



COMPANY UPDATE | COMMENT

AUGUST 24, 2011

Resource Generation Ltd. (ASX: RES)
FY11 result immaterial; approvals next catalysts

Outperform
Speculative Risk

Table with 4 columns: Metric, Value, Metric, Value. Includes Price (0.55), Price Target (1.00), Implied All-In Return (82%), Market Cap (142), Dividend (0.00), Yield (0.0%), NAVPS (1.58), P/NAVPS (0.3x), BVPS (0.75), P/BVPS (0.7x).

Major shareholders: Integrated Coal Mining 11.6%
Priced as of 2.25pm Australian EDT, August 24, 2011.

Event

Resource Generation reported its FY11 financials.

Investment Opinion

Resource Generation reported an FY11 loss of A\$5m, in-line with RBCe and slightly lower than the A\$3m loss reported in FY10. The result, however, is immaterial from a valuation perspective given the exploration and development stage of the Boikarebello project.

Eskom/Transnet agreements key: We maintain our view that agreements with Eskom (offtake) and Transnet (haulage) are crucial for underpinning the viability of the Boikarebello project.

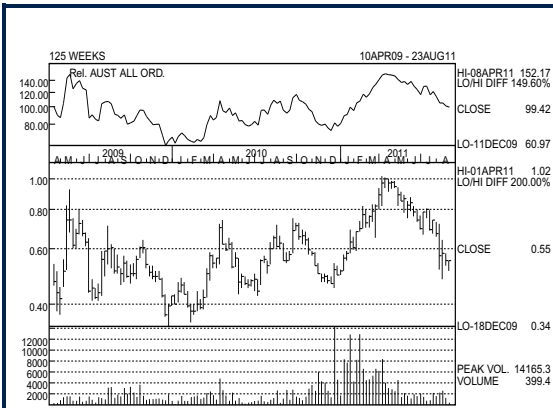
Mining Right confirmation: On August 12, RES announced it had received an appeal regarding the granting of the Boikarebello Mining Right. The objections are immaterial according to management and were considered during the initial application process;

Funding: As noted in the June quarterly, initial submissions for debt funding have been in excess of the Company's anticipated debt requirements.

Earnings changes: We have incorporated the result and made no adjustments to our estimates. These result in immaterial changes.

Outperform, A\$1.00 target: We continue to see substantial value in the RES development projects, key drivers of near term value will be an Eskom offtake and Transnet rail haulage agreement.

Priced as of prior trading day's market close, EST (unless otherwise noted).
For Required Non-U.S. Analyst and Conflicts Disclosures, see page 4.



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Table with 4 columns: FY Jun, 2011A, 2012E, 2013E. Rows include Adj EPS - Basic, P/AEPS, Cash Cost, Prod.

All values in AUD unless otherwise noted.

Exhibit 1: Summary financials

Resource Generation								
ASX: RES	Share Price: (A\$ps)	0.57	Year end:	Jun	Stock Rating:	Outperform	Price Target:	A\$1.00
	Mkt Cap: (A\$MM)	287	Issued shares (m)	508	Risk Qualifier:	Speculative	NAV:	A\$1.58
ASSUMPTIONS								
Exchange Rate	A\$/US\$	0.99	1.01	0.97	0.93	0.90	0.82	
Exchange Rate	US\$/ZAR	7.01	7.28	7.63	8.05	8.50	8.36	
Thermal coal (FY avg)	US\$/t	106	125	105	89	85	83	
Coking coal (FY avg)	US\$/t	189	181	133	110	105	100	
RATIO ANALYSIS								
Shares on issue	MM	258	508	508	508	508	508	
EPS reported	A¢	-2.0	-1.1	-0.9	-3.4	0.2	9.6	
EPS (pre sig. items)	A¢	-2.0	-1.1	-0.9	-3.4	0.2	9.6	
P/E	x	nmf	nmf	nmf	nmf	>50x	5.9x	
CFPS	A¢	(0.6)	(1.1)	(0.9)	(3.4)	3.2	19.1	
P/CF	x	nmf	nmf	nmf	nmf	17.8x	3.0x	
DPS	A¢	0.0	0.0	0.0	0.0	0.0	0.0	
Dividend yield	%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	
Franking Level	%	0%	0%	0%	0%	0%	0%	
Book value per share		0.52	0.75	0.74	0.70	0.73	0.89	
P/Book value	x	1.1x	0.8x	0.8x	0.8x	0.8x	0.6x	
R.O.E. (pre sig items)	%	-4%	-1%	-1%	-5%	0%	11%	
R.O.A. (pre sig items)	%	-4%	-1%	-1%	-1%	6%	17%	
Interest Cover	x	5.1x	-1.8x	-3.0x	-0.2x	1.5x	4.4x	
EBITDA per share	A\$ps	-0.02	-0.01	-0.01	-0.01	0.11	0.34	
EV/EBITDA	x	nmf	nmf	nmf	nmf	4.5x	1.5x	
EARNINGS								
Sales Revenue	A\$MM	0	0	0	0	145	414	
Other Revenue	"	0	0	0	0	0	0	
Total Revenue	"	0	0	0	0	145	414	
Operating costs	"	0	0	0	0	(82)	(237)	
Operational EBITDA	"	0	0	0	0	63	177	
Exploration Expense/Write-offs	"	(1)	0	0	0	0	0	
Corporate & Other Costs	"	(6)	(5)	(5)	(5)	(5)	(5)	
EBITDA	"	(6)	(5)	(5)	(5)	58	172	
D&A	"	(0)	0	0	0	(4)	(11)	
EBIT	"	(6)	(5)	(5)	(5)	54	160	
Net Interest	"	1	(3)	(2)	(20)	(36)	(37)	
Profit Before Tax	"	(5)	(8)	(7)	(25)	17	124	
Tax Expense	"	0	2	2	8	(5)	(38)	
Minorities	"	(0)	0	0	0	(11)	(37)	
Net Profit After Tax	"	(5)	(5)	(5)	(17)	1	49	
Significant Items (post tax)	"	0	0	0	0	0	0	
Reported NPAT	"	(5)	(5)	(5)	(17)	1	49	
CASHFLOW								
Operational Cash Flow	A\$MM	-2	-5	-5	-5	58	172	
Net Interest	"	1	(3)	(2)	(20)	(36)	(37)	
Tax Paid and Other	"	(0)	2	2	8	(5)	(38)	
Net Operating Cashflow	"	(2)	(5)	(5)	(17)	16	97	
Exploration	"	(7)	(5)	(5)	(5)	(5)	(5)	
Capital Expenditure	"	(9)	(70)	(280)	(280)	(76)	(8)	
Investments	"	(1)	0	0	0	0	0	
Sale of PPE and Other	"	(3)	0	0	0	0	0	
Net Investing Cashflow	"	(20)	(75)	(285)	(285)	(81)	(13)	
Dividends Paid	"	0	0	0	0	0	0	
Debt	"	0	450	0	50	0	0	
Equity Issuance	"	50	250	0	0	0	0	
Other	"	(8)	0	0	0	0	0	
Net Financing Cashflow	"	42	700	0	50	0	0	
Net change in cash	"	20	619	(290)	(253)	(65)	84	
BALANCE SHEET								
Cash & Equivalents	A\$MM	25	645	355	102	37	121	
PP&E & Mine Development	"	34	104	384	664	736	732	
Exploration	"	68	74	79	84	89	95	
Total Assets	"	140	834	830	862	874	959	
Debt	"	1	451	451	501	501	501	
Total Liabilities	"	5	455	455	505	505	505	
Total Net Assets / Equity	"	134	379	374	357	369	454	
Net Debt / (Cash)	"	(24)	(194)	96	399	464	380	
Gearing (net debt/(nd + equity))	%	(22%)	(105%)	20%	53%	56%	46%	
Gearing (net debt/equity)	%	(18%)	(51%)	26%	112%	126%	84%	
ATTRIBUTABLE MINE STATS								
Coal Production (equity)								
Boikarabelo (74%)	mt	0.0	0.0	0.0	0.0	1.7	4.4	
Total coal production	mt	0.0	0.0	0.0	0.0	1.7	4.4	
Coal Sales (equity)								
SSCC	mt	0.0	0.0	0.0	0.0	0.0	0.0	
Thermal - Export	mt	0.0	0.0	0.0	0.0	0.8	2.2	
Thermal - Domestic	mt	0.0	0.0	0.0	0.0	0.8	2.2	
Total coal sales	mt	0.0	0.0	0.0	0.0	1.7	4.4	
Avg Cash Price Realised	US\$/t	0.0	0.0	0.0	0.0	58.0	56.6	
Avg Cash Cost	US\$/t	0.0	0.0	0.0	0.0	32.5	32.1	
Cash Margin	US\$/t	0.0	0.0	0.0	0.0	25.5	24.4	
RESERVES AND RESOURCES (Mt)								
	Resources	Reserves	EV/t Resource					
Waterberg #1 SW	426	314	0.03					
Waterberg #1 NE	552	-						
Witkopje S & Kalkpan	664	431	EV/t Reserve					
Draai Om	791	-						
Witkopje N	688	-	0.13					
Total	3122	745						
ATTRIBUTABLE PRODUCTION AND CASH COST PROFILE								
	Boikarabelo (74%)	Avg Cash Cost	Avg Cash Price Realised					
	mt	US\$/t						
FY11								
FY12E								
FY13E								
FY14E								
FY15E								
FY16E								
CASHFLOW								
	Net Op Cashflow	Net Inv Cashflow	Dividends	Debt	Equity	Net Debt		
	A\$M							
FY11								
FY12E								
FY13E								
FY14E								
FY15E								
FY16E								
EQUITY DCF VALUATION								
Projects	A\$MM	A\$ps						
Boikarabelo (74%)	408	1.58						
Corporate	-25	-0.10						
Net Cash / (Debt)	24	0.09						
Net Equity Value (@ 8% real d.r.)	407	1.58						
Shares on issue (m)	258							

Source: Company data, RBC Capital Markets estimates



Valuation

Our NAV for the Stage 1, 6mtpa development is \$1.59. We model a more conservative development path than management forecasts: we incorporate \$700m capex vs. the targeted \$552m, and we also assume a 12-month delay to start-up, with first coal from end 2014. In setting our price target, we consider the need for an equity raising. We adjust our base case NAV to incorporate the dilutive effects of a \$250m raising (\$50m more than management anticipates) at \$1 per share. While this is at a premium to the current share price, we consider that by the time an equity raising is required RES will have completed its rail agreements, Eskom offtake, approvals, BFS and debt funding, and as such will be materially de-risked, which would be expected to see the share price trade higher. In addition, given the degree of risk that remains with the project in terms of timeline, capex, and development hurdles, we set our price target at a 25% discount to our NAV post adjusting for the equity raising. This is a greater-than-usual discount for development projects in our bulk commodities coverage universe, reflecting a view that the market is likely to more heavily discount the project given it is in South Africa. This results in a price target of \$1.00.

Price Target Impediment

As with all mining companies, world economic growth, commodity prices and currency fluctuations could materially affect Resource Generation's earnings and valuation. There is also material development risk, with a possibility that the project takes longer and costs more to develop than management estimates. Infrastructure access poses a risk for Resource Generation: without rail-haulage agreements, it will not be able to get its product to market, undermining the project's viability. A sales agreement with Eskom will also be key to underpinning the economic viability of the project, and this is yet to be secured. In addition, the mining rights, water usage and rail development approval are yet to be granted.

Company Description

Resource Generation is developing the Boikarabelo thermal coal project in the Waterberg coal fields, 300km north of Johannesburg, South Africa. The resource is substantial at 3bt. Stage 1 targets production of 6mtpa, split between 3mtpa export thermal coal and 3mtpa domestic thermal coal sales. Capital costs are estimated at \$552m and at this stage are unfunded. Operating costs are forecast to be extremely favourable; we estimate an overall average unit cost of approximately US\$33/t, benefiting from 0.6:1 strip ratios. The development is at an advanced stage, with the majority of work done and final approvals anticipated over the next three to six months. Offtake has been arranged for 1.5mt of the export coal, a port allocation is in place, and a domestic sales agreement with Eskom is under negotiation as is a rail-haulage agreement with Transnet. Longer-term, RES envisages a substantial expansion to 18mtpa production.

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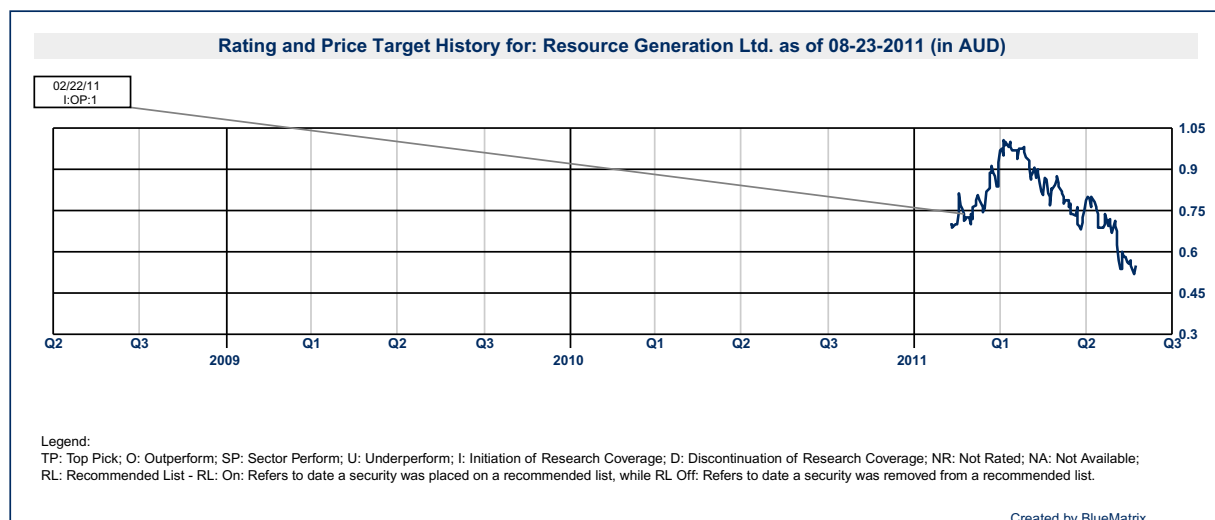
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