



Resource Generation (RES)

Off-take Contract Increased

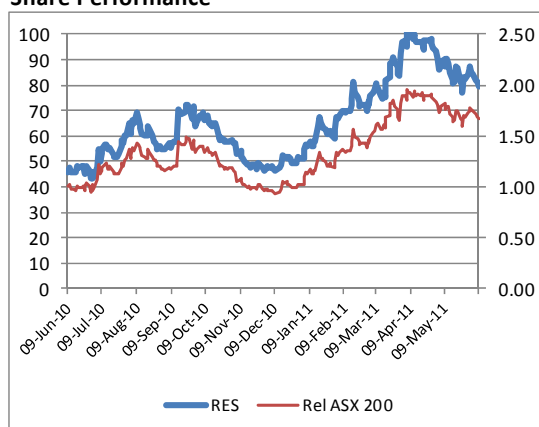
BUY

High Risk

Key Information

Share Price (AUD/sh)	0.79
12m Target Price (AUD/sh)	1.60
Issued Capital (M)	262
Market Capitalisation (AUD M)	206
Cash (AUD M) - quarterly	30
Debt (AUD M) - quarterly	0
Gearing ND/(ND+E)	0%
Average Monthly Turnover (AUD M)	6

Share Performance



Year High - Low (AUD/sh)	1.02	-	0.43
Performance	1M	3M	12M
Absolute	-12.2%	0.6%	72.8%
Relative to ASX 200	-7.9%	4.2%	67.0%

Major Shareholders

Integrated Coal Mining Limited	6.8%
Scodella Inc	5.9%
Citigroup Nominees	5.1%
CS Fourth Nominees	4.9%
CESC	4.6%

Directors and Management

Brian Warner	Non-Executive Chairman
Paul Jury	Managing Director
Scott Douglas	Non-Executive Director
Steve Matthews	Executive Director
Geoffrey (Toby) Rose AO	Non-Executive Director

Valuation and Recommendation

We value Resource Generation Limited (RES) at A\$421M. We maintain our BUY recommendation and reduce our 12 month price target in line with our valuation to A\$1.60/sh due to dilution from the recent placement (prev. A\$1.72/share).

Comment

- Increased Export Off-take Contract** – RES has announced an increase in the off-take contract for export thermal coal with Integrated Coal Mining Limited (ICML) from 37 Mt to 139 Mt. The contract period has been extended from 20 to 38 years. The original 20 year contract has increased from 37 Mt to 73 Mt. RES will supply an additional 66 Mt over years 21 to 38. RES will supply 1 Mt/a for the first 3 years and then ramp up to 4 Mt/a. ICML is a subsidiary of India’s RPG Group.
- IPP Feasibility Study for 1,320 MW Power Station**– CESC (also a subsidiary of RPG Group) is beginning a feasibility study for the construction of a 2x660 MW mine mouth power station at Boikarabelo. CESC would become an Independent Power Producer (IPP) supplying electricity to the South African grid. The power station would consume approximately 4.5 Mt/a of domestic coal, representing about 30% of domestic coal output from Stage 2 of the project. If the feasibility study outcome is positive the construction of a mine mouth power station may accelerate the Boikarabelo Stage 2 expansion which is currently scheduled to coincide with the construction of a third Eskom power station in the Waterberg in 2019.
- Placement** – CESC has subscribed for 12.2M RES shares at A\$0.82/sh raising A\$10M. RPG Group through its subsidiaries has an 11.6% interest in RES.

Company Description

RES is developing the Boikarabelo coal project in South Africa’s Waterberg coalfield. The Waterberg coalfield contains approximately 40% of South Africa’s coal resources and the level of both coal mining and power generation in the area is likely to increase as these activities diminish in other regions of the country such as Mpumalanga (the Witbank and Ermelo coalfields).

Assumptions	2014F	2015F	2016F	2017F	2018F	2019F
Exchange Rate (A\$/US\$)	0.84	0.83	0.83	0.83	0.83	0.83
Thermal Price (US\$/t)	85.01	85.01	85.01	85.01	85.01	85.01
Thermal Domestic Price (ZAR/t)	255.00	255.00	255.00	255.00	255.00	255.00
Production - Boikarabelo	2014F	2015F	2016F	2017F	2018F	2019F
Semi Soft Coking Coal ('000t)	0	0	0	0	0	0
Export Thermal Coal ('000t)	1500	3000	3000	3000	3000	3000
Domestic Thermal Coal ('000t)	1500	3000	3000	3000	3000	15000
Profit and Loss (A\$m)	2014F	2015F	2016F	2017F	2018F	2019F
Total Operating Revenue	146	293	293	293	293	600
EBITDA	58	117	117	117	117	240
Dep & Amort	25	25	24	24	27	33
EBIT	32	92	93	93	90	207
Net Interest	-43	-44	-44	-44	-45	-53
NPBT	-11	48	49	49	45	154
Tax	0	13	14	14	12	43
NPAT (pre exceptional)	-11	34	35	36	32	111
Exceptional Items (after tax)	0	0	0	0	0	0
NPAT (reported)	-11	34	35	36	32	111

Source: Shaw Stockbroking

Refer to disclaimer on last page



Financial Summary

Assumptions										
Year end 30 June	2010A	2011F	2012F	2013F	2014F	2015F	2016F	2017F	2018F	2019F
Exchange Rate (A\$/US\$)	0.88	0.94	0.88	0.85	0.84	0.83	0.83	0.83	0.83	0.83
Thermal Price (US\$/t)	77.00	95.00	93.25	87.25	85.01	85.01	85.01	85.01	85.01	85.01
Thermal Domestic Price (ZAR/t)	0.00	0.00	0.00	0.00	255.00	255.00	255.00	255.00	255.00	255.00
Production										
Year end 30 June	2010A	2011F	2012F	2013F	2014F	2015F	2016F	2017F	2018F	2019F
Boikarabelo										
Semi Soft Coking Coal ('000t)	0	0	0	0	0	0	0	0	0	0
Export Thermal Coal ('000t)	0	0	0	0	1500	3000	3000	3000	3000	3000
Domestic Thermal Coal ('000t)	0	0	0	0	1500	3000	3000	3000	3000	15000
Profit and Loss (A\$m)										
Year end 30 June	2010A	2011F	2012F	2013F	2014F	2015F	2016F	2017F	2018F	2019F
Total Operating Revenue	0	0	0	0	146	293	293	293	293	600
EBITDA	-4	-1	-1	-1	58	117	117	117	117	240
Dep & Amort	0	1	6	18	25	25	24	24	27	33
EBIT	-4	-2	-8	-20	32	92	93	93	90	207
Net Interest	1	2	-7	-30	-43	-44	-44	-44	-45	-53
NPBT	-3	0	-14	-50	-11	48	49	49	45	154
Tax	0	0	0	0	0	13	14	14	12	43
NPAT (pre exceptional)	-3	0	-14	-50	-11	34	35	36	32	111
Exceptional Items (after tax)	0	0	0	0	0	0	0	0	0	0
NPAT (reported)	-3	0	-14	-50	-11	34	35	36	32	111
Cash Flow (A\$m)										
Year end 30 June	2010A	2011F	2012F	2013F	2014F	2015F	2016F	2017F	2018F	2019F
Gross Cash Flow	-1	-1	-1	-1	34	93	117	117	117	189
Net Interest	1	2	-7	-30	-43	-44	-44	-44	-45	-53
Income Taxes Paid	0	0	0	0	0	-13	-14	-14	-12	-43
Net Operating Cashflow s	0	1	-8	-31	-9	36	59	60	59	94
Maintenance Capex	0	0	0	0	0	0	0	0	0	0
Expansion Capex	-23	0	-222	-279	-43	-1	-1	-43	-143	-143
Exploration & Evaluation	-4	0	0	0	0	0	0	0	0	0
Free Cash Flow	-27	1	-229	-310	-52	34	58	17	-84	-49
Net Investing Cash Flow s	-28	0	-222	-279	-43	-1	-1	-43	-143	-143
Net Financing Cash Flow s	30	52	250	250	50	-3	-9	-15	150	-57
Net Cash Flow s	1	53	21	-60	-2	31	50	2	67	-106
Closing Cash Balance	6	59	79	19	17	48	98	100	167	61
Balance Sheet (A\$m)										
Year end 30 June	2010A	2011F	2012F	2013F	2014F	2015F	2016F	2017F	2018F	2019F
Cash & Equivalents	6	59	79	19	17	48	98	100	167	61
Total Current Assets	8	59	79	19	53	120	170	172	239	209
Net PPE	23	22	237	498	515	491	468	487	603	713
Total Non Current Assets	84	83	299	559	577	553	530	549	664	774
Total Current Liabilities	2	0	0	0	12	24	24	24	24	50
Borrowings	0	0	250	500	550	550	550	550	720	720
Total Non Current Liabilities	4	4	254	504	554	557	560	563	735	771
Total Shareholders Equity	87	138	123	74	63	92	115	133	144	162
Growth										
Year end 30 June	2010A	2011F	2012F	2013F	2014F	2015F	2016F	2017F	2018F	2019F
Sales Growth	nm	nm	nm	nm	nm	101%	0%	0%	0%	105%
EBITDA	nm	nm	0%	0%	nm	103%	0%	0%	0%	104%
NPAT	nm	nm	nm	248%	nm	nm	2%	1%	-10%	247%
EPS	nm	nm	nm	248%	nm	nm	2%	1%	-10%	247%



Per Share Ratios										
Year end 30 June	2010A	2011F	2012F	2013F	2014F	2015F	2016F	2017F	2018F	2019F
PE Ratio	nm	nm	nm	nm	nm	6.0	5.9	5.8	6.5	1.9
Price to Book Value	1.1	1.2	1.7	2.8	3.3	2.3	1.8	1.6	1.4	1.3
Price to NTA	1.1	1.2	1.7	2.8	3.3	2.3	1.8	1.6	1.4	1.3
EPS (A¢)	-3	0	-5	-19	-4	13	13	14	12	42
DPS (A¢)	0	0	0	0	0	0	0	0	0	0
Dividend Yield (%)	0%	0%	0%	0%	0%	3%	6%	9%	10%	45%
Payout Ratio	0	0	0	0	0	17	33	50	67	83
Franking (%)	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
CFPS (A¢)	0	0	-3	-12	-4	14	22	23	23	36
Book Value (A¢)	72	64	47	28	24	35	44	51	55	62
NTA (A¢)	72	64	47	28	24	35	44	51	55	62
Operating Ratios (%)										
Year end 30 June	2010A	2011F	2012F	2013F	2014F	2015F	2016F	2017F	2018F	2019F
Op EBITDA Margin	0%	0%	0%	0%	40%	40%	40%	40%	40%	40%
Op EBIT Margin	0%	0%	0%	0%	22%	31%	32%	32%	31%	34%
D&A / Sales	nm	nm	nm	nm	nm	9%	8%	8%	9%	5%
Interest Cover - EBIT	4	1	-1	-1	1	2	2	2	2	4
Interest Cover - GFCF	1	1	0	0	1	2	3	3	3	4
Tax Rate	0%	0%	0%	0%	0%	28%	28%	28%	28%	28%
ROA	-4%	0%	-5%	-10%	-2%	5%	5%	5%	4%	12%
ROE	-5%	0%	-11%	-50%	-16%	44%	34%	29%	23%	73%
Cash Flow Analysis										
Year end 30 June	2010A	2011F	2012F	2013F	2014F	2015F	2016F	2017F	2018F	2019F
Gross CF / Op EBITDA	28%	90%	100%	100%	59%	79%	100%	100%	100%	79%
Maint Capex / Sales	nm	nm	nm	nm	nm	0%	0%	0%	0%	0%
Total Capex / Sales	nm	nm	nm	nm	nm	0%	0%	15%	49%	24%
Maint Capex / Deprec	nm	nm	nm	0%	0%	0%	0%	0%	0%	0%
Total Capex / D&A	nm	nm	nm	0%	168%	6%	3%	180%	524%	435%
Maint Capex / GFCF	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Grow th Spend \$M	23	0	222	279	43	1	1	43	143	143
Balance Sheet Analysis										
Year end 30 June	2010A	2011F	2012F	2013F	2014F	2015F	2016F	2017F	2018F	2019F
Net Debt \$M	-6	-59	171	481	533	502	452	450	553	659
Net Debt / Equity	-7%	-43%	138%	652%	845%	547%	393%	339%	386%	407%
Debt / Equity	0%	0%	203%	677%	873%	600%	478%	414%	502%	444%
Working Capital \$M	0	0	0	0	24	48	48	48	48	98
Work. Cap / Sales	nm	nm	nm	nm	nm	16	16	16	16	16
D & A / PPE	nm	nm	nm	4%	5%	5%	5%	5%	5%	5%
Current Ratio	nm	nm	nm	125	4	5	7	7	10	4
Capital Structure										
Year end 30 June	2010A	2011F	2012F	2013F	2014F	2015F	2016F	2017F	2018F	2019F
Opening Balance	77.1	164.4	262.9	262.9	262.9	262.9	262.9	262.9	262.9	262.9
Placement/Pro-Rata Issue	87.4	98.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Options Exercised	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Closing Balance	164.4	262.9	262.9	262.9	262.9	262.9	262.9	262.9	262.9	262.9
FPOWA	120.7	213.7	262.9	262.9	262.9	262.9	262.9	262.9	262.9	262.9
EFPOWA	120.7	213.7	262.9	262.9	262.9	262.9	262.9	262.9	262.9	262.9

Rating Classification

Buy	Expected to outperform the overall market
Hold	Expected to perform in line with the overall market
Sell	Expected to underperform the overall market
Not Rated	Shaw has issued a factual note on the company but does not have a recommendation

Risk Rating

High	Higher risk than the overall market – investors should be aware this stock may be speculative
Medium	Risk broadly in line with the overall market
Low	Lower risk than the overall market.

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