

# Leyland Lines

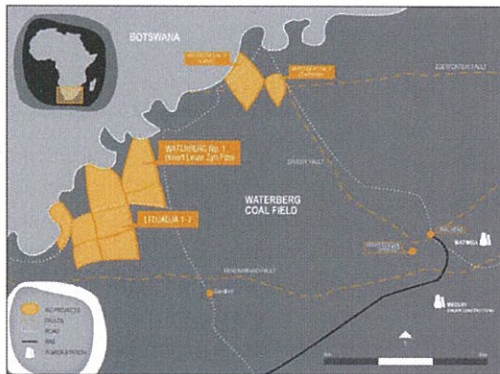
MARKET UPDATE

## Resource Generation (RES)

Price: \$0.405  
Market Cap: \$107.8m

Resource Generation is not the type of company Leyland normally invests in, or even considers. However, we have had previous dealings with the CEO, Paul Jury and have great respect for his ability to bring projects online.

The Boikarabelo coal mine in the Waterberg region contains the largest remaining coal deposits in South Africa. The Boikarabelo mine has probable reserves of 744.8 million tonnes of coal on 35% of the tenements under the company's control.



Map: Waterberg Coal Field South Africa

The company's tenements are held in two joint ventures being:

Ledjadja Coal- in which the Resource Generation has a 74% interest, with the remaining 26% held by its Black Economic Empowerment partner ( BEE, which will be further discussed);

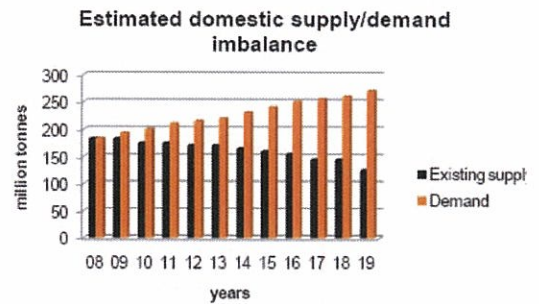
Waterberg One Coal- in which the company has a 70% interest with the balance held by a different BEE partner.

### Demand for Coal

Whilst the headlines of the newspapers disparage the use of coal, the inexorable increase in demand for power over the next 20-50 years highlights the fact that coal is unlikely to become a redundant power source in the foreseeable future.

Not only is there significant demand growing from countries such as China and India, the demand for power from mature countries also remains strong.

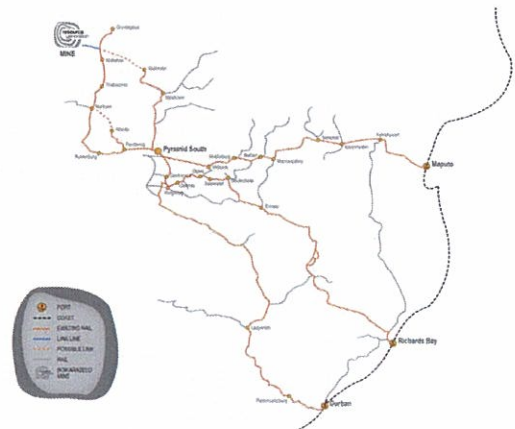
The graph below highlights the supply/demand imbalance in South Africa alone.



### Event

A major concern the market has had regarding Resource Generation is that whilst they have an undoubted vast reserve of coal, the logistics of exactly how they would deliver their coal to ports was cloudy.

Recently the company signed a Memorandum of Understanding (MOU) with Transnet Freight Rail (TFR) for the rail transport of coal from the Boikarabelo project. Consensus view is that now this process is under way, a supply contract from a company called Eskom will be imminent to supply their power stations in Mpumalanga. It will also allow Resource Generation to export coal via Maputo, Richard's Bay and/or Durban (see rail accessibility map below).



Ma: Rail Accessibility



# Leyland Lines

MARKET UPDATE

## Resource Generation (RES) cont'd

### In Favour

The key reasons the company looks attractive are as follows:

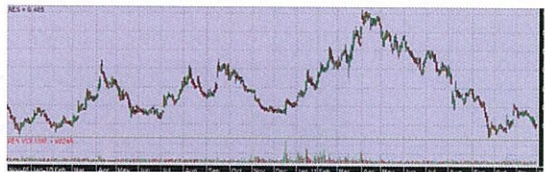
- Large, shallow resource allowing for low cost opencast mining;
- The company has already been awarded a mining right for the Boikarabelo project and owns the surface rights over the planned mining area;
- Off-take agreements are in place to export coal with ICML (a 7% shareholder in RES) and Bhushan Steel for the majority of the coal from Stages 1 & 2 of the Boikarabelo project to be shipped to the respective companies' operations in India;
- The aforementioned MOU signed with TFR is a fundamental pillar in Resource Generation's investment case;
- By virtue of the joint ventures the company has signed, they have met all the requirements of the Black Economic Empowerment legislation whereby all mining assets must be 26% black-owned by 2014.

### Risks

- Whilst the MOU signed with TFR is significant, it is not fully binding as yet. Also concerning is that the requisite coal

railing capacity is not currently in place and thus TFR need to make a significant capital investment to resolve this. Whilst the intention is to put the railing capacity in place, it may take some time

- Falling coal price
- Key person risk
- Sovereign risk (racial dynamics in South Africa can change quickly).



The current market capitalisation of Resource Generation is only \$107 million. The above mentioned mainly short-term risks are the reason this company is trading at an extraordinary discount considering the tonnes of coal in the ground and potential long term earnings from their massive mine. For investors willing to invest in a company which is higher risk, but offers the prospect of significant returns over the next five years, we believe this is a very exciting proposition on a risk/return basis.

## NO TIME TO RUN YOUR SELF MANAGED SUPER FUND?

### Leave the worry to us: Leyland Individually Managed Accounts

One of the biggest challenges for those people with Self-Managed Super Funds (SMSF) is finding the time to manage investments wisely to gain the best possible return on those investments.

Most investors want to maintain overall control, but recognise that their time and market knowledge sometimes limits their investment returns.

**Please contact Leyland Private Asset Management if you would like to talk further about us managing your super fund equity investments.**