



COMPANY UPDATE | COMMENT

JULY 31, 2012

Resource Generation Ltd. (ASX: RES)
Ready to go; work on funding underway

Outperform
Speculative Risk

Table with 2 columns: Metric and Value. Includes Price (0.24), Price Target (0.70), Implied All-In Return (192%), Market Cap (63), Dividend (0.00), Yield (0.0%), NAVPS (1.16), P/NAVPS (0.2x), BVPS (0.52), P/BVPS (0.5x).

Major shareholders: Integrated Coal Mining 11.6%
Priced as at market close on July 31, 2012.

Event

RES has released its June quarterly and a funding update

Investment Opinion

Milestones achieved in the June quarter included receipt of the water usage license (IWULA), dismissal of the mining right appeal, and signing of a rail freight agreement with Transnet. Now that all necessary approvals are in place, the next steps for RES are to secure debt and equity funding. RES has \$12.1m in cash on hand, sufficient to see them through until funding has been secured and construction commences.

Approvals and agreements secured: With its mining license, IWULA and environmental approvals in place, RES has all necessary regulatory approvals. A 10 yr, 6Mtpa take or pay agreement with Transnet has been secured, while final terms are yet to be agreed this ultimately secures rail capacity for RES. The ESKOM domestic offtake agreement is the remaining commercial agreement outstanding, however, we see this as a relatively low risk item (Transnet was the bigger hurdle).

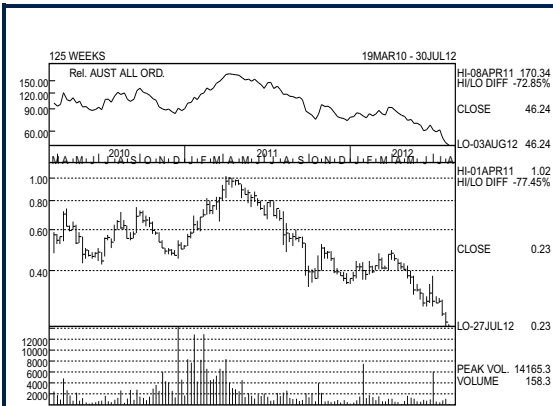
Debt funding process underway: RES has indicated that the due-diligence process for debt funding is underway, we expect this to be finalised by early October. We believe securing the debt financing will raise confidence in the development, underpinning increased equity value ahead of a likely equity raising late 2012.

Valuation remains compelling: We assume higher capex and a 1yr delayed start-up relative to management, but our base case NAV (using US\$90/t LT thermal coal) is \$1.16. The Stage 2 expansion, which RES plans to fund out of Stage 1 cash flows, would lift our NAV to \$3.30. Current macro headwinds and the funding hurdle continue to see the stock discounted, we look for this to unwind as the debt is secured and the thermal coal macro environment improves into year end and 2013.

Maintain Outperform; Target \$0.70: We have reviewed our modeling, incorporating increased opex estimates, which lowers our NAV from \$1.39 to \$1.16 (Stage 1 only). We assume an equity raising (\$350m at \$0.75) and apply a 25% discount to this in setting our \$0.70 price target (unchanged).

Priced as of prior trading day's market close, EST (unless otherwise noted).

For Required Non-U.S. Analyst and Conflicts Disclosures, see page 4.



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Table with 4 columns: FY Jun, 2011A, 2012E, 2013E. Rows include Adj EPS - Basic, P/AEPS, Cash Cost, and Prod.

All values in AUD unless otherwise noted.

Exhibit 1: Summary financials

Resource Generation												
ASX: RES	Share Price: (A\$ps)	0.24	Year end:	Jun	Stock Rating:	Outperform	Price Target:	A\$0.70				
	Mkt Cap: (A\$MM)	63	Issued shares (m)	263	Risk Qualifier:	Speculative	NAV:	A\$1.16				
ASSUMPTIONS												
Exchange Rate	A\$/US\$	0.99	FY12E	1.03	FY13E	0.95	FY14E	0.93	FY15E	0.90	FY16E	0.87
Exchange Rate	US\$/ZAR	7.00	FY12E	7.80	FY13E	8.80	FY14E	9.10	FY15E	9.43	FY16E	9.84
Thermal coal (FY avg)	US\$/t	106	FY12E	126	FY13E	111	FY14E	98	FY15E	90	FY16E	90
Coking coal (FY avg)	US\$/t	189	FY12E	179	FY13E	138	FY14E	123	FY15E	115	FY16E	115
RATIO ANALYSIS												
Shares on issue	MM	258	FY12E	263	FY13E	613	FY14E	613	FY15E	613	FY16E	613
EPS reported	A¢	-2.0	FY12E	-0.1	FY13E	-0.4	FY14E	-2.7	FY15E	-4.5	FY16E	4.1
EPS (pre sig. items)	A¢	-1.8	FY12E	-0.6	FY13E	-0.4	FY14E	-2.7	FY15E	-4.5	FY16E	4.1
P/E	x	nfm	FY12E	nfm	FY13E	nfm	FY14E	nfm	FY15E	nfm	FY16E	5.9x
CFPS	A¢	(0.6)	FY12E	(0.6)	FY13E	(0.4)	FY14E	(2.7)	FY15E	(4.2)	FY16E	11.4
P/CF	x	nfm	FY12E	nfm	FY13E	nfm	FY14E	nfm	FY15E	nfm	FY16E	2.1x
DPS	A¢	0.0	FY12E	0.0	FY13E	0.0	FY14E	0.0	FY15E	0.0	FY16E	0.0
Dividend yield	%	0.0%	FY12E	0.0%	FY13E	0.0%	FY14E	0.0%	FY15E	0.0%	FY16E	0.0%
Franking Level	%	0%	FY12E	0%	FY13E	0%	FY14E	0%	FY15E	0%	FY16E	0%
Book value per share		0.52	FY12E	0.50	FY13E	0.64	FY14E	0.61	FY15E	0.57	FY16E	0.66
P/Book value	x	0.5x	FY12E	0.5x	FY13E	0.4x	FY14E	0.4x	FY15E	0.4x	FY16E	0.4x
R.O.E. (pre sig items)	%	-3%	FY12E	-1%	FY13E	-1%	FY14E	-4%	FY15E	-8%	FY16E	6%
R.O.A. (pre sig items)	%	-4%	FY12E	-3%	FY13E	-1%	FY14E	-1%	FY15E	0%	FY16E	13%
Interest Cover	x	4.7x	FY12E	2.3x	FY13E	2.6x	FY14E	-0.3x	FY15E	0.0x	FY16E	2.6x
EBITDA per share	A\$ps	-0.02	FY12E	-0.01	FY13E	-0.01	FY14E	-0.01	FY15E	0.00	FY16E	0.24
EV/EBITDA	x	nfm	FY12E	nfm	FY13E	nfm	FY14E	nfm	FY15E	22.0x	FY16E	0.3x
EARNINGS												
Sales Revenue	A\$MM	0	FY12E	0	FY13E	0	FY14E	0	FY15E	15	FY16E	339
Other Revenue	"	0	FY12E	0	FY13E	0	FY14E	0	FY15E	0	FY16E	0
Total Revenue	"	0	FY12E	0	FY13E	0	FY14E	0	FY15E	15	FY16E	339
Operating costs	"	0	FY12E	0	FY13E	0	FY14E	(8)	FY15E	(187)	FY16E	(187)
Operational EBITDA	"	0	FY12E	0	FY13E	0	FY14E	7	FY15E	152	FY16E	152
Exploration Expense/Write-offs	"	(1)	FY12E	0	FY13E	0	FY14E	0	FY15E	0	FY16E	0
Corporate & Other Costs	"	(5)	FY12E	(3)	FY13E	(5)	FY14E	(5)	FY15E	(5)	FY16E	(5)
EBITDA	"	(6)	FY12E	(3)	FY13E	(5)	FY14E	2	FY15E	147	FY16E	147
D&A	"	(0)	FY12E	(0)	FY13E	0	FY14E	(1)	FY15E	(13)	FY16E	(13)
EBIT	"	(6)	FY12E	(4)	FY13E	(5)	FY14E	1	FY15E	134	FY16E	134
Net Interest	"	1	FY12E	2	FY13E	2	FY14E	(19)	FY15E	(39)	FY16E	(51)
Profit Before Tax	"	(5)	FY12E	(2)	FY13E	(3)	FY14E	(24)	FY15E	(38)	FY16E	83
Tax Expense	"	0	FY12E	0	FY13E	1	FY14E	7	FY15E	12	FY16E	(26)
Minorities	"	(0)	FY12E	0	FY13E	0	FY14E	(1)	FY15E	(32)	FY16E	(32)
Net Profit After Tax	"	(5)	FY12E	(2)	FY13E	(2)	FY14E	(16)	FY15E	(27)	FY16E	25
Significant Items (post tax)	"	(1)	FY12E	1	FY13E	0	FY14E	0	FY15E	0	FY16E	0
Reported NPAT	"	(5)	FY12E	(0)	FY13E	(2)	FY14E	(16)	FY15E	(27)	FY16E	25
CASHFLOW												
Operational Cash Flow	A\$MM	-2	FY12E	-2	FY13E	-5	FY14E	-5	FY15E	2	FY16E	147
Net Interest	"	1	FY12E	1	FY13E	2	FY14E	(19)	FY15E	(39)	FY16E	(51)
Tax Paid and Other	"	(0)	FY12E	(0)	FY13E	1	FY14E	7	FY15E	12	FY16E	(26)
Net Operating Cashflow	"	(2)	FY12E	(2)	FY13E	(2)	FY14E	(16)	FY15E	(26)	FY16E	70
Exploration	"	(7)	FY12E	(12)	FY13E	(7)	FY14E	(7)	FY15E	(7)	FY16E	(7)
Capital Expenditure	"	(9)	FY12E	(0)	FY13E	(254)	FY14E	(346)	FY15E	(269)	FY16E	(9)
Investments	"	(1)	FY12E	0	FY13E	0	FY14E	0	FY15E	0	FY16E	0
Sale of PPE and Other	"	(3)	FY12E	2	FY13E	0	FY14E	0	FY15E	0	FY16E	0
Net Investing Cashflow	"	(20)	FY12E	(9)	FY13E	(260)	FY14E	(353)	FY15E	(276)	FY16E	(16)
Dividends Paid	"	0	FY12E	0	FY13E	0	FY14E	0	FY15E	0	FY16E	0
Debt	"	0	FY12E	0	FY13E	200	FY14E	400	FY15E	0	FY16E	0
Equity Issuance	"	50	FY12E	0	FY13E	263	FY14E	0	FY15E	0	FY16E	0
Other	"	(8)	FY12E	(1)	FY13E	0	FY14E	0	FY15E	0	FY16E	0
Net Financing Cashflow	"	42	FY12E	(1)	FY13E	463	FY14E	400	FY15E	0	FY16E	0
Net change in cash	"	20	FY12E	(12)	FY13E	200	FY14E	31	FY15E	(302)	FY16E	54
BALANCE SHEET												
Cash & Equivalents	A\$MM	25	FY12E	12	FY13E	212	FY14E	243	FY15E	(59)	FY16E	(5)
PP&E & Mine Development	"	34	FY12E	34	FY13E	288	FY14E	634	FY15E	902	FY16E	898
Exploration	"	68	FY12E	80	FY13E	87	FY14E	94	FY15E	101	FY16E	107
Total Assets	"	140	FY12E	138	FY13E	598	FY14E	982	FY15E	955	FY16E	1,012
Debt	"	1	FY12E	1	FY13E	201	FY14E	601	FY15E	601	FY16E	601
Total Liabilities	"	5	FY12E	5	FY13E	205	FY14E	605	FY15E	605	FY16E	605
Total Net Assets / Equity	"	134	FY12E	132	FY13E	393	FY14E	376	FY15E	350	FY16E	407
Net Debt / (Cash)	"	(24)	FY12E	(11)	FY13E	(11)	FY14E	358	FY15E	660	FY16E	606
Gearing (net debt/(nd + equity))	%	(22%)	FY12E	(9%)	FY13E	(3%)	FY14E	49%	FY15E	65%	FY16E	60%
Gearing (net debt/equity)	%	(18%)	FY12E	(9%)	FY13E	(3%)	FY14E	95%	FY15E	188%	FY16E	149%
ATTRIBUTABLE MINE STATS												
Coal Production (equity)		FY11	FY12E	FY13E	FY14E	FY15E	FY16E					
Boikarabelo (74%)	mt	0.0	0.0	0.0	0.0	0.2	3.5					
Total coal production	mt	0.0	0.0	0.0	0.0	0.2	3.5					
Coal Sales (equity)												
SSCC	mt	0.0	0.0	0.0	0.0	0.0	0.0					
Thermal - Export	mt	0.0	0.0	0.0	0.0	0.1	1.8					
Thermal - Domestic	mt	0.0	0.0	0.0	0.0	0.1	1.8					
Total coal sales	mt	0.0	0.0	0.0	0.0	0.2	3.5					
Avg Cash Price Realised	US\$/t	0.0	0.0	0.0	0.0	63.1	62.3					
Avg Cash Cost	US\$/t	0.0	0.0	0.0	0.0	34.4	34.2					
Cash Margin	US\$/t	0.0	0.0	0.0	0.0	28.7	28.1					
RESERVES AND RESOURCES (Mt)												
		Resources	Reserves	EV/t Resource								
Waterberg #1 SW		426	314	0.01								
Waterberg #1 NE		552	-									
Witkopje S & Kalkpan		664	431	EV/t								
Draai Om		791	-	Reserve								
Witkopje N		688	-									
Total		3122	745	0.05								
ATTRIBUTABLE PRODUCTION AND CASH COST PROFILE												
		FY11	FY12E	FY13E	FY14E	FY15E	FY16E					
Boikarabelo (74%)	mt	0.0	0.0	0.0	0.0	0.2	3.5					
Avg Cash Cost	US\$/t	0.0	0.0	0.0	0.0	34.4	34.2					
Avg Cash Price Realised	US\$/t	0.0	0.0	0.0	0.0	63.1	62.3					
CASHFLOW												
	A\$m	FY11	FY12E	FY13E	FY14E	FY15E	FY16E					
Net Op Cashflow		-2	-2	-5	-5	2	147					
Net Inv Cashflow		(20)	(9)	(260)	(353)	(276)	(16)					
Dividends		0	0	0	0	0	0					
Debt		0	0	200	400	0	0					
Equity		50	0	263	0	0	0					
Net Debt		42	(1)	463	400	0	0					
EQUITY DCF VALUATION												
Projects		A\$MM	A\$ps									
Boikarabelo (74%)		316	1.20									
Corporate		-23	-0.09									
Net Cash / (Debt)		11	0.04									
Net Equity Value (@ 8% real d.r.)		304	1.16									
Shares on issue (m)		263	0.2x									

Source: Company data, RBC Capital Markets estimates



Valuation

Our NAV for the Stage 1, 6mtpa development is A\$1.16. We model a more conservative development path than management forecasts: we incorporate US\$800m capex vs. the targeted US\$750m, and we also assume a 12-month delay to startup, with first coal from Q2 2015. In setting our price target, we consider the need for an equity raising. We adjust our base case NAV to incorporate the dilutive effects of a \$350m raising at \$0.75 per share. While this is at a premium to the current share price, we consider that by the time a potential equity raising is required RES will have completed its rail agreements, Eskom offtake, approvals, BFS and debt funding, and as such will be materially de-risked, which would be expected to see the share price trade higher. Furthermore, given the degree of risk that remains with the project in terms of timeline, capex, and development hurdles, we set our price target at a 25% discount to our equity-raising-adjusted NAV. This is a greater-than-usual discount for development projects in our bulk commodities coverage universe, reflecting a view that the market is likely to more heavily discount the project given that it is in South Africa.

Price Target Impediment

As with all mining companies, world economic growth, commodity prices, and currency fluctuations could materially affect Resource Generation's earnings and valuation. There is also material development risk, with a possibility that the project takes longer and costs more to develop than management estimates. Infrastructure access poses a risk for Resource Generation: without rail-haulage agreements, it will not be able to get its product to market, undermining the project's viability. A sales agreement with Eskom will also be key to underpinning the economic viability of the project, and this is yet to be secured. In addition, the mining rights, water usage, and rail development approval are yet to be granted.

Company Description

Resource Generation is developing the Boikarabelo thermal coal project in the Waterberg coal fields, 300km north of Johannesburg, South Africa. The resource is substantial at 3bt. Stage 1 targets production of 6mtpa, split between 3mtpa export thermal coal and 3mtpa domestic thermal coal sales. Capital costs are estimated at \$552m and at this stage are unfunded. Operating costs are forecast to be extremely favourable; we estimate an overall average unit cost of approximately US\$33/t, benefiting from 0.6:1 strip ratios. The development is at an advanced stage, with the majority of work done and final approvals anticipated over the next three to six months. Offtake has been arranged for 1.5mt of the export coal, a port allocation is in place, and a domestic sales agreement with Eskom is under negotiation as is a rail-haulage agreement with Transnet. Longer-term, RES envisages a substantial expansion to 18mtpa production.

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An analyst involved in the preparation of this report has visited certain material operations of Resource Generation Ltd..

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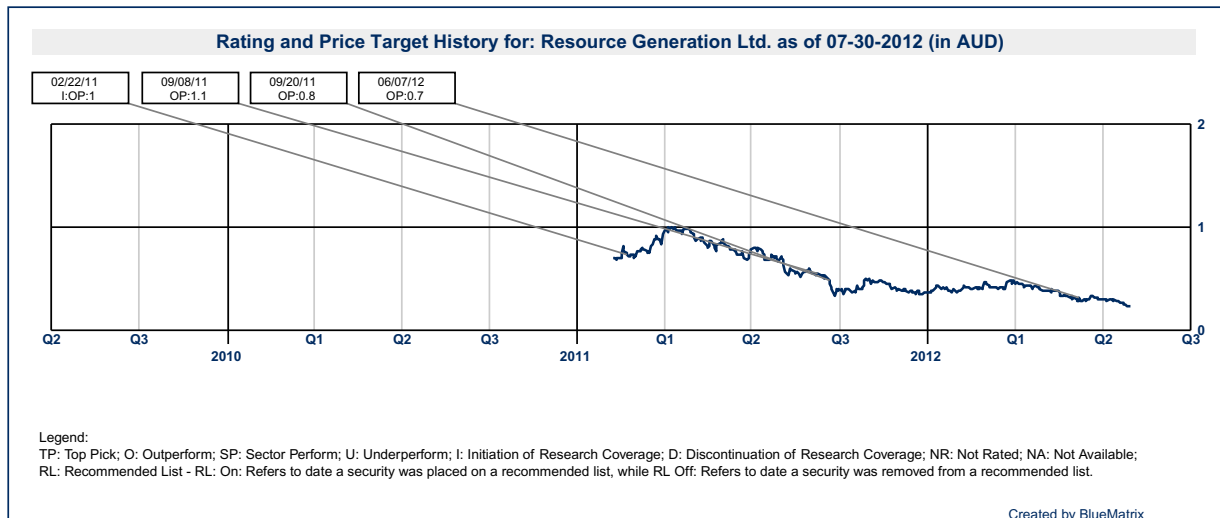
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