

AUSTRALIA

RES AU

Outperform

Price (at CLOSE#, 14 May 2012)

A\$0.38

Volatility index		High
12-month target	A\$	0.65
12-month TSR	%	+73.3
Valuation	A\$	0.56
- DCF (WACC 13.9%, beta 1.3, ERP 6.0%, RFR 8.0%)		
GICS sector		Energy
Market cap	A\$m	99
30-day avg turnover	A\$m	0.1
Number shares on issue	m	262.9

Investment fundamentals

Year end 30 Jun		2011A	2012E	2013E	2014E
Revenue	m	0.0	0.0	0.0	0.0
EBIT	m	-6.3	-4.5	-5.1	-5.2
Reported profit	m	-5.1	-1.7	-2.5	-9.2
Adjusted profit	m	-5.1	-1.7	-2.5	-9.2
Gross cashflow	m	-5.0	-1.6	-3.4	-12.4
CFPS	¢	-2.3	-0.6	-1.3	-4.8
CFPS growth	%	-10.4	72.3	-109.2	-262.7
EPS adj	¢	-2.3	-0.7	-1.0	-3.6
EPS adj growth	%	-9.7	71.3	-45.9	-262.7
Total DPS	¢	0.0	0.0	0.0	0.0
Total div yield	%	0.0	0.0	0.0	0.0
ROA	%	-5.4	-3.3	-2.0	-0.9
ROE	%	-4.6	-1.3	-2.0	-7.4
EV/EBITDA	x	-9.9	-17.2	-15.0	-14.7
Net debt/equity	%	-18.2	-14.0	176.2	606.2
P/BV	x	0.6	0.7	0.8	0.8

RES AU vs Small Ordinaries, & rec history



Note: Recommendation timeline - if not a continuous line, then there was no Macquarie coverage at the time or there was an embargo period.

Source: FactSet, Macquarie Research, May 2012
(all figures in AUD unless noted)

Analyst(s)

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16 May 2012

Resource Generation In Transnet Freight Rail's hands

Investment positives

- **Large, shallow resource:** RES has a 3.1bn tonne resource, under only 20m of overburden, enabling the use of low-cost opencast mining.
- **Off-take agreements in place for export coal:** The company has secured off-take agreements for majority of its expected export thermal coal production with two Indian groups, Integrated Coal Mining Limited and Bhushan Steel.
- **Significant regulatory approvals secured:** RES has secured the major regulatory approvals required to proceed with development including:
 - ⇒ A new order mining right;
 - ⇒ National Environmental Management Act approval; and
 - ⇒ An Integrated Water Use Licence.
- **Memorandum of Understanding (MoU) with Transnet Freight Rail (TFR):** The MoU covers stage 1's volumes. RES is also negotiating a bankable haulage contract.

Investment negatives

- **Potential project delay:** The company's project funding hinges on securing a rail haulage contract with TFR. While RES has a MoU in place with TFR, its funding is conditional on securing a bankable contract. Any delay in obtaining the contract could delay the start of development.
- **No domestic supply agreement as yet:** Boikarabelo will produce a secondary, middlings product which can be sold to Eskom or an independent power producer. The sale of this product would improve the project economics. RES is currently in negotiations with Eskom.
- **Dilution from equity raising:** Significant capital will be required to develop Boikarabelo resulting in the need to issue additional equity.

Earnings revisions

The commodity price changes have had limited impact on RES's earnings profile: FY12E: -A\$c0.67 (0%), FY13E: -A\$c0.98 (0%) and FY14E: -A\$c3.56 (+15%). The stronger long-term R/US\$ has, however, had a significant impact on the valuation resulting in a reduction in our target price to A\$0.65/sh (from A\$0.75).

Target price and recommendation

RES has made good progress over the last 12 months in advancing the Boikarabelo project including addressing the various regulatory approvals required and entering into a MoU with TFR. To proceed with the finalisation of funding RES need to secure a rail haulage contract with TFR. Maintain Outperform, target price of A\$0.65 per share.

Price Catalysts

- Conclusion of a rail haulage contract with TFR. Securing of a domestic supply agreement with Eskom.

Fig 1 Financials

Resource Generation (RES AU / RSG SJ)						Share price:	0.38																																																																					
						Target price:	0.65																																																																					
Profit and loss						Production																																																																						
	FY11A	FY12E	FY13E	FY14E	FY15E	FY11A	FY12E	FY13E	FY14E	FY15E																																																																		
Sales	A\$m	0	0	0	0	67																																																																						
Production costs	A\$m	1	0	0	0	44	Coal production																																																																					
EBITDA	A\$m	(1)	0	0	0	23	Saleable production	mt	0.0	0.0	0.0	0.0	1.0																																																															
Depreciation and amortisation	A\$m	0	0	0	0	24	Export	mt	0.0	0.0	0.0	0.0	0.0	0.5																																																														
Other income/(expenses)	A\$m	(6)	(4)	(5)	(5)	(5)	Eskom	mt	0.0	0.0	0.0	0.0	0.0	0.5																																																														
EBIT	A\$m	(6)	(5)	(5)	(5)	(7)	Key assumptions	FY11A	FY12E	FY13E	FY14E	FY15E																																																																
Net interest income/(expense)	A\$m	1	2	0	(12)	(35)	SA Richards Bay FOB	US\$/t	108.28	108.55	105.50	95.50	90.75																																																															
Profit before tax	A\$m	(5)	(3)	(5)	(17)	(42)	ZAR/US\$		7.03	7.74	8.29	8.65	8.84																																																															
Taxation	A\$m	0	1	1	5	12	Ratio analysis	FY11A	FY12E	FY13E	FY14E	FY15E																																																																
Profit after tax	A\$m	(5)	(2)	(3)	(12)	(30)	EBITDA margin	%	-4260%	N/A	N/A	N/A	35%																																																															
Non-controlling interests	A\$m	0	0	(1)	(3)	(8)	Operating margin	%	-41853%	N/A	N/A	N/A	-10%																																																															
Reported Net Profit	A\$m	(5)	(2)	(3)	(9)	(22)	Price Earnings	x	N/A	N/A	N/A	N/A	N/A																																																															
Profit growth	A\$m	55%	-66%	46%	263%	142%	Dividend Yield	%	0%	0%	0%	0%	0%																																																															
Effective tax rate	%	0%	35%	28%	28%	28%	EV/EBITDA	x	0	N/A	N/A	N/A	39																																																															
EPS adjusted	A\$c	(2)	(1)	(1)	(4)	(9)	ROE	%	-4%	-1%	-2%	-8%	-26%																																																															
EPS growth	%	10%	-71%	46%	263%	142%	ROA	%	-4%	-1%	-1%	-1%	-2%																																																															
DPS	A\$c	0	0	0	0	0	Gearing (debt/equity)	%	1%	1%	197%	609%	1000%																																																															
Cash Flow						Sensitivities																																																																						
	FY11A	FY12E	FY13E	FY14E	FY15E		Coal pricing																																																																					
Cash generated from operations	A\$m	(2)	(2)	(2)	(2)	16	Valuation		-10%	-5%	Base case	+5%	+10%																																																															
Net interest	A\$m	1	1	0	(12)	(35)			0.21	0.38	0.56	0.74	0.91																																																															
Tax paid	A\$m	(0)	(1)	(1)	(5)	(12)	Discount rate																																																																					
Dividends paid	A\$m	0	0	0	0	0	Valuation		11.9%	12.9%	Base case	14.9%	15.9%																																																															
Operating cash flow	A\$m	(2)	(3)	(3)	(19)	(30)			1.12	0.81	0.56	0.35	0.17																																																															
Capital expenditure	A\$m	(9)	(2)	(238)	(454)	(73)	Figure 1: Thermal Production (mt)																																																																					
Investing cash flow	A\$m	(454)	(73)	(21)	(181)	(151)																																																																						
Debt drawdown/(repayment)	A\$m	0	0	250	450	150	<table border="1"> <caption>Estimated Thermal Production Data (mt)</caption> <thead> <tr> <th>Fiscal Year</th> <th>Export Thermal (mt)</th> <th>Domestic Thermal (mt)</th> <th>Total Thermal (mt)</th> </tr> </thead> <tbody> <tr><td>FY11A</td><td>0</td><td>0</td><td>0</td></tr> <tr><td>FY12E</td><td>0</td><td>0</td><td>0</td></tr> <tr><td>FY13E</td><td>0</td><td>0</td><td>0</td></tr> <tr><td>FY14E</td><td>0</td><td>0</td><td>0</td></tr> <tr><td>FY15E</td><td>0</td><td>0</td><td>0</td></tr> <tr><td>FY16E</td><td>0</td><td>0</td><td>0</td></tr> <tr><td>FY17E</td><td>0</td><td>0</td><td>0</td></tr> <tr><td>FY18E</td><td>0</td><td>0</td><td>0</td></tr> <tr><td>FY19E</td><td>0</td><td>0</td><td>0</td></tr> <tr><td>FY20E</td><td>0</td><td>0</td><td>0</td></tr> <tr><td>FY21E</td><td>0</td><td>0</td><td>0</td></tr> <tr><td>FY22E</td><td>0</td><td>0</td><td>0</td></tr> <tr><td>FY23E</td><td>0</td><td>0</td><td>0</td></tr> <tr><td>FY24E</td><td>0</td><td>0</td><td>0</td></tr> <tr><td>FY25E</td><td>0</td><td>0</td><td>0</td></tr> </tbody> </table>						Fiscal Year	Export Thermal (mt)	Domestic Thermal (mt)	Total Thermal (mt)	FY11A	0	0	0	FY12E	0	0	0	FY13E	0	0	0	FY14E	0	0	0	FY15E	0	0	0	FY16E	0	0	0	FY17E	0	0	0	FY18E	0	0	0	FY19E	0	0	0	FY20E	0	0	0	FY21E	0	0	0	FY22E	0	0	0	FY23E	0	0	0	FY24E	0	0	0	FY25E	0	0	0
Fiscal Year	Export Thermal (mt)	Domestic Thermal (mt)	Total Thermal (mt)																																																																									
FY11A	0	0	0																																																																									
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FY25E	0	0	0																																																																									
Equity financing & other	A\$m	42	(1)	(1)	0	0																																																																						
Financing cash flow	A\$m	42	(1)	249	450	150																																																																						
Net cash flow	A\$m	20	(5)	7	(23)	46																																																																						
Free cash flow	A\$m	(12)	(4)	(242)	(473)	(104)																																																																						
Balance Sheet																																																																												
	FY11A	FY12E	FY13E	FY14E	FY15E																																																																							
Cash	A\$m	25	19	26	3	50																																																																						
Current assets	A\$m	26	20	26	10	86																																																																						
Fixed assets	A\$m	102	105	344	798	846																																																																						
Other assets	A\$m	11	11	12	12	12																																																																						
Total assets	A\$m	140	136	382	820	944																																																																						
Current liabilities	A\$m	1	2	2	1	6																																																																						
Total liabilities	A\$m	5	5	255	704	859																																																																						
Non-controlling interests	A\$m	0	0	(1)	(4)	(12)																																																																						
Shareholder equity	A\$m	134	131	127	115	85																																																																						
Total debt	A\$m	1	1	251	701	851																																																																						
Net debt/(cash)	A\$m	(24)	(18)	225	697	801																																																																						
Working capital	A\$m	0	(0)	0	0	4																																																																						
Average weighted shares	000's	216,510	257,896	257,896	257,896	257,896																																																																						

Source: Company data, Macquarie Research, May 2012