

Resource Generation (RES.AX)

Placement and Loan with Noble

- Buy Rated** — Resource Generation has secured US\$131m in additional funding through a placement and loan from Noble, who also get a 35-year marketing and supply chain contract. After the failure to secure a debt facility on agreeable terms this provides funding to progress the development of the Boikarabelo mine, although \$300+m of further funding will still be required to complete the mine. ResGen is rated Buy/High Risk with a A\$85¢/share target price.
- A\$8.5m Placement @ 40¢/share** — First stage of the transaction is Noble acquiring a 7.5% stake through a A\$8.5m placement at an issue price of A40¢/share – a healthy 54% premium to last close. Second tranche is a US\$123m secured loan that can be drawn down until 31 December 2013, but is repayable 21 months after first draw down.
- Funding Options** — Capex for the project was previously estimated at \$630m (real), including 10% contingency and debt costs – \$530m without. Included in this is \$100m for equipment that could be financed through leases. This leaves at least \$430m to be funded from a combination of equity and debt, with \$300+m still outstanding. Options to fund this include increased equity stakes from existing shareholders Calcutta Electric (11.6%) and Bhushan Steel (6.65%) or from new customers.
- Off-take Contract** — Noble now has off-take up to 2.5mtpa - 0.5mt year 1-8, 1.5mt year 9-12, 2mt year 13-14 and 2.5mt year 15-35. In conjunction with other off-take contracts, up to 4mtpa for Calcutta Electric and 0.5m to Bhushan Steel, this means that initial off-take is 2mt of 3mtpa export capacity, increasing to 6.5mtpa if stage 2 proceeds (export capacity of >10mtpa). There is therefore still scope to secure equity for off-take. Our estimates also already include allowance for a \$300m equity issuance to fund the capex for the mine development.
- Debt Funding** — Although debt funding could not be reached on the project due to unacceptable commercial terms being offered, negotiation is still continuing and could reduce the potential equity requirement if terms can be agreed.

Company Update

| | |
|------------------------------|---------------|
| Buy/High Risk | 1H |
| Price (02 Apr 13) | A\$0.29 |
| Target price | A\$0.85 |
| Expected share price return | 193.1% |
| Expected dividend yield | 0.0% |
| Expected total return | 193.1% |
| Market Cap | A\$76M |
| | US\$80M |

Price Performance (RIC: RES.AX, BB: RES AU)



| RES.AU revisions (Y/E Jun) | 2011A | 2012A | 2013E | 2014E | 2015E |
|----------------------------|-------|-------|--------|--------|-------|
| Sales (A\$m) | 0.0 | 0.0 | 0.0 | 0.0 | 52.4 |
| % revision | 0.0% | na | na | na | 0.0% |
| EBIT (A\$m) | -6.3 | -1.5 | -7.5 | -17.6 | -1.2 |
| % revision | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% |
| Core Net Profit (A\$m) | -5.1 | 0.6 | -7.0 | -16.4 | -27.0 |
| % revision | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% |
| Core EPS (A¢) | -2.0 | 0.2 | -0.6 | -1.5 | -2.4 |
| % revision | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% |
| EPS Growth (%) | 4.4 | 111.3 | -383.0 | -132.9 | -64.3 |
| PE Ratio (x) | -14.7 | 130.5 | -46.1 | -19.8 | -12.1 |
| Dividend Yield (%) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |

Source: Company Reports and dataCentral, Citi Research.

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| RES.AX: Fiscal year end 30-Jun | | | | | | Price:\$0.29; TP:\$0.85; # Shares: 263m; Market Cap: A\$76m; Recomm: Buy/High Risk | | | | | |
|--------------------------------------|-------------|--------------|--------------|--------------|--------------|--|-----------------|-----------------|--------------|----------------|--------------|
| Profit & Loss (A\$m) | | | | | | Comdty & FX Forecasts | | | | | |
| | 2012 | 2013E | 2014E | 2015E | 2016E | 2012 | 2013E | 2014E | 2015E | 2016E | |
| Sales revenue | 0 | 0 | 0 | 52 | 422 | Thermal coal price (US\$/t) | 108.7 | 97.8 | 91.1 | 105.2 | 115.0 |
| Cost of sales | 0 | 0 | -10 | -48 | -273 | AUDUSD (analyst) (x) | 1.03 | 1.00 | 1.05 | 1.00 | 0.96 |
| EBITDA | -1 | -8 | -8 | 14 | 157 | ZARUSD (analyst) | 7.9 | 8.1 | 9.1 | 9.4 | 9.6 |
| Depreciation/Amortization | 0 | 0 | -10 | -15 | -21 | Long Term Forecasts | | | | | |
| EBIT | -2 | -8 | -18 | -1 | 136 | Thermal Coal (US\$/t) | | | | | na |
| Net interest | 2 | 0 | 1 | -22 | -29 | AUDUSD average | | | | | 0.91 |
| Earnings before tax | 1 | -7 | -16 | -23 | 107 | Production Volumes | 2012 | 2013E | 2014E | 2015E | 2016E |
| Tax Recurring | 0 | 0 | 0 | 0 | -32 | Thermal coal (mt) (mt) | 0.0 | 0.0 | 0.0 | 0.8 | 6.0 |
| Exceptional/Other | 0 | 0 | 0 | -4 | -39 | Production Costs | 2012 | 2013E | 2014E | 2015E | 2016E |
| Reported net profit | 1 | -7 | -16 | -27 | 36 | Cash Costs (US\$/t) | 0.0 | 0.0 | 0.0 | 41.7 | 42.0 |
| Core NPAT | 1 | -7 | -16 | -27 | 36 | | | | | | |
| Balance Sheet (A\$m) | 2012 | 2013E | 2014E | 2015E | 2016E | | | | | | |
| Cash & cash equiv. | 12 | 72 | 223 | 28 | 69 | | | | | | |
| Net fixed & other tangibles | 127 | 377 | 585 | 799 | 880 | | | | | | |
| Total assets | 140 | 451 | 810 | 828 | 950 | | | | | | |
| Short-term debt | 1 | 1 | 1 | 1 | 1 | | | | | | |
| Long-term debt | 0 | 20 | 400 | 400 | 343 | | | | | | |
| Total liabilities | 7 | 27 | 407 | 407 | 350 | | | | | | |
| Shareholders' equity | 133 | 423 | 402 | 421 | 600 | | | | | | |
| Total equity | 133 | 423 | 402 | 421 | 600 | | | | | | |
| Net debt | -11 | -51 | 178 | 373 | 274 | | | | | | |
| Cashflow (A\$m) | 2012 | 2013E | 2014E | 2015E | 2016E | | | | | | |
| Operating cashflow | -1 | -8 | -9 | 35 | 202 | | | | | | |
| Capex | -2 | -250 | -218 | -229 | -102 | | | | | | |
| Net acq/disposals | 0 | 0 | 0 | 0 | 0 | | | | | | |
| Exploration exp/Other | -7 | -2 | -2 | -2 | -2 | | | | | | |
| FCF ex acqns & explor exp | -11 | -260 | -229 | -195 | 98 | | | | | | |
| Net change in cash | -13 | 60 | 151 | -195 | 41 | | | | | | |
| Per share data | 2012 | 2013E | 2014E | 2015E | 2016E | | | | | | |
| Reported EPS (¢) | 0 | -1 | -1 | -2 | 3 | Reserves & Resources | Reserves | Resource | | | |
| Core EPS (¢) | 0 | -1 | -1 | -2 | 3 | | Amount | Grd.() | Amount | Grd.() | |
| DPS (¢) | 0 | 0 | 0 | 0 | 0 | Total Coal (mt) | 539 | | 2,357 | | |
| CFPS (¢) | 0 | -1 | -1 | 3 | 18 | | | | | | |
| BVPS (¢) | 52 | 38 | 36 | 38 | 54 | | | | | | |
| Wtd avg ord shares (m) | 258 | 1,120 | 1,120 | 1,120 | 1,120 | | | | | | |
| Wtd avg diluted shares (m) | 258 | 1,120 | 1,120 | 1,120 | 1,120 | | | | | | |
| Valuation ratios | 2012 | 2013E | 2014E | 2015E | 2016E | Valuation | | | | | |
| PE (x) | nm | -46.1 | -19.8 | -12.1 | 9.0 | WACC (%) | | | | | 14.0 |
| EV/EBIT (x) | -38.5 | -6.0 | -7.9 | nm | 2.9 | | | | | | |
| EV/EBITDA (x) | -41.4 | -6.0 | -18.3 | 25.4 | 2.5 | NPV Valuation | | | US\$M | A\$/sh. | |
| FCF yield (%) | -5 | -79 | -70 | -60 | 31 | Boikarebelo | | | 141 | 0.59 | |
| Dividend yield (%) | 0 | 0 | 0 | 0 | 0 | Exploration & Other | | | 0 | 0.00 | |
| Payout ratio (%) | 0 | 0 | 0 | 0 | 0 | Corporate Costs | | | -5 | -0.02 | |
| Operating performance | 2012 | 2013E | 2014E | 2015E | 2016E | Net (debt) / cash | | | 67 | 0.28 | |
| EBITDA margin (%) | na | na | na | 26 | 37 | Total | | | 202 | 0.84 | |
| Operating ROE (%) | 0 | -3 | -4 | -7 | 7 | | | | | | |
| Operating ROIC (%) | -1 | -3 | -4 | 0 | 12 | | | | | | |
| Net debt to equity (%) | -9 | -12 | 44 | 89 | 46 | | | | | | |
| Debt to total capital (%) | 1 | 5 | 50 | 49 | 36 | | | | | | |

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Resource Generation

Company description

RES is a 'concept coal' company with assets in the Waterberg region of South Africa. The main development is the Boikarebelo project. It has 3Bt of coal resources and 745Mt of reserves. RES initially plans an open pit producing c6Mtpa of washed coal with a 50:50 split between domestic and export.

Investment strategy

We rate RES shares as Buy/High Risk. RES is very high risk but potentially a highly rewarding prospect. The company has a huge resource position in the mainly untapped Waterbank coal region of South Africa. Its resource base, build out of domestic South African power capacity and demand for coal from emerging markets such as India is likely to see RES evolve into a 6mtpa coal producer.

Valuation

Our target price of \$0.85/share is set to our NPV for just stage one of the project. Our NPV is based on DCF analysis using a 12% discount rate and a US\$95/t long term thermal coal price. We believe a 12% discount rate in our NPV is appropriate given the early stage of the project.

Risks

We rate RES High Risk given the non producing nature of its assets. Key risks to achieving our target price are as follows:

Commodity price: Coal prices have become more volatile over the past 5 years as the historically bulk traded market has moved to a more terminal market approach. At the same time China has been swinging from importers to exporters to importers of coal which has had a significant effect on the supply-demand balance of the seaborne market. Given the big coal resources that China has, there is always the risk that it could increase domestic production and turn again to a net exporter of coal, having a negative influence on the coal price.

Political Risk: South Africa has had a revolution in its minerals industry in the past decade with the implementation of Black Economic Empowerment.

If the impact on the company from any of these factors proves to be greater than we anticipate, the stock will likely have difficulty achieving our target price. However, should they be less than anticipated, the stock could trade above our target price.

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Resource Generation (RES.AX)

Ratings and Target Price History
Fundamental Research

Analyst: Clarke Wilkins
Covered since August 24 2012



| | Date | Rating | Target Price | Closing Price |
|---|-----------|--------|--------------|---------------|
| 1 | 22-Sep-10 | *1S | *1.00 | 0.72 |
| 2 | 8-Nov-10 | 1S | *0.95 | 0.54 |
| 3 | 31-Mar-11 | 1S | *1.40 | 0.93 |
| 4 | 6-Jul-11 | 1S | *1.50 | 0.80 |

| | Date | Rating | Target Price | Closing Price |
|---|-----------|-----------------------------|--------------|---------------|
| 5 | 25-Jul-11 | 1S | *1.45 | 0.70 |
| 6 | 7-Oct-11 | Stock rating system changed | | |
| 7 | 7-Oct-11 | *1H | 1.45 | 0.40 |
| 8 | 11-Jan-12 | 1H | *1.40 | 0.44 |

| | Date | Rating | Target Price | Closing Price |
|----|-----------|--------|--------------|---------------|
| 9 | 10-Jul-12 | 1H | *0.60 | 0.30 |
| 10 | 22-Aug-12 | 1H | *0.80 | 0.26 |
| 11 | 14-Feb-13 | 1H | *0.85 | 0.38 |

* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Resource Generation (RES.AX)

Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)

Analyst: Clarke Wilkins
Covered since August 24 2012



| | Date | Rating | Target Price | Closing Price |
|---|-----------|---------|--------------|---------------|
| 1 | 15-May-11 | *ADD MP | - | 0.85 |

| | Date | Rating | Target Price | Closing Price |
|---|----------|---------|--------------|---------------|
| 2 | 9-Feb-12 | *REM MP | - | 0.42 |

* Indicates change

Rating/target price changes above reflect Eastern Standard Time

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Data current as of 31 Mar 2013

| Citi Research Global Fundamental Coverage | 12 Month Rating | | | Relative Rating | | |
|--|-----------------|------|------|-----------------|------|------|
| | Buy | Hold | Sell | Buy | Hold | Sell |
| % of companies in each rating category that are investment banking clients | 48% | 39% | 12% | 7% | 87% | 7% |
| | 53% | 49% | 43% | 65% | 49% | 51% |

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