



Resource Generation Limited (RES)

A Noble Deal with Coal Offtake

BUY

Risk: HIGH

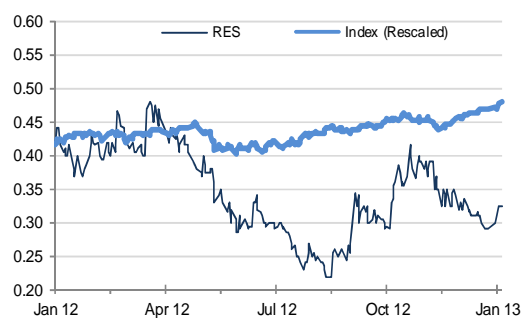
Key Information

Price (\$)	0.31
Target Price (\$)	0.65
Market Cap (\$M)	85.6
GICS Sector	Materials
52 week Hi-Lo (\$)	0.49 - 0.21
Daily Vol (M, mth avg)	0.1
Weight of S&P 200 Index (%)	0.0
Cash (\$M)	32.1
Debt (\$M)	20.8
Gearing [ND/(ND+E)] (%)	0.0
Forecast Total Return (%)	109.7

Investment Fundamentals

YE 30 June	2011A	2012A	2013F	2014F
Sales (\$M)	0.0	0.0	0.0	0.0
EBITDA (\$M)	0.0	0.0	0.0	0.0
Margin (%)	n.a.	n.a.	n.a.	n.a.
NPAT (\$M)	-5.3	-1.4	-3.7	-4.3
EPS (cps)	-466.8	-285.0	-370.2	-430.8
EPS Growth (%)	n.a.	n.a.	n.a.	n.a.
DPS (cps)	n.a.	n.a.	n.a.	n.a.
Franking (%)	59.0	0.0	0.0	0.0

RES vs S&P/ASX Market Index



Performance

	1 Mth	3 Mth	12 Mth
Absolute (RES) (%)	-3.0	10.2	-14.5
Rel to Market (%)	-6.7	5.1	-29.4

Major Shareholders

	%
Integrated Coal Mini	11.6
Scodella Inc	6.7
UCA Funds Management	6.4
Jury Paul John	5.8

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 the issue of a \$20m debenture along with an offtake agreement of 2.5Mt over 5 years with Noble Resources International (Subsidiary of the Noble Group (SGX: N21), a major global supply chain manager of agricultural and energy products and metals, minerals and ores). Further, we note that the capacity specified in the Transnet Freight Rail (TFR) contract has now become firm.

Highlights

- Debenture:** RES announced that the issuance of a secured debenture to Noble Group to raise \$20m in cash funding. This is a positive development as it provides RES with the ability to progress construction activities at the Boikarabelo coal mine as it continues to finalise project finance with the mandated syndicate of six providers, consisting of five major banks and heavy equipment manufacturer, Caterpillar. Cash is expected by 9th January 2013 and is repayable in December 2013.
- Offtake & Marketing:** Further to the debenture, RES also announced an offtake agreement with Noble Group for a total of 2.5Mt over 5 years (0.5Mt tpa) with coal prices to be set by reference to an internationally recognised index at the time of each shipment. RES and Noble Group have also agreed to good faith discussions about a strategic marketing alliance for coal from the Boikarabelo mine. This relationship with a major commodities house like the Noble Group increases our confidence in the Boikarabelo coal mine and its development potential.
- Transnet Contract:** As mentioned in our note dated 27th June 2012, the Transnet Contract was conditional upon the completion of a study being undertaken by Transnet to determine a fair and equitable allocation of rail capacity to all interested parties in the Waterberg region, to be completed by 31st December 2012. As per the contract, the tonnage stated in the contract (4Mt in the first year, 5Mt in the second year and 6Mt tpa thereafter) becomes firm with the condition automatically waived if no objections were raised by 31st Dec 2012. We note that this date is now past and in light of no announcements by RES, we believe the haulage capacity to now be firm which would provide further security to the syndicate of banks currently considering providing project finance to RES.

Recommendation

We believe that the first half of 2013 would be a turning point for RES as it progresses through to achieving project finance and raising equity for the commencement of construction at its flagship Boikarabelo coal mine. The term sheet for project finance was agreed between financiers and RES on 21st December 2012 and the approval from credit departments of each credit provider is now awaited. **We maintain our BUY recommendation with a price target price of \$0.65 and a HIGH risk rating reflecting the early stages of the project.**

Refer to disclaimer on last page



Financial Summary

Market Valuation Metrics

Recommendation	BUY
Risk	HIGH
Price (A\$)	0.31
Target Price (A\$)	0.65
Issued Capital (M)	262.9
Market Cap (\$m)	81.5
Year End	30 June

Investment Statistics

	FY11A	FY12A	FY13E	FY14E	FY15E
Shares Outstanding	262.9	262.9	989.8	989.8	989.8
NPAT (Reported) (\$m)	(5.3)	(1.4)	(3.7)	(4.3)	35.9
NPAT (Underlying) (\$m)	(4.7)	(2.9)	(3.7)	(4.3)	35.9
EPS (Adj \$)	(0.02)	(0.01)	(0.00)	(0.00)	0.04
P/E (x)	n.a.	n.a.	n.a.	n.a.	8.5
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%	0.0%	0.0%	41.1%	48.6%
ROE (%)	-3.5%	-2.1%	-0.9%	-1.1%	8.4%
ROA (%)	-3.3%	-2.0%	-0.7%	-0.6%	4.1%

Profit & Loss Statement (A\$m)

	FY11A	FY12A	FY13E	FY14E	FY15E
Revenue	0.0	0.0	0.0	0.0	258.3
Revenue growth (%)	n.a.	n.a.	n.a.	n.a.	n.a.
EBITDA	(5.5)	(2.9)	(4.2)	(4.2)	98.7
EBITDA margin (%)	n.a.	n.a.	n.a.	n.a.	38.2%
Depreciation & Amortization	(0.1)	(0.1)	(0.1)	(0.1)	(9.1)
EBIT	(5.6)	(3.0)	(4.3)	(4.3)	89.6
EBIT margin (%)	n.a.	n.a.	n.a.	n.a.	34.7%
Net interest	1.2	2.1	0.6	0.0	(39.7)
Pretax profit	(4.7)	(2.9)	(3.7)	(4.3)	49.9
Tax	(0.0)	(0.0)	0.0	0.0	(14.0)
Reported NPAT	(5.3)	(1.4)	(3.7)	(4.3)	35.9
Significant items	0.7	(1.4)	0.0	0.0	0.0
Normalised NPAT	(4.7)	(2.9)	(3.7)	(4.3)	35.9
NPAT margin (%)	n.a.	n.a.	n.a.	n.a.	13.9%

Cashflow Statement (A\$m)

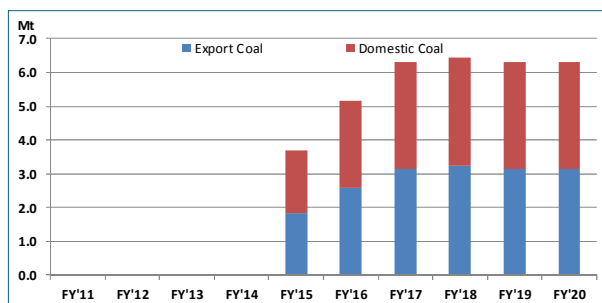
	FY11A	FY12A	FY13E	FY14E	FY15E
EBITDA	(5.5)	(2.9)	(4.2)	(4.2)	98.7
Working Capital Investment (Inc)/Dec	0.0	0.0	0.0	0.0	(16.0)
Gross Cash Flow	(5.5)	(2.9)	(4.2)	(4.2)	82.8
Net interest Paid	1.0	1.0	0.6	0.0	(39.7)
Tax Paid	(0.0)	(0.0)	0.0	0.0	(14.0)
Other	2.4	0.6	0.0	0.0	0.0
Operating cashflow	(2.2)	(1.2)	(3.6)	(4.2)	29.1
Investing Activities	(27.9)	(11.1)	(135.3)	(429.9)	(148.9)
Free Cash Flow	(30.0)	(12.4)	(138.9)	(434.1)	(119.8)
Equity raised	51.6	0.0	278.4	0.0	0.0
Debt Raised/(paid)	0.0	0.0	83.5	265.3	91.9
Dividends paid	0.0	0.0	0.0	0.0	0.0
Other	-2	0	0	0	0
Financing cashflow	49.9	0.0	361.9	265.3	91.9
Net change in cash	19.8	(12.4)	223.0	(168.8)	(27.9)

Balance Sheet (A\$m)

	FY11A	FY12A	FY13E	FY14E	FY15E
Cash	25.3	12.1	235.1	66.3	38.4
Property, Plant & Equipment	102.2	115.6	250.8	680.7	820.4
Other	12.0	12.7	12.7	12.7	12.7
Total assets	139.5	140.5	498.7	759.7	871.6
Debt	0.9	0.8	84.3	349.6	441.5
Other	4.4	6.4	3.6	3.6	3.6
Total liabilities	5.4	7.2	87.8	353.2	445.1
Total shareholders equity	134.2	133.3	410.9	406.5	426.5

Production (Mt)

	FY11A	FY12A	FY13E	FY14E	FY15E
Export	0.0	0.0	0.0	0.0	1.8
Domestic	0.0	0.0	0.0	0.0	1.8
Total	0.0	0.0	0.0	0.0	3.7



Currency Assumptions*

	FY11A	FY12A	FY13E	FY14E	FY15E
A\$:US\$	1.0239	1.0114	1.0345	0.9875	0.9400
ZAR:US\$	0.1475	0.1250	0.1221	0.1234	0.1221

*Bloomberg

Total Resources (100% basis)

	Inferred	Indicated	Measured	Total
Waterberg #1 SW		0.0	0.0	426.3
Waterberg #1 NE		0.0	551.7	551.7
Witkopje S & Kalkpan		0.0	0.0	664.2
Draai Om		791.3	0.0	791.3
Witkopje N		688.3	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 Reserves	744.8	0.0	744.8

Sensitivity Analysis - Changes in Coal Price

Coal Price	Valuation
US\$80	\$0.34
US\$85	\$0.44
US\$90	\$0.53
US\$95 (Base Case)	\$0.65
US\$100	\$0.72
US\$105	\$0.82
US\$110	\$0.91

Sensitivity Analysis - Changes in Discount Rate

Discount Rate	Valuation
9.00%	\$1.21
10.00%	\$0.96
11.00%	\$0.77
12% (Base Case)	\$0.65
13.00%	\$0.51
14.00%	\$0.42
15.00%	\$0.35

Sensitivity Analysis - Price of Raising Fresh Equity

Price	Valuation
A\$0.45	A\$0.56
A\$0.50	A\$0.59
A\$0.55	A\$0.62
A\$0.60 (Base Case)	A\$0.65
A\$0.65	A\$0.67
A\$0.70	A\$0.69
A\$0.75	A\$0.71

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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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