

Economic and Market Commentary

US Stocks Close Higher As Earnings, Fed Expectations Buoy Market

US stocks rose modestly as a flood of encouraging corporate earnings reports overshadowed jitters over recent currency fluctuations. The Dow Jones Industrial Average closed up 38.60 points (0.35%) at 11146.57, its highest close since May 3. The Nasdaq Composite gained 2.28 points (0.09%) to 2459.67. The Standard & Poor's 500-share index added 2.09 (0.18%) to 1180.26. Industrials led the S&P 500, while the utilities and telecommunications sector lagged.

Resource Generation

Buy

Analyst: GM

Recommendation @ \$0.58

Key Points

- Announces reserve upgrade of 5.4% to 636Mt;
- Maiden measured resource of 204Mt;
- Total JORC resource of over 3Bt of coal including 2.2Bt for the Boikarabelo project;
- Discussions on transport, offtake negotiations continue;
- Key catalysts including mine approval and domestic agreements anticipated early 2011;
- Maintain BUY on RES, price target of A\$1.60ps.

YE June	2010A	2011F	2012F
Adj NPAT (\$M)	-0.3	-9.2	-15.2
PE (X)	NA	-12.1	-13.5
Dividends	NA	NA	NA
Target (\$ps)			\$1.60
YE June	2010A	2011F	2012F

Upgrades Coal Reserves

Resource Generation (RES) recently announced an upgrade to coal resources and reserves at the Boikarabelo project in South Africa. **Probable reserves increased by 5.4% to 636Mt** and resources are reduced by 3% to 2235Mt by upgrading the JORC category from inferred and indicated to include the first 204Mt of measured resources.

The company recently announced an offtake contract and placement to India's Integrated Coal Mining Ltd (RPG Group). Under the arrangement, affiliated company and India's third largest utility CESC Ltd (BSE: CESC) will initially purchase 1Mtpa of thermal coal for the first three years of mine operation, followed by 2Mtpa for a further 17 years. Prices will be based on benchmark.

The offtake agreement was a major positive for RES, and paves the way for mine development in 2011. We anticipate further offtake agreements will be announced ahead of formal project approvals next year. Stage 1 is anticipated to deliver annual cashflow to RES of >US\$70mpa. **The Boikarabelo project is a very robust thermal coal development, with an NPV to capex ratio of 2.3:1** based on our NPV of US\$1100m and initial capex of US\$468m. Initial production of 6Mtpa is envisaged from 2013, with 3Mtpa export and 3Mtpa domestic sales, growing to over 25Mtpa production in Stage 2 (ramp-up from year 6-7).

Our DCF valuation on RES, taking only 40% of our base DCF, remains A\$1.61ps. We maintain a BUY on RES for investors seeking coal exposure, and our price target of A\$1.60ps is unchanged.

Equity Indices

	21-Oct	20-Oct	Move
All Ordinaries	4 696.4	4 694.5	0.04%
S&P/ASX 200	4 622.9	4 624.9	-0.04%
ASX 200 Industrial	6 123.4	6 134.4	-0.18%
ASX 200 Resource	5 468.9	5 454.6	0.26%
DJ Industrial (US)	11 146.6	11 108.0	0.35%
NASDAQ (US)	2 459.7	2 457.4	0.09%
Hang Seng (HK)	23 649.5	23 556.5	0.39%
FTSE 100 (UK)	5 757.9	5 726.8	0.54%
Nikkei (Japan)	9 376.5	9 381.6	-0.05%
Shanghai (China)	2 983.5	3 004.0	-0.68%

Rates and Currencies

	21-Oct	20-Oct	Move
US 10 Year Bond	2.54	2.48	2.49%
Aust 10 Year Bond	5.12	5.12	0.09%
A\$ (TWI)	73.20	72.90	0.41%
A\$:Euro	0.7020	0.7071	-0.72%
A\$:US\$	0.9772	0.9872	-1.01%

Commodities

	21-Oct	20-Oct	Move
Gold Comex \$/oz	1 325.6	1 344.2	-1.38%
Oil Nymex \$/bbl	80.6	81.8	-1.48%
Copper LME \$/t	Closed	8 320.0	
Zinc LME \$/t	Closed	2 407.5	
Aluminium LME \$/t	Closed	2 329.5	
Nickel LME \$/t	Closed	23 879.0	

S&P / ASX 200 & DJ Industrials



Today's Events

Aust Economic Releases: ABS International Trade Prices Indexes
 Company Announcements: AGM's for AHD, CKL, PPX and SAI. Briefing for FGL. Sept Qtr for WPL