



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
Shares O/S (MM):	257.9	Implied All-In Return:	67%
Dividend:	0.00	Market Cap (MM):	124
NAVPS:	1.55	Yield:	0.0%
BVPS:	0.52	P/NAVPS:	0.3x
		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

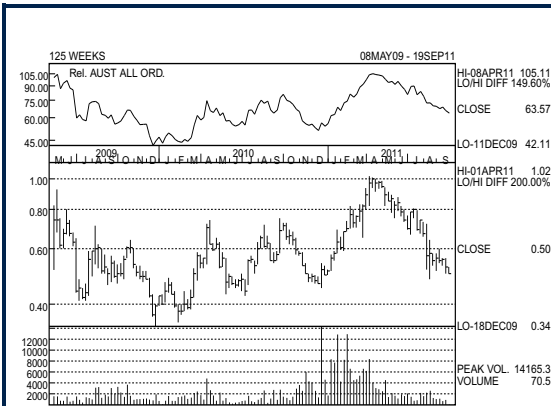
Resource Generation has announced increased capital costs for its Boikarabelo project, increasing from \$552m to \$750m; we had forecast \$700m. The increased capex stems primarily from inclusion of a power station, adding \$100m, as well as increased wash plant costs, and contingency. RES noted that 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.



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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.

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)	0.48	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												
Exchange Rate	A\$/US\$	0.99	FY12E	1.02	FY13E	0.98	FY14E	0.94	FY15E	0.91	FY16E	0.85
Exchange Rate	US\$/ZAR	7.00	FY12E	7.10	FY13E	7.18	FY14E	7.38	FY15E	7.50	FY16E	7.75
Thermal coal (FY avg)	US\$/t	106	FY12E	126	FY13E	111	FY14E	98	FY15E	90	FY16E	90
Coking coal (FY avg)	US\$/t	189	FY12E	184	FY13E	140	FY14E	123	FY15E	115	FY16E	113
RATIO ANALYSIS												
Shares on issue	MM	258	FY12E	508	FY13E	508	FY14E	508	FY15E	508	FY16E	508
EPS reported	A¢	-2.0	FY12E	-1.1	FY13E	-0.1	FY14E	-2.6	FY15E	-4.7	FY16E	6.0
EPS (pre sig. items)	A¢	-2.0	FY12E	-1.1	FY13E	-0.1	FY14E	-2.6	FY15E	-4.7	FY16E	6.0
P/E	x	nfm	FY12E	nfm	FY13E	nfm	FY14E	nfm	FY15E	nfm	FY16E	8.1x
CFPS	A¢	(0.6)	FY12E	(1.1)	FY13E	(0.1)	FY14E	(2.6)	FY15E	(4.4)	FY16E	14.5
P/CF	x	nfm	FY12E	nfm	FY13E	nfm	FY14E	nfm	FY15E	nfm	FY16E	3.3x
DPS	A¢	0.0	FY12E	0.0	FY13E	0.0	FY14E	0.0	FY15E	0.0	FY16E	0.0
Dividend yield	%	0.0%	FY12E	0.0%	FY13E	0.0%	FY14E	0.0%	FY15E	0.0%	FY16E	0.0%
Franking Level	%	0%	FY12E	0%	FY13E	0%	FY14E	0%	FY15E	0%	FY16E	0%
Book value per share		0.52	FY12E	0.75	FY13E	0.74	FY14E	0.72	FY15E	0.67	FY16E	0.80
P/Book value	x	0.9x	FY12E	0.6x	FY13E	0.6x	FY14E	0.7x	FY15E	0.7x	FY16E	0.6x
R.O.E. (pre sig items)	%	-4%	FY12E	-1%	FY13E	0%	FY14E	-4%	FY15E	-7%	FY16E	7%
R.O.A. (pre sig items)	%	-4%	FY12E	-1%	FY13E	-1%	FY14E	-1%	FY15E	0%	FY16E	15%
Interest Cover	x	5.1x	FY12E	1.8x	FY13E	1.1x	FY14E	0.4x	FY15E	0.0x	FY16E	3.0x
EBITDA per share	A\$ps	-0.02	FY12E	-0.01	FY13E	-0.01	FY14E	-0.01	FY15E	0.00	FY16E	0.29
EV/EBITDA	x	nfm	FY12E	nfm	FY13E	nfm	FY14E	nfm	FY15E	>50x	FY16E	1.5x
EARNINGS												
Sales Revenue	A\$MM	0	FY12E	0	FY13E	0	FY14E	0	FY15E	17	FY16E	358
Other Revenue	"	0	FY12E	0	FY13E	0	FY14E	0	FY15E	0	FY16E	0
Total Revenue	"	0	FY12E	0	FY13E	0	FY14E	0	FY15E	17	FY16E	358
Operating costs	"	0	FY12E	0	FY13E	0	FY14E	(10)	FY15E	(206)	FY16E	(206)
Operational EBITDA	"	0	FY12E	0	FY13E	0	FY14E	7	FY15E	152	FY16E	152
Exploration Expense/Write-offs	"	(1)	FY12E	0	FY13E	0	FY14E	0	FY15E	0	FY16E	0
Corporate & Other Costs	"	(6)	FY12E	(5)	FY13E	(5)	FY14E	(5)	FY15E	(5)	FY16E	(5)
EBITDA	"	(6)	FY12E	(5)	FY13E	(5)	FY14E	2	FY15E	147	FY16E	147
D&A	"	(0)	FY12E	0	FY13E	0	FY14E	(1)	FY15E	(11)	FY16E	(11)
EBIT	"	(6)	FY12E	(5)	FY13E	(5)	FY14E	1	FY15E	136	FY16E	136
Net Interest	"	1	FY12E	(3)	FY13E	4	FY14E	(14)	FY15E	(34)	FY16E	(45)
Profit Before Tax	"	(5)	FY12E	(8)	FY13E	(1)	FY14E	(19)	FY15E	(33)	FY16E	91
Tax Expense	"	0	FY12E	2	FY13E	0	FY14E	6	FY15E	10	FY16E	(28)
Minorities	"	(0)	FY12E	0	FY13E	0	FY14E	(1)	FY15E	(33)	FY16E	(33)
Net Profit After Tax	"	(5)	FY12E	(5)	FY13E	(0)	FY14E	(13)	FY15E	(24)	FY16E	30
Significant Items (post tax)	"	0	FY12E	0	FY13E	0	FY14E	0	FY15E	0	FY16E	0
Reported NPAT	"	(5)	FY12E	(5)	FY13E	(0)	FY14E	(13)	FY15E	(24)	FY16E	30
CASHFLOW												
Operational Cash Flow	A\$MM	-2	FY12E	-5	FY13E	-5	FY14E	-5	FY15E	2	FY16E	147
Net Interest	"	1	FY12E	(3)	FY13E	4	FY14E	(14)	FY15E	(34)	FY16E	(45)
Tax Paid and Other	"	(0)	FY12E	2	FY13E	0	FY14E	6	FY15E	10	FY16E	(28)
Net Operating Cashflow	"	(2)	FY12E	(5)	FY13E	(0)	FY14E	(13)	FY15E	(22)	FY16E	74
Exploration	"	(7)	FY12E	(5)	FY13E	(5)	FY14E	(5)	FY15E	(5)	FY16E	(5)
Capital Expenditure	"	(9)	FY12E	0	FY13E	(240)	FY14E	(320)	FY15E	(242)	FY16E	(8)
Investments	"	(1)	FY12E	0	FY13E	0	FY14E	0	FY15E	0	FY16E	0
Sale of PPE and Other	"	(3)	FY12E	0	FY13E	0	FY14E	0	FY15E	0	FY16E	0
Net Investing Cashflow	"	(20)	FY12E	(5)	FY13E	(245)	FY14E	(325)	FY15E	(247)	FY16E	(13)
Dividends Paid	"	0	FY12E	0	FY13E	0	FY14E	0	FY15E	0	FY16E	0
Debt	"	0	FY12E	450	FY13E	0	FY14E	50	FY15E	0	FY16E	0
Equity Issuance	"	50	FY12E	250	FY13E	0	FY14E	0	FY15E	0	FY16E	0
Other	"	(8)	FY12E	0	FY13E	0	FY14E	0	FY15E	0	FY16E	0
Net Financing Cashflow	"	42	FY12E	700	FY13E	0	FY14E	50	FY15E	0	FY16E	0
Net change in cash	"	20	FY12E	689	FY13E	(246)	FY14E	(288)	FY15E	(270)	FY16E	61
BALANCE SHEET												
Cash & Equivalents	A\$MM	25	FY12E	715	FY13E	469	FY14E	181	FY15E	(89)	FY16E	(28)
PP&E & Mine Development	"	34	FY12E	34	FY13E	274	FY14E	594	FY15E	835	FY16E	833
Exploration	"	68	FY12E	74	FY13E	79	FY14E	84	FY15E	89	FY16E	95
Total Assets	"	140	FY12E	834	FY13E	834	FY14E	871	FY15E	848	FY16E	911
Debt	"	1	FY12E	451	FY13E	451	FY14E	501	FY15E	501	FY16E	501
Total Liabilities	"	5	FY12E	455	FY13E	455	FY14E	505	FY15E	505	FY16E	505
Total Net Assets / Equity	"	134	FY12E	379	FY13E	378	FY14E	365	FY15E	342	FY16E	405
Net Debt / (Cash)	"	(24)	FY12E	(264)	FY13E	(18)	FY14E	320	FY15E	529	FY16E	529
Gearing (net debt/(nd + equity))	%	(22%)	FY12E	(229%)	FY13E	(5%)	FY14E	47%	FY15E	63%	FY16E	57%
Gearing (net debt/equity)	%	(18%)	FY12E	(70%)	FY13E	(5%)	FY14E	88%	FY15E	172%	FY16E	131%
ATTRIBUTABLE MINE STATS												
Coal Production (equity)			FY11	FY12E	FY13E	FY14E	FY15E	FY16E				
Boikarabelo (74%)	mt	0.0	0.0	0.0	0.0	0.2	0.2	3.7				
Total coal production	mt	0.0	0.0	0.0	0.0	0.2	0.2	3.7				
Coal Sales (equity)												
SSCC	mt	0.0	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	0.1	1.9				
Thermal - Domestic	mt	0.0	0.0	0.0	0.0	0.1	0.1	1.9				
Total coal sales	mt	0.0	0.0	0.0	0.0	0.2	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										
Draai Om	791	-										
Witkopje N	688	-										
Total	3122	745	-0.03									
ATTRIBUTABLE PRODUCTION AND CASH COST PROFILE												
	Boikarabelo (74%)	Avg Cash Cost	Avg Cash Price Realised									
FY11	0.0	0.0	0.0									
FY12E	0.0	0.0	0.0									
FY13E	0.0	0.0	0.0									
FY14E	0.2	35.1	60.7									
FY15E	0.2	34.6	60.9									
FY16E	3.7	34.6	60.9									
CASHFLOW												
	Net Op Cashflow	Net Inv Cashflow	Dividends	Debt	Equity	Net Debt						
FY11	(2)	(20)	0	0	50	48						
FY12E	(5)	(25)	0	0	700	670						
FY13E	(0)	(245)	0	0	0	(245)						
FY14E	(13)	(325)	0	50	0	(378)						
FY15E	(22)	(247)	0	0	0	(269)						
FY16E	74	(13)	0	0	0	61						
EQUITY DCF VALUATION												
Projects	A\$MM	A\$ps	P / NPV									
Boikarabelo (74%)	399	1.55										
Corporate	-25	-0.10										
Net Cash / (Debt)	24	0.09										
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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An analyst involved in the preparation of this report has visited certain material operations of Resource Generation Ltd..

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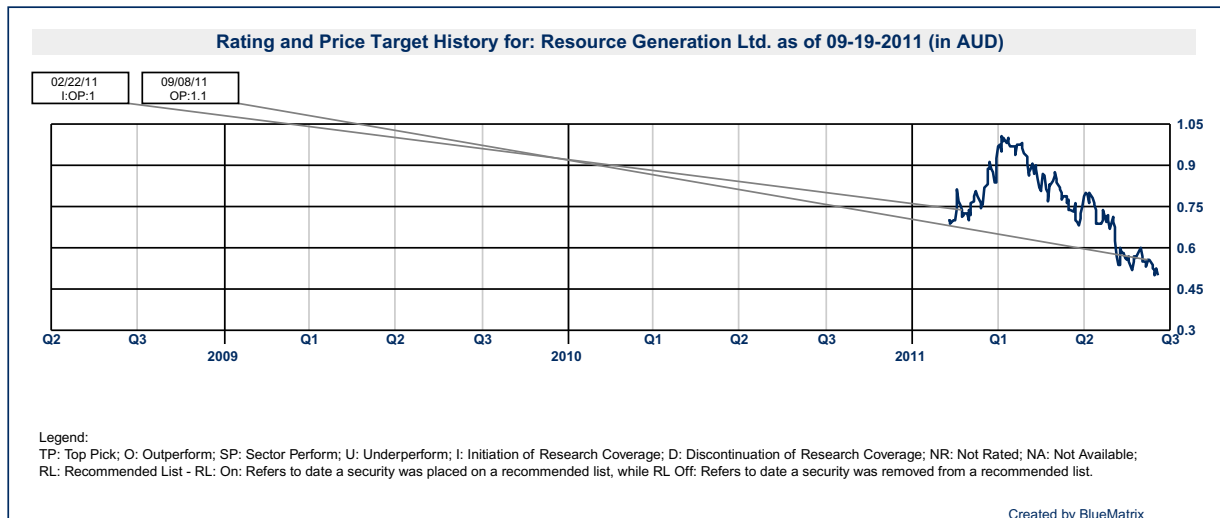
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			Count	Percent
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