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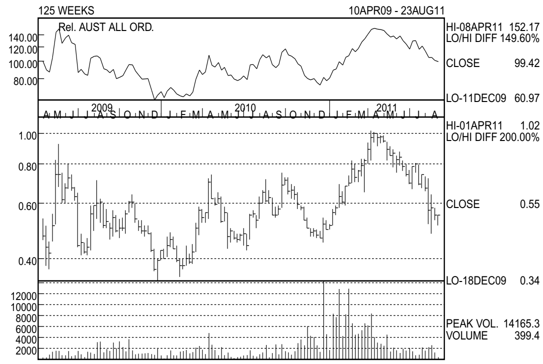
EQUITY | RESEARCH



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

All values in AUD unless otherwise noted.

COMPANY UPDATE | COMMENT

AUGUST 24, 2011

Resource Generation Ltd. (ASX: RES)

FY11 result immaterial; approvals next catalysts

Outperform
Speculative Risk

Price:	0.55	**Price Target:**	1.00
		Implied All-In Return:	82%
Shares O/S (MM):	257.9	**Market Cap (MM):**	142
Dividend:	0.00	**Yield:**	0.0%
NAVPS:	1.58	**P/NAVPS:**	0.3x
BVPS:	0.75	**P/BVPS:**	0.7x

Major shareholders: Integrated Coal Mining 11.6%
Priced as of 2.25pm Australian EDT, August 24, 2011.

Event

Resource Generation reported its FY11 financials.

Investment Opinion

Resource Generation reported an FY11 loss of A$5m, in-line with RBCe and slightly lower than the A$3m loss reported in FY10. The result, however, is immaterial from a valuation perspective given the exploration and development stage of the Boikarebelo project. We expect the near term catalysts for the RES to be the receipt of the final two approvals for the project: the IWULA approval for water usage is expected in the current quarter and the NEMA (environmental) approval for the rail spur is anticipated in the next few months. While there has been slight slippage in the timetable, we believe obtaining these approvals should be straightforward. As previously reported, the Company's cash balance was A$25m at June end. We maintain our Outperform rating and A$1.00 target.

Eskom/Transnet agreements key: We maintain our view that agreements with Eskom (offtake) and Transnet (haulage) are crucial for underpinning the viability of the Boikarebelo project. As reported in the June quarterly, offtake discussions with Eskom remain ongoing while haulage discussions with Transnet appeared more positive with management looking for a binding agreement in the near term.

Mining Right confirmation: On August 12, RES announced it had received an appeal regarding the granting of the Boikarebelo Mining Right. The objections are immaterial according to management and were considered during the initial application process; we look for confirmation of the Mining Right at the conclusion of the statutory process.

Funding: As noted in the June quarterly, initial submissions for debt funding have been in excess of the Company's anticipated debt requirements.

Earnings changes: We have incorporated the result and made no adjustments to our estimates. These result in immaterial changes.

Outperform, A$1.00 target: We continue to see substantial value in the RES development projects, key drivers of near term value will be an Eskom offtake and Transnet rail haulage agreement. In calculating our A$1.58 NAV, we incorporate more conservative capex, cost, timing and price assumptions than management. Our A$1.00 target adjusts our NAV for an equity raising, before applying a 25% risk weighting for development risks. This conservative approach suggests material upside as the project de-risks. Maintain Outperform.

Priced as of prior trading day's market close, EST (unless otherwise noted).

For Required Non-U.S. Analyst and Conflicts Disclosures, see page 4.

Exhibit 1: Summary financials

Resource Generation

ASX: RES	Share Price: (A$ps)	0.57	Year end:	Jun	Stock Rating:	Outperform	Price Target:	A$1.00
	Mkt Cap: (A$MM)	287	Issued shares (m)	508	Risk Qualifier:	Speculative	NAV:	A$1.58

ASSUMPTIONS		FY11	FY12E	FY13E	FY14E	FY15E	FY16E
Exchange Rate	A$/US$	0.99	1.01	0.97	0.93	0.90	0.82
Exchange Rate	US$/ZAR	7.01	7.28	7.63	8.05	8.50	8.36
Thermal coal (FY avg)	US$/t	106	125	105	89	85	83
Coking coal (FY avg)	US$/t	189	181	133	110	105	100

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	-0.9	-3.4	0.2	9.6
EPS (pre sig. items)	A¢	-2.0	-1.1	-0.9	-3.4	0.2	9.6
P/E	x	nmf	nmf	nmf	nmf	>50x	5.9x
CFPS	A¢	(0.6)	(1.1)	(0.9)	(3.4)	3.2	19.1
P/CF	x	nmf	nmf	nmf	nmf	17.8x	3.0x
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	0.70	0.73	0.89
P/Book value	x	1.1x	0.8x	0.8x	0.8x	0.8x	0.6x
R.O.E. (pre sig items)	%	-4%	-1%	-1%	-5%	0%	11%
R.O.A. (pre sig items)	%	-4%	-1%	-1%	-1%	6%	17%
Interest Cover	x	5.1x	-1.8x	-3.0x	-0.2x	1.5x	4.4x
EBITDA per share	A$ps	-0.02	-0.01	-0.01	-0.01	0.11	0.34
EV/EBITDA	x	nmf	nmf	nmf	nmf	4.5x	1.5x

EARNINGS		FY11	FY12E	FY13E	FY14E	FY15E	FY16E
Sales Revenue	A$MM	0	0	0	0	145	414
Other Revenue	"	0	0	0	0	0	0
Total Revenue	"	**0**	**0**	**0**	**0**	**145**	**414**
Operating costs	"	0	0	0	0	(82)	(237)
Operational EBITDA	"	**0**	**0**	**0**	**0**	**63**	**177**
Exploration Expense/Write-offs	"	(1)	0	0	0	0	0
Corporate & Other Costs	"	(6)	(5)	(5)	(5)	(5)	(5)
EBITDA	"	**(6)**	**(5)**	**(5)**	**(5)**	**58**	**172**
D&A	"	(0)	0	0	0	(4)	(11)
EBIT	"	**(6)**	**(5)**	**(5)**	**(5)**	**54**	**160**
Net Interest	"	1	(3)	(2)	(20)	(36)	(37)
Profit Before Tax	"	**(5)**	**(8)**	**(7)**	**(25)**	**17**	**124**
Tax Expense	"	0	2	2	8	(5)	(38)
Minorities	"	(0)	0	0	0	(11)	(37)
Net Profit After Tax	"	**(5)**	**(5)**	**(5)**	**(17)**	**1**	**49**
Significant Items (post tax)	"	0	0	0	0	0	0
Reported NPAT	"	**(5)**	**(5)**	**(5)**	**(17)**	**1**	**49**

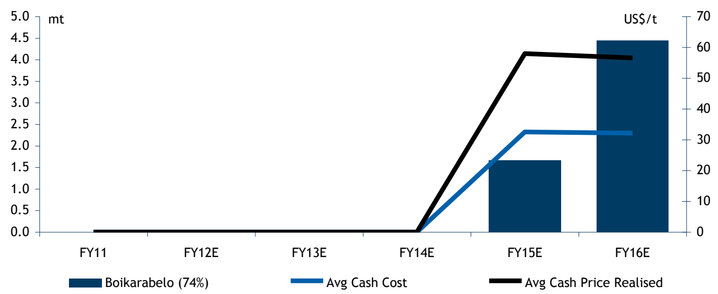
CASHFLOW		FY11	FY12E	FY13E	FY14E	FY15E	FY16E
Operational Cash Flow	A$MM	**-2**	**-5**	**-5**	**-5**	**58**	**172**
Net Interest	"	1	(3)	(2)	(20)	(36)	(37)
Tax Paid and Other	"	(0)	2	2	8	(5)	(38)
Net Operating Cashflow	"	**(2)**	**(5)**	**(5)**	**(17)**	**16**	**97**
Exploration	"	(7)	(5)	(5)	(5)	(5)	(5)
Capital Expenditure	"	(9)	(70)	(280)	(280)	(76)	(8)
Investments	"	(1)	0	0	0	0	0
Sale of PPE and Other	"	(3)	0	0	0	0	0
Net Investing Cashflow	"	**(20)**	**(75)**	**(285)**	**(285)**	**(81)**	**(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**	**619**	**(290)**	**(253)**	**(65)**	**84**

BALANCE SHEET		FY11	FY12E	FY13E	FY14E	FY15E	FY16E
Cash & Equivalents	A$MM	25	645	355	102	37	121
PP&E & Mine Development	"	34	104	384	664	736	732
Exploration	"	68	74	79	84	89	95
Total Assets	"	**140**	**834**	**830**	**862**	**874**	**959**
Debt	"	1	451	451	501	501	501
Total Liabilities	"	**5**	**455**	**455**	**505**	**505**	**505**
Total Net Assets / Equity	"	**134**	**379**	**374**	**357**	**369**	**454**
Net Debt / (Cash)	"	(24)	(194)	96	399	464	380
Gearing (net debt/(nd + equity)	%	(22%)	(105%)	20%	53%	56%	46%
Gearing (net debt/equity)	%	(18%)	(51%)	26%	112%	126%	84%

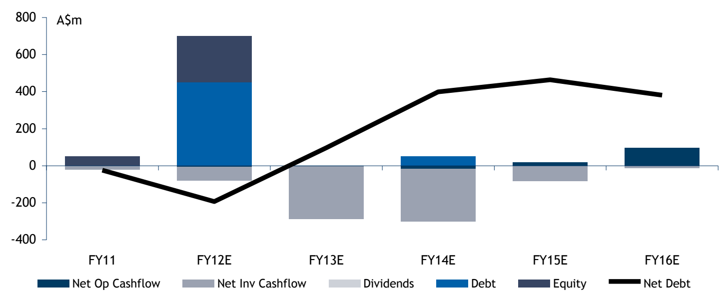
ATTRIBUTABLE MINE STATS		FY11	FY12E	FY13E	FY14E	FY15E	FY16E
Coal Production (equity)							
Boikarabelo (74%)	mt	0.0	0.0	0.0	0.0	1.7	4.4
Total coal production	**mt**	**0.0**	**0.0**	**0.0**	**0.0**	**1.7**	**4.4**
Coal Sales (equity)							
SSCC	mt	0.0	0.0	0.0	0.0	0.0	0.0
Thermal - Export	mt	0.0	0.0	0.0	0.0	0.8	2.2
Thermal - Domestic	mt	0.0	0.0	0.0	0.0	0.8	2.2
Total coal sales	**mt**	**0.0**	**0.0**	**0.0**	**0.0**	**1.7**	**4.4**
Avg Cash Price Realised	US$/t	0.0	0.0	0.0	0.0	58.0	56.6
Avg Cash Cost	**US$/t**	**0.0**	**0.0**	**0.0**	**0.0**	**32.5**	**32.1**
Cash Margin	US$/t	0.0	0.0	0.0	0.0	25.5	24.4

RESERVES AND RESOURCES (Mt)	Resources	Reserves	
			EV/t Resource
Waterberg #1 SW	426	314	0.03
Waterberg #1 NE	552	-	
Witkopje S & Kalkpan	664	431	**EV/t Reserve**
Draai Om	791	-	
Witkopje N	688	-	0.13
Total	**3122**	**745**	

ATTRIBUTABLE PRODUCTION AND CASH COST PROFILE



CASHFLOW



EQUITY DCF VALUATION			
Projects	**A$MM**	**A$ps**	
Boikarabelo (74%)	408	1.58	
Corporate	-25	-0.10	
Net Cash / (Debt)	24	0.09	**P / NPV**
Net Equity Value (@ 8% real d.r.)	**407**	**1.58**	**0.4x**
Shares on issue (m)	258		

Source: Company data, RBC Capital Markets estimates

Valuation

Our NAV for the Stage 1, 6mtpa development is $1.59. We model a more conservative development path than management forecasts: we incorporate $700m capex vs. the targeted $552m, and we also assume a 12-month delay to start-up, with first coal from end 2014. 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 $250m raising ($50m more than management anticipates) at $1 per share. While this is at a premium to the current share price, we consider that by the time an 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. In addition, 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 NAV post adjusting for the equity raising. 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. This results in a price target of $1.00.

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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An analyst involved in the preparation of this report has visited certain material operations of Resource Generation Ltd..

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RBC Capital Markets, Equity Research

			Investment Banking Serv./Past 12 Mos.	
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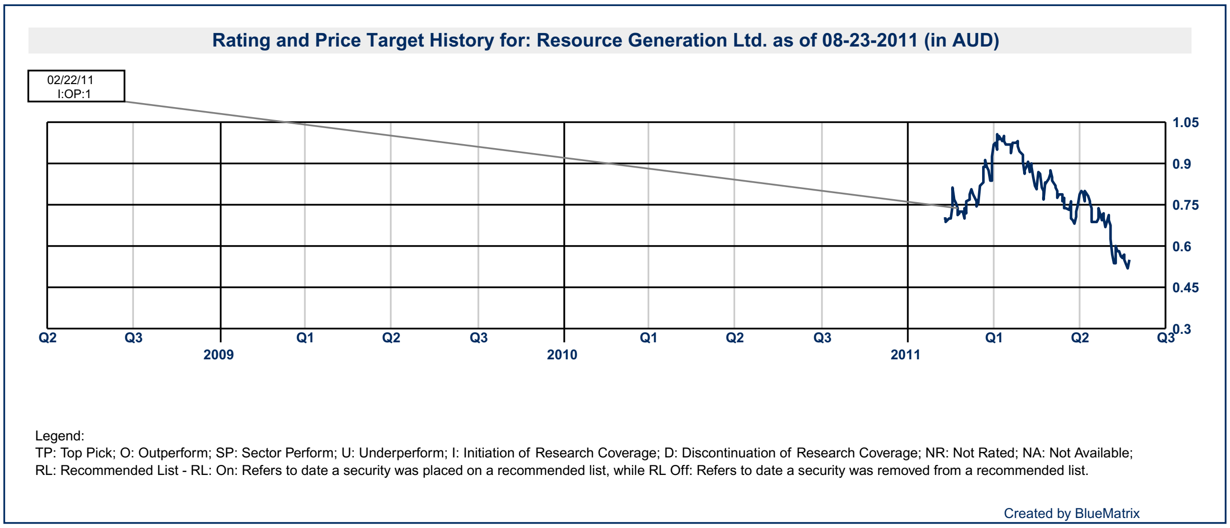
HOLD[SP]	618	43.10	132	21.36
SELL[U]	60	4.20	10	16.67



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