

ASX Coals: Coal Price Changes
11 January 2012

Company Focus

- Company Update
- Target Price Change
- Estimate Change

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Buy/High Risk	1H
Price (11 Jan 12)	A\$0.44
Target price	A\$1.40
	from A\$1.45
Expected share price return	218.2%
Expected dividend yield	0.0%
Expected total return	218.2%
Market Cap	A\$116M
	US\$119M

Price Performance

(RIC: RES.AX, BB: RES AU)



Resource Generation (RES.AX)

A waiting game

- **Currency, thermal price lead to small downgrade** — a combination of stronger forecast ZAR/USD and lower medium-term thermal coal prices has resulted in a 4% reduction of our un-risked valuation to A\$1.84. We do not forecast a profit until FY14 and hence there is no impact to near-term earnings from changes to coal price forecasts.
- **Permitting, news flow has been slow** — regular news flow is crucial to perceptions of mine developers and the permitting process for the 6Mtpa stage 1 of the open pit Boikarabelo thermal coal mine has proved to be slow and convoluted. In particular, the award of water licences and the environmental approval for a 35km rail spur to Transnet's mainline have taken ~6 months longer than anticipated. In addition, an offtake agreement with Eskom is awaited, as is a coal haul contract with Transnet. We expect substantial movement on these items in the current half year.
- **Some progress on Stage 2** — Stage 2 will expand Boikarabelo to 18Mtpa towards the end of the decade. RES is in the process of securing water for the project via the expansion of a water treatment plant located ~50km from the mine. The plant will be capable of delivering up to 16ML/day to Boikarabelo.
- **Valuation & Recommendation** — we continue to rate RES Buy/High risk but with a lower target of A\$1.40 based on 75% of our valuation. Boikarabelo is a very large, scaleable, long-life asset with 745Mt of reserve. It must overcome its permitting hurdles in South Africa and we expect a strong re-rating as it receives the various sanctions for operation.

RES.AU revisions (Y/E Jun)	2010A	2011A	2012E	2013E	2014E
Sales (A\$m)	0.0	0.0	0.0	0.0	97.3
% revision	0.0%	0.0%	na	na	-51.0%
EBIT (A\$m)	-4.2	-6.3	-6.0	-4.1	31.5
% revision	0.0%	0.0%	0.0%	0.0%	-61.1%
Core Net Profit (A\$m)	-3.3	-5.1	-5.4	-7.3	8.4
% revision	0.0%	0.0%	0.0%	61.1%	-67.6%
Core EPS (A¢)	-2.1	-2.0	-2.1	-2.8	3.3
% revision	0.0%	0.0%	0.0%	61.1%	-67.6%
EPS Growth (%)	89.5	4.4	-7.3	-33.3	216.0
PE Ratio (x)	-21.4	-22.4	-20.9	-15.6	13.5
Dividend Yield (%)	0.0	0.0	0.0	0.0	0.0

Source: Company Reports and dataCentral, CIRA.

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RES.AX: Fiscal year end 30-Jun						Price:\$0.44; TP:\$1.40; # Shares: 263m; Market Cap: A\$116m; Recomm: Buy/High Risk					
Profit & Loss (A\$m)						Comdty & FX Forecasts					
	2011	2012E	2013E	2014E	2015E		2011	2012E	2013E	2014E	2015E
Sales revenue	0.0	0	0	97.3	274.7	Thermal coal price (US\$/t)	109.5	118.7	128.8	146.3	153.8
Cost of sales	-0.1	0	0	-57.8	-142.9	AUDUSD (analyst) (x)	0.99	1.03	1.00	0.93	0.91
EBITDA	-6.2	-6.0	-4.1	41.5	131.5	ZARUSD (analyst)	7.3	7.8	8.5	9.0	9.5
Depreciation/Amortization	-0.1	0	0	-10.0	-15.0	Long Term Forecasts					
EBIT	-6.3	-6.0	-4.1	31.5	116.5	Thermal Coal (US\$/t)					105.0
Net interest	1.2	0.6	-3.2	-15.1	-26.8	AUDUSD average					0.90
Earnings before tax	-5.1	-5.4	-7.3	16.3	89.7	Production Volumes	2011	2012E	2013E	2014E	2015E
Tax Recurring	0.0	0	0	-4.9	-26.9	Thermal coal (mt) (mt)	0.0	0.0	0.0	1.0	3.0
Exceptional/Other	0	0	0	-3.0	-22.6	Production Costs	2011	2012E	2013E	2014E	2015E
Reported net profit	-5.1	-5.4	-7.3	8.4	40.2	Cash Costs (US\$/t)	0.0	0.0	0.0	43.3	42.6
Core NPAT	-5.1	-5.4	-7.3	8.4	40.2						
Balance Sheet (A\$m)	2011	2012E	2013E	2014E	2015E						
Cash & cash equiv.	25.3	66.0	62.3	72.8	185.6						
Net fixed & other tangibles	113.2	163.2	413.2	688.1	729.3						
Total assets	139.5	230.2	476.5	761.8	915.8						
Short-term debt	0	0	0	0	0						
Long-term debt	0.9	100.9	350.9	600.9	600.9						
Total liabilities	5.4	105.4	355.4	605.4	605.4						
Shareholders' equity	134.1	124.8	121.1	156.4	310.4						
Total equity	134.2	124.8	121.2	156.5	310.4						
Net debt	-24.4	35.0	288.6	528.2	415.4						
Cashflow (A\$m)	2011	2012E	2013E	2014E	2015E						
Operating cashflow	-2.2	-6.6	-0.9	59.1	171.7						
Capex	-12.0	-50.0	-250.0	-295.9	-56.2						
Net acq/disposals	-0.7	-0.7	-0.7	-0.7	-0.7						
Exploration exp/Other	-6.8	-2.0	-2.0	-2.0	-2.0						
FCF ex acqns & explor exp	-21.7	-59.4	-253.6	-239.6	112.8						
Net change in cash	19.2	40.6	-3.6	10.4	112.8						
Per share data	2011	2012E	2013E	2014E	2015E						
Reported EPS (¢)	-2.0	-2.1	-2.8	3.3	15.6	Reserves & Resources	Reserves	Resource			
Core EPS (¢)	-2.0	-2.1	-2.8	3.3	15.6		Amount	Grd.)	Amount	Grd.)	
DPS (¢)	0	0	0	0	0	Boikarabelo Project (mt)	458.1		2,357.4		
CFPS (¢)	-0.8	-2.6	-0.3	22.9	66.6						
BVPS (¢)	52.0	48.4	47.0	60.7	120.4						
Wtd avg ord shares (m)	258	258	258	258	258						
Wtd avg diluted shares (m)	258	258	258	258	258						
Valuation ratios	2011	2012E	2013E	2014E	2015E	Valuation					
PE (x)	-22.4	-20.9	-15.6	13.5	2.8	WACC (%)					14.0
EV/EBIT (x)	-16.0	-20.0	-68.1	16.7	5.0						
EV/EBITDA (x)	-16.3	-20.0	-68.1	12.6	4.5	NPV Valuation					
FCF yield (%)	-12.5	-49.9	nm	nm	nm	Boikarabelo				US\$m	A\$/sh.
Dividend yield (%)	0	0	0	0	0	Boikarabelo & Other				412.5	1.74
Payout ratio (%)	0	0	0	0	0	Corporate costs				18.0	0.08
Operating performance	2011	2012E	2013E	2014E	2015E	Net Debt				-17.9	-0.08
EBITDA margin (%)	nm	na	na	42.6	47.9	Total				22.5	0.10
Operating ROE (%)	-4.6	-4.2	-5.9	6.1	17.2					435.1	1.84
Operating ROIC (%)	-6.4	-4.4	-1.4	4.8	12.6						
Net debt to equity (%)	-18.2	28.0	238.2	337.6	133.8						
Debt to total capital (%)	0.7	44.7	74.3	79.3	65.9						

For further data queries on Citi's full coverage universe please contact CIRA Data Services Australia New Zealand at CIRADataServicesAustraliaNZ@citi.com or +61-2-8225-4848