

## Equities

31 March 2011 | 10 pages

# Resource Generation (RES.AX)

## One approval down, two to go

- Mining Right awarded** — RES has passed a key milestone on its way to developing the Boikarabelo thermal coal mine in South Africa's Waterberg region with the award of a 30-year Mining Right. The Right clears the path for mining and is likely to facilitate coal supply agreements to domestic utilities.
- Water solution for Stage 2** — RES is preferred developer and operator of a waste water treatment plant 50km from Boikarabelo. The plant will supply up to 16ML/day of water to the mine via pipeline, which is more than sufficient for Stage 2's +15Mtpa. Stage 1 has adequate on-site bore water for the 6Mtpa planned. Capex for the plant is already included in the A\$552m budgeted for the mine.
- BEE transfer formalized** — RES' BEE partners, Fairy Wing Trading 136, were in place prior to today's announcement. Their status in the JV is formalized with the Mining Right and loan from RES of R80m (A\$12m) to complete FWT's acquisition. The loan is secured over FWT's share the JV and repayable from RES dividends.
- Look for other approvals** — Two other approvals are critical before construction begins: 1) NEMA gives environmental clearance for the rail link; 2) IWULA governs all water use in the project. NEMA is a fixed 6-month period and will be known in July 2011. IWULA could take longer but we expect a decision around July also.
- Our preference amongst emerging coals** — Our order of preference amongst emerging producers is RES, Cockatoo Coal then NEC. RES still appears heavily discounted to peers, has reserves of 745Mt and is progressing well to mining.
- Valuation & Recommendation** — We increase our target to A\$1.40 after adjusting the risk weighting on our NPV of A\$1.85 to 75% from 50%. Some very minor changes to our FY13 estimates result from adjustments to the capex schedule. We believe RES is making real progress in what can be a difficult operating environment and see continued de-risking of Boikarabelo in the coming months. We continue to rate RES as Buy.

- Company Update
- Target Price Change
- Estimate Change

<b>Buy/Speculative</b>	<b>1S</b>
Price (31 Mar 11)	A\$0.93
Target price	A\$1.40
	from A\$0.95
Expected share price return	51.4%
Expected dividend yield	0.0%
<b>Expected total return</b>	<b>51.4%</b>
Market Cap	A\$226M
	US\$233M

### Price Performance (RIC: RES.AX, BB: RES AU)



RES.AU revisions (Y/E Jun)	2009A	2010A	2011E	2012E	2013E
Sales (A\$m)	0.0	0.0	0.0	0.0	0.0
% revision	0.0%	0.0%	na	na	na
EBIT (A\$m)	-15.5	-4.2	-6.0	-6.0	-4.1
% revision	0.0%	0.0%	0.0%	0.0%	33.0%
Core Net Profit (A\$m)	-15.1	-3.3	-5.9	-5.8	-14.8
% revision	0.0%	0.0%	0.0%	0.0%	0.7%
Core EPS (A¢)	-19.7	-2.1	-2.5	-2.4	-6.2
% revision	0.0%	0.0%	0.0%	0.0%	0.7%
EPS Growth (%)	-164.4	89.5	-19.5	0.5	-152.5
PE Ratio (x)	-4.7	-45.2	-37.8	-38.0	-15.1
Dividend Yield (%)	0.0	0.0	0.0	0.0	0.0

Source: Company Reports and dataCentral, CIRA.

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See Appendix A-1 for Analyst Certification, Important Disclosures and non-US research analyst disclosures.

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**Resource Generation (RES.AX)**

31 March 2011

Fiscal year end 30-Jun											
Profit & Loss (A\$m)	2009	2010	2011E	2012E	2013E	Per share data	2009	2010	2011E	2012E	2013E
Sales revenue	0.0	0.0	0	0	0	Reported EPS (¢)	-19.7	-2.1	-2.5	-2.4	-6.2
Cost of sales	-0.1	-0.1	na	na	na	Core EPS (¢)	-19.7	-2.1	-2.5	-2.4	-6.2
Gross profit	0.0	-0.1	na	na	na	DPS (¢)	0	0	0	0	0
<b>EBITDA</b>	<b>-15.5</b>	<b>-4.1</b>	<b>-6.0</b>	<b>-6.0</b>	<b>-4.1</b>	CFPS (¢)	-1.5	-0.1	-2.6	-2.6	2.8
Depreciation	-0.1	-0.1	0	0	0	BVPS (¢)	74.2	54.3	37.2	33.7	35.7
Amortisation	0	0	0	0	0	Wtd avg ord shares (m)	77	159	239	239	239
<b>EBIT</b>	<b>-15.5</b>	<b>-4.2</b>	<b>-6.0</b>	<b>-6.0</b>	<b>-4.1</b>	Wtd avg diluted shares (m)	77	159	239	239	239
Net interest	0.4	1.0	0.1	0.2	-10.7						
<b>Earnings before tax</b>	<b>-15.1</b>	<b>-3.3</b>	<b>-5.9</b>	<b>-5.8</b>	<b>-14.8</b>	<b>Valuation ratios</b>	<b>2009</b>	<b>2010</b>	<b>2011E</b>	<b>2012E</b>	<b>2013E</b>
Tax Recurring	0	0	0	0	0	PE (x)	-4.7	-45.2	-37.8	-38.0	-15.1
Non-op/Except/Extraord	0.0	-0.1	0	0	0	EV/EBIT (x)	-14.4	-52.4	-36.6	-53.4	nm
Minority interests	0	0	0	0	0	EV/EBITDA (x)	-14.5	-53.5	-36.6	-53.4	nm
Associates	0	0	0	0	0	FCF yield (%)	-2.2	-16.4	-2.8	-92.8	-96.0
<b>Reported net profit</b>	<b>-15.2</b>	<b>-3.4</b>	<b>-5.9</b>	<b>-5.8</b>	<b>-14.8</b>	Dividend yield (%)	0	0	0	0	0
Core NPAT	-15.1	-3.3	-5.9	-5.8	-14.8	Payout ratio (%)	0	0	0	0	0
<b>Half year data (A\$m)</b>	<b>1H10</b>	<b>2H10</b>	<b>1H11</b>	<b>2H11E</b>	<b>1H12E</b>	<b>Growth rates</b>	<b>2009</b>	<b>2010</b>	<b>2011E</b>	<b>2012E</b>	<b>2013E</b>
Sales revenue	0	0	0.1	0	0	Sales revenue (%)	-91.2	35.0	nm	na	na
EBIT	-1.6	-2.6	-3.8	-2.2	-3.0	EBIT (%)	nm	72.7	-42.1	-0.4	32.7
Core NPAT	-1.0	-2.3	-3.5	-2.2	-2.9	Core NPAT (%)	nm	78.3	-79.1	0.5	nm
Core EPS (¢)	-0.6	-1.4	-1.5	-0.9	-1.2	Core EPS (%)	nm	89.5	-19.5	0.5	nm
<b>Balance Sheet (A\$m)</b>	<b>2009</b>	<b>2010</b>	<b>2011E</b>	<b>2012E</b>	<b>2013E</b>	<b>Operating performance</b>	<b>2009</b>	<b>2010</b>	<b>2011E</b>	<b>2012E</b>	<b>2013E</b>
Cash & cash equiv.	5.1	6.1	8.4	50.2	34.8	Gross margin (%)	-245.0	-240.7	na	na	na
Accounts receivables	0.5	1.7	1.7	1.7	1.7	EBIT margin - Group	na	na	na	na	na
Inventory	0	0	0	0	0						
Net fixed & other tangibles	56.2	84.4	84.4	284.4	504.4	Operating ROA (%)	-27.9	-4.3	-6.3	-2.7	-3.4
Goodwill & intangibles	0	0	0	0	0	Operating ROE (%)	-29.2	-4.6	-6.7	-6.9	-17.8
Financial & other assets	0	0.0	0.0	0.0	0.0	Operating ROIC (%)	-30.7	-6.0	-7.1	-3.3	-1.0
<b>Total assets</b>	<b>61.8</b>	<b>92.2</b>	<b>94.5</b>	<b>336.3</b>	<b>540.9</b>						
Accounts payable	0.6	1.6	1.6	1.6	1.6	Net debt to equity	-8.9	-7.0	-9.5	247.9	487.2
Short-term debt	0	0	0	0	0	Debt to total capital (%)	0.0	0.0	0.0	75.6	84.1
Long-term debt	0	0	0	250.0	450.0	Interest coverage (x)	na	na	na	na	-0.38
Provisions & other liab	4.0	4.1	4.1	4.1	4.1						
<b>Total liabilities</b>	<b>4.6</b>	<b>5.7</b>	<b>5.7</b>	<b>255.7</b>	<b>455.7</b>	<b>Production Volumes</b>	<b>2009</b>	<b>2010</b>	<b>2011E</b>	<b>2012E</b>	<b>2013E</b>
Shareholders' equity	57.2	86.5	88.8	80.6	85.2	Thermal (export) (mt)	0.00	0.00	0.00	0.00	0.00
Minority interests	0.0	0.0	0.0	0.0	0.0	Hard Coking (export) (mt)	0.00	0.00	0.00	0.00	0.00
<b>Total equity</b>	<b>57.2</b>	<b>86.5</b>	<b>88.9</b>	<b>80.6</b>	<b>85.2</b>						
<b>Net debt</b>	<b>-5.1</b>	<b>-6.1</b>	<b>-8.4</b>	<b>199.8</b>	<b>415.2</b>	<b>Operating Metrics</b>	<b>2009</b>	<b>2010</b>	<b>2011E</b>	<b>2012E</b>	<b>2013E</b>
<b>Cashflow (A\$m)</b>	<b>2009</b>	<b>2010</b>	<b>2011E</b>	<b>2012E</b>	<b>2013E</b>	Cash Costs (A\$/t)	0.00	0.00	0.00	0.00	0.00
EBITDA	-15.5	-4.1	-6.0	-6.0	-4.1	Cash Costs (US\$/t)	0.00	0.00	0.00	0.00	0.00
Working capital	0	0	0	0	0	Average Price Received	0.00	0.00	0.00	0.00	0.00
Net interest paid	0.4	1.0	-0.1	-0.2	10.7	Average Price Received	0.00	0.00	0.00	0.00	0.00
Tax paid	0	0	0	0	0						
Other	13.9	3.0	0	0	0	<b>Commodity&amp;FX</b>	<b>2009</b>	<b>2010</b>	<b>2011E</b>	<b>2012E</b>	<b>2013E</b>
<b>Operating cashflow</b>	<b>-1.2</b>	<b>-0.1</b>	<b>-6.2</b>	<b>-6.2</b>	<b>6.6</b>	AUDUSD (analyst)	0.74	0.88	0.96	1.01	0.88
Capex	-0.4	-24.2	0	-200.0	-220.0	Hard coking (export) (US\$/t)	260.8	146.0	246.0	288.8	207.5
Net acq/disposals	-2.3	0	0	0	0	Thermal (export) (US\$/t)	98.2	84.1	104.9	122.5	97.5
Exploration exp/Other	-3.9	-4.3	-2.0	-2.0	-2.0						
<b>Investing cashflow</b>	<b>-6.6</b>	<b>-28.5</b>	<b>-2.0</b>	<b>-202.0</b>	<b>-222.0</b>						
Dividends paid	0	0	0	0	0						
<b>Financing cashflow</b>	<b>11.4</b>	<b>29.6</b>	<b>10.5</b>	<b>250.0</b>	<b>200.0</b>						
<b>Net change in cash</b>	<b>3.8</b>	<b>1.0</b>	<b>2.3</b>	<b>41.8</b>	<b>-15.4</b>						
<b>FCF ex acquisns &amp;</b>	<b>-7.8</b>	<b>-28.6</b>	<b>-8.2</b>	<b>-208.2</b>	<b>-215.4</b>						

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## Resource Generation

### Valuation

Our target price of \$1.40/share is set as a 75% risk weighting to our NPV of \$1.85 per share. Our NPV is based on DCF analysis using a 14.5% discount rate and a US\$90/t long term thermal coal price. We believe a 75% risk weighting to our NPV is appropriate given the early stage of the project as well as the infrastructure barriers that need to be overcome.

### Risks

We rate RES as a Speculative risk given the non producing nature of its assets. Key risks to achieving our target price are as follows:

**Commodity price:** Coal prices have become more volatile over the past 5 years as the historically bulk traded market has moved to a more terminal market approach. At the same time China has been swinging from importers to exporters to importers of coal which has had a significant effect on the supply-demand balance of the seaborne market. Given the big coal resources that China has, there is always the risk that it could increase domestic production and turn again to a net exporter of coal, having a negative influence on the coal price.

**Rail:** RES's coal assets are located in the Waterberg region of South Africa. The region is not as well serviced by infrastructure as the coal fields of the Witbank are.

**Political Risk:** South Africa has had a revolution in its minerals industry in the past decade with the implementation of Black Economic Empowerment.

If the impact on the company from any of these factors proves to be greater than we anticipate, the stock will likely have difficulty achieving our target price. However, should they be less than anticipated, the stock could trade above our target price.

## Cockatoo Coal Limited

(COK.AX; A\$0.49; 1H)

### Valuation

Our target price for Cockatoo is A\$0.70/share and is based on our NPV of A\$0.68. We assume Bowen Basin expansion to 3Mtpa in 2014, development of Woori in the Surat Basin to 3.5Mtpa by 2015 and include undeveloped resources at A\$0.43/t. Our resource multiple is based on the average of coal project transactions over the last 3 years. Our long-term coal price assumptions are US\$90/t and US\$120/t for thermal and PCI and a A\$/US\$ exchange rate of 0.80.

### Risks

We rate Cockatoo High Risk because of the long development timeframe and funding requirements. Specific risks to achieving our target price are as follows:

Infrastructure: a key risk to Cockatoo's growth plans. The company is well placed with Stage 1 of WICET but longer-term conceptual plans of 9-14Mtpa need rail and port.

Funding and dilution: we estimate capex for Woori and the Bowen Basin expansion is A\$700m or ~1x the current market cap.

Coal Prices: variations to our coal price and exchange rate forecasts present a risk to forecast earnings and hence company valuation.

Product mix: the proportion of PCI sold from Baralaba is very volatile and a swing in the mix can have a large impact on earnings.

If the impact on the company from any of these factors proves to be greater than we anticipate, the stock will likely have difficulty achieving our target price. However, should they be less than anticipated, the stock could trade above our target price.

## Northern Energy Corporation Limited

(NEC.AX; A\$1.67; 2H)

### Valuation

Our target of A\$1.85 represents New Hope's offer price as recommended by the majority of NEC's board. Our NPV is A\$1.32, comprising a risk weighting to the Maryborough hard coking coal project of 50% due to delays in permitting. We risk weight Elimatta to 25% given sales are unlikely prior to 2015 and the almost A\$600m needed for construction.

### Risks

We rate NEC High Risk because of long lead times to production, infrastructure challenges and large funding requirements. Specific risks are:

Coal prices: NEC is leveraged to hard coking coal. Higher than forecast prices would increase our valuation. A weakening steel cycle would negatively impact our forecasts.

Infrastructure: Lack of access could delay projects while approval adds certainty and would support share prices.

Capital: NEC has capital requirements ~3x market cap. Several options are open to the company including partial asset sales. Investments by strategic partners would reduce this risk.

A last minute alternative offer for the company from a 3rd party has upside risks to our target price.

If the impact on the company from any of these factors proves to be greater than we anticipate, the stock will likely have difficulty achieving our target price. However, should they be less than anticipated, the stock could trade above our target price

# Appendix A-1

## Analyst Certification

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### IMPORTANT DISCLOSURES

#### Resource Generation (RES.AX)

##### Ratings and Target Price History Fundamental Research

Analyst: David Haddad  
Covered since September 22 2010

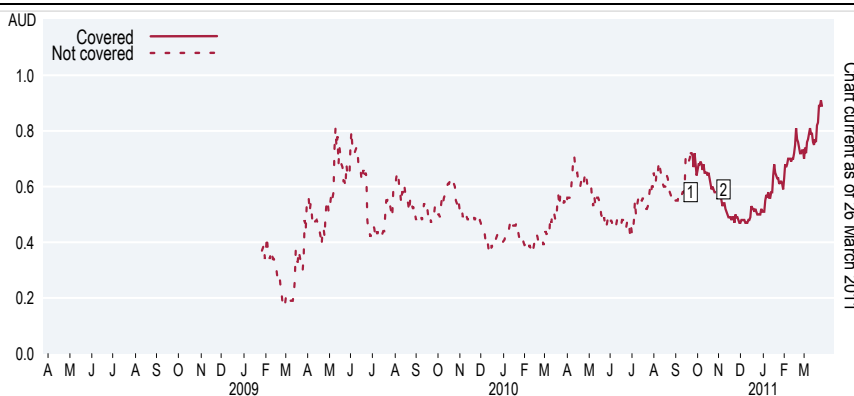


Chart current as of 26 March 2011

	Date	Rating	Target Price	Closing Price
[1]	22-Sep-10	*1S	*1.00	0.72

	Date	Rating	Target Price	Closing Price
[2]	8-Nov-10	1S	*0.95	0.54

\* Indicates change

Rating/target price changes above reflect Eastern Standard Time

#### Resource Generation (RES.AX)

##### Ratings and Target Price History Best Ideas Research Relative Call (3 Month)

Analyst: David Haddad  
Covered since September 22 2010

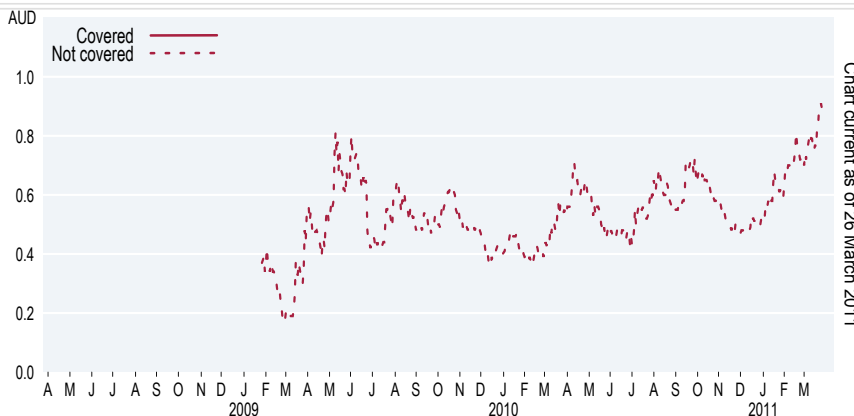


Chart current as of 26 March 2011

\* Indicates change

Rating/target price changes above reflect Eastern Standard Time

### Cockatoo Coal Limited (COK.AX)

#### Ratings and Target Price History

#### Fundamental Research

Analyst: David Haddad

Covered since September 22 2010

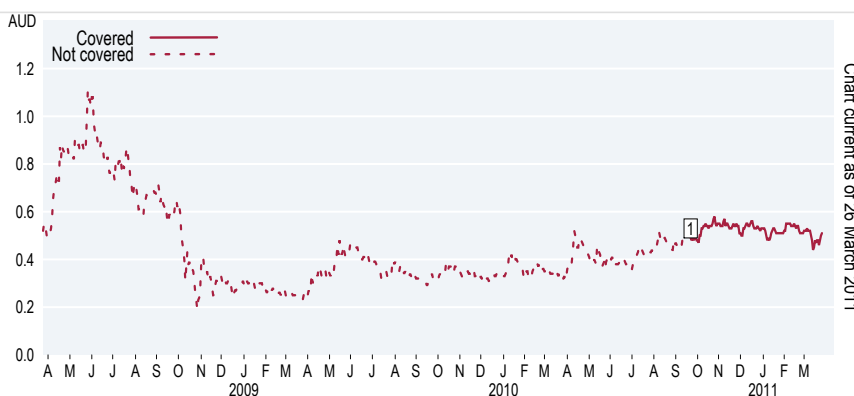


Chart current as of 26 March 2011

	Date	Rating	Target Price	Closing Price
1	22-Sep-10	*1H	*0.70	0.49

\* Indicates change

Rating/target price changes above reflect Eastern Standard Time

### Cockatoo Coal Limited (COK.AX)

#### Ratings and Target Price History

#### Best Ideas Research

#### Relative Call (3 Month)

Analyst: David Haddad

Covered since September 22 2010

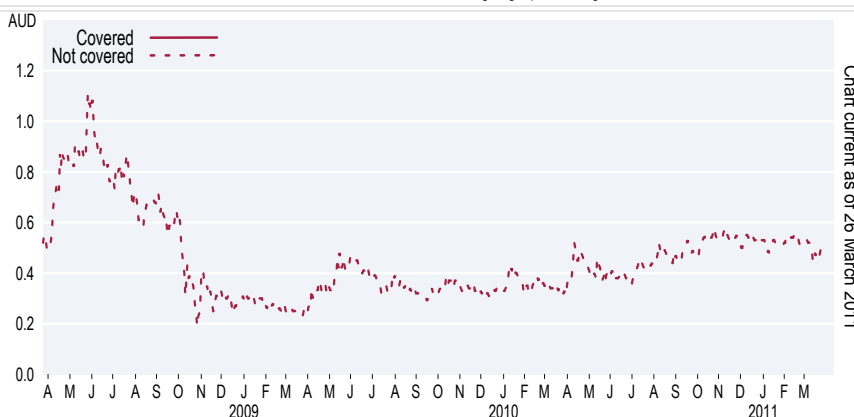


Chart current as of 26 March 2011

\* Indicates change

Rating/target price changes above reflect Eastern Standard Time

### Northern Energy Corporation Limited (NEC.AX)

#### Ratings and Target Price History

#### Fundamental Research

Analyst: David Haddad

Covered since September 22 2010

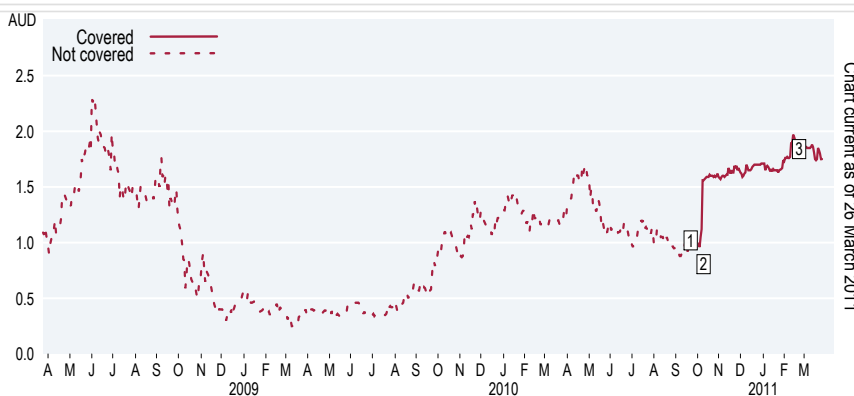


Chart current as of 26 March 2011

	Date	Rating	Target Price	Closing Price
1	22-Sep-10	*2H	*1.15	0.96

\* Indicates change

	Date	Rating	Target Price	Closing Price
2	11-Oct-10	2H	*1.75	1.56

	Date	Rating	Target Price	Closing Price
3	22-Feb-11	2H	*1.85	1.84

Rating/target price changes above reflect Eastern Standard Time

**Northern Energy Corporation Limited (NEC.AX)**

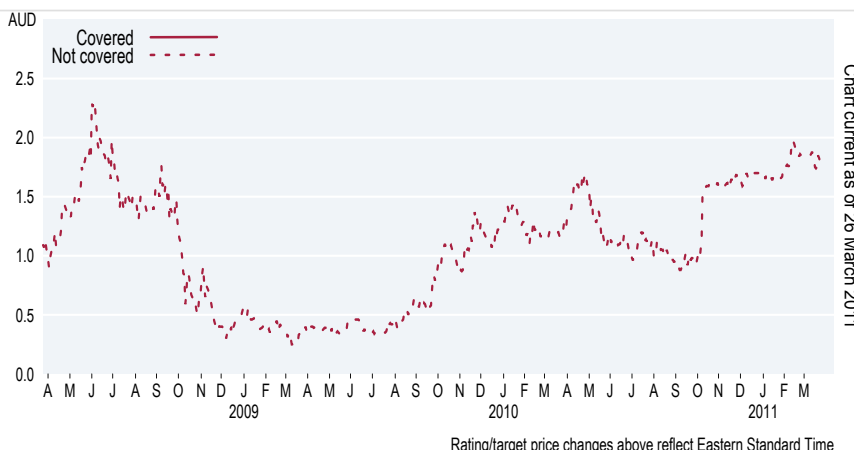
**Ratings and Target Price History**

**Best Ideas Research**

**Relative Call (3 Month)**

Analyst: David Haddad

Covered since September 22 2010



\* Indicates change

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**Citi Investment Research & Analysis Ratings Distribution**

Data current as of 31 Dec 2010

	12 Month Rating			Relative Rating		
	Buy	Hold	Sell	Buy	Hold	Sell
Citi Investment Research & Analysis Global Fundamental Coverage	52%	37%	11%	0%	100%	0%
% of companies in each rating category that are investment banking clients	45%	44%	40%	0%	44%	0%

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To satisfy regulatory requirements, we correspond Under Review to Hold in our ratings distribution table for our 12-month fundamental rating system. However, we reiterate that we do not consider Under Review to be a recommendation.

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David Haddad; Craig Sainsbury; Clarke Wilkins; Daniel Seeney; Meredith Schwarz

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**OTHER DISCLOSURES**

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