



Resource Generation (RES)

Transnet Deal Now Sealed... Happy Days Ahead

BUY

Risk: HIGH

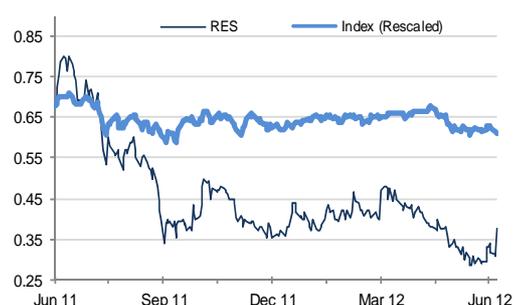
Key Information

Price (\$)	0.38
Target Price (\$)	0.90
Market Cap (\$M)	98.6
GICS Sector	Materials
52 week Hi-Lo (\$)	0.81 - 0.28
Daily Vol (M, mth avg)	0.2
Weight of S&P 200 Index (%)	0.0
Cash (\$M)	19.1
Debt (\$M)	0.8
Gearing [ND/(ND+E)] (%)	0.0
Forecast Total Return (%)	140.0

Investment Fundamentals

YE 30 June	2011A	2012F	2013F	2014F
Revenue (\$M)	0.0	0.0	0.0	0.0
EBITDA (\$M)	-6.2	-6.2	-7.2	-9.2
Net Attrib Profit	-5.3	-4.9	-6.2	-9.6
Reported Profit	-5.3	-4.9	-6.2	-9.6
EPS (cps)	-2.6	-1.9	-2.4	-3.7
P/E (x)	nm	nm	nm	nm
EPS Growth (%)	-0.1	-0.3	0.3	0.5
CFPS (cps)	-1.0	-1.7	-2.0	-2.8
P/CF (x)	nm	nm	nm	nm
DPS (cps)	0.0	0.0	0.0	0.0
Dividend Yield	0.0	0.0	0.0	0.0
EV/EBITDA (x)	nm	nm	nm	nm
Franking (%)	0.0	0.0	0.0	0.0

RES vs S&P/ASX Market Index



Performance	1 Mth	3 Mth	12 Mth
Absolute (RES) (%)	13.6	-21.9	-44.9
Rel to Market (%)	13.8	-15.4	-35.0

Major Shareholders

	%
Integrated Coal Mining	11.6
Scodella Inc	6.6
UCA Funds Management	6.3
Commonwealth Bank of Australia	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 has announced that it has signed the Transnet Freight Rail (TFR) contract overcoming a major hurdle for obtaining project finance.

Highlights

- **The importance of this contract:** TFR is the monopoly operator for rail haulage in South Africa and is majority owned by the government. RES, through its subsidiary Ledjadja Coal signed a Memorandum of Understanding (MOU) with TFR on 26th October 2011, however, this MOU needed to be converted into a firm haulage contract for RES to be able to obtain project financing by banks who have shown interest in the Boikarabelo open-cut coal mine project.

- **Terms of the contract:** Following are the terms of the haulage contract:

- The contract is a take-or-pay contract with an initial term of 10 years with a provision to extend for a further 10 years.
- The contract allows for 4Mt in the first year, increasing to 5Mt in the second year and then to 6Mtpa thereafter.
- Should Eskom decide to sign an off take agreement with RES and choose to contract the capacity directly with TFR (which is Eskom's intention) for the proposed domestic purchases (presently under negotiation), the take-or-pay quantities in the contract between RES and TFR would reduce to the export tonnage only.
- In terms of tariff, the contract specifies an indicative tariff for the current year. The actual tariff would be determined by negotiation.
- The contract is conditional on Ledjadja Coal completing a 36km rail link to the existing rail network.
- The contract is conditional on TFR completing its processes to determine a fair and equitable allocation of rail capacity to all interested parties in the Waterberg region. If this this review is not completed by 31st Dec 2012, the condition is automatically waived making the above stated tonnage a firm commitment.

- **Where to from here?** Having cleared the major hurdle of signing a contract with TFR, RES now looks set to close the Eskom deal and the project financing for project.

Recommendation

We believe that RES has crossed a major hurdle by signing this contract and we are of the opinion that the Eskom deal should soon follow, clearing the way for project financing. **We maintain our BUY recommendation with a price target of \$0.90.**

Refer to disclaimer on last page

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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