



Stock:	RES AU
Name:	Resource Generation
Price:	A\$0.40
Market Cap (m):	A\$105
Current valuation (DCF):	A\$0.66
12mth price target:	A\$0.75
Recommendation:	Outperform
Volatility index:	Very High

Event

- ? Resource Generation (RES) released its 2Q12 quarterly report.

Impact

- ? **Draft haulage contract submitted to Transnet Freight Rail (TFR).** RES signed a Memorandum of Understanding (MOU) with TFR on 26 October 2011 which provided for sufficient rail to meet its stage 1 rail requirements. The haulage agreement is, however, subject to various conditions. These include: TFR completing its Waterberg feasibility study, the completion of the requisite rail upgrades and rail links, Boikarabelo starting production, and formal allocation of capacity by TFR. RES's submission of a draft long-term haulage agreement to TFR on 18 November 2011 represents a push by the company to convert the MOU to a contractual arrangement. TFR's recent statements around the Waterberg and its plans to create a heavy-haul line from the Waterberg mean that the project is definitely getting more attention. This is positive but *does not* represent definitive plans which are key to RES securing a formal haulage contract with TFR.
- ? **Stage 2 water requirements secured.** RES has entered into an agreement with the Lephalale Local Municipality (LLM) to construct a wastewater treatment plant at Marapong. The plant will generate sufficient water to meet the requirements of stage 2 of Boikarabelo. This is in accordance with the company's social and labour plan.
- ? **Progressing regulatory approvals.** The company has submitted both NEMA and IWUL applications and is currently awaiting approval from the relevant departments.
- ? **Debt funding remains conditional.** Whilst potential funders continue to show good interest in providing project finance for the Boikarabelo project. Funding remains conditional on the securing of a rail haulage contract with TFR and a domestic supply agreement with Eskom.
- ? **Cash balance decreased.** At 31 December 2011 RES had a cash balance of A\$21m (30 June 2011: A\$25m).

Action and recommendation

- ? We have an Outperform recommendation, target price of A\$0.75 per share. While RES is making progress on various fronts including signing an MOU with TFR, advancing the regulatory approvals and securing its stage 2 water requirements, the key progress items (a rail haulage contract with TFR and the securing of a domestic supply agreement with Eskom) remain outstanding. These items are key to the flow of funding for the project.

June		2011A	2012E	2013E	2014E
Sales revenue	m	0.0	0.0	0.0	0.0
EBITDA	m	-6.2	-3.7	-5.4	-5.5
EBIT	m	-6.3	-3.7	-5.4	-5.5
EBIT growth	%	-48.2	40.6	-44.1	-2.1
Recurring profit	m	-5.1	-3.3	-5.0	-15.2
Adjusted profit	m	-5.1	-1.7	-2.7	-8.1
EPS adj	¢	-2.3	-0.7	-1.0	-3.1
EPS adj growth	%	-9.7	71.1	-53.5	-203.5
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	-10.1	-21.1	-14.6	-14.4
GCFPS	¢	-2.3	-0.9	-1.4	-4.3
PGCFPS	x	nmf	nmf	nmf	nmf
Net debt/equity	%	-18.2	-14.5	145.4	501.6
Price/book	x	0.6	0.8	0.8	0.8

*All values are in AUD unless otherwise stated.

Source: Company data, Macquarie Research, Jan 2012.

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

Analyst(s)

January 27, 2012

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