



Resource Generation

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- ▶ **Resource hauls in South African coal deal**
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Resource hauls in South African coal deal

RESOURCE Generation continues to chip away at the “sovereign risk” label it carries for developing a promising coal project in South Africa.

Shares in the Australian company, which has a secondary listing on the Johannesburg Stock Exchange, shot up more than 20 per cent yesterday before paring gains, after the company said it secured a haulage agreement that would cover production in the first phase of development of its Boikarabelo project in South Africa’s Waterberg region.

Having cleared that hurdle, the company is keen to tie down banks for funding.

The 10-year “take or pay” contract with state-owned Transnet was the last major hurdle to the Australian mining company moving ahead with banks that had already expressed an interest in funding the project. The target for initial production had been set back while talks with Transnet had dragged on.

“We will now start marching those banks through due

diligence,” managing director Paul Jury said.

Based on indicative offers, Jury said that funding from the banks should cover about half of Resource Generation’s expected \$750 million capital expenditure on the project. The company would have to return to equity markets for the balance, he said.

The contract between Resource Generation’s Ledjadja black economic empowerment subsidiary and Transnet allows for 4 million tonnes of coal to be hauled in the first year, 5 million in the second and 6 million thereafter, the company says.

The Waterberg is forecast to become the main source of coal in South Africa as mining companies develop operations there. It is estimated to hold some 40 per cent of South Africa’s remaining coal resources, much of it sitting close to the surface.

Bhushan Steel in late 2010 agreed to buy 500,000 tonnes a year for five years and then at least that amount for a further 15 years.

ROBB M. STEWART



Resource Generation (RES) 30c

PAUL Jury, the South African coal developer's chief, was nursing a head cold yesterday and couldn't drink, but that didn't stop him from celebrating ResGen overcoming a key hurdle in funding its mine in the Waterberg region.

ResGen's black-empowerment arm Ledjadja Coal has signed a 10-year take-or-pay rail haulage deal with Transet Freight Rail, enabling it to deliver up to 6 million tonnes of coal a year from its Boikarabelo mine to Indian customers. The haulage deal was the last obstacle to overcome before ResGen could approach banks "which have confirmed they are keen to provide funding" for the \$US750m project.

Jury, who has form in building coalmines, plans to use the "capitalisation model" of bedding down debt funding ahead of an equity raising, even if it's more expensive.

Boikarabelo has probable re-

serves of 745 million tonnes on the 35 per cent of tenements under its control, but there's a broader resource of up to 6.5 billion tonnes.

Although initial revenue will be driven by export sales, ResGen expects to strike a domestic supply deal with utility Eskom, which needs fuel for new generators.

Thermal prices have slumped 30 per cent over the past year but Jury says ResGen will be a low-cost producer because there's only 30m of overburden over the coal seam, which is 130m-150m thick.

Over the long term, Jury expects a 50-50 split between higher-margin export sales and domestic contracts.

We had ResGen as a **spec buy** at 76c last July. Given that makes the stock worth twice the value now, we maintain the call so long as about half the capex will be equity-funded.

borehamt@theaustralian.com.au



Boikarabelo haulage

Resource Generation signed a coal haulage contract for its Boikarabelo coalmine in South Africa, the last major hurdle before finalising project finance. Production could start in late 2014, managing director Paul Jury said. **Angela Macdonald-Smith**