



Resource Generation Announces Take-or-Pay Haulage Deal with Transnet

Trading Indicator : **positive**

Posted by Chris Drew on Tuesday, June 26 2012, 7:25 PM ET

Resource Generation has signed a 10-year, 6Mtpa take-or-pay haulage agreement with Transnet. While there are some conditions to be worked through, this is a very significant contract for Resource Generation. With all regulatory approvals in place, this haulage agreement was the key remaining hurdle. Resgen will now turn to securing financing for the project; discussions with debt providers are well advanced. Resgen hopes to commence construction later this year or early 2013. An offtake agreement with Eskom remains to be signed on the domestic sales; however, this is not required for financing (and is a minor risk, in our view). Terms include:

- The contract is for 10 years with an option to extend a further 10 years.
- Volumes lift from 4Mt in year 1, 5Mt in year 2, then 6Mt from year 3 onwards.
- Eskom may negotiate access with Transnet directly, in which case Resgen's allocation will fall to the export volumes only (planned for 3Mtpa).
- The tariff is indicative only at this stage and will be renegotiated annually.
- Resgen is required to construct the 36km spur to the network (as planned).
- The allocation is also conditional upon Transnet's completing a review to determine the allocation of capacity to Waterberg users; if not completed by December 2012, the allocation to Resgen becomes firm.

The indicative and annually renegotiated tariff and the allocation being conditional upon the Transnet review of Waterberg allocations do leave some question marks going forward. Nevertheless, we believe this is a clear step in the right direction for Resgen and should enable the project to move forward. We maintain our Outperform, Speculative Risk rating and A\$0.70 price target (ASX: RES, A\$0.31).

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