

Equities

25 July 2011 | 8 pages

Resource Generation (RES.AX)

NEMA delayed but other permits slowly creeping forward

- NEMA delayed** — the key takeaway from the June Q report is environmental approval for the company's 36km rail link to Transnet mainline, which was due July 2011, will be delayed until later this year. While the consultation process has concluded without major objections, bureaucracy could add "several months" to finalization. We do not think the approval is at risk but are now more cautious with respect to timing, anticipating an award in the Dec Q.
- IWULA expected Sept Q** — more positively, the Integrated Water Use Licence permit is progressing well with approval expected in the Sept Q 2011. We had been more cautious on the IWULA relative to the NEMA but it is now possible that water rights will be awarded before the environmental approval for rail.
- Transnet and Eskom agreements would be transformational** — the real game-changer for RES would be signing of rail and domestic coal offtake agreements. These agreements would significantly de-risk the project and confirm the long-term viability of Boikarabelo. Export off-take for Stage 1 is in place and commences at the end of 2013.
- We increase our capex estimate** — the June Q report noted that final engineering designs were completed in July. Planning for the on-site power plant has not been finalized due to financial failure of the contractor. Given unrelenting pressure on costs, we increase our capex estimate from A\$620m to A\$650m. Cash on hand is A\$25m but we believe the market is anticipating a major capital raising in the current half-year.
- Valuation & Recommendation** — due to higher capex and lower cash balance, our NPV is reduced slightly to A\$1.94. Our target, which is 75% of NPV, is also lower at A\$1.45. Delays in a project of this size and scale are not uncommon and we still believe first coal at the end of 2013 to meet off-take contracts is achievable. We maintain a Buy/Spec rating on RES and believe patience will be rewarded.

- Company Update
- Target Price Change
- Estimate Change

Buy/Speculative	1S
Price (25 Jul 11)	A\$0.72
Target price	A\$1.45
	from A\$1.50
Expected share price return	101.4%
Expected dividend yield	0.0%
Expected total return	101.4%
Market Cap	A\$189M
	US\$205M

Price Performance (RIC: RES.AX, BB: RES AU)



RES.AU revisions (Y/E Jun)	2009A	2010A	2011E	2012E	2013E
Sales (A\$m)	0.0	0.0	0.0	0.0	0.0
% revision	0.0%	0.0%	na	na	na
EBIT (A\$m)	-15.5	-4.2	-4.0	-6.0	-4.1
% revision	0.0%	0.0%	0.0%	0.0%	0.0%
Core Net Profit (A\$m)	-15.1	-3.3	-3.9	-5.4	-19.1
% revision	0.0%	0.0%	0.0%	1.2%	0.2%
Core EPS (A¢)	-19.7	-2.1	-1.6	-2.3	-8.0
% revision	0.0%	0.0%	0.0%	1.2%	0.2%
EPS Growth (%)	-164.4	89.5	21.2	-40.5	-251.6
PE Ratio (x)	-3.7	-35.0	-44.4	-31.6	-9.0
Dividend Yield (%)	0.0	0.0	0.0	0.0	0.0

Source: Company Reports and dataCentral, CIRA.

David Haddad
 +61-2-8225-3162
 david.haddad@citi.com

Craig Sainsbury
 craig.sainsbury@citi.com

Clarke Wilkins
 clarke.wilkins@citi.com

Daniel Seeney

Meredith Schwarz

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Resource Generation (RES.AX)

25 July 2011

Fiscal year end 30-Jun											
Profit & Loss (A\$m)	2009	2010	2011E	2012E	2013E	Per share data	2009	2010	2011E	2012E	2013E
Sales revenue	0.0	0.0	0	0	0	Reported EPS (¢)	-19.7	-2.1	-1.6	-2.3	-8.0
Cost of sales	-0.1	-0.1	na	na	na	Core EPS (¢)	-19.7	-2.1	-1.6	-2.3	-8.0
Gross profit	0.0	-0.1	na	na	na	DPS (¢)	0	0	0	0	0
EBITDA	-15.5	-4.1	-4.0	-6.0	-4.1	CFPS (¢)	-1.5	-0.1	-1.6	-2.8	4.6
Depreciation	-0.1	-0.1	0	0	0	BVPS (¢)	74.2	54.3	44.2	31.8	26.8
Amortisation	0	0	0	0	0	Wtd avg ord shares (m)	77	159	239	239	239
EBIT	-15.5	-4.2	-4.0	-6.0	-4.1	Wtd avg diluted shares (m)	77	159	239	239	239
Net interest	0.4	1.0	0.1	0.6	-15.1						
Earnings before tax	-15.1	-3.3	-3.9	-5.4	-19.1	Valuation ratios	2009	2010	2011E	2012E	2013E
Tax Recurring	0	0	0	0	0	PE (x)	-3.7	-35.0	-44.4	-31.6	-9.0
Non-op/Except/Extraord	0.0	-0.1	0	0	0	EV/EBIT (x)	-12.0	-43.4	-43.2	-54.4	nm
Minority interests	0	0	0	0	0	EV/EBITDA (x)	-12.0	-44.3	-43.2	-54.4	nm
Associates	0	0	0	0	0	FCF yield (%)	-2.8	-21.2	-5.6	-178.3	-139.0
Reported net profit	-15.2	-3.4	-3.9	-5.4	-19.1	Dividend yield (%)	0	0	0	0	0
Core NPAT	-15.1	-3.3	-3.9	-5.4	-19.1	Payout ratio (%)	0	0	0	0	0
Half year data (A\$m)	1H10	2H10	1H11	2H11E	1H12E	Growth rates	2009	2010	2011E	2012E	2013E
Sales revenue	0	0	0.1	0	0	Sales revenue (%)	-91.2	35.0	nm	na	na
EBIT	-1.6	-2.6	-3.8	-0.2	-3.0	EBIT (%)	nm	72.7	5.1	-50.4	32.6
Core NPAT	-1.0	-2.3	-3.5	-0.2	-2.7	Core NPAT (%)	nm	78.3	-18.1	-40.5	nm
Core EPS (¢)	-0.6	-1.4	-1.5	-0.1	-1.1	Core EPS (%)	nm	89.5	21.2	-40.5	nm
Balance Sheet (A\$m)	2009	2010	2011E	2012E	2013E	Operating performance	2009	2010	2011E	2012E	2013E
Cash & cash equiv.	5.1	6.1	25.3	25.6	13.6	Gross margin (%)	-245.0	-240.7	na	na	na
Accounts receivables	0.5	1.7	1.7	1.7	1.7	EBIT margin - Group	na	na	na	na	na
Inventory	0	0	0	0	0						
Net fixed & other tangibles	56.2	84.4	84.4	384.4	634.4	Operating ROA (%)	-27.9	-4.3	-3.8	-2.1	-3.6
Goodwill & intangibles	0	0	0	0	0	Operating ROE (%)	-29.2	-4.6	-4.0	-6.0	-27.3
Financial & other assets	0	0.0	0.0	0.0	0.0	Operating ROIC (%)	-30.7	-6.0	-4.8	-2.6	-0.8
Total assets	61.8	92.2	111.4	411.7	649.7						
Accounts payable	0.6	1.6	1.6	1.6	1.6	Net debt to equity	-8.9	-7.0	-23.9	400.1	884.0
Short-term debt	0	0	0	0	0	Debt to total capital (%)	0.0	0.0	0.0	81.3	90.1
Long-term debt	0	0	0	330.0	580.0	Interest coverage (x)	na	na	na	na	-0.27
Provisions & other liab	4.0	4.1	4.1	4.1	4.1						
Total liabilities	4.6	5.7	5.7	335.7	585.7	Production Volumes	2009	2010	2011E	2012E	2013E
Shareholders' equity	57.2	86.5	105.7	76.0	64.0	Thermal (export) (mt)	0.00	0.00	0.00	0.00	0.00
Minority interests	0.0	0.0	0.0	0.0	0.0	Hard Coking (export) (mt)	0.00	0.00	0.00	0.00	0.00
Total equity	57.2	86.5	105.7	76.1	64.1						
Net debt	-5.1	-6.1	-25.3	304.4	566.4	Operating Metrics	2009	2010	2011E	2012E	2013E
Cashflow (A\$m)	2009	2010	2011E	2012E	2013E	Cash Costs (A\$/t)	0.00	0.00	0.00	0.00	0.00
EBITDA	-15.5	-4.1	-4.0	-6.0	-4.1	Cash Costs (US\$/t)	0.00	0.00	0.00	0.00	0.00
Working capital	0	0	0	0	0	Average Price Received	0.00	0.00	0.00	0.00	0.00
Net interest paid	0.4	1.0	1.0	-0.6	15.1	Average Price Received	0.00	0.00	0.00	0.00	0.00
Tax paid	0	0	0	0	0						
Other	13.9	3.0	-0.8	0	0	Commodity&FX	2009	2010	2011E	2012E	2013E
Operating cashflow	-1.2	-0.1	-3.8	-6.6	11.0	AUDUSD (analyst)	0.74	0.88	0.99	1.06	1.00
Capex	-0.4	-24.2	-5.8	-300.0	-250.0	Hard coking (export) (US\$/t)	260.8	146.0	247.3	295.0	260.0
Net acq/disposals	-2.3	0	-21.0	-21.0	-21.0	Thermal (export) (US\$/t)	98.2	84.1	109.7	138.0	136.3
Exploration exp/Other	-3.9	-4.3	0	-2.0	-2.0						
Investing cashflow	-6.6	-28.5	-26.8	-323.0	-273.0						
Dividends paid	0	0	0	0	0						
Financing cashflow	11.4	29.6	49.9	330.0	250.0						
Net change in cash	3.8	1.0	19.2	0.4	-12.0						
FCF ex acqisns &	-7.8	-28.6	-30.7	-329.6	-262.0						

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Resource Generation

Company description

RES is a 'concept coal' company with assets in the Waterberg region of South Africa. The main development is the Boikarebelo project. It has 3Bt of coal resources and 745Mt of reserves. RES initially plans an open pit producing c6Mtpa of washed coal with a 50:50 split between domestic and export .

Investment strategy

We rate RES shares as Buy/Speculative. RES is very high risk but potentially a highly rewarding prospect. The company has a huge resource position in the mainly untapped Waterbank coal region of South Africa. Its resource base, build out of domestic South African power capacity and demand for coal from emerging markets such as India is likely to see RES evolve into a 6mtpa coal producer.

Valuation

Our target price of \$1.45/share is set as a 75% risk weighting to our NPV of \$1.94 per share. Our NPV is based on DCF analysis using a 14.5% discount rate and a US\$105/t long term thermal coal price. We believe a 75% risk weighting to our NPV is appropriate given the early stage of the project as well as the infrastructure barriers that need to be overcome but recognise that progress is being made i.e. award of a mining right.

Risks

We rate RES as a Speculative risk given the non producing nature of its assets. Key risks to achieving our target price are as follows:

Commodity price: Coal prices have become more volatile over the past 5 years as the historically bulk traded market has moved to a more terminal market approach. At the same time China has been swinging from importers to exporters to importers of coal which has had a significant effect on the supply-demand balance of the seaborne market. Given the big coal resources that China has, there is always the risk that it could increase domestic production and turn again to a net exporter of coal, having a negative influence on the coal price.

Rail: RES's coal assets are located in the Waterberg region of South Africa. The region is not as well serviced by infrastructure as the coal fields of the Witbank are.

Political Risk: South Africa has had a revolution in its minerals industry in the past decade with the implementation of Black Economic Empowerment.

If the impact on the company from any of these factors proves to be greater than we anticipate, the stock will likely have difficulty achieving our target price. However, should they be less than anticipated, the stock could trade above our target price.

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Resource Generation (RES.AX)

Ratings and Target Price History Fundamental Research

Analyst: David Haddad
Covered since September 22 2010

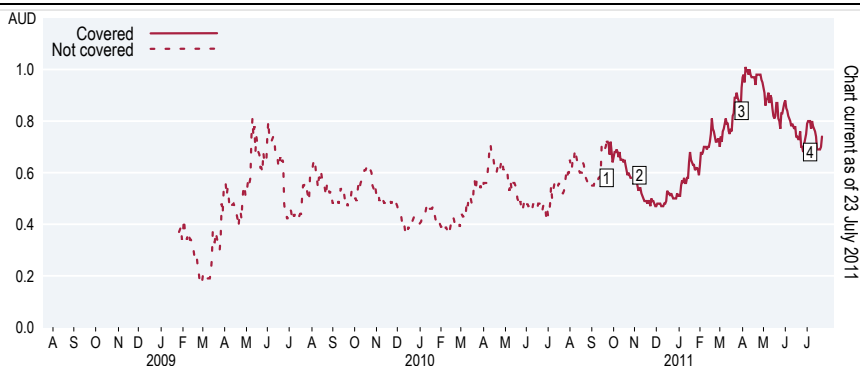


Chart current as of 23 July 2011

	Date	Rating	Target Price	Closing Price
1	22-Sep-10	*1S	*1.00	0.72
2	8-Nov-10	1S	*0.95	0.54

	Date	Rating	Target Price	Closing Price
3	31-Mar-11	1S	*1.40	0.93
4	6-Jul-11	1S	*1.50	0.80

* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Resource Generation (RES.AX)

Ratings and Target Price History Best Ideas Research Relative Call (3 Month)

Analyst: David Haddad
Covered since September 22 2010

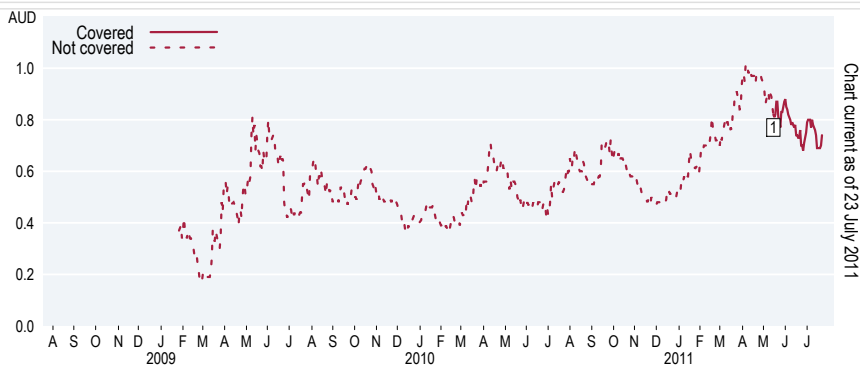


Chart current as of 23 July 2011

	Date	Rating	Target Price	Closing Price
1	15-May-11	*ADD MP	-	0.85

* Indicates change

Rating/target price changes above reflect Eastern Standard Time

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