

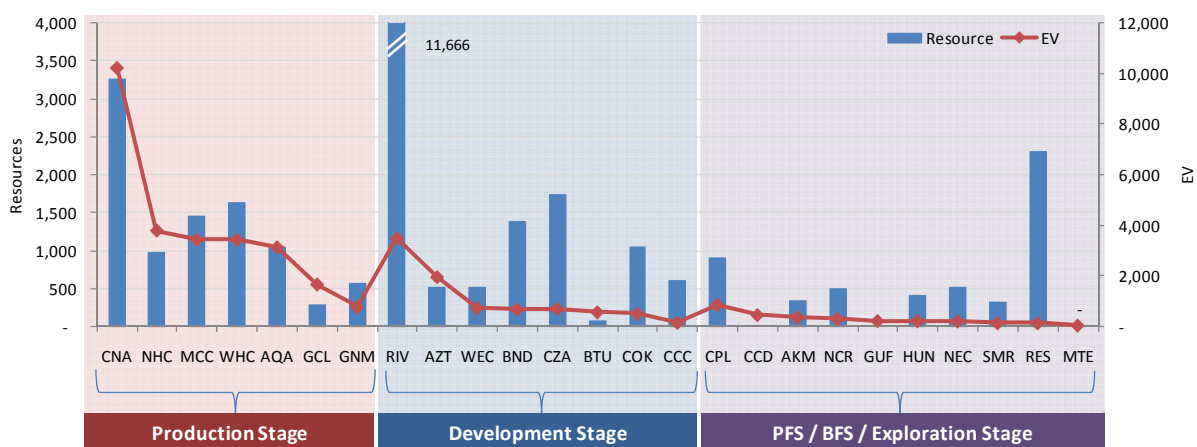
# Emerging Australian Coal Producers

## Take Advantage of M&A Potential & Development Curve Re-rating – AZT, BND, BTU, GUF, WEC

### Coal Sector Consolidation to Continue – Moving Down the Market Cap Spectrum

- We are bullish on the overall coal sector consolidation theme. Over the last 3 years, most of the listed independent larger and medium sized coal companies have been taken out or are already in-play
- We see an emerging theme of strategic investors moving down the market cap spectrum to settle their voracious appetite for off-take. Given the continuing strength in coal prices and the premium the market applies for converting development projects into production, coal producers also continue to be acquisitive
- Given that many of the potential beneficiaries are relatively smaller and have lower liquidity we believe a basket approach to the group makes sense. A basket helps to mitigate some specific risks, gives you multiple “lottery tickets” and can help to benefit from companies at different stages of the development life-cycle J-curve
- Our preferred plays span a range of sizes and development stage, but all are independent and could be potential acquisition targets. Our preferred names are: Aston Resources (AZT AU), White Energy (WEC AU), Bandanna Energy (BND AU), Bathurst Resources (BTU AU) and Guildford Coal (GUF AU). We also highlight ResGen (RES AU), Nucoal (NCR AU) and Stanmore (SMR AU) as other interesting small caps.

### Australian Coal Space: EV & Reserves Across Mine Life-cycle



Source: Knight Asia Research, Bloomberg, ASX, Company Data

### Development Life Cycle to Provide Backstop

Even in the absence of specific M&A activity, we believe the emerging coal explorers and producers will benefit from a number of factors:

- Continued positive sentiment and speculation regarding consolidation lifting “all ships”
- Movement towards key milestones such as Bankable Feasibility Studies (BFS), mine construction and first production de-risk a company and move it up the value spectrum (EV/Resource → EV / Reserve → EV / production )
- Significant newsflow in the form of drilling results, resource upgrades, maiden reserves, feasibility studies, etc...
- Other meaningful corporate activity such as significant shareholder stake acquisitions, JV sell-downs and offtake /marketing agreements
- Increased analyst coverage, especially by “bulge bracket” research houses can also have a significant impact on stock performance

**Benefits of a Basket Approach**

- Mitigates single mine risk and idiosyncratic project risk
- Diversifies away some of the logistics concerns over port and rail access, especially in new areas such as the Surat Basin and Galillie Basin
- Multiple “lottery tickets” to capture potential M&A targets
- Allows for larger position size through a basket approach, with some of the most attractive names relatively illiquid

**As the Australian Coal Space Has Consolidated, Opportunity Has Moved Down the Market Cap Spectrum**

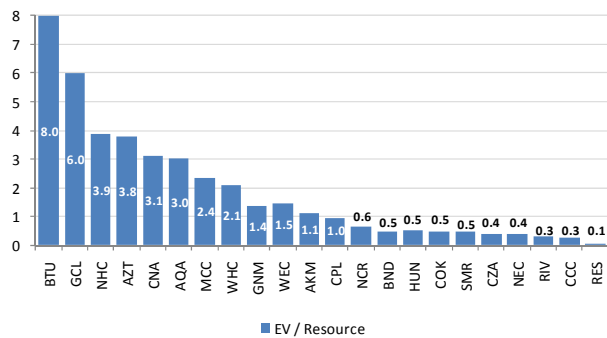
Ticker	Name	US\$ Market Cap (Deal Value)	Potential Target	Major SH Stake	Total Insiders / Strategic Holders	Major Shareholder	Other Insiders / Strategic & Significant Holders	Notes
CNA AU Equity	Coal & Allied Industries Ltd	10,357	☒	75.7%	85.9%	Rio Tinto	Mitsubishi	Rio controlled
NHC AU Equity	New Hope Corp Ltd	3,902	☒	59.7%	70.9%	Wash. H Soul	Mitsubishi	Tightly held by SOL
RIV AU Equity	Riversdale Mining Ltd	3,718	☑ In Play	24.1%	52.3%	Tata Steel	Rio Tinto / CSN	In play by Rio
MCC AU Equity	Macarthur Coal Ltd	3,684	☑ In Play	15.9%	45.4%	CITIC	Arcelor Mittal / Peabody / POSCO	CITIC seems to be unwilling seller
AQA AU Equity	Aquila Resources Ltd	3,410	☒	28.9%	43.1%	Mgmt	Baosteel	Large management / Baosteel stake. Iron Ore / Magnesium exposure as well
WHC AU Equity	Whitehaven Coal Ltd	3,481	☑ In Play	37.6%	71.9%	First Res. / AMCI	Mgmt	Data room open, Kores / Daewoo Int'l said to have bid on the table
	Felix Resources Ltd	2,595				Yanzhou Coal		Acquired on 13-Aug-2009
AZT AU Equity	Aston Resources Ltd	1,831	☑	31.6%	45.2%	Tinkler Group	Farallon / Kuok Group	Itochu bought 15% of project. Nathan Tinkler sold last project to MCC
	Centennial Coal Co Ltd	1,852				Banpu		Acquired on 05-Jul-2010
	Excel Coal Ltd	1,702				Peabody		Acquired on 05-Jul-2006
GCL AU Equity	Gloucester Coal Ltd	1,671	☒	65.3%	65.3%	Noble		Noble controlled
WEC AU Equity	White Energy Co Ltd	896	☑	34.0%	34.0%	Mgmt		Ex-Felix team. Building out portfolio through asset injection.
CPL AU Equity	Coalspur Mines Ltd	893	☑	19.8%	38.1%	Colin Steyn	Mgmt	Ex-Lionore management.
	Resource Pacific Holdings Ltd	859				Xstrata		Acquired on 05-Dec-2007
BND AU Equity	Bandanna Energy Ltd	776	☑	67.0%	77.0%	Mgmt	SAMTAN	Large management control stake. Recently appointed UBS as strategic advisor
CZA AU Equity	Coal Of Africa Ltd	788	☑	16.0%	16.0%	Arcelor Mittal		Mittal Stake
GNM AU Equity	Gujarat Nre Coking Coal Ltd	655	☒	76.5%	76.5%	Gujarat NRE Coke		Gujarat NRE controlled. Recently conducted small sell down
BTU AU Equity	Bathurst Resources Ltd	659	☑	14.0%	32.6%	Matthews	L1 Cap. / Management	Open register. Recently appointed UBS as strategic advisor
COK AU Equity	Cockatoo Coal Ltd	544	☑	13.2%	36.4%	POSCO	SK Group / KEPCO / KORES	Upcoming equalization with Mitsui.
CCD AU Equity	Caledon Resources Plc-Cdi	449	☑ In Play	29.9%	53.1%	Polo Resources		CCD has recommended bid by Guangdong Rising
AKM AU Equity	Aspire Mining Ltd	380	☑	24.2%	67.0%	Mgmt	SouthGobi / Mong. Vendors / Noble	Significant stake held by insiders, strategic investors. Recent Noble purchase
NCR AU Equity	Nucoal Resources NI	348	☑	19.2%	37.8%	Taurus	Andrew Poole / Sparta / Aquila	Ex-Cumnock, Xstrata Team
	Austral Coal Ltd	298				Xstrata		Acquired on 23-Feb-2005
GUF AU Equity	Guildford Coal Ltd	284	☑	48.5%	70.9%	Mgmt	Och Ziff /	Large management stake
HUN AU Equity	Hunnu Coal Ltd	256	☑	8.5%	21.5%	Credit Suisse	L1 Capital / Mgmt	
NEC AU Equity	Northern Energy Corp Ltd	241	☑ In Play	12.7%	23.5%	Xingang Res	Mgmt / Wash. H Soul	New Hope Bid
RES AU Equity	Resource Generation Ltd	184	☑	7.5%	7.5%	CESC	CVC / Management	Ex-Resource Pacific Team. Offtake with Bhushan, CESC / Integrated Coal
SMR AU Equity	Stanmore Coal Ltd	155	☑	25.4%	25.4%	Mgmt		
CCC AU Equity	Continental Coal Ltd	147	☑	6.7%	6.7%	Revecom		Kores has 37% stake at asset level.
	Cumnock Coal	143				Xstrata		Acquired on 09-Oct-2007

Source: Knight Asia Research, Bloomberg, ASX, Company Data

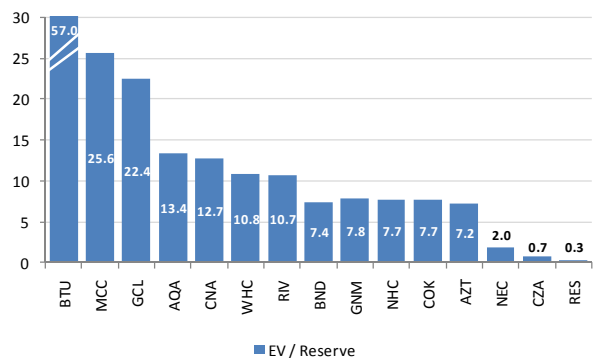
**Opportunity Down the Market Cap Spectrum**

- Of the 6 companies with a market capitalization greater than US\$ 2bn, 3 are already “in play” in one form or the other (RIV, MCC, WHC), while the remaining 3 are already associated with a larger group (CNA with Rio / Mitsubishi) or likely to be net acquirers (NHC, AQA)
- In the chart above, we detail the shareholding structure of the remaining players in the listed Australian coal space. We believe the most opportunity lies in companies with large management shareholdings or relatively fragmented registers.

**EV / Resource**



**EV / Reserve**

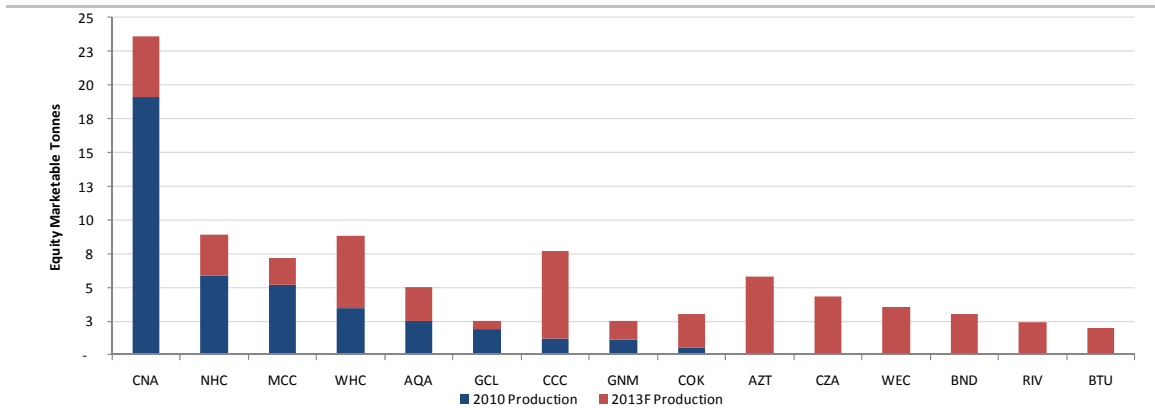


Source: Knight Asia Research, Bloomberg, ASX, Company Data

Source: Knight Asia Research, Bloomberg, ASX, Company Data

- Recent M&A transactions, strategic sales and JV arrangements in the smaller scale coal miners has increased with relatively recent activity including:
  - New Hope's hostile bid for Northern Energy
  - Itochu's recent 15% stake purchase in Aston's Maules Creek project
  - POSCO and Cockatoo Coal's joint purchase of Anglo's Bylong mine
  - Guangdong Rising and Polo Resources attempts to take over Caledon Resources
  - International coal trader AMCI's earn-in agreement for Bandanna's South Galilee Project
  - Adani's recent purchase of Link Energy's Galilee Basin assets

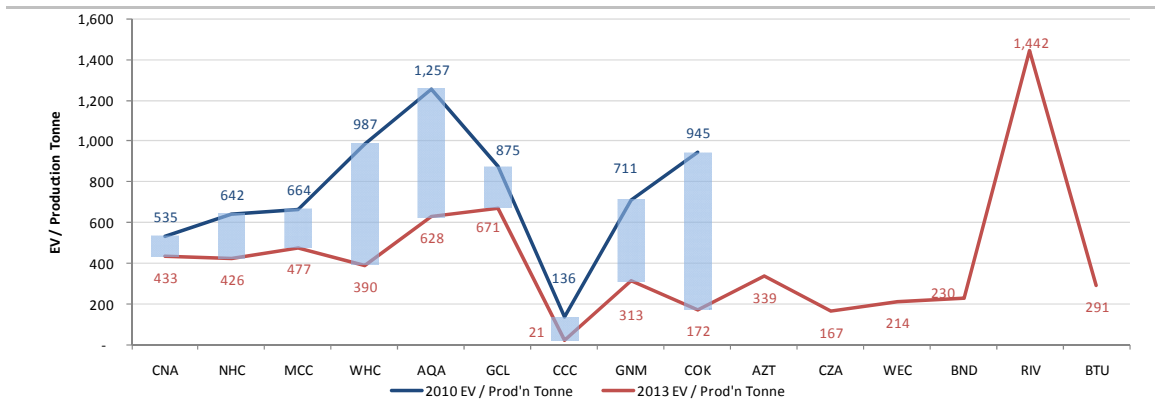
**Current Production and Forecast 2013 Production**



Source: Knight Asia Research, Bloomberg, ASX, Company Data. N.B. assumes WEC's proposed acquisition of Cascade is completed

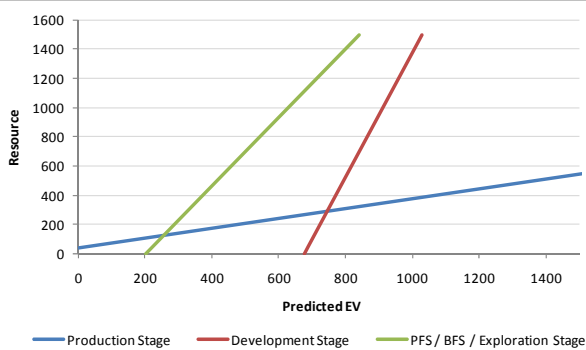
- As shown in the below charts, de-risking a project and moving into production can create significant valuation re-rating, which adds further attraction to investing in earlier stage coal miners.

**EV / Production Tonne – 2010 and 2013E**



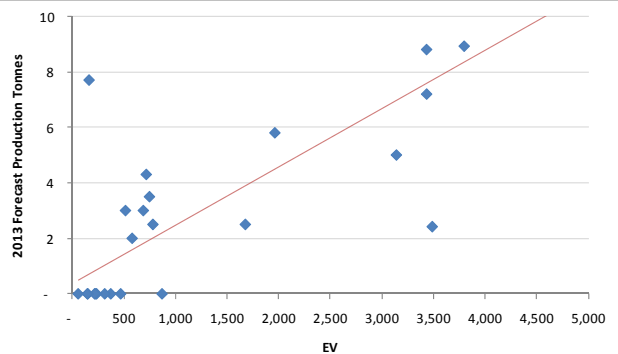
Source: Knight Asia Research, Bloomberg, ASX, Company Data. N.B. assumes WEC's proposed acquisition of Cascade is completed

**Predicted EV / Resource Trend**



Source: Knight Asia Research, Bloomberg, ASX, Company Data

**EV / 2013F Production Tonnes**

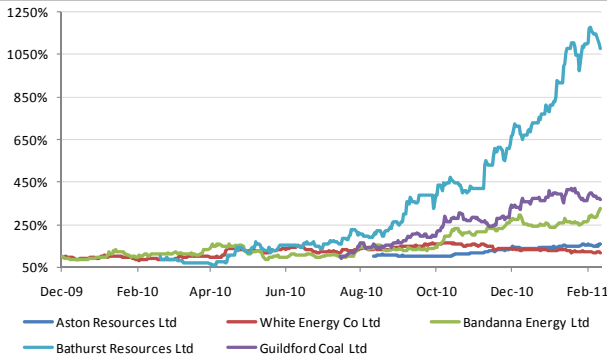


Source: Knight Asia Research, Bloomberg, ASX, Company Data

**Buy a Basket of Emerging Coal Producers – AZT, WEC, BND, BTU and GUF**

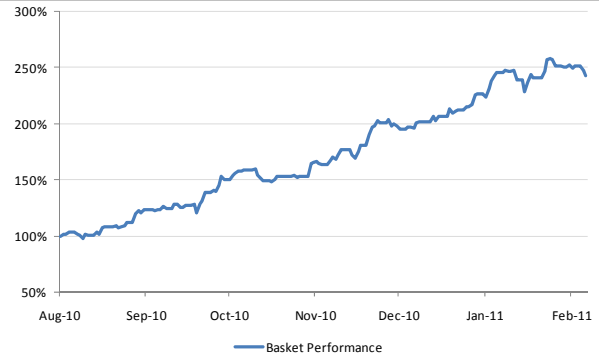
We recommend buying a basket of emerging Australian coal miners to capitalize on continued corporate activity in the sector as well as to capture some of the valuation uplift as these companies move from exploration towards production.

**5 Stock Basket – Individual Stock Performance**



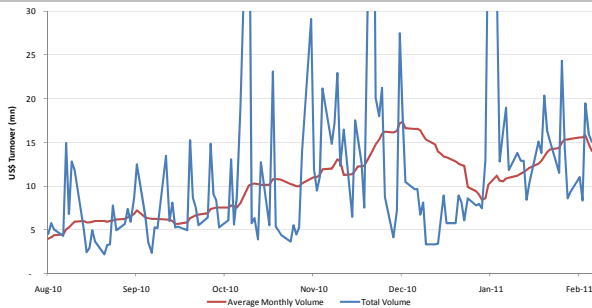
Source: Knight Asia Research, Bloomberg, ASX, Company Data

**5 Stock Basket – Equally Weighted Performance**



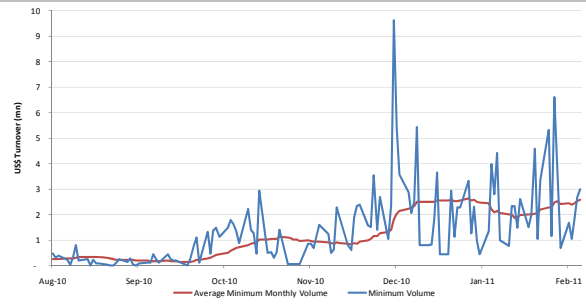
Source: Knight Asia Research, Bloomberg, ASX, Company Data – Lease liqui

**5 Stock Basket – Total Daily Liquidity**



Source: Knight Asia Research, Bloomberg, ASX, Company Data

**5 Stock Basket – Minimum Daily Liquidity**



Defined as least liquid stock in the basket multiplied by basket size (5).  
Source: Knight Asia Research, Bloomberg, ASX, Company Data – Lease liqui

**5 Stock Basket – Daily Return Correlation**

	AZT	WEC	BND	BTU	GUF
AZT	100%	10%	18%	3%	4%
WEC	10%	100%	10%	15%	23%
BND	18%	10%	100%	9%	11%
BTU	3%	15%	9%	100%	15%
GUF	4%	23%	11%	15%	100%

Source: Knight Asia Research, Bloomberg, ASX, Company Data

**5 Stock Basket – Average Daily Liquidity**

	AZT	WEC	BND	BTU	GUF
1 Month	\$3.2	\$2.4	\$1.6	\$6.1	\$0.7
3 Month	\$4.0	\$3.4	\$1.2	\$4.5	\$0.8
6 Month	\$3.2	\$3.5	\$0.8	\$3.1	\$0.6
12 Month	\$3.3	\$2.8	\$0.4	\$1.7	\$0.6

Source: Knight Asia Research, Bloomberg, ASX, Company Data

**Basket Details**

- The overall basket has had a strong run, up 150% since August. That said, we still see a number of positive catalysts and valuation support from resource increases, de-risking towards production and a continued M&A backstop
- The overall liquidity of the 5 stocks has improved over the last year with the 5 stocks trading a total of US\$ 14mn per day. Guildford is relatively illiquid trading only US\$ 800k per day, which could limit the size of a basket if equally weighted
- The 5 stocks are relatively uncorrelated, which should help basket diversification. This is in line with the lower realized correlation seen in earlier stage coal names, where exploration and development stage stocks have lower correlation with each other at 9% and 13% respectively, compared to 25% correlation among producers
- While difficult to hedge, we would recommend Rio Tinto (RIO AU) as a potential hedge, as it has a 43% correlation with the basket since August 2010 (the date of Aston’s IPO)

## Recommended Basket

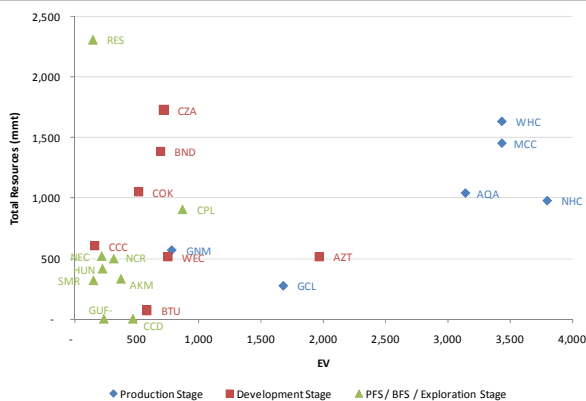
### 1) Aston Resources (AZT AU, Mcap US\$1.8bn, ADV US\$ 4.1mn):

*Overview:* Aston has a world class deposit in its Maules Creek mine, which it purchased from Rio during the financial crisis. Itochu's recent asset level purchase implies a project value of A\$ 2.3bn for the Maules Creek project. Itochu has the first right of refusal to purchase an additional 10% stake until 14 June 2011. Management has indicated any additional stakes will be done at a premium. The Itochu sell down partially finances the ~\$500mn of projected capex for Maules Creek and we understand that management is considering debt financing options to fill the financing gap. We also believe there is significant scope for additional reserve and resource increases from the Northern pit of Maules Creek.

*Shareholders:* Aston is controlled by Nathan Tinkler, with 31.6%. Tinkler sold his Custom Mining group to Macarthur Coal in 2007. Other significant shareholders are the Kuok group and Farallon, who helped provide pre-IPO financing.

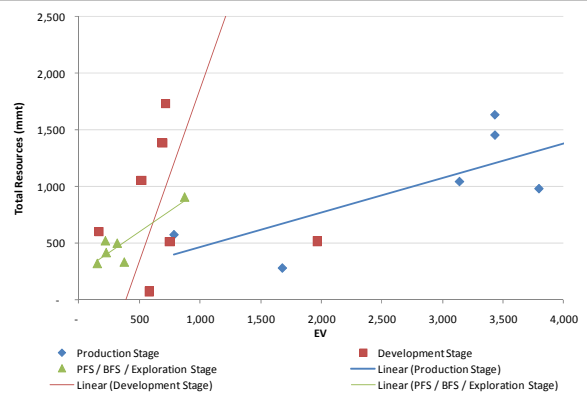
*Valuation and Catalysts:* Aston is currently trading at 3.8x EV / Resource and 7.2x EV / Reserve. While it has had a strong run and is not optically cheap, as the largest and most liquid of the emerging coal names we believe it has good scope for significant upside. It should have good newsflow with a potential additional stake sale to Itochu, reserve and resource news out of the Northern pit and potential debt financing as catalysts. Furthermore, given the high quality of the mine, significant met coal content and the relatively short path to production (first coal targeted 2012) we would not rule out additional corporate interest surround AZT.

EV / Resource By Development Stage



Source: Knight Asia Research, Bloomberg, ASX, Company Data

EV / Resource Trend By Development Stage



Source: Knight Asia Research, Bloomberg, ASX, Company Data

### 2) White Energy (WEC AU, Mcap US\$ 900mn, ADV US\$ 3.5mn):

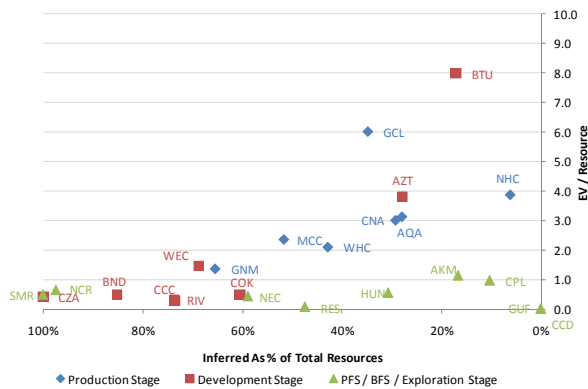
*Overview:* White Energy was initially floated to commercialize the White Coal briquetting technology, which takes high moisture sub-bituminous coal and upgrades its energy content per tonne, while reducing moisture. WEC has a number of JV's with coal producers globally to take advantage of the technology. The most advanced of these is WEC's 1mtpa Kaltim Supacoal ("KSC") project with Bayan Resources in Indonesia. KSC has had some teething pains but is set to hit its 1mtpa name-plate capacity from mid-2011. The Company has undergone a management change since 2009, with the board and key management now populated with the former Felix Resources team. The Company has expanded its strategy to also become a coal producer, through the injection of holdings of two companies associated with the ex-Felix team. The first is South Australian Coal, which was completed last year, while the second acquisition of Cascade Coal will be up for shareholder vote in March '11.

*Shareholders:* Management holds ~25% of WEC, which could increase to ~35% following the Cascade acquisition. While there may be some corporate governance concerns regarding the related party nature of these transactions, we believe the addition of direct coal assets is positive for WEC, given the longer than expected time line of the briquetting technology.

*Valuation and Catalysts:* White Energy is currently trading at 1.4x EV / Resource. If we assume the Cascade acquisition goes through, WEC would be trading at 1.7x EV / Resource and 11.2 EV / Reserve. The stock has been a significant underperformer, likely due to delays and early production problems at KSC. Also, we understand there has been some

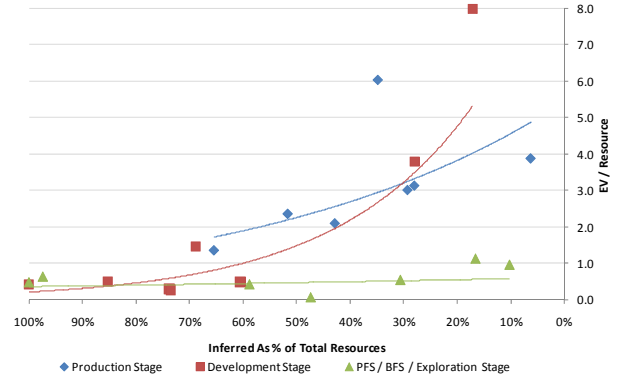
selling pressure associated with its A\$ 45mn CB which have been converting. We think there should be positive catalysts upcoming through improving newsflow at KSC, and the potential for Cascade to move WEC to a medium term producer, targeting 3.5 to 4mtpa of production from 2013.

**EV / Resource Relative to Inferred Resources as Percentage of Total Resources**



Source: Knight Asia Research, Bloomberg, ASX, Company Data

**EV / Resource Relative to Inferred Resources as Percentage of Total Resources – Regression Trend**



Source: Knight Asia Research, Bloomberg, ASX, Company Data

**3) Bandanna Energy (BND AU, Mcap US\$ 780mn, ADV US\$ 1.3mn):**

*Overview:* Bandanna has a significant resource portfolio with ~1.4bn of reserves in the Bowen and Galilee basins. Its three key areas of focus are its Bowen Basin “Golden Triangle” projects (consisting of Springsure Creek, Arcturus and Arcadia), its potential PCI mine at Dingo West and the South Galilee Project. Dingo West is likely to be the first to be developed, with management targeting 2012 first production. The Golden Triangle projects are located within 50km of each other, and management believes there may be scope to develop a production base of greater than 20mtpa. The projects have close proximity to existing rail infrastructure. The South Galilee project has a earn-in with international coal traders AMCI, where AMCI can earn in 50% by providing the first \$25mn of development capex. Management believes that the South Galilee Project has the capacity to produce 15 – 20mtpa of thermal coal. The Galilee pre-feasibility is expected shortly. Bandanna has attained 4mtpa of port access for WICET Stage 1 to facilitate its Bowen Basin coal exports from 2014. Bandanna recently announced the appointment of UBS in order to conduct a strategic review of its development options. In 2010, the Company divested its coal seam gas projects to focus solely on development of its coal properties.

*Shareholders:* Bandanna is controlled by its management team, holding ~ 67%. Key management and founders include Jeremy Barlow (co-founder of mining consultant Barlow Jonker), Robert Johansen (founded the listed company’s predecessor Bandanna Coal) and Norm Zillman (ex-MD of Queensland Gas). In late 2009, Bandanna sold a 10% stake to SAMTAN, a private Korean resources company, best known for its 49% stake in the Kideco (Indika Energy, INDY IJ) mine in Indonesia. The deal included giving SAMTAN marketing rights for Bandanna’s coal in Korea and the right to negotiate 20% of Bandanna’s offtake.

*Valuation and Catalysts:* Bandanna is currently trading at 0.5x EV / Resource and 7.7x EV / Reserve. The stock has performed well, but remains attractively priced, in our view, at 0.5x Resource, which compares favorably to 1.9x EV / Resource average for “Development” stage coal stocks. We believe there should be significant catalysts in the near to medium term with the South Galilee PFS, additional drilling at Dingo West and potential newsflow related to the UBS strategic review.

**4) Bathurst Resources (BTU AU, Mcap US\$ 613mn, ADV US\$ 4.3 mn):**

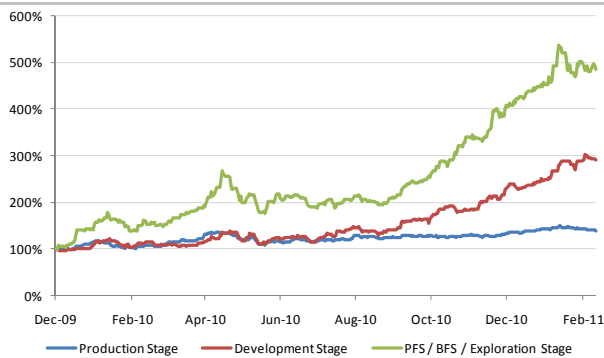
*Overview:* Bathurst’s Buller project is currently relatively small, but is of very high quality and has low proposed capex outlay. One of the key highlights of Buller is that almost the entire existing export infrastructure is in place as it is adjacent to a government-run hard coking coal export mine. Furthermore, the quality of the hard coking coal at Buller has tested to be extremely high, with management expecting to receive a 5 – 15% premium to international prices. Bathurst is fully funded into production through its recent offtake agreement with international steel trading house Stemcor. The Stemcor offtake covers 45% of production for the first 1mtpa, 30% at greater than 1mtpa and 37.5% at 2mtpa. Bathurst is consolidating its position through the recent acquisition of Eastern Resources, which added 25.7t of

resource. The Company is targeting first production in late 2011 or early 1Q2012. It is currently awaiting environmental approvals and will begin construction shortly after these are received. Following M&A speculation in the press, Bathurst hired UBS as a corporate advisor in early February 2011.

**Shareholders:** Bathurst has a relatively open register, with the largest shareholder being investment fund Matthews Capital at 14.0%, followed by L1 Capital at 12.75%. Management holds a stake of approximately 6%.

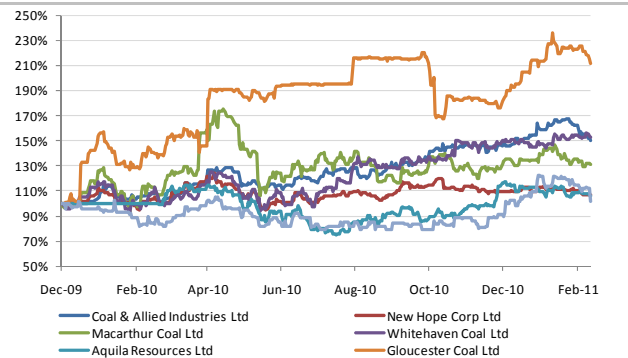
**Valuation and Catalysts:** Bathurst is currently trading at 7.9x EV / Resource and 56x EV / Reserve. While BTU looks expensive on EV / Resource and Reserve metrics, we believe it still has significant value given its close proximity to production and its high quality hard-coking coal resource. At its 2013 2mtpa production target, the stock is trading at US\$ 288 / production tonne, which compares favorably to the average 2013 forecast EV / production tonne of US\$ 482mn of coal producing stocks. As a point of reference, Macarthur Coal, also known for its high quality asset base, is trading at US\$ 670 / 2010 tonnes and US\$ 480 / 2013 tonnes respectively. Upcoming catalysts include environmental approval, commencement of construction and any corporate related activity.

**Average Price Performance – By Development Stage**



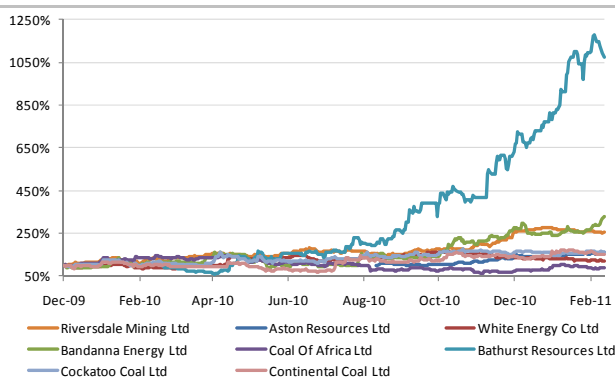
Source: Knight Asia Research, Bloomberg, ASX, Company Data

**Price Performance – Producers**



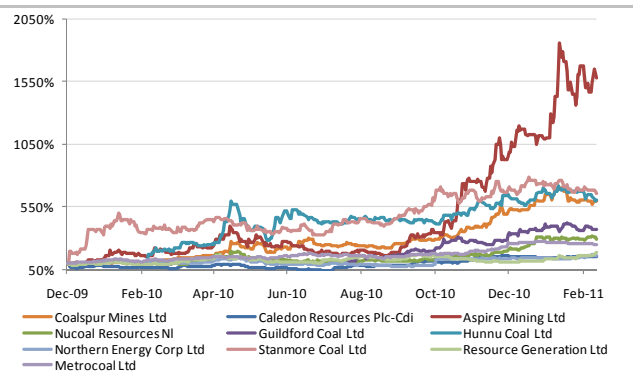
Source: Knight Asia Research, Bloomberg, ASX, Company Data

**Price Performance – In Development Stage**



Source: Knight Asia Research, Bloomberg, ASX, Company Data

**Price Performance – PFS / BFS / Exploration Stage**



Source: Knight Asia Research, Bloomberg, ASX, Company Data

**5) Guilford Coal (GUF AU, Mcap US\$ 284mn, ADV US\$ 0.8 mn):**

**Overview:** Guilford Coal is an emerging coal exploration company with significant tenements (21k square km) in the Bowen and Galilee Basins. Management’s strategy has been to acquire a number of pre-JORC assets in Queensland and bring them through the development cycle. Guilford had targeted coming out with its maiden resource in the 4<sup>th</sup> quarter of 2010, but drilling was delayed by the Queensland rain and flooding. We expect the release of the resource to occur over the next few months, which may provide a significant catalyst for the stock. Guildford is also looking for other acquisition opportunities and hopes to build out a significant portfolio of resources. Management believes that its existing cash balance of ~ US\$ 50mn will be able to take them through bankable feasibility studies for 3 of their projects. Its Hughenden project in the Galilee Basin is in a similar coal seam as a number of large Galilee Basin project (Linc / Adani, Waratah Coal, Hancock and Bandanna). Hughenden 20% JV partner, Carpentaria (CAP AU), just announced (22

Feb 11) that it will fund its pro-rata exploration costs for the project. While liquidity is light at US\$ 0.8mn, Guildford is one of the more liquid names of the junior coal explorers in Australia.

**Shareholders:** Management has a significant stake of 48.5% through the Chairmen1 vehicle. Other significant shareholders include Och Ziff with 12.6%.

**Valuation and Catalysts:** Guildford has no current reserve or resource so is difficult to value. That said, it should release a resource soon and has a relatively good portfolio of prospective projects. Its strong cash position should limit medium term capital raising requirements.

**Australian Coal Stock Correlations (1-Year)**

	Production Stage	In-Development Stage	Exploration Stage
<b>Mean</b>	25%	13%	9%
<b>Median</b>	16%	13%	12%
<b>Min</b>	3%	2%	-20%
<b>Max</b>	51%	35%	27%

Source: Knight Asia Research, Bloomberg, ASX, Company Data

**Production Stage– Avg. 1y Correlation of 25%**

	CNA	NHC	MCC	WHC	AQA	GCL	GNM
<b>CNA</b>	100%	28%	24%	31%	25%	16%	14%
<b>NHC</b>	28%	100%	41%	43%	44%	13%	14%
<b>MCC</b>	24%	41%	100%	51%	44%	14%	10%
<b>WHC</b>	31%	43%	51%	100%	44%	16%	15%
<b>AQA</b>	25%	44%	44%	44%	100%	13%	16%
<b>GCL</b>	16%	13%	14%	16%	13%	100%	3%
<b>GNM</b>	14%	14%	10%	15%	16%	3%	100%

Source: Knight Asia Research, Bloomberg, ASX, Company Data

**Development Stage – 1y Avg. Correlation of 13%**

	RIV	AZT	WEC	BND	CZA	BTU	COK	CCC
<b>RIV</b>	100%	9%	21%	26%	13%	11%	35%	13%
<b>AZT</b>	9%	100%	10%	18%	2%	3%	4%	4%
<b>WEC</b>	21%	10%	100%	10%	9%	15%	16%	13%
<b>BND</b>	26%	18%	10%	100%	14%	9%	19%	2%
<b>CZA</b>	13%	2%	9%	14%	100%	9%	17%	7%
<b>BTU</b>	11%	3%	15%	9%	9%	100%	17%	14%
<b>COK</b>	35%	4%	16%	19%	17%	17%	100%	18%
<b>CCC</b>	13%	4%	13%	2%	7%	14%	18%	100%

Source: Knight Asia Research, Bloomberg, ASX, Company Data

**Exploration Stage – Avg. 1y Correlation of 9%**

	CPL	CCD	AKM	NCR	GUF	HUN	NEC	SMR	RES	MTE
<b>CPL</b>	100%	12%	17%	16%	22%	27%	16%	-7%	16%	15%
<b>CCD</b>	12%	100%	-5%	-2%	3%	13%	5%	-20%	11%	15%
<b>AKM</b>	17%	-5%	100%	4%	2%	19%	2%	16%	12%	2%
<b>NCR</b>	16%	-2%	4%	100%	13%	12%	8%	12%	3%	7%
<b>GUF</b>	22%	3%	2%	13%	100%	0%	9%	16%	-2%	15%
<b>HUN</b>	27%	13%	19%	12%	0%	100%	14%	10%	8%	12%
<b>NEC</b>	16%	5%	2%	8%	9%	14%	100%	15%	14%	21%
<b>SMR</b>	-7%	-20%	16%	12%	16%	10%	15%	100%	7%	9%
<b>RES</b>	16%	11%	12%	3%	-2%	8%	14%	7%	100%	11%
<b>MTE</b>	15%	15%	2%	7%	15%	12%	21%	9%	11%	100%

Source: Knight Asia Research, Bloomberg, ASX, Company Data

**Additional Names of Interest:**

For those interested in a larger basket or with lower liquidity constraints, we also highlight 3 additional names: RES, NCR and SMR.

**Resource Generation (RES AU, Mcap US\$ 186mn, ADV US\$ 0.8mn):** ResGen has a very large South African resource and reserve base of 2.3bn and 551mn tones respectively. ResGen is managed by the ex-Resource Pacific team, who sold that company to Xstrata in 2007. The Company has a relatively open share register with offtake partner CESC being the largest shareholder at 7.5%. ResGen looks to be one of the cheapest listed coal stocks in Australia on an EV / Resource basis, trading at 0.1x.

**Nucoal (NCR AU, Mcap US\$ 351mn, ADV US\$ 0.6mn):** Management is formerly of Xstrata Coal and Cumnock Coal. Nucoal has developed 500mn of inferred resources at Doyles Creek in New South Wales. Nucoal recently raised \$30mn, which should fully fund the company into bankable feasibility. NCR targets to produce semi-soft coking and thermal coal. Management will focus on infill drilling to move inferred resources up to indicated / measured. Doyles Creek is adjacent to Xstrata’s United Collieries and Peabody’s Wambo mine. Nucoal is targeting to complete PFS and BFS by mid 2012 and early 2013 respectively. Key shareholders include Taurus Funds (19.5%), Andrew Poole (director, 7.2%), Sparta Group (6.6%) and Aquila (3.9%).

**Stanmore (SMR AU, Mcap US\$ 156 mn, ADV US\$ 0.6 mn):** Management holds 25% through its St. Lucia Resource vehicle. Stanmore has two development projects and 5 exploration targets, with a total 318mt of inferred resources. SMR is targeting to increase some of its resources at the Range and Mackenzie River to reserve status this year in order to obtain WICET Stage 2 allocation. Has an attractive exploration tenement at its Kerlong project in the Bowen Basin which is located near Peabody’s Burton, BMA’s South Walker Creek, Vale’s Carborough Downs and Macarthur’s Coppabella.



**Key Highlights**

- We are bullish on the coal sector and expect to see continued consolidation in the sector by both producers and strategic customers
- As most of the larger liquid plays have been taken over, are currently in-play or are likely net acquirers, we believe opportunity has moved down the market cap spectrum
- We recommend buying a basket of 5 stocks which we think could be medium term M&A targets, look interesting from a fundamental perspective and have upcoming catalysts: Aston Resource (AZT AU), White Energy (WEC AU), Bandanna Energy (BND AU), Bathurst Resources (BTU AU) and Guilford Coal (GUF AU)
- A basket approach allows for larger position size with average liquidity amongst these 5 stocks at US\$ 2.8mn per day, for a total average daily traded value of ~US\$ 14mn
- A basket approach allows for multiple “lottery tickets” from an M&A and idiosyncratic risk perspective
- As all the stocks in the basket are pre-production, they should benefit from successful execution and de-risking of their projects.
- The market assigns a significantly higher multiple to stocks with production: producers command an average EV / Resource of 3.2x, compared to an average 1.3x EV / Resource for pre-production stocks
- The 5 stocks are at different stages of production, have exposure to different coal basins and represent a range of asset qualities (WEC’s sub-bituminous coal to BTU’s premium-hard coking coal) which should provide diversification benefits
- The overall basket has relatively low correlation with an average of 11.8%

**Significant Risks**

- 4 out of the 5 stocks in the basket, like most coal stocks, have had very strong performance since the global financial crisis
- Any significant and prolonged decrease in coal prices will have a negative effect of the coal sector, though we do believe their remains an M&A backstop
- A hard landing in China could significantly impact the global seaborne coal market
- The basket is relatively difficult to hedge, given the idiosyncratic nature of pre-production mining stocks
- The recent adverse weather conditions in Queensland show the importance of environmental risks to mining stocks
- The overall regulatory and political environment surrounding mining in Australia is an ongoing risk, especially following last year’s proposed implementation of the RSPT / MRRT
- Ongoing M&A by foreign companies in the mining sector, especially from Chinese entities, may put political pressure on the ongoing M&A story and may result in a more difficult FIRB approval process

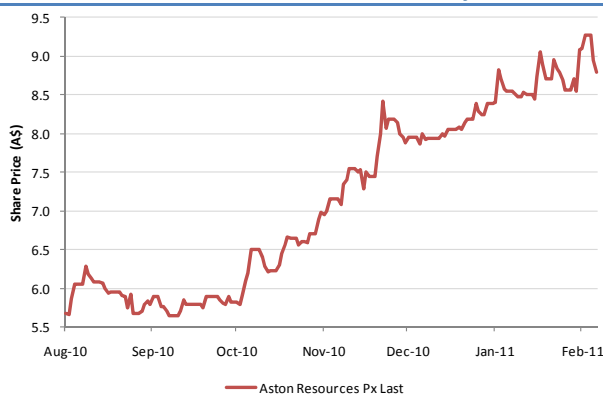


## Aston Resources

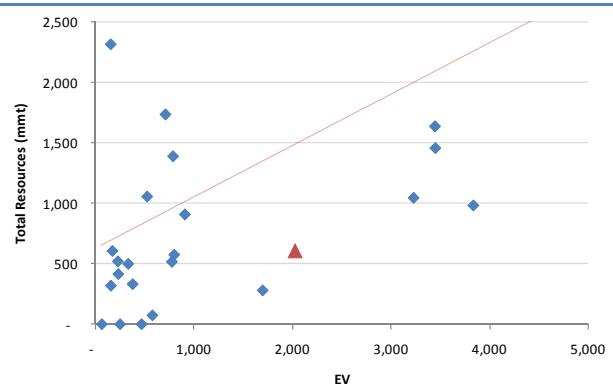
(AZT AU)

<b>Market Cap:</b>	US\$ 1,846
<b>Liquidity:</b>	US\$ 4.0mn
<b>Cash Position:</b>	US\$ 135 mn
<b>Lifecycle Stage:</b>	Development / Construction
<b>Asset Location:</b>	Gunnedah Basin, NSW
<b>EV / Resource:</b>	3.8x
<b>Reserves:</b>	321mt
<b>Resources:</b>	609mt
<b>Inferred to Total Resources:</b>	28%
<b>Products:</b>	Semi Soft, PCI, Thermal
<b>First Production Target:</b>	2012, 3.5mtpa target
<b>Key Projects:</b>	Maules Creek
<b>Controlling Shareholders:</b>	Tinkler Group, 35%
<b>JV Partners:</b>	Itochu – 15% of Maules Creek
<b>Insider / Strategic Holders:</b>	45.2%
<b>Offtake:</b>	Itochu, 15%, balance of unsold coal
<b>Port / Rail Logistics:</b>	Gunnedah Rail, NCIG Stage 2
<b>Expected Capex:</b>	A\$500 mn

AZT – Share Price History



AZT – Relative EV/Resource



### Key Points

- Nathan Tinkler bought the asset from Rio during the GFC, at relatively distressed levels. Farallon helped finance the stake acquisition
- Key shareholder Nathan Tinkler is no stranger to M&A, having previously sold Custom Mining (Middlemount, Dingo West) to Macarthur.
- Itochu 15% farm-in for A\$ 345mn implies project value of A\$ 2.3bn. Itochu has an exclusivity agreement to buy another 10%. Management indicated any additional sales would be at a premium to the A\$ 2.3bn
- Of pre-production miners, AZT is the closest to beginning a major new mining operation
- Will likely use debt to help fund construction, which can improve returns to shareholders
- Expect upcoming catalysts on reserves of Northern pit of Maules creek, which could add another 100mt of reserve and 5mtpa of production potential (3Q11?)
- While, relatively expensive compared to non-producing peers, Aston has a high quality asset in Maules Creek, with 3.5mtpa of production targeted in 2012. At an EV / 2013F Production tonne of US\$ 350/t, AZT compares favorably to the average EV / 2013F Production of US\$ 482 for existing coal producers.
- Upcoming catalysts include potential additional stake sale to Itochu, reserve and resource news out of the Northern pit and capex financing strategy.
- Given the high quality of the Maules Creek asset we would not rule out corporate interest surrounding AZT

Source: Bloomberg, Knight Capital Research, Company Data



white energy company

## White Energy

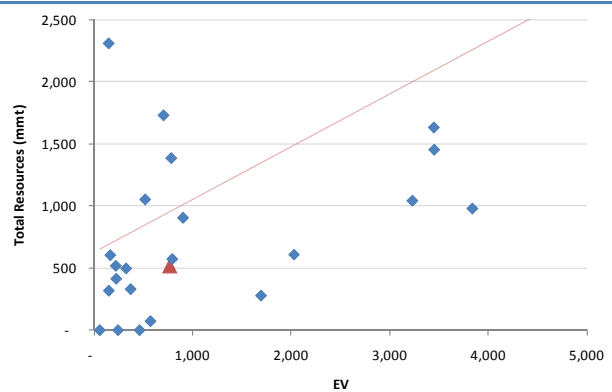
(WEC AU)

<b>Market Cap:</b>	US\$ 904 mn
<b>Liquidity:</b>	US\$ 3.5 mn
<b>Cash Position:</b>	A\$ 230
<b>Lifecycle Stage:</b>	Development / Construction
<b>Asset Location:</b>	Western Coalfield, NSW; Kalimantan, S. Aus.
<b>EV / Resource:</b>	1.5 x
<b>Reserves:</b>	(102.6 from Cascade)
<b>Resources:</b>	515 (+173from Cascade acq)
<b>Inferred to Total Resources:</b>	100%
<b>Products:</b>	Upgraded Briquettes, Thermal
<b>First Production Target:</b>	2013, 3.5mtpa target (Cascade)
<b>Key Projects:</b>	Mt. Penny, Kaltim Supacoal ("KSC"), Lake Philipson
<b>Controlling Shareholders:</b>	25% ex-Felix Management, AMCI
<b>JV Partners:</b>	Bayan (49% of KSC), Peabody, Cargill.
<b>Insider / Strategic Holders:</b>	25%
<b>Offtake:</b>	Bayan
<b>Port / Rail Logistics:</b>	235km by rail to Newcastle
<b>Expected Capex:</b>	Subject to Cascade approval

WEC – Share Price History



WEC – Relative EV/Resource



### Key Points

- WEC started out as a vehicle for coal briquetting / upgrading technology. With the introduction of new management in 2009 the company added directly owning / operating coal assets to its strategy. WEC intends to leverage its coal upgrading technology to upgrade sub-bituminous resources to export market power station coal
- Ex-Felix team gives additional credibility and has track record of bringing mines into production stage. Team eventually sold Felix to Yanzhou in 2009
- Conversion and sell down of legacy 45mn CB's removes some overhang on the stock
- JV with Bayan, Kaltim Supacoal, has had some initial ramp-up and weather problems in Kalimantan. Management is confident KSC can ramp to nameplate capacity by middle of this year
- Board and management team injecting their related party assets into WEC – South Australian Coal (completed in July '10, Felix assets which were not able to be sold to Yanzhou due to proximity to military base) and Cascade Coal (expected to complete in Apr '11). This may have resulted in some corporate governance concerns, but we believe that leveraging the management team's extensive experience should be positive over the medium term
- Upcoming Cascade purchase should give WEC access to additional resources, including 103mt of reserves. US\$ 486 mn acquisition cost will be paid primarily in shares at a ~17% premium to current share price
- Upcoming catalysts: potential resource upgrade at SACL, shareholder vote and IER on Cascade (~ Mar '11), newsflow regarding performance at KSC in Indonesia

Source: Bloomberg, Knight Capital Research, Company Data

## Bandanna Energy

(BND AU)

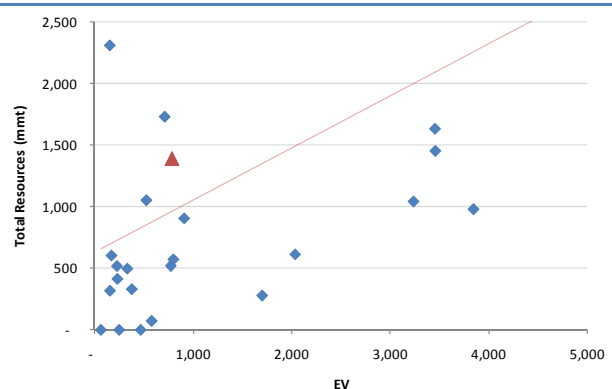


<b>Market Cap:</b>	US\$ 782 mn
<b>Liquidity:</b>	US\$ 1.2 mn
<b>Cash Position:</b>	US\$86.2
<b>Lifecycle Stage:</b>	Development / Construction / Exploration
<b>Asset Location:</b>	Galilee Basin, Bowen Basin
<b>EV / Resource:</b>	0.5x
<b>Reserves:</b>	93 mt
<b>Resources:</b>	1,386 mt
<b>Inferred to Total Resources:</b>	85%
<b>Products:</b>	Thermal, PCI
<b>First Production Target:</b>	2013, 3mtpa
<b>Key Projects:</b>	South Galilee, Dingo West, Springsure, Arcturus
<b>Controlling Shareholders:</b>	Management (67%)
<b>JV Partners:</b>	AMCI (50% earn-in on S. Galilee), Dingo West
<b>Insider / Strategic Holders:</b>	Management (67%), SAMTAN (8.8%)
<b>Offtake:</b>	AMCI, SAMTAN
<b>Port / Rail Logistics:</b>	Proposed Galilee rail, WICET allocation
<b>Expected Capex:</b>	AMCI Farm-in, Strategic Review in progress

BND – Share Price History



BND– Relative EV/Resource



## Key Points

- Increased interest in Galilee Basin following Adani Enterprises A\$ 3bn purchase of Link Energy's Galilee Tenement in August (\$500mn cash and estimated value of royalty agreement)
- Credible partner for South Galilee Project with AMCI having 50% earn-in
- Bandanna has hired UBS as a financial advisor to conduct a Strategic Review. The review will assess future funding requirements and potential asset sales / JV's to develop its four Bowen Basin projects of Dingo West Springsure, Arcturus and Arcadia. Management believes Dingo West could be producing first coal by 2012
- Results of pre-feasibility at South Galilee Project. Area has been discounted in the past due to distance from infrastructure. Significant plans by other Galilee Basin players (Waratah, Hancock, Adani, Vale) may fast track infrastructure development and significantly increase value of Galilee resources (as seen with Adani transaction)
- Received 4mtpa allocation at Wiggins Island Coal Export Terminal (WICET)
- Increasing analyst coverage to help drive re-rating, as BND has one of the largest resources bases of any listed ASX explorer
- Upcoming catalysts: Dingo West drilling program, results of strategic review, pre-feasibility for South Galilee expected in Q1. Additional conversion of resources to reserves (following maiden reserves at Arcturus and Springsure)

Source: Bloomberg, Knight Capital Research, Company Data



## Bathurst Resources

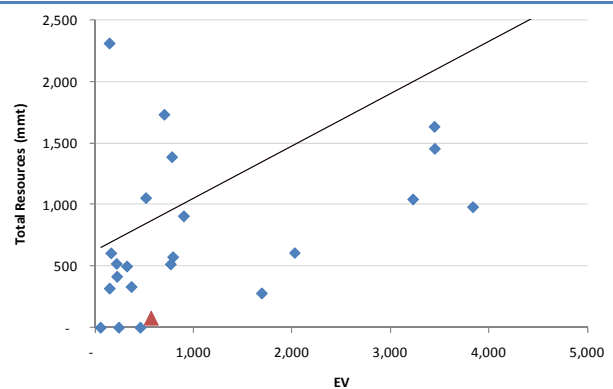
(BTU AU)

<b>Market Cap:</b>	US\$ 665 mn
<b>Liquidity:</b>	US\$ 4.6 mn
<b>Cash Position:</b>	US\$ 78 mn
<b>Lifecycle Stage:</b>	Construction
<b>Asset Location:</b>	New Zealand
<b>EV / Resource:</b>	7.9x
<b>Reserves:</b>	10 mt
<b>Resources:</b>	73 mt
<b>Inferred to Total Resources:</b>	17%
<b>Products:</b>	Hard Coking Coal
<b>First Production Target:</b>	2012 / 2013, 2mtpa
<b>Key Projects:</b>	Buller
<b>Controlling Shareholders:</b>	Matthews Capital 14%, LT Capital 6%
<b>JV Partners:</b>	N/A
<b>Insider / Strategic Holders:</b>	N/A
<b>Offtake:</b>	Stemcor, 45% of 1mtpa, 37.5% of 2mtpa
<b>Port / Rail Logistics:</b>	Existing
<b>Expected Capex:</b>	Fully funded

BTU – Share Price History



BTU – Relative EV/Resource



### Key Points

- BTU has acquired the Buller project on the South Island of New Zealand. Buller is adjacent to an existing government-run mine
- 95% of production will be high quality hard coking coal. High quality coking coal is expected to get a premium of 5 – 15%. Offtake partner, Stemcore, is incentivized to realize higher premiums
- Logistics already in place due to adjacent government run mine
- Will start construction this quarter following pending environmental approvals
- Recent placement and financing facility from Stemcor fully funds Bathurst into production Target production in 4Q2011. Intermediate (2013) and long term production (2-15+) goals of 2 and 4mtpa
- Acquired Eastern Resources group to acquire two blocks adjacent to Buller
- Recently appointed UBS as corporate advisor, following significant takeover speculation
- Potential to be a very good strategic fit for steel manufacturer looking for offtake / financial hedge for HCC
- While expensive on an EV / Reserve and Resource basis, we believe BTU has scope for continued re-rating as the market moves to valuing it on a production basis
- Key upcoming catalyst: environmental approval at Buller, commencement of construction, corporate activity

Source: Bloomberg, Knight Capital Research, Company Data

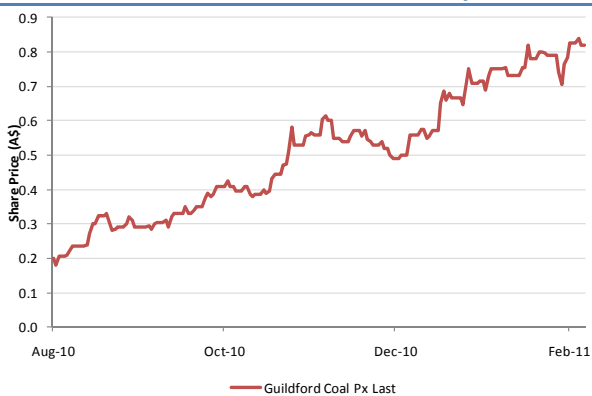


## Guilford Coal

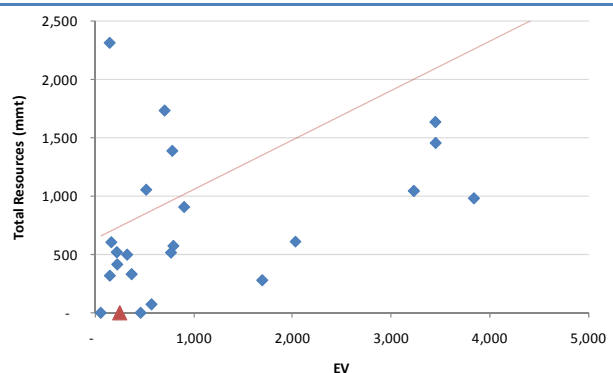
(GUF AU)

<b>Market Cap:</b>	US\$ 287 mn
<b>Liquidity:</b>	US\$ 0.8 mn
<b>Cash Position:</b>	US\$ 48.7 mn
<b>Lifecycle Stage:</b>	Exploration
<b>Asset Location:</b>	Bowen Basin, Galilee Basin
<b>EV / Resource:</b>	N/A
<b>Reserves:</b>	N/A
<b>Resources:</b>	N/A
<b>Inferred to Total Resources:</b>	N/A
<b>Products:</b>	Thermal / PCI
<b>First Production Target:</b>	N/A
<b>Key Projects:</b>	Hughenden (80%), Kalan, Sierra
<b>Controlling Shareholders:</b>	Management 48.5% (the Chairmen1), Och Ziff 12.6%
<b>JV Partners:</b>	N/A
<b>Insider / Strategic Holders:</b>	Management
<b>Offtake:</b>	N/A
<b>Port / Rail Logistics:</b>	WICET application
<b>Expected Capex:</b>	Fully funded to BFS stage

GUF – Share Price History



GUF – Relative EV/Resource



### Key Points

- Emerging exploration stock in the Bowen / Galilee Basins
- Targeted pre-JORC assets, looking to build out resource base
- Expected maiden JORC resource in Q42010, delayed by Queensland rain and flooding
- Resource statement release is expected in Q1 2011, which could provide a positive catalyst for the stock
- Management thinks existing cash balance will take the company through Bankable Feasibility Stage for 3 projects
- Looking at potential acquisition opportunities to build up portfolio
- Management believes Hughenden project to be a highly prospective thermal coal target, with a relatively low capital footprint as it is of close proximity to the Mt. Isa rail line
- Target to get the mine up and running with as little capital as possible, use cash flow to invest in other projects
- HCC target at Kalan may also have resources in 1H11. Sierra project in Galilee has coking coal potential. Near Aquila and Stanmore projects.
- Management has a significant stake of 48.5% through Charimen1 vehicle. Other significant shareholder is Och Ziff with 12.6%
- Hughenden 20% JV partner, Carpentaria (CAP AU), just announced (22 Feb 11) that it will fund its pro-rata exploration costs for the project
- Upcoming catalysts: JORC resource for Hughenden, Kalan. M&A opportunities.

Source: Bloomberg, Knight Capital Research, Company Data



## Resource Generation

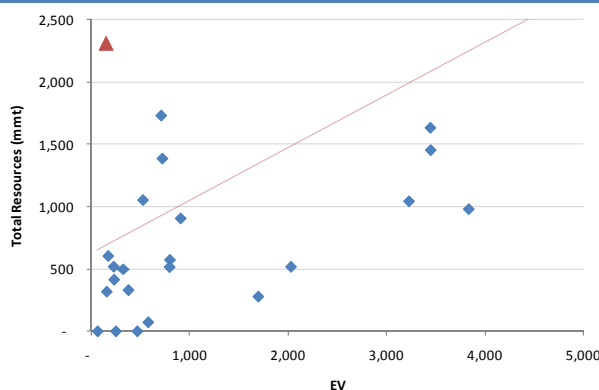
(RES AU)

<b>Market Cap:</b>	US\$ 186 mn
<b>Liquidity:</b>	US\$ 0.8 mn
<b>Cash Position:</b>	US\$ 37mm
<b>Lifecycle Stage:</b>	BFS
<b>Asset Location:</b>	Waterberg Coal Fields, South Africa
<b>EV / Resource:</b>	0.1x
<b>Reserves:</b>	551 mt
<b>Resources:</b>	2,310 mt
<b>Inferred to Total Resources:</b>	100%
<b>Products:</b>	Thermal (Domestic & Export)
<b>First Production Target:</b>	2013, 6mtpa
<b>Key Projects:</b>	Boikarabelo
<b>Controlling Shareholders:</b>	N/A
<b>JV Partners:</b>	Black Economic Empowerment shareholders (26%)
<b>Insider / Strategic Holders:</b>	CESC
<b>Offtake:</b>	CESC, Bhushan
<b>Port / Rail Logistics:</b>	Evaluating rail link;
<b>Expected Capex:</b>	US\$ 552 mn

RES – Share Price History



RES– Relative EV/Resource



### Key Points

- ResGen has over 2.3bn tonnes of resource and 551mt of reserve at its Bokarabelo mine in the Waterberg region of South Africa
- The current reserve only covers 23% of the inferred resource area
- ResGen targets 3mtpa of export and domestic coal production by 2013 for a total of 6mtpa. Management believes that a second stage can increase production
- CESC of India took a 10% stake in Sep 2010, signing a 20 year offtake agreement for 37mt of coal (1mtpa for first 3 years, 2mtpa for next 17 years)
- Signed a second offtake with Bhushan Steel of 0.5mtpa for 20 years
- Targeting BFS by mid-2011
- Awaiting issuance of mining righty
- Looking to build rail link from mine to existing rail infrastructure
- ResGen is managed by the ex-Resource Pacific team, who sold the company to Xstrata in 2007. The Company has a relatively open share register with offtake partner CESC being the largest shareholder at a current stake of 7.5%.
- ResGen looks to be one of the cheapest listed coal stocks in Australia, trading at 0.1x EV / Resource.
- Upcoming catalysts: mining approval, BFS / financing plan, increasing analyst coverage

Source: Bloomberg, Knight Capital Research, Company Data

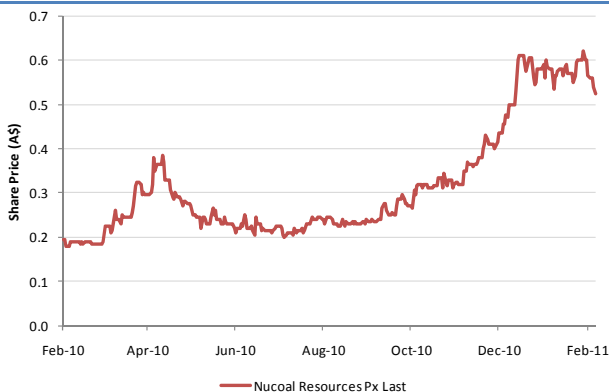


## Nucoal Resources

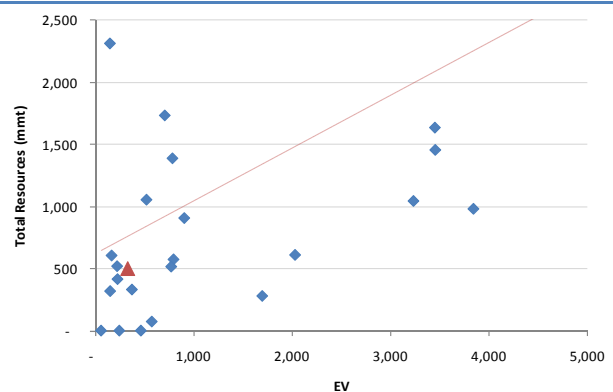
(NCR AU)

<b>Market Cap:</b>	US\$ 351 mn
<b>Liquidity:</b>	US\$ 0.6 mn
<b>Cash Position:</b>	A\$ 33 mn
<b>Lifecycle Stage:</b>	PFS / Exploration
<b>Asset Location:</b>	Hunter Valley, NSW
<b>EV / Resource:</b>	0.7x
<b>Reserves:</b>	N/A
<b>Resources:</b>	498 mt
<b>Inferred to Total Resources:</b>	97.4%
<b>Products:</b>	Thermal, Semi-Soft
<b>First Production Target:</b>	2015
<b>Key Projects:</b>	Doyles Creek
<b>Controlling Shareholders:</b>	Taurus Funds (19.2%), A. Poole (7.5%), Sparta (6.6%)
<b>JV Partners:</b>	N/A
<b>Insider / Strategic Holders:</b>	Taurus with management controls ~ 43%
<b>Offtake:</b>	N/A
<b>Port / Rail Logistics:</b>	Sig. rail options; Looking to participate in PWCS
<b>Expected Capex:</b>	N/A

NCR – Share Price History



NCR– Relative EV/Resource



### Key Points

- Management is formerly of Xstrata Coal and Cumnock Coal. NCR's MD is the ex-GM of XTA's underground operations. Doyle's Creek project will be underground semi-soft / thermal coal mine
- Nucoal has developed 500mn of inferred resources at Doyles Creek in the Hunter Valley New South Wales Doyles Creek is adjacent to Xstrata's United Collieries and Peabody's Wambo mine. Nucoal is targeting to complete PFS and BFS by mid 2012 and early 2013 respectively.
- NCR targets to produce semi-soft coking coal and thermal. Will focus on infill drilling to move inferred resources up to indicated / measured.
- Indicative first production target of 3Q 2015
- Recently raised \$30mn, which should fully fund the company into bankable feasibility
- Key shareholders include Taurus Funds (19.5%), Andrew Poole (director, 7.2%), Sparta Group (6.6%) and Aquila (3.9%). Management indicated that along with Taurus and Andrew Poole, the overall management group controls approximately 43% of the register
- Upcoming catalysts: infill drilling results and any updates to resource / reserve

Source: Bloomberg, Knight Capital Research, Company Data





## Stanmore Coal

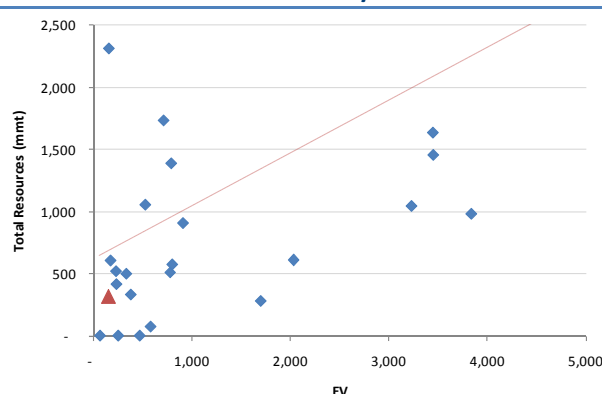
(SMR AU)

<b>Market Cap:</b>	US\$ 156 mn
<b>Liquidity:</b>	US\$ 0.6 mn
<b>Cash Position:</b>	~ US\$ 25 mn
<b>Lifecycle Stage:</b>	Exploration / PFS
<b>Asset Location:</b>	Bowen Basin, Surat Basin, QLD
<b>EV / Resource:</b>	0.5x
<b>Reserves:</b>	N/A
<b>Resources:</b>	318 mt
<b>Inferred to Total Resources:</b>	100%
<b>Products:</b>	Coking, PCI, Thermal
<b>First Production Target:</b>	2015, 5mtpa
<b>Key Projects:</b>	Mackenzie River (Bowen), The Range (Surat)
<b>Controlling Shareholders:</b>	Management (25.4%)
<b>JV Partners:</b>	N/A
<b>Insider / Strategic Holders:</b>	Management
<b>Offtake:</b>	N/A
<b>Port / Rail Logistics:</b>	Existing / planned rail. WICET applications lodged
<b>Expected Capex:</b>	US\$ 300 – 500 for The Range, from 2013

SMR – Share Price History



SMR– Relative EV/Resource



### Key Points

- Management holds 25% through its St. Lucia Resource vehicle
- Stanmore has two development projects and 5 exploration targets, with a total 318mt of inferred resources.
- Mackenzie River coking coal project in the Bowen Basin is located next to Aquila's Washpool coking coal project. Management believes has an additional exploration target of 70 – 80mt. Rail infrastructure to Gladstone
- The Range project is a planned thermal coal mine in the Surat Basin with a target of 5mtpa from the 1<sup>st</sup> quarter of 2015. 25km south of proposed Surat Basin rail line, which will link up to Gladstone port
- Targeting to increase some of its resources at the Range and Mackenzie River to reserve status this year in order to obtain WICET Stage 2 allocation (has lodged an application for a total of 7mtpa)
- Has an attractive exploration tenement at its Kerlong project in the Bowen Basin which is located near Peabody's Burton, BMA's South Walker Creek, Vale's Carborough Downs and Macarthur's Coppabella
- Management has highlighted JV farm-in's as the preferred financing strategy
- Upcoming catalyst: resource upgrades, exploration results, potential noise surrounding future JV partnerships, increasing analyst coverage

Source: Bloomberg, Knight Capital Research, Company Data

## Knight Research Directory

Tim Daileader, CFA, Director of Research

### Knight Research Asia

<b>Capital Structure, Fundamental Event, Holding Company Quantitative Trading Strategies Accounting, Legal &amp; Tax</b>	Will Stephens David Blennerhassett Reid Frasier Timothy Marrable, CFA	wstephens@knight.com dblenner@knight.com rfrasier@knight.com tmarrable@knight.com	+852 3987 5267 +852 3987 5281 +852 3987 5269 +852 3987 5280
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### U.S. Capital Structure/ Fixed Income

<b>Transportation – Airlines &amp; Shipping Automotives / REITS/ Distressed financials</b>	Peter Sorkin Tim Daileader, CFA Rupa Venkatagiri	psorkin@knight.com tdaileader@knight.com rvenkatagiri@knight.com	+1 312.553.8317 +1 203.930.7271 +1 203.930.7280
<b>Distressed / Reorg equities Electric Utilities / IPPs Emerging markets / Int'l equities Financials/ Banking Food / Restaurants / Industrials Retail / Beverage / Consumer Strategy – Fixed Income Telecom / Media / Cable</b>	Laura Rotter, CFA Terran Miller, CFA Christopher Recouso Chuck Mounts Aqeel Merchant Rosemary Sisson Brian Yelvington Leah Pilla, CFA	lrotter@knight.com tmiller@knight.com crecouso@knight.com cmounts@knight.com amerchant@knight.com rsisson@knight.com byelvington@knight.com lpilla@knight.com	+1 203.930.7277 +1 203.930.7274 +1 203.930.7272 +1 203.930.7279 +1 203.930.7273 +1 203.930.7278 +1 203.930.7281 +1 203.930.7276

### Knight Strategic Research

<b>Strategic Research</b>	Mark Lapolla, CFA James Patterson	mlapolla@knight.com jpatterson@knight.com	+1 404.736.2431 +1 404.736.2432
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### Knight Research Europe

<b>European Research</b>	Ioan Smith	ismith@knight.com	+44(0)20 7997 2061
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