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Macquarie First South Securities Research



The Global Oil & Gas Specialist

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Stock:	RES AU
Name:	Resource Generation
Price:	A\$0.40 (at 23:59, Mar 23, 12 GMT)
Market Cap (m):	A\$105
Current valuation (DCF):	A\$0.64
12mth price target:	A\$0.75
Recommendation:	Outperform
Volatility index:	High

Event

- Resource Generation (RES) has received National Environmental Management Act (NEMA) approval for its Boikarabelo Mine, in the Waterberg.

Impact

- Mine construction receives the environmental go-ahead.** The Limpopo Department of Economic Development, Environment and Tourism has issued RES with its NEMA approval. The approval allows the company to proceed with construction of the mine, related infrastructure and the required 36km rail link. RES has already received a new order mining right for the project so the receipt of an Integrated Water Use Licence remains the key outstanding regulatory approval required.
- Focus now on finalising funding.** The securing of a rail contract with Transnet Freight Rail (TFR) is fundamental to finalising funding for the Boikarabelo project and allowing construction to commence. Management has noted that discussions with TFR have been constructive and RES submitted a draft long-term haulage contract to TFR late last year. With TFR being more vocal around its plans for the Waterberg it seems the area is receiving significantly more attention. At the recent *Macquarie Public Sector Infrastructure Conference* in South Africa, Transnet detailed its short, medium and long-term development plans for the Waterberg feeder rail development. It noted that a Feasibility Study was underway to evaluate increasing capacity from the Waterberg from the current 6mtpa to 24mtpa (through incremental upgrades to the existing line) and that a concept study had been completed on constructing a new heavy haul line from Lephalale to Ermelo.

Action and recommendation

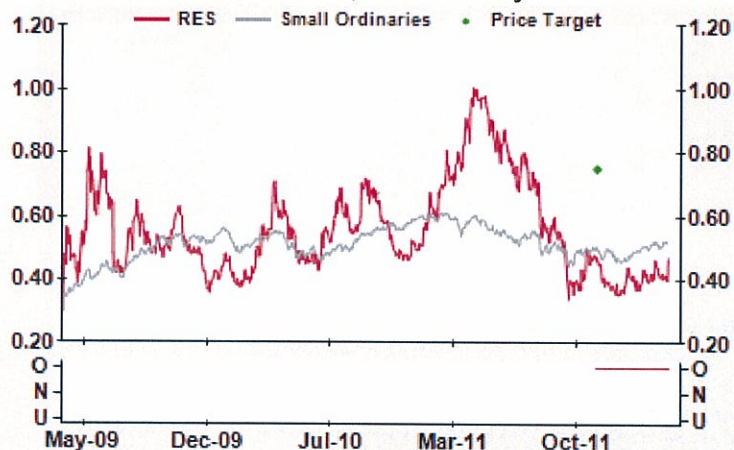
- We rate RES Outperform, target price of A\$0.75 per share. Receipt of the NEMA approval represents another positive step towards the realisation of the Boikarabelo Mine. The concluding of a TFR rail haulage contract, however, remains the key catalyst in our opinion, allowing the flow of funding and the commencement of construction to begin.

June		2011A	2012E	2013E	2014E
Sales revenue	m	0.0	0.0	0.0	0.0
EBITDA	m	-6.2	-4.4	-5.1	-5.2
EBIT	m	-6.3	-4.5	-5.1	-5.2
EBIT growth	%	-48.2	27.7	-12.2	-2.2
Recurring profit	m	-5.1	-2.7	-4.7	-15.0
Adjusted profit	m	-5.1	-1.7	-2.5	-8.0
EPS adj	¢	-2.3	-0.7	-1.0	-3.1
EPS adj growth	%	-9.7	71.3	-45.9	-214.9
PE adj	x	nmf	nmf	nmf	nmf
Total DPS	¢	0.0	0.0	0.0	0.0
Total div yield	%	0.0	0.0	0.0	0.0
Franking	%	nmf	nmf	nmf	nmf
EV/EBITDA	x	-10.8	-18.7	-16.3	-15.9
GCFPS	¢	-2.3	-0.6	-1.3	-4.2
PGCFPS	x	nmf	nmf	nmf	nmf
Net debt/equity	%	-18.2	-14.0	146.1	503.7
Price/book	x	0.6	0.8	0.8	0.9

*All values are in AUD unless otherwise stated.

Source: Company data, Macquarie Research, Mar 2012.

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, March 2012

(all figures in AUD unless noted)

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23 March 2012

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