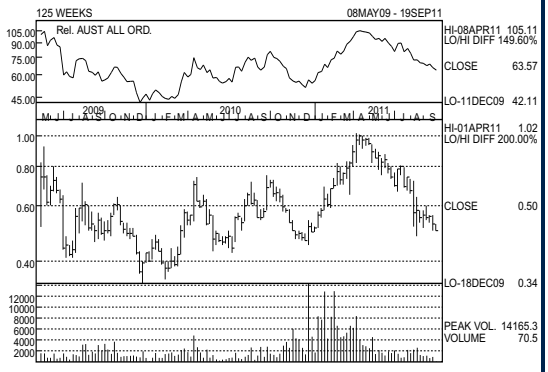

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FY Jun	2011A	2012E	2013E
Adj EPS - Basic	(0.02)	(0.01)	(0.00)
Prev.			(0.01)
P/AEPS	NM	NM	NM
Cash Cost	NA	NA	NA
Prod.	0	0	0

All values in AUD unless otherwise noted.

PRICE TARGET REVISION | COMMENT

SEPTEMBER 20, 2011

Resource Generation Ltd. (ASX: RES)

Update on Boikarabelo - Capex up and timing at risk

Outperform
Speculative Risk

Price:	0.48	**Price Target:**	0.80 ↓ 1.10
		Implied All-In Return:	67%
Shares O/S (MM):	257.9	**Market Cap (MM):**	124
Dividend:	0.00	**Yield:**	0.0%
NAVPS:	1.55	**P/NAVPS:**	0.3x
BVPS:	0.52	**P/BVPS:**	0.9x

Major shareholders: Integrated Coal Mining 11.6%
Priced as of market close Australian EDT, Sept 20, 2011.

Event

Resource Generation has provided an update on its Boikarabelo project.

Investment Opinion

Resource Generation has announced increased capital costs for its Boikarabelo project, increasing from $552m to $750m; we had forecast $700m. The increased capex stems primarily from inclusion of a power station, adding $100m, as well as increased wash plant costs, and contingency. RES noted that there has been progress with its water usage license and environmental approvals, both of which it now expects to receive by year-end. Discussions with Transnet for rail access continue to stall and place the broader timetable at risk, with first production unlikely until H1 2014, delayed from H2 2013 (RBCe was for a Q4 2014 startup). We continue to see value in RES; however, finalising the Transnet haulage and Eskom offtake agreements remain key to realising value.

Boikarabelo capital costs increased: The decision to build its own power plant has added $100m to the capex; increased wash plant costs, EPCM charges and a higher contingency drive the balance of the higher figure. We now forecast $850m capex, above the targeted $750m as we continue to adopt more conservative estimates than RES.

Delayed agreements test timetable: Continued delays to finalising a Transnet agreement means construction is unlikely to start until well into 2012. This will push the targeted date for first coal from late 2013 into H1 2014. We had forecast a Q4 2014 startup, and we now forecast a Q2 2015 startup.

Revised valuation: We had already been assuming more conservative capex and timing than the company, so this update is broadly in line with our expectations. We do, however, push our capex up and timetable out to remain more conservative than management. These changes lower our NAV from A$1.79 to A$1.55.

Maintain Outperform; price target dropped from A$1.10 to A$0.80: Higher capex and delayed startup lower our NAV. Given the higher capex assumption we also now assume a larger, and thus more dilutive equity raising. Overall, our price target, which adjusts our NAV for an equity raising, has fallen from A$1.10 to A$0.80.

Exhibit 1: Summary financials

Resource Generation

ASX: RES	Share Price: (A$ps)	0.48	Year end:	Jun	Stock Rating:	Outperform	Price Target:	A$0.80
	Mkt Cap: (A$MM)	244	Issued shares (m)	508	Risk Qualifier:	Speculative	NAV:	A$1.55

ASSUMPTIONS		FY11	FY12E	FY13E	FY14E	FY15E	FY16E
Exchange Rate	A$/US$	0.99	1.02	0.98	0.94	0.91	0.85
Exchange Rate	US$/ZAR	7.00	7.10	7.18	7.38	7.50	7.75
Thermal coal (FY avg)	US$/t	106	126	111	98	90	90
Coking coal (FY avg)	US$/t	189	184	140	123	115	113

RATIO ANALYSIS		FY11	FY12E	FY13E	FY14E	FY15E	FY16E
Shares on issue	MM	258	508	508	508	508	508
EPS reported	A¢	-2.0	-1.1	-0.1	-2.6	-4.7	6.0
EPS (pre sig. items)	A¢	-2.0	-1.1	-0.1	-2.6	-4.7	6.0
P/E	x	nmf	nmf	nmf	nmf	nmf	8.1x
CFPS	A¢	(0.6)	(1.1)	(0.1)	(2.6)	(4.4)	14.5
P/CF	x	nmf	nmf	nmf	nmf	nmf	3.3x
DPS	A¢	0.0	0.0	0.0	0.0	0.0	0.0
Dividend yield	%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Franking Level	%	0%	0%	0%	0%	0%	0%
Book value per share		0.52	0.75	0.74	0.72	0.67	0.80
P/Book value	x	0.9x	0.6x	0.6x	0.7x	0.7x	0.6x
R.O.E. (pre sig items)	%	-4%	-1%	0%	-4%	-7%	7%
R.O.A. (pre sig items)	%	-4%	-1%	-1%	-1%	0%	15%
Interest Cover	x	5.1x	-1.8x	1.1x	-0.4x	0.0x	3.0x
EBITDA per share	A$ps	-0.02	-0.01	-0.01	-0.01	0.00	0.29
EV/EBITDA	x	nmf	nmf	nmf	nmf	>50x	1.5x

EARNINGS		FY11	FY12E	FY13E	FY14E	FY15E	FY16E
Sales Revenue	A$MM	0	0	0	0	17	358
Other Revenue	"	0	0	0	0	0	0
Total Revenue	"	0	0	0	0	17	358
Operating costs	"	0	0	0	0	(10)	(206)
Operational EBITDA	"	0	0	0	0	7	152
Exploration Expense/Write-offs	"	(1)	0	0	0	0	0
Corporate & Other Costs	"	(6)	(5)	(5)	(5)	(5)	(5)
EBITDA	"	(6)	(5)	(5)	(5)	2	147
D&A	"	(0)	0	0	0	(1)	(11)
EBIT	"	(6)	(5)	(5)	(5)	1	136
Net Interest	"	1	(3)	4	(14)	(34)	(45)
Profit Before Tax	"	(5)	(8)	(1)	(19)	(33)	91
Tax Expense	"	0	2	0	6	10	(28)
Minorities	"	(0)	0	0	0	(1)	(33)
Net Profit After Tax	"	(5)	(5)	(0)	(13)	(24)	30
Significant Items (post tax)	"	0	0	0	0	0	0
Reported NPAT	"	(5)	(5)	(0)	(13)	(24)	30

CASHFLOW		FY11	FY12E	FY13E	FY14E	FY15E	FY16E
Operational Cash Flow	A$MM	-2	-5	-5	-5	2	147
Net Interest	"	1	(3)	4	(14)	(34)	(45)
Tax Paid and Other	"	(0)	2	0	6	10	(28)
Net Operating Cashflow	"	(2)	(5)	(0)	(13)	(22)	74
Exploration	"	(7)	(5)	(5)	(5)	(5)	(5)
Capital Expenditure	"	(9)	0	(240)	(320)	(242)	(8)
Investments	"	(1)	0	0	0	0	0
Sale of PPE and Other	"	(3)	0	0	0	0	0
Net Investing Cashflow	"	(20)	(5)	(245)	(325)	(247)	(13)
Dividends Paid	"	0	0	0	0	0	0
Debt	"	0	450	0	50	0	0
Equity Issuance	"	50	250	0	0	0	0
Other	"	(8)	0	0	0	0	0
Net Financing Cashflow	"	42	700	0	50	0	0
Net change in cash	"	20	689	(246)	(288)	(270)	61

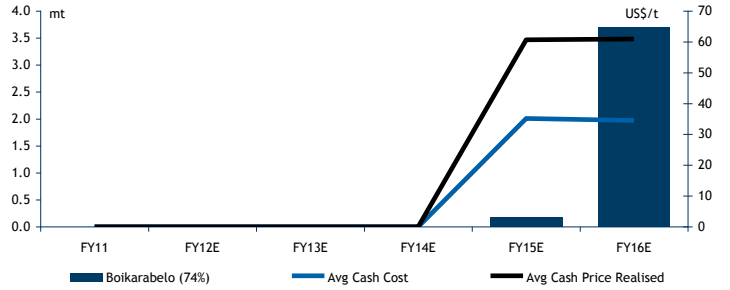
BALANCE SHEET		FY11	FY12E	FY13E	FY14E	FY15E	FY16E
Cash & Equivalents	A$MM	25	715	469	181	(89)	(28)
PP&E & Mine Development	"	34	34	274	594	835	833
Exploration	"	68	74	79	84	89	95
Total Assets	"	140	834	834	871	848	911
Debt	"	1	451	451	501	501	501
Total Liabilities	"	5	455	455	505	505	505
Total Net Assets / Equity	"	134	379	378	365	342	405
Net Debt / (Cash)	"	(24)	(264)	(18)	320	590	529
Gearing (net debt/(nd + equity)	%	(22%)	(229%)	(5%)	47%	63%	57%
Gearing (net debt/equity)	%	(18%)	(70%)	(5%)	88%	172%	131%

ATTRIBUTABLE MINE STATS		FY11	FY12E	FY13E	FY14E	FY15E	FY16E
Coal Production (equity)							
Boikarabelo (74%)	mt	0.0	0.0	0.0	0.0	0.2	3.7
Total coal production	mt	0.0	0.0	0.0	0.0	0.2	3.7
Coal Sales (equity)							
SSCC	mt	0.0	0.0	0.0	0.0	0.0	0.0
Thermal - Export	mt	0.0	0.0	0.0	0.0	0.1	1.9
Thermal - Domestic	mt	0.0	0.0	0.0	0.0	0.1	1.9
Total coal sales	mt	0.0	0.0	0.0	0.0	0.2	3.7
Avg Cash Price Realised	US$/t	0.0	0.0	0.0	0.0	60.7	60.9
Avg Cash Cost	US$/t	0.0	0.0	0.0	0.0	35.1	34.6
Cash Margin	US$/t	0.0	0.0	0.0	0.0	25.5	26.4

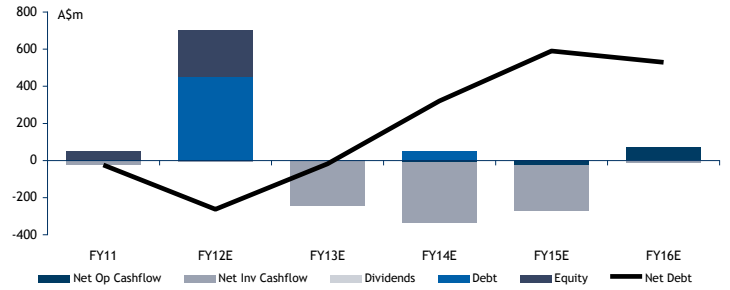
RESERVES AND RESOURCES (Mt)

	Resources	Reserves	EV/t Resource
Waterberg #1 SW	426	314	-0.01
Waterberg #1 NE	552	-	
Witkopje S & Kalkpan	664	431	**EV/t Reserve**
Draai Om	791	-	
Witkopje N	688	-	-0.03
Total	**3122**	**745**	

ATTRIBUTABLE PRODUCTION AND CASH COST PROFILE



CASHFLOW



EQUITY DCF VALUATION

Projects	A$MM	A$ps	
Boikarabelo (74%)	399	1.55	
Corporate	-25	-0.10	
Net Cash / (Debt)	24	0.09	**P / NPV**
Net Equity Value (@ 8% real d.r.)	**399**	**1.55**	**0.3x**
Shares on issue (m)	258		

Source: Company data, RBC Capital Markets estimates

Valuation

Our NAV for the Stage 1, 6mtpa development is A$1.55. We model a more conservative development path than management forecasts: we incorporate $850m capex vs. the targeted $750m, and we also assume a 12-month delay to startup, with first coal from Q2 2015. In setting our price target, we consider the need for an equity raising. We adjust our base case NAV to incorporate the dilutive effects of a $350m raising at $0.75 per share. While this is at a premium to the current share price, we consider that by the time a potential equity raising is required RES will have completed its rail agreements, Eskom offtake, approvals, BFS and debt funding, and as such will be materially de-risked, which would be expected to see the share price trade higher. Furthermore, given the degree of risk that remains with the project in terms of timeline, capex, and development hurdles, we set our price target at a 25% discount to our equity-raising-adjusted NAV. This is a greater-than-usual discount for development projects in our bulk commodities coverage universe, reflecting a view that the market is likely to more heavily discount the project given it is in South Africa.

Price Target Impediment

As with all mining companies, world economic growth, commodity prices and currency fluctuations could materially affect Resource Generation's earnings and valuation. There is also material development risk, with a possibility that the project takes longer and costs more to develop than management estimates. Infrastructure access poses a risk for Resource Generation: without rail-haulage agreements, it will not be able to get its product to market, undermining the project's viability. A sales agreement with Eskom will also be key to underpinning the economic viability of the project, and this is yet to be secured. In addition, the mining rights, water usage and rail development approval are yet to be granted.

Company Description

Resource Generation is developing the Boikarabelo thermal coal project in the Waterberg coal fields, 300km north of Johannesburg, South Africa. The resource is substantial at 3bt. Stage 1 targets production of 6mtpa, split between 3mtpa export thermal coal and 3mtpa domestic thermal coal sales. Capital costs are estimated at $552m and at this stage are unfunded. Operating costs are forecast to be extremely favourable; we estimate an overall average unit cost of approximately US$33/t, benefiting from 0.6:1 strip ratios. The development is at an advanced stage, with the majority of work done and final approvals anticipated over the next three to six months. Offtake has been arranged for 1.5mt of the export coal, a port allocation is in place, and a domestic sales agreement with Eskom is under negotiation as is a rail-haulage agreement with Transnet. Longer-term, RES envisages a substantial expansion to 18mtpa production.

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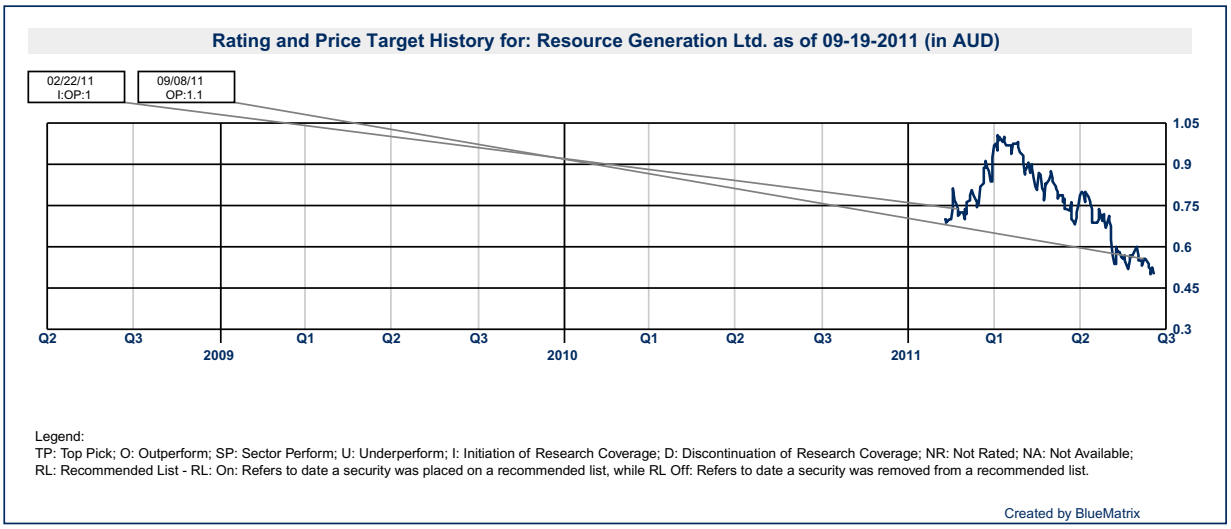

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