



Resource Generation Limited (RES)

One Small Step for Transnet.....A Giant Leap for RES

BUY

High Risk

Key Information

Share Price (AUD/sh)		0.48
12m Target Price (AUD/sh)		0.90
Issued Capital (M)		262.9
Market Capitalisation (AUDm)		126.2
Year High - Low (AUD/sh)	0.34 -	1.02
Cash (AUDm)		25.0
Debt (AUDm)		0.0
Gearing ND/(ND+E)		0.0%
Average Monthly Turnover (AUDm)		3.4

Investment Fundamentals

YE 30 June	2011A	2012F	2013F	2014F
Revenue	0.0	0.0	0.0	0.0
EBITDA	-6.2	-6.2	-7.2	-9.2
Net Attrib Profit	-5.3	-5.0	-6.2	-9.6
Reported Profit	-5.3	-5.0	-6.2	-9.6
EPS (Ac)	-2.6	-1.9	-2.4	-3.7
P/E (x)	nm	nm	nm	nm
EPS Growth (%)	-0.1	-0.2	0.2	0.6
CFPS (Ac)	-1.0	-1.7	-2.0	-2.8
P/CF (x)	nm	nm	nm	nm
DPS (Ac)	0.0	0.0	0.0	0.0
Dividend Yield (%)	0.0	0.0	0.0	0.0
EV/EBITDA	nm	nm	nm	nm
Franking (%)	0.0	0.0	0.0	0.0

RES vs ASX 200 Index



Performance	1M	3M	12M
Absolute	-29.8%	-14.9%	-33.3%
Relative to ASX 200	-26.8%	1.4%	-20.0%

Major Shareholders

Integrated Coal Mining Ltd	7.0%
Scodella Inc	5.9%
Bantal Singapore Pte Ltd	4.6%
HSBC Custody Nominees (Aus)	4.5%
Citicorp Nominees	4.2%
Resgen Share Plan	4.1%

Directors and Management

Brian Warner	Chairman
Paul Jury	MD / CEO
Scott Douglas	Director
Steve Matthews	Director
Geoffrey Rose AO	Director

Event

RES has signed an MOU with Transnet for the rail transport of coal from its Boikarabelo project in the Waterberg Coalfield in the Limpopo Province of South Africa.

Highlights

- MOU a major step forward.** Although Transnet has stated publicly that its strategy includes privatisation initiatives, the first tentative steps have proved extremely difficult. In Shaw's opinion, appointments to state owned companies are often political in nature, and as such the incumbents often procrastinate on economic decisions. The importance of the MOU should not be underestimated, as both the private rail link funding and the offer by RES to upgrade the track place Transnet firmly on this path. Although the timing of the signing of a binding contract is difficult to predict, we are firmly of the opinion that once a rail haulage contract is signed, an Eskom supply contract would follow fairly soon. While terms would still need to be negotiated, it would pave the way for project financing and construction.
- MOU conditions.** The following major conditions apply to the MOU.
 - haulage contract on take or pay basis;
 - 4Mt commencing 1 July 2014, 5Mt from 1 July 2015, and 6Mt from 1 July 2016;
 - 50% hauled to export ports (we assume either Durban or Richards Bay) and 50% to Eskom power stations in Mpumalanga;
 - subject to RES being able to produce coal, both TFR rail upgrades and the rail link from the mine to TFR network being completed, and TFR completing its Waterberg Feasibility Study which should unlock 22.5Mtpa capacity; and
 - freight rates and the transfer of ownership of the rail link to be determined but commercially fair and reasonable.
- What or who is Transnet?** Transnet SOC Ltd (Transnet) is a 100% state owned company. It consists of 5 divisions – Port Authority, Port Terminals, Rail Engineering, Pipelines and Freight Rail (TFR). Revenues for the year ended 31 March 2011 totalled ZAR36B with TFR making up ZAR23B (63%) of total revenue. TFR also made up 51% of group EBITDA of ZAR16B. Transnet owns and controls the South African rail network and rolling stock which is responsible for the export for the major bulk commodities such as manganese ore, iron ore and coal, as well as general freight and containers.

Recommendation

The importance of the signing of the MOU with Transnet should not be underestimated. Shaw believes that the commitment by Transnet heralds a new era of state and private cooperation which should culminate in a binding transport contract. Although the timing of this is unclear, we are of the opinion that an Eskom contract would follow shortly and clear the way for project financing. We maintain our BUY recommendation and 12 month target of AUD0.90.



Financial Information

Assumptions

Year end 30 June	2010A	2011A	2012F	2013F	2014F	2015F	2016F	2017F	2018F	2019F	2020F
Exchange Rate (A\$/US\$)	0.88	0.99	1.05	0.98	0.94	0.91	0.90	0.90	0.90	0.90	0.90
Thermal Price (US\$/t)	76.35	103.20	123.08	118.40	114.07	110.79	107.72	107.10	107.10	107.10	107.10
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	255.00

Production

Year end 30 June	2010A	2011A	2012F	2013F	2014F	2015F	2016F	2017F	2018F	2019F	2020F
Boikarabelo											
Semi Soft Coking Coal ('000t)	0	0	0	0	0	0	0	0	0	0	0
Export Thermal Coal ('000t)	0	0	0	0	0	1500	3000	3000	3000	3375	3375
Domestic Thermal Coal ('000t)	0	0	0	0	0	1500	3000	3000	3000	3375	3375

Profit and Loss (A\$m)

Year end 30 June	2010A	2011A	2012F	2013F	2014F	2015F	2016F	2017F	2018F	2019F	2020F
Total Operating Revenue	0	0	0	0	0	166	329	328	328	369	369
EBITDA	-4	-6	-6	-7	-9	70	193	192	192	224	224
Dep & Amort	0	0	0	1	2	38	36	35	33	31	30
EBIT	-4	-6	-6	-8	-11	32	157	157	159	193	194
Net Interest	1	1	2	2	2	-61	-59	-57	-54	-40	-28
NPBT	-3	-5	-5	-6	-9	-29	98	100	105	152	167
Tax	0	0	0	0	0	0	27	28	29	43	47
NPAT (pre exceptional)	-3	-5	-5	-6	-10	-30	70	72	75	110	120
Exceptional Items (after tax)	0	0	0	0	0	0	0	0	0	0	0
NPAT (reported)	-3	-5	-5	-6	-10	-30	70	72	75	110	120

Cash Flow (A\$m)

Year end 30 June	2010A	2011A	2012F	2013F	2014F	2015F	2016F	2017F	2018F	2019F	2020F
Gross Cash Flow	-1	-2	-6	-7	-9	15	140	192	192	211	224
Net Interest	1	1	2	2	2	-61	-59	-57	-54	-40	-28
Income Taxes Paid	0	0	0	0	0	0	-27	-28	-29	-43	-47
Net Operating Cashflow s	0	-2	-4	-5	-7	-46	53	107	108	128	150
Maintenance Capex	0	0	0	0	0	-1	-1	-1	-1	-1	-1
Expansion Capex	-23	-12	0	-323	-427	0	0	0	0	0	0
Exploration & Evaluation	-4	-7	0	0	0	0	0	0	0	0	0
Free Cash Flow	-27	-21	-4	-329	-434	-47	52	106	107	127	149
Net Investing Cash Flow s	-28	-20	0	-323	-427	0	0	0	0	0	0
Net Financing Cash Flow s	30	42	0	350	480	50	0	0	0	0	0
Net Cash Flow s	1	20	-4	21	46	3	52	106	107	127	149
Closing Cash Balance	6	25	21	42	88	91	143	249	357	484	632

Balance Sheet (A\$m)

Year end 30 June	2010A	2011A	2012F	2013F	2014F	2015F	2016F	2017F	2018F	2019F	2020F
Cash & Equivalents	6	25	21	42	88	91	143	249	357	484	632
Total Current Assets	8	26	21	42	88	160	279	384	492	635	784
Net PPE	23	34	34	356	781	744	709	675	644	613	584
Total Non Current Assets	84	113	113	436	861	824	788	755	723	693	664
Total Current Liabilities	2	1	0	0	0	14	27	27	27	31	31
Borrowings	0	1	1	351	831	881	881	881	881	881	881
Total Non Current Liabilities	4	4	5	355	835	885	886	886	886	886	887
Total Shareholders Equity	87	134	129	123	114	84	154	226	301	410	530

Growth

Year end 30 June	2010A	2011A	2012F	2013F	2014F	2015F	2016F	2017F	2018F	2019F	2020F
Sales Growth	nm	nm	nm	nm	nm	nm	98%	0%	0%	13%	0%
EBITDA	nm	51%	0%	16%	28%	nm	176%	-1%	0%	17%	0%
NPAT	nm	nm	nm	28%	56%	208%	nm	3%	5%	46%	9%
EPS	nm	nm	nm	28%	56%	208%	nm	3%	5%	46%	9%

**Per Share Ratios**

Year end 30 June	2010A	2011A	2012F	2013F	2014F	2015F	2016F	2017F	2018F	2019F	2020F	
PE Ratio	nm	nm	nm	nm	nm	nm	nm	1.8	1.7	1.7	1.1	1.0
Price to Book Value	0.7	0.7	1.0	1.0	1.1	1.5	0.8	0.6	0.4	0.3	0.3	0.2
Price to NTA	0.7	0.7	1.0	1.0	1.1	1.5	0.8	0.6	0.4	0.3	0.3	0.2
EPS (A¢)	-3	-3	-2	-2	-4	-12	27	28	29	42	46	
DPS (A¢)	0	0	0	0	0	0	0	0	0	0	0	
Dividend Yield (%)	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Payout Ratio	0	0	0	0	0	0	0	0	0	0	0	
Franking (%)	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
CFPS (A¢)	0	-1	-2	-2	-3	-18	21	41	42	49	58	
Book Value (A¢)	73	64	50	48	44	32	59	87	116	159	205	
NTA (A¢)	73	64	50	48	44	32	59	87	116	159	205	

Operating Ratios (%)

Year end 30 June	2010A	2011A	2012F	2013F	2014F	2015F	2016F	2017F	2018F	2019F	2020F
Op EBITDA Margin	0%	0%	0%	0%	0%	42%	59%	59%	59%	61%	61%
Op EBIT Margin	0%	0%	0%	0%	0%	19%	48%	48%	48%	52%	53%
D&A / Sales	nm	nm	nm	nm	nm	23%	11%	11%	10%	9%	8%
Interest Cover - EBIT	4	5	4	4	6	1	3	3	3	5	7
Interest Cover - GFCF	1	2	4	4	5	0	2	3	4	5	8
Tax Rate	0%	0%	0%	0%	0%	0%	28%	28%	28%	28%	28%
ROA	-4%	-5%	-4%	-2%	-1%	-3%	7%	7%	6%	9%	9%
ROE	-5%	-5%	-4%	-5%	-8%	-30%	59%	38%	29%	31%	25%

Cash Flow Analysis

Year end 30 June	2010A	2011A	2012F	2013F	2014F	2015F	2016F	2017F	2018F	2019F	2020F
Gross CF / Op EBITDA	28%	35%	98%	100%	100%	22%	72%	100%	100%	94%	100%
Maint Capex / Sales	nm	nm	nm	nm	nm	1%	0%	0%	0%	0%	0%
Total Capex / Sales	nm	nm	nm	nm	nm	1%	0%	0%	0%	0%	0%
Maint Capex / Deprec	nm	nm	nm	0%	0%	3%	3%	3%	3%	3%	4%
Total Capex / D&A	nm	nm	nm	nm	nm	3%	3%	3%	3%	3%	4%
Maint Capex / GFCF	0%	0%	0%	0%	0%	7%	1%	1%	1%	1%	0%
Grow th Spend \$M	23	13	0	323	427	0	0	0	0	0	0

Balance Sheet Analysis

Year end 30 June	2010A	2011A	2012F	2013F	2014F	2015F	2016F	2017F	2018F	2019F	2020F
Net Debt \$M	-6	-24	-16	312	747	794	742	636	529	403	254
Net Debt / Equity	-7%	-18%	-13%	254%	658%	951%	484%	283%	176%	98%	48%
Debt / Equity	0%	1%	1%	285%	733%	1056%	575%	392%	294%	215%	167%
Working Capital \$M	0	0	0	0	0	55	108	107	107	121	121
Work. Cap / Sales	nm	nm	nm	nm	nm	33	33	33	33	33	33
D & A / PPE	nm	nm	nm	0%	0%	5%	5%	5%	5%	5%	5%
Current Ratio	nm	nm	nm	214	469	11	10	14	18	21	25

Capital Structure

Year end 30 June	2010A	2011A	2012F	2013F	2014F	2015F	2016F	2017F	2018F	2019F	2020F
Opening Balance	77.1	159.4	257.9	257.9	257.9	257.9	257.9	257.9	257.9	257.9	257.9
Placement/Pro-Rata Issue	77.1	97.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Options Exercised	5.3	1.0	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	0.0
Closing Balance	159.4	257.9	257.9	257.9	257.9	257.9	257.9	257.9	257.9	257.9	257.9
FPOWA	118.2	208.6	257.9	257.9	257.9	257.9	257.9	257.9	257.9	257.9	257.9
EFPOWA	122.3	216.2	265.0	265.0	265.0	265.0	265.0	265.0	265.0	265.0	265.0

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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