,286
- Export thermal coal	kt	3,000	5,136
- Domestic thermal coal	kt	3,000	5,150
<b>Operating costs (real 2012\$)</b>			
FOR Mine	R/t	130	130
Rail (to Durban)	R/t	265	265
Port (Durban)	R/t	70	70
<b>Total</b>	<b>R/t</b>	<b>465</b>	<b>465</b>
<b>Coal prices (real 2012\$)</b>			
Long-term export thermal coal	US\$/t	80	80
Long-term domestic thermal coal	R/t	215	215

Source: Company data, Macquarie Research, May 2013

## Fully funded or a staged approach? That is the question

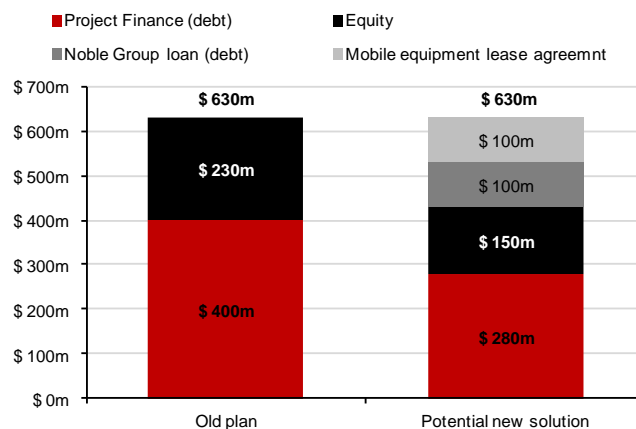
**Project finance too expensive.** ResGen had initially planned to raise the full capital required to finance the Stage 1 project capex (US\$630m) through a combination of debt finance of ~US\$400m and a complimentary equity capital raise. Credit approved offers of project debt finance received from a syndicate of six South African and global banks deviated from the agreed term sheet and included commercial conditions which were deemed unacceptable by the company. The fact that the project has now, however, been through rigorous due diligence by various banks, and that funding offers were forthcoming (albeit at terms unacceptable to ResGen), is a strong positive endorsement of the viability of the project, in our view.

**Fig 6 Total project capex for Stage 1 (real 2012\$)**



Source: Company data, Macquarie Research, May 2013

**Fig 7 Potential sources of financing**



Source: Company data, Macquarie Research, May 2013

**Noble to the rescue.** Due to the initial delay in the project funding process, ResGen entered into an agreement (January 2013) with Noble Group, under which Noble provided a US\$20m debenture (on normal commercial terms and repayable in December 2013) and entered into a coal offtake contract for 2.5mt for Stage 1. Following this and subsequent to the rejection of project funding offers, ResGen entered into strategic partnership with Noble (April 2013). Under the agreement Noble provided ResGen with a US\$123m secured loan facility (on normal commercial terms, can be drawn down until 31 December 2013 and will be repayable 21 months after the first draw-down), acquired a 7.5% equity stake in the company at A\$0.40/sh (US\$8.5m), substantially increased its export offtake agreement (0.5mtpa years 1-8, 1.5mtpa years 9-12, 2.0mtpa years 13-14, 2.5mtpa years 15-35) and was appointed supply chain manager and exclusive marketing agent for Boikarabelo's domestic and export coal sales for 35 years. This funding has allowed for pre-construction activities to commence. However, full scale construction of the mine and plant will not be given the green light until further funding has been secured. The alignment of a key player (trader/asset investor) in the global coal market, such as Noble, for the long term duration of the Boikarabelo project is another positive endorsement of the viability of the investment.

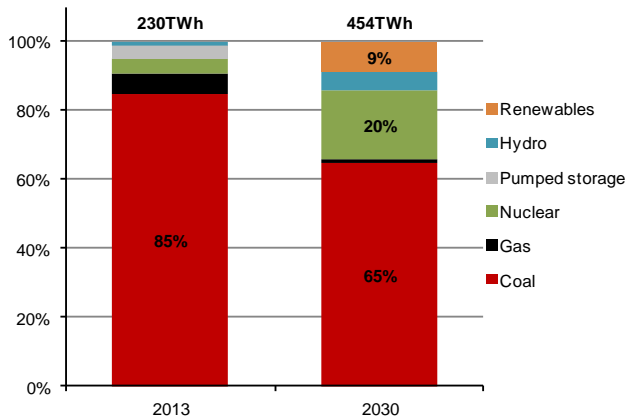
**Potential reduction in up front capital requirement.** ResGen now estimates that required project capex for Stage 1 of the Boikarabelo project is US\$530m (includes US\$100m for mobile equipment). The reduction from the US\$630m amount previously guided for is a result of deducting costs associated with the project debt funding (~US\$40m) as well as the amount set out for contingencies (~US\$60m). ResGen has received an offer for an equipment finance facility from Caterpillar Finance for the leasing of mobile equipment, which may reduce the initial upfront capital by a further US\$100m (to US\$430m). **We believe it prudent to include contingencies as well as account for inflation and conservatively model total Stage 1 capex at R5.5bn (~US\$600m nominal; assumes leasing of mobile equipment) in our valuation.**

**Fully funded or staged approach?** Assuming the equipment finance lease is approved, ResGen is likely to require a further US\$350-400m to complete Stage 1 of the project. As debt funding proved unsuccessful, we think that an equity issuance is likely to be the next step. However, it is unlikely that ResGen will be able to raise the full requirement through equity upfront. One option is to raise sufficient equity capital to commence and advance project construction, re-approaching the debt markets at a later stage for the balance. Given a successful equity injection and as project development advances (increasing tangible asset value to be secured as collateral), debt markets may become more receptive. The obvious risk associated with following a staged funding approach is capex and/or timing overruns that could result in the company requiring a further (potentially dilutive) capital raise further down the line. We are of the view that capex estimates are appropriately conservative.

## Eskom needs Waterberg coal...but at what price?

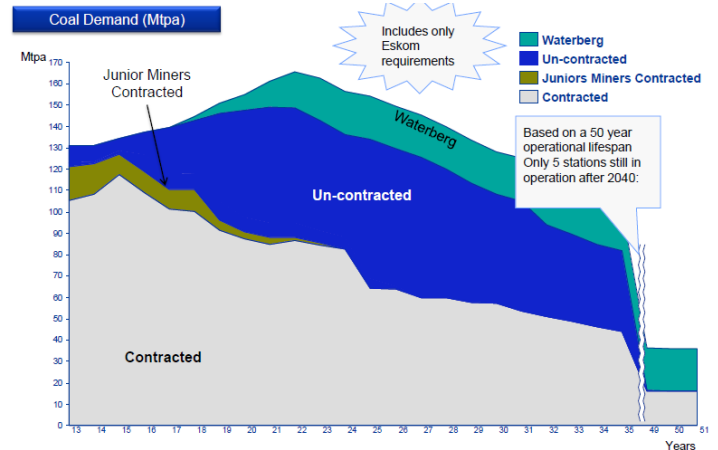
**Shortages of up to 40mtpa of coal after 2018 are expected.** At present, Eskom sources roughly 85% of its electricity from coal fired power stations and while this share is expected to reduce (a movement towards cleaner generation) the quantities of coal needed to supply both existing and new generating capacity are substantial. Eskom has on average contracted 80% of its coal requirement for the next 5 years. This however, drops off rapidly, such that by 2025 only 30-40% of its requirement is currently contracted.

**Fig 8 Coal to remain the dominant source of electricity generation for Eskom**



Source: Eskom, SA Coal Roadmap, Macquarie Research, May 2013

**Fig 9 Shortages of ~2,100mt expected after 2018**



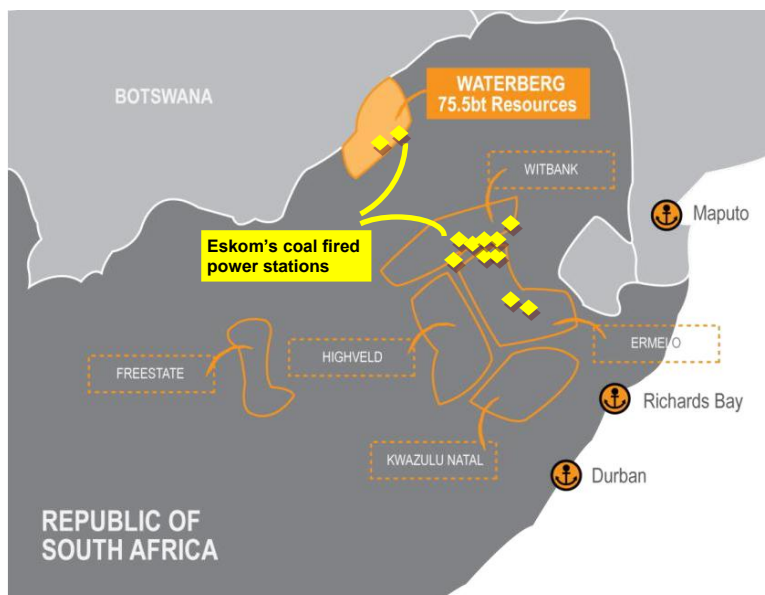
Source: Eskom, SA Coal Roadmap, Macquarie Research, May 2013

### Eskom faces numerous challenges in accessing adequate coal supply:

- **Deteriorating reserves and quality.** Mining conditions and coal quality in Mpumalanga have deteriorated in recent years as the better-quality coal has been extracted, leaving behind poorer-quality deposits and often difficult geological mining conditions.
- **Uneconomic recovery.** Coal beneficiation, blending and online quality-monitoring capabilities were not built into most long-term coal supply agreements, making it a challenge to maintain consistency of coal quality supplied to power stations.
- **Rampant price inflation.** General South African mining inflation as well as the increased costs associated with the beneficiation required to improve the quality of coal supply have resulted in a dramatic increase in the average cost of coal to Eskom.
- **Competition with exports.** Attractive steam coal export prices relative to domestic prices provide coal suppliers with greater incentives than supplying coal for local use. SA steam coal exports continue to favour the Asian market, with major demand originating from India for Eskom grade coal.
- **Logistical constraints.** Despite Transnet Freight Rail (TFR) having plans for major capital investment projects to increase rail capacity for both domestic and export carriages, delivery remains slow and execution within the targeted timeframe is questionable.

**Eskom is actively pursuing sourcing coal from the Waterberg.** Eskom's 3,990MW Matimba power station (operating) and 4,788MW Medupi power station (currently under construction) in the Limpopo province are currently sourcing (or contracted to source in the case of Medupi) their coal requirements from Exxaro's Grootegeluk mine in The Waterberg. While Grootegeluk has the capacity to easily supply these power stations with the required 12-16mtpa (each), we are of the view that should Boikarabelo become operational, Eskom would be willing to contract a level of tonnes to ensure security of supply and diversify its dependency.

**Fig 10 Coal from The Waterberg required to supply Mpumalanga power stations**



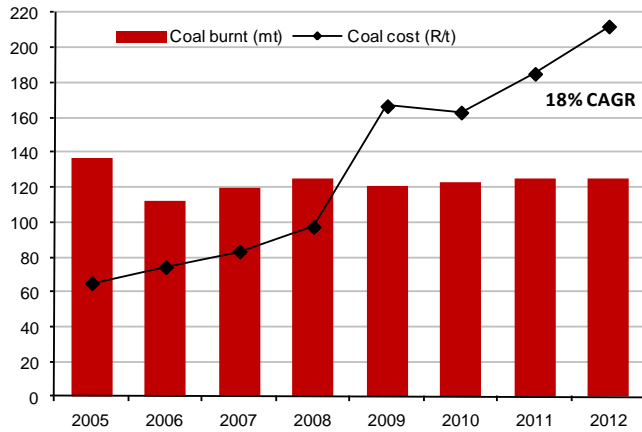
Source: Company data, Eskom, Macquarie Research, May 2013

In addition to this already contracted supply, it is expected that Eskom will be required to source ~20mtpa of coal (not yet contracted) from The Waterberg by 2022 to meet the coal demands of its Mpumalanga power stations. Eskom's Integrated Waterberg Strategy is intended to secure coal and to support the development of a rail line that will transport coal to power stations in Mpumalanga. Eskom continues to work closely with TFR and the Department of Water Affairs on funding models for the rail and water infrastructure which are required to unlock the Waterberg. Eskom is also in discussion with mining suppliers for long-term coal supply contracts in The Waterberg and anticipates that if the project proceeds as envisioned, rail imports to Mpumalanga could begin in 2019.

**Mpumalanga power stations will require modifications to run on Waterberg coal.** Logistical constraints aside, design modifications would need to be made to the existing Mpumalanga power stations in order to run on Waterberg coal. We understand that the 4,110MW Majuba power station located near Volksrust in Mpumalanga is the initial target for modifications. Once modified, the power station will effectively be reliant on The Waterberg for its source of coal as blending is not an option.

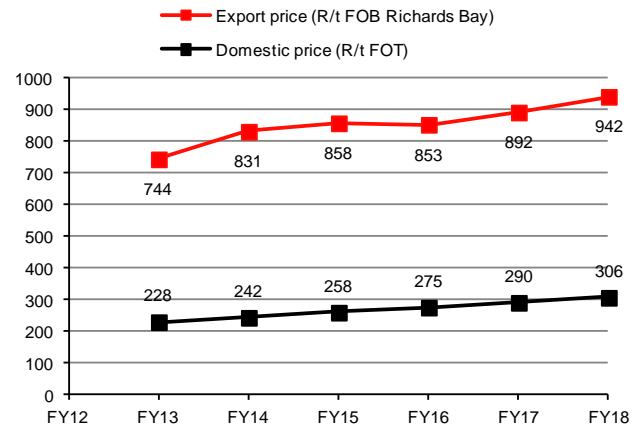
**Ultimately, contract pricing will be a key determinant in securing Waterberg coal supply.** We estimate that in order for the Boikarabelo project to generate sufficient returns to justify the upfront investment, a price of R200-250/t (real 2013\$) would need to be secured for its domestic offtake. On top of this we estimate that a rail cost from The Waterberg to Mpumalanga would likely be in the range of R130/t. This puts the required total delivered cost of coal from The Waterberg to an Mpumalanga power station at R330-R380/t. We estimate that Eskom is currently paying anything in a range from R120/t to R350/t (delivered) for its coal depending on quality and distance from destination. Waterberg coal would therefore require a price of roughly 10-30% premium to the marginal tonne Eskom is currently consuming. While this appears to be high, given the cost inflation we have seen over the last 7 years (18% CAGR) due to decreasing resources and quality in Mpumalanga, we would argue it is an unavoidable economic reality.

**Fig 11 The cost of coal for Eskom has seen dramatic inflation in recent years**



Source: Eskom, Macquarie Research, May 2013

**Fig 12 Domestic (Eskom) and export pricing for Boikarabelo? – Macquarie assumptions**



Source: Macquarie Research, May 2013

**Fig 13 The typical structure of Eskom supply contracts**

Cost plus contracts	Fixed price contracts with escalation	Short/medium term contracts
<ul style="list-style-type: none"> <li>Both parties contribute initial Capital</li> <li>Eskom pays the supplier for the full operational costs and a pre-determined net return on its capital contribution</li> <li>Any additional capital requirements and/or cost increases are for Eskom's Account</li> <li>Coal reserves are dedicated to Eskom – ensures security of supply</li> <li>Cost, volumes and qualities are managed monthly</li> </ul>	<ul style="list-style-type: none"> <li>(potential contract type for Boikarabelo)</li> <li>Eskom makes no capital contribution and theoretically has no exposure to new capital requirements or cost overruns</li> <li>Coal is sold to Eskom at a predetermined base price, escalated annually by applying an escalation formula</li> <li>The supplier incurs penalties for not meeting quality specifications</li> <li>Coal reserves are not dedicated to Eskom</li> <li>The volume and quality of the coal supplied drives the management of the costs as the price is pre-determined</li> </ul>	<ul style="list-style-type: none"> <li>(potential contract type for Boikarabelo)</li> <li>Coal is sold to Eskom at a predetermined base price</li> <li>The base price is escalated annually by applying an escalation formula</li> <li>The other criteria are similar to that of fixed price contracts</li> <li>The volume of the coal supplied drives the management of the costs as the price is pre-determined</li> <li>These contracts are concluded mainly with the Junior (Emerging) Miners</li> <li>Eskom has implemented a recertification procedures for quality management which ensures compliance to Eskom requirements</li> </ul>
<p>Long-term contracts (cost plus &amp; fixed price) are generally &gt;10 years and often up to 40 years in duration, some with options to extend</p>		

Source: Eskom, Macquarie Research, May 2013

Fig 14 Company financials and operational assumptions

Resource Generation (RES AU / RSG SJ)							Share price: \$0.22				
							Target price: \$0.60				
<b>Profit and loss</b>							<b>FY12A</b>	<b>FY13E</b>	<b>FY14E</b>	<b>FY15E</b>	<b>FY16E</b>
Revenue	A\$m	0.00	0.00	0.00	0.00	120.69					
Production costs	A\$m	0.00	0.00	0.00	0.00	-86.37					
<b>EBITDA</b>	<b>A\$m</b>	<b>-2.33</b>	<b>-2.46</b>	<b>-2.61</b>	<b>-2.79</b>	<b>32.47</b>					
Depreciation and amortisation	A\$m	-0.11	-0.11	-0.12	-0.13	-18.90					
Other income/(expenses)	A\$m	-2.86	-3.02	-3.21	-3.42	-2.53					
<b>EBIT</b>	<b>A\$m</b>	<b>-2.97</b>	<b>-3.14</b>	<b>-3.33</b>	<b>-3.55</b>	<b>12.90</b>					
Net interest income/(expense)	A\$m	2.10	0.50	-9.19	-20.85	-32.86					
Profit before tax	A\$m	-0.87	-2.64	-12.52	-24.40	-19.96					
Taxation	A\$m	-0.01	0.74	3.51	6.83	5.59					
Profit after tax	A\$m	-0.87	-1.90	-9.01	-17.57	-14.37					
Non-controlling interests	A\$m	0.00	0.00	0.00	0.00	-3.74					
<b>Reported Net Profit</b>	<b>A\$m</b>	<b>0.57</b>	<b>-1.90</b>	<b>-9.01</b>	<b>-17.57</b>	<b>-10.64</b>					
Profit growth	A\$m	-111%	-431%	375%	95%	-39%					
Effective tax rate	%	-1%	28%	28%	28%	28%					
Average shares	m	263	258	258	258	258					
<b>EPS adjusted</b>	<b>A\$c</b>	<b>0.22</b>	<b>-0.73</b>	<b>-3.49</b>	<b>-6.80</b>	<b>-4.12</b>					
DPS	A\$c	0.00	0.00	0.00	0.00	0.00					
<b>Cash Flow</b>							<b>FY12A</b>	<b>FY13E</b>	<b>FY14E</b>	<b>FY15E</b>	<b>FY16E</b>
Cash generated from operations	A\$m	-2.25	-0.59	-0.63	-0.67	23.99					
Net interest	A\$m	1.02	0.50	-9.19	-20.85	-32.86					
Tax paid	A\$m	-0.01	0.00	0.00	0.00	0.00					
<b>Operating cash flow</b>	<b>A\$m</b>	<b>-1.24</b>	<b>-0.09</b>	<b>-9.82</b>	<b>-21.53</b>	<b>-8.87</b>					
Sustaining capex	A\$m	0.00	0.00	0.00	0.00	-3.15					
Project capex	A\$m	-4.44	-30.57	-173.30	-224.74	-141.76					
<b>Investing cash flow</b>	<b>A\$m</b>	<b>-11.14</b>	<b>-31.77</b>	<b>-173.30</b>	<b>-224.74</b>	<b>-144.91</b>					
Debt draw down/(repayment)	A\$m	0.00	148.43	0.00	300.00	27.00					
Equity financing & other	A\$m	0.00	8.50	200.00	0.00	0.00					
<b>Financing cash flow</b>	<b>A\$m</b>	<b>0.00</b>	<b>156.93</b>	<b>200.00</b>	<b>300.00</b>	<b>27.00</b>					
<b>Net cash flow</b>	<b>A\$m</b>	<b>-12.37</b>	<b>125.07</b>	<b>16.88</b>	<b>53.74</b>	<b>-126.79</b>					
Free cash flow	A\$m	-12.37	-31.86	-183.12	-246.26	-153.79					
<b>Balance Sheet</b>							<b>FY12A</b>	<b>FY13E</b>	<b>FY14E</b>	<b>FY15E</b>	<b>FY16E</b>
Cash	A\$m	12.12	137.19	154.06	207.80	81.01					
Inventory	A\$m	0.00	0.00	0.00	0.00	7.10					
Receivables	A\$m	0.80	0.80	0.80	0.80	9.92					
<b>Total current assets</b>	<b>A\$m</b>	<b>13.28</b>	<b>138.35</b>	<b>155.23</b>	<b>212.98</b>	<b>106.45</b>					
PPE	A\$m	38.23	68.68	241.87	466.48	592.49					
Mining & exploration	A\$m	77.39	77.39	77.39	77.39	77.39					
<b>Total non-current assets</b>	<b>A\$m</b>	<b>127.20</b>	<b>158.85</b>	<b>332.04</b>	<b>556.65</b>	<b>682.66</b>					
<b>Total Assets</b>	<b>A\$m</b>	<b>140.48</b>	<b>297.20</b>	<b>487.26</b>	<b>769.63</b>	<b>789.11</b>					
Payables	A\$m	2.88	2.88	2.88	2.88	9.47					
<b>Total current liabilities</b>	<b>A\$m</b>	<b>4.10</b>	<b>154.05</b>	<b>152.92</b>	<b>452.63</b>	<b>486.25</b>					
Borrowings	A\$m	0.00	0.00	0.00	0.00	0.00					
<b>Total non-current liabilities</b>	<b>A\$m</b>	<b>3.10</b>	<b>3.27</b>	<b>3.47</b>	<b>3.71</b>	<b>3.94</b>					
<b>Total Liabilities</b>	<b>A\$m</b>	<b>7.20</b>	<b>157.33</b>	<b>156.40</b>	<b>456.33</b>	<b>490.19</b>					
<b>Total Equity</b>	<b>A\$m</b>	<b>133.28</b>	<b>139.88</b>	<b>330.86</b>	<b>313.29</b>	<b>298.92</b>					
<b>Coal Production</b>							<b>FY12A</b>	<b>FY13E</b>	<b>FY14E</b>	<b>FY15E</b>	<b>FY16E</b>
ROM production	mt	0.0	0.0	0.0	0.0	5.0					
Export yield	%	21%	21%	21%	21%	21%					
Domestic yield	%	27%	27%	27%	27%	27%					
<b>Total saleable production</b>	<b>mt</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>2.1</b>					
Export	mt	0.0	0.0	0.0	0.0	1.1					
Eskom	mt	0.0	0.0	0.0	0.0	1.1					
<b>Key assumptions</b>							<b>FY12A</b>	<b>FY13E</b>	<b>FY14E</b>	<b>FY15E</b>	<b>FY16E</b>
RBCT FOB API4	US\$/t	106	86	89	89	88					
RBCT FOB API4	R/t	829	744	831	858	853					
Domestic (Eskom price)	R/t	215	228	242	258	275					
ZAR/US\$	R/\$	7.85	8.67	9.31	9.69	9.75					
SA CPI	%	5.2%	5.7%	6.1%	6.7%	6.2%					
SA Mining inflation	%	7.5%	8.2%	8.8%	9.7%	6.2%					
<b>Unit operating costs</b>							<b>FY12A</b>	<b>FY13E</b>	<b>FY14E</b>	<b>FY15E</b>	<b>FY16E</b>
Mining & washing	R/t	130	141	153	168	178					
Rail & port	R/t	335	354	376	401	426					
<b>Total</b>	<b>R/t</b>	<b>465</b>	<b>495</b>	<b>529</b>	<b>569</b>	<b>604</b>					
Mining & washing	US\$/t	17	16	16	17	18					
Rail & port	US\$/t	43	41	40	41	44					
<b>Total</b>	<b>US\$/t</b>	<b>59</b>	<b>57</b>	<b>57</b>	<b>59</b>	<b>62</b>					
<b>Ratio analysis</b>							<b>FY12A</b>	<b>FY13E</b>	<b>FY14E</b>	<b>FY15E</b>	
EBITDA margin	%	nmf	nmf	nmf	nmf	27%					
Operating margin	%	nmf	nmf	nmf	nmf	-9%					
PE Ratio	x	0.99	-0.29	-0.06	-0.03	-0.05					
Dividend Yield	%	0.0%	0.0%	0.0%	0.0%	0.0%					
EV/EBITDA	x	-137	-130	-122	-115	10					
ROE	%	0.4%	-1.4%	-2.7%	-5.6%	-3.6%					
ROA	%	0.4%	-0.6%	-1.8%	-2.3%	-1.3%					
Gearing (debt/equity)	%	0.0%	0.0%	0.0%	0.0%	0.0%					
<b>Valuation</b>							<b>100% NPV</b>	<b>Less</b>	<b>NPV</b>	<b>NPV/sh</b>	<b>NPV/sh</b>
							<b>Minorities</b>		<b>Discount</b>		
							<b>ZARm</b>	<b>%</b>	<b>%</b>	<b>ZAR/sh</b>	<b>A\$/sh</b>
Stage 1							903	26%	0%	R 2.59	\$0.28
Stage 2							2501	26%	50%	R 3.58	\$0.38
Corporate & NWC							-420	0%	0%	-R 1.62	-\$0.17
<b>Enterprise value</b>							<b>2985</b>			<b>R 4.55</b>	<b>\$0.49</b>
Less: Net debt/(cash)							-61			-R 0.24	-\$0.03
<b>Equity value</b>							<b>3046</b>			<b>R 4.78</b>	<b>\$0.51</b>
WACC											14.4%
<b>Target Price</b>											<b>\$0.60</b>

Source: Company data, Macquarie Research, May 2013



## Important disclosures:

**Recommendation definitions****Macquarie - Australia/New Zealand**

Outperform – return >3% in excess of benchmark return  
 Neutral – return within 3% of benchmark return  
 Underperform – return >3% below benchmark return

Benchmark return is determined by long term nominal GDP growth plus 12 month forward market dividend yield

**Macquarie – Asia/Europe**

Outperform – expected return >+10%  
 Neutral – expected return from -10% to +10%  
 Underperform – expected return <-10%

**Macquarie First South - South Africa**

Outperform – expected return >+10%  
 Neutral – expected return from -10% to +10%  
 Underperform – expected return <-10%

**Macquarie - Canada**

Outperform – return >5% in excess of benchmark return  
 Neutral – return within 5% of benchmark return  
 Underperform – return >5% below benchmark return

**Macquarie - USA**

Outperform (Buy) – return >5% in excess of Russell 3000 index return  
 Neutral (Hold) – return within 5% of Russell 3000 index return  
 Underperform (Sell) – return >5% below Russell 3000 index return

**Volatility index definition\***

This is calculated from the volatility of historical price movements.

**Very high-highest risk** – Stock should be expected to move up or down 60–100% in a year – investors should be aware this stock is highly speculative.

**High** – stock should be expected to move up or down at least 40–60% in a year – investors should be aware this stock could be speculative.

**Medium** – stock should be expected to move up or down at least 30–40% in a year.

**Low-medium** – stock should be expected to move up or down at least 25–30% in a year.

**Low** – stock should be expected to move up or down at least 15–25% in a year.

\* Applicable to Australian/NZ/Canada stocks only

**Recommendations** – 12 months

**Note:** Quant recommendations may differ from Fundamental Analyst recommendations

**Financial definitions**

All "Adjusted" data items have had the following adjustments made:

Added back: goodwill amortisation, provision for catastrophe reserves, IFRS derivatives & hedging, IFRS impairments & IFRS interest expense  
 Excluded: non recurring items, asset revals, property revals, appraisal value uplift, preference dividends & minority interests

**EPS** = adjusted net profit / epowa\*

**ROA** = adjusted ebit / average total assets

**ROA Banks/Insurance** = adjusted net profit / average total assets

**ROE** = adjusted net profit / average shareholders funds

**Gross cashflow** = adjusted net profit + depreciation

\*equivalent fully paid ordinary weighted average number of shares

All Reported numbers for Australian/NZ listed stocks are modelled under IFRS (International Financial Reporting Standards).

**Recommendation proportions – For quarter ending 31 March 2013**

	AU/NZ	Asia	RSA	USA	CA	EUR	
Outperform	45.12%	53.24%	50.00%	40.70%	62.98%	43.30%	(for US coverage by MCUSA, 10.55% of stocks followed are investment banking clients)
Neutral	41.52%	28.01%	41.43%	55.01%	32.60%	34.10%	(for US coverage by MCUSA, 9.05% of stocks followed are investment banking clients)
Underperform	13.36%	18.74%	8.57%	4.29%	4.42%	22.60%	(for US coverage by MCUSA, 0.00% of stocks followed are investment banking clients)

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