

BULLISH ON THERMAL COAL – TOP AUSSIE PICKS

Companies Featured:

PRODUCERS:

- New Hope Coal (NHC.ASX)
- Whitehaven Coal (WHC.ASX)
- Cockatoo Coal (COK.ASX)

DEVELOPERS:

- Aston Resources (AZT.ASX)
- Coalspur Mines (CPL.ASX)
- Nucoal Resources (NCR.ASX)

EXPLORERS:

- Guildford Coal (GUF.ASX)
- MetroCoal (MTE.ASX)

The past three weeks has been an exciting time in the coal M&A space resulting in three key acquisitions worth just shy of \$2bn in value. What we found interesting was the significant focus on thermal coal assets as opposed to metallurgical coal in the rush to secure longer term supply of electricity as a cheap energy source. The most recent deal announced by Yanzhou Coal in our view provides the most evidence that China will be short coal over the longer term given its substantial population growth in the years ahead.

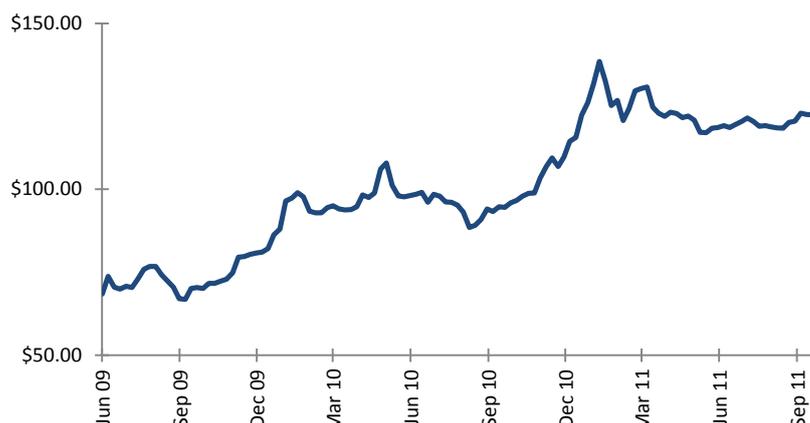
India and other parts of Asia also looking to lock in thermal supply. Last week saw Indian company GVK take control of Gina Rinehart's Hancock Coal in a deal worth \$1.2bn. Similarly Banpu, one of Asia's leading energy providers has been active acquiring coal assets over the last year with the \$2.5bn acquisition of Centennial Coal (CEY.ASX) in October 2010 and more recently announcing a \$477m bid for Hunnu Coal (HUN.ASX) on the 12th of September 2011. We are also seeing additional talk of Indonesian reform with most recent draft legislation indicating a ban on coal exports (less than 5,100 kcal) by 2014, which could affect approximately 10% (30Mt) of Indonesia's current thermal export market (320Mt).

Acquisition prices at significant premiums for Explorers. We believe the price being paid to secure assets is at significant premiums to the current sector average EV/Resource of \$0.35/t. The acquisition price of A\$296.8m for Wesfarmers Premier coal mine from Yanzhou Coal equates to approximately \$0.55/t of resource, while HUN coal assets (predominately thermal JORC), equates to \$0.52/t of resource.

Positive dynamics for explorers, developers and producers. We see this activity as positive for the thermal space, and we include our top picks across the explorers, developers and producers with exposure to thermal coal.

Price Strength Continues. We continue to remain positive on the long term demand for thermal coal and believe there is enough reason globally to expect thermal prices will continue to outperform. Figure 1 highlights the most recent pricing for benchmark thermal coal.

Figure 2: Newcastle Thermal Coal (US\$/t FOB)



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BULLISH ON THERMAL COAL – AUSTRALIAN TOP PICKS
Producers: NHC, WHC, COK

- We think NHC & WHC provide existing exposure to current thermal prices and see potential benefits of large tonnage and long term mine life making both stocks attractive to Asian suitors.
- **New Hope Coal (NHC.ASX, Mkt Cap \$4.4b)**: currently operates three thermal coal mines operating at approximately ~5-6Mtpa with a ramp up to ~10Mtpa with a current open cut JORC of ~855Mt.
- **Whitehaven Coal (WHC.ASX, Mkt Cap \$2.6b)**: Despite having both thermal and metallurgical coal resources, WHC has an aggressive expansion program in place to achieve ~15Mtpa over the next five years and has recently secured additional port capacity of ~8.4Mt.
- **Cokatoe Coal (COK.ASX), Mkt Cap \$386m)**: already has a number of strategic investors on its register including POSCO, SK Australia, Harum Energy and Kores Australia. The company has been mentioned regularly as a potential takeover target and has a current JORC Resource of ~1.35 Bt in the Surat basin, ~164.9Mt in the Bowen Basin and approximately 30% interest in ~115Mt (NSW).

Developers: AZT, CPL, NCR

- **Aston Resources (AZT.ASX), Mkt Cap \$2.05b)**: has the largest marketable semi-soft coal resource in NSW ~610Mt JORC. The project is well advanced with first production expected Q2 2013. We like AZT's flexibility to Thermal or Semi-Soft coal and believe this will position them well as a potential takeover target. The cash margin that could potentially be generated from AZT is estimated to be between \$59-\$128/t. Additionally AZT has recently secured an additional 7.1Mt of capacity from July 2013-2016 which will allow it to mine an average of 10.8Mtpa from its Maules Creek project in the Gunnedah basin.
- **Coalspur Mines (CPL.ASX/TSX, Mkt Cap \$794m)**: located in Alberta Canada, CPL's Vista project has a world scale reserve of ~260Mt (30+ year mine life) and a low cash cost (C\$51) targeting 9Mtpa of thermal production from Q4 2014. The company has an open register and doesn't have the competition faced by Australian companies in terms of rail and port accessibility.
- **Nucoal Resources (NCR.ASX, Mkt Cap \$200m)**: NCR's Doyles creek project located in the hunter region NSW, has a significant amount of potential as a long-term supplier of premium quality semi-soft thermal coal. It has a total JORC resource of 504.5Mt and has completed a scoping study based on a production rate of 5Mtpa targeting the premium quality Whynot seam of the hunter region. Its most recent audit sign-off by the State Government regarding the Doyles Creek EL has cleared the way for NCR to continue advancing its project with no major hurdles in sight.

Explorers: GUF, MTE

- **Guildford Coal (GUF.ASX, Mkt Cap \$411m, BUY PT \$1.90)**: is currently positioning itself to be a serious player in the thermal coal space. Its large asset base and diversification potential of product and port makes GUF attractive to a number of suitors. It has a current exploration target in excess of ~7Bt.
- **MetroCoal (MTE.ASX, Mkt Cap \$108m)**: MTE has recently secured the DADI group a strategic Chinese investor on its register via an equity placement at a 20% premium to the last traded closing price. The company has a large resource of ~1.35 Bt in the Surat Basin. MTE expects to make a resource upgrade before year targeting ~2Bt. Management have also secured an opportunity to be the lead proponent for a proposed new coal terminal at Gladstone with initial export capacity of 25-30Mtpa.

RECENT COAL M&A TRANSACTIONS

- Some of the most recent M&A Coal transactions are highlighted in Figure 2 below.

Figure 2: Recent Coal M&A

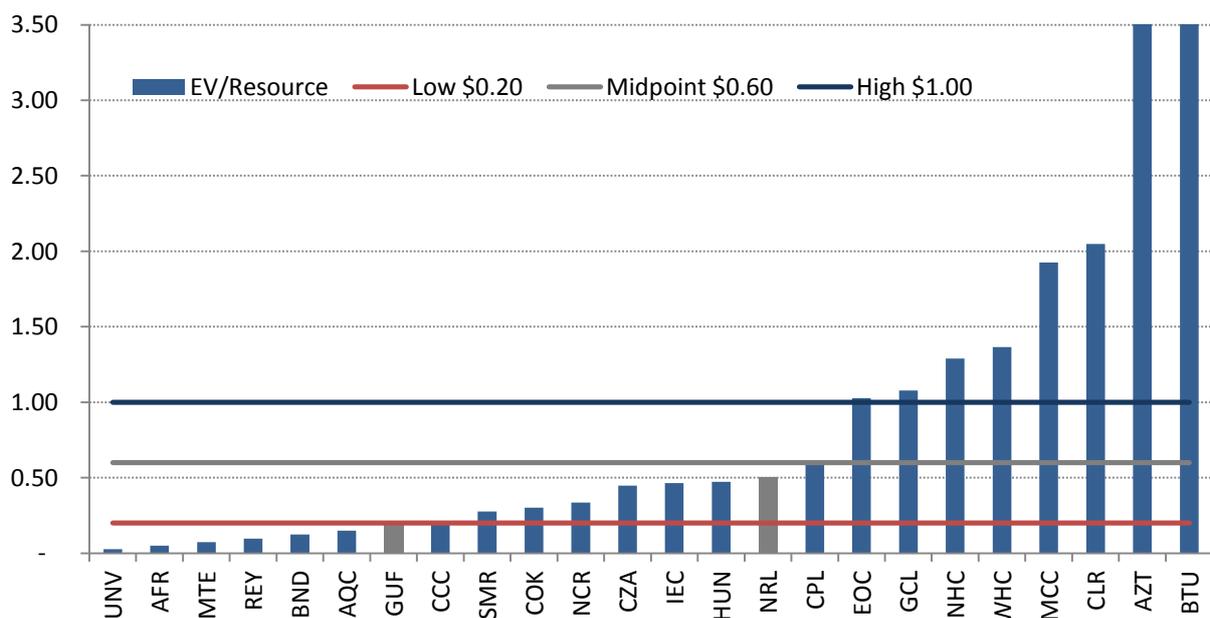
Target/Project	Acquirer	Value	Commodity	Type	Region	Outcome
Premier Coal (WES.ASX)	Yanzhou Coal	A\$270m	Coal	Thermal	Perth	Pending FIRB
MacArthur Coal (CNA.ASX)	Peabody ArcelorMittal	A\$4.9b	Coal	PCI	Queensland	Board recommended; Pending close
Centennial Coal (CEY.ASX)	Banpu	A\$2.5b	Coal	Thermal/SS	New South Wales	Successful
Coal & Allied (CNA.ASX)	RIO/Mitsubishi	A\$1.5b	Coal	Thermal/SS	New South Wales	Board recommended; Pending close
Hancock Prospecting	GVC	A\$1.2b	Coal	Thermal	Queensland	Successful
Hunnu Coal (HUN.ASX)	Banpu	A\$477m	Coal	Thermal/Coking	Mongolia	Board recommended; Pending close
Syntech Resources	Yanzhou Coal	A\$203m	Coal	Thermal	Queensland	Successful
Northern Energy (NEC.ASX)	New Hope	A\$241m	Coal	Coking	Queensland	Successful; pending close

Source: FSB Research, Company Announcements

COMPARABLE EV/RESOURCE

- Figure 3 highlights current EV/Resource metrics for explorers, developers and producers. Most producers trade above \$1/t EV/Resource (COK the exception), with explorers and developers trading lower than this, with CLR, AZT & BTU the outliers.

Figure 3: EV/Resource comparables



Source: FSB Estimates *GUF based on 30% of current exploration target, NRL based off midpoint exploration target.

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