

## Resource Generation (RES)

**Buy**

Geoff Muers

### Raises A\$30m for Mine Development

			Previous		Current	
			FY11	FY12	FY11	FY12
Current Price A\$ps	0.55					
Target Price A\$ps*	1.50	NPAT (A\$m)	-9.2	-15.2	-9.2	-15.2
Previous target price	1.60	PE (x)			NA	NA
		Yield (%)			0.0	0.0

### Event

Resource Generation (RES) has announced a successfully **oversubscribed A\$30m capital raising** (at A\$0.50ps) to fund development of the company's coal project (Boikarabelo Mine) in South Africa. The use of funds will be mainly for land acquisitions and access rights relating to rail access, as well as funds towards establishing water and power infrastructure at the mine. Ahead of submission for formal environmental approval, the company has recently finalised negotiations for the purchase of land and easements for two-thirds of one of its preferred rail link routes from the mine site to the existing Transnet rail system.

The initial 27.4m shares will be issued on November 10, with the remainder issued post formal shareholder approval at an EGM scheduled in coming weeks. In addition, a **Shareholder Purchase Plan** (SPP) is planned, which will offer existing retail shareholders the chance to purchase up to A\$15,000 worth of shares at A\$0.50ps, the same price as the proposed placement.

### Comment

We had previously assumed construction of the 45km rail spur would occur in year 6 when the project expands, however this cost (A\$100m or so) is being brought forward to enable greater flexibility and lower costs in the early stage of the project. **We see this as a positive, despite the increased funding pressure.**

The Boikarabelo project is a **very robust thermal coal development**, with a probable reserve of 636Mt of coal, an NPV to capex ratio of 2.0:1 based on our **NPV of US\$1083m** and revised Stage 1 capex of US\$550m. 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 50% of our base DCF for pre-construction/funding risk, is revised to A\$1.53ps.** We maintain a BUY on RES for investors seeking coal exposure, and our price target of A\$1.50ps is slightly lower (A\$0.10ps) to account for dilution from the capital raising.