

Guildford Coal (GUF)

Buy

On the radar: well positioned with large potential

Materials / Metals & Mining / Steel / Energy

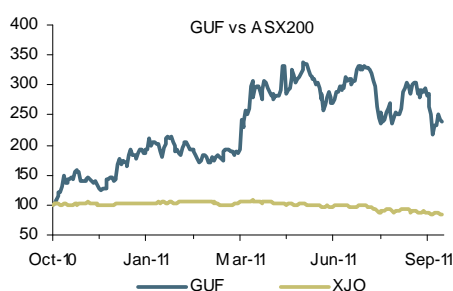
Company Information

Stock Price	\$1.015
12m Target Price	\$1.50
12m Forecast Total Return	47.8%
Market Cap	\$426m
12m Price Range	\$0.45 - \$1.365

Earnings Summary

y/e 30 June		2011a	2012e	2013e	2014e
Net Profit (adj)	\$m	-5	-10	-19	0
Core EPS	c	-1.3	-2.4	-3.1	0.1
EPS growth	%	n.m.	87%	28%	-102%
Core PE	x	-80	-43	-33	n.m.
DPS	c	0	0	0	0
Div yield	%	0%	0%	0%	0%
NTA / share	\$	0.06	0.28	0.52	0.62
Price/NTA	x	17.0	3.7	1.9	1.6
ND/(ND+E)	%	nm	-12%	-3%	0%

Share Price Performance



Event

We initiate coverage of GUF with a Buy recommendation and 12 month target price of \$1.50.

Guildford possesses a portfolio of six coal projects in Queensland's major coal basins and two coal projects in Mongolia.

Key Points

Priority projects are Hughenden (Queensland, thermal) and South Gobi (Mongolia, coking/thermal). Maiden resource estimates for both projects are expected later this month. Cash flow from development of South Gobi (GUF first production target 2H CY12), is expected to help fund development of Hughenden (2014).

Hughenden - large scale potential - a thermal coal project in the Galilee Basin (resource target: **0.58 to 5.7bt**). **Hughenden's competitive advantage over other Galilee projects appears to be an apparent infrastructure (rail/port) solution.**

Mongolian projects - opportunity to become a near-term producer - owned through 70% stake in Terra Energy. Seven tenements - 5 in South Gobi, 2 in Middle Gobi. South Gobi licences ~60km from Chinese border and adjacent to two operating mines. Potential for mixed coking/thermal coal product via a low capex, low cost DSO operation. South Gobi resource target **0 to 700mt**.

We expect GUF to attract corporate interest, given the level of interest in both large-scale thermal coal projects and Mongolian coal assets - as evidenced in recent weeks by GVK's purchase of a 79% stake in Hancock's Galilee assets and Banpu's bid for Hunnu Coal (Mongolia).

Investment Thesis

We expect GUF to benefit from a re-rating as it delivers its maiden resource estimates in coming months and progresses plans to develop its priority projects in both Mongolia and Queensland. We have assessed valuation of GUF based on three methodologies. Our \$1.50 12 month target price is based on the most conservative of these estimates, and excludes the potential value of GUF's (5) other Queensland projects. Our resource estimates, on a 12 month view, are set at ~30% of the top end of independent geological consultants' Exploration Targets, which may prove conservative.

Key risks: If exploration results fail to meet expectations and if global economic weakness reduces demand for steel/energy.

Research Analyst

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Company overview

GUF owns a portfolio of coal exploration tenements in Queensland and Mongolia. **Exploration target across these projects is 0.61 to 7.1bt** (100% basis).

In **Queensland** GUF has six projects covering ~20,000km² across the major coal producing basins. Targeted coal types cover both thermal and coking coals across a mixture of open-cut and underground prospects.

In **Mongolia** GUF owns 70% of Terra Energy (unlisted), which owns seven tenements across two projects: five in South Gobi and two in Middle Gobi.

Priority projects are the **Hughenden** project in Queensland and the **South Gobi** project in Mongolia. Both projects are in pre-feasibility and are currently being drilled (4 drills at Hughenden, 4 at South Gobi) with maiden resource estimates imminent.

GUF's Mongolian assets provide an opportunity for relatively near-term cashflow (first production possible from 2H CY2012, at earliest), which will help fund development of Hughenden and GUF's other Queensland projects. GUF is investigating the possibility of separately listing its Mongolian assets via an IPO, in which GUF would likely retain a majority holding.

GUF has 417.5m shares on issue on the Australian Stock Exchange, of which ~46% are free-floating. Board and management hold 54% of shares (under 2 year escrow from July 2010 float). Och-Ziff Capital holds 14%, plus an option to acquire 25% of Terra Energy for \$25m. Average daily turnover over the last 12 months has been \$0.95m/day.

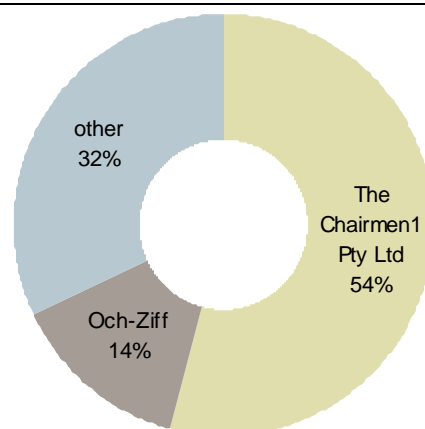
We would expect GUF to attract corporate interest given the appeal of both large scale thermal coal projects and Mongolian coal assets, as evidenced by recent transactions.

Figure 1: GUF capital structure

Ordinary equity (m)	419.6
Options (m)	0
Market cap (\$m)	426
Cash (\$m)	34
Borrowings (\$m)	0
EV (\$m)	392
Average daily turnover (ASX: GUF)	\$0.95m

Source: IRESS, Company data

Figure 2: GUF ownership



Source: Company data

Valuation and Investment view

Valuation

We have assessed valuation of GUF based on three methodologies:

- i) **Peer EV per resource tonne multiples;**
- ii) **NPV estimates of GUF's priority projects (South Gobi and Hughenden) based on preliminary estimates of key project parameters; and**
- iii) **Recent transaction multiples**

Figure 3: GUF – Valuation summary

Project	Ownership	Coal type	Mine type	Resource		Moelis est. resources -		EV/t (\$)	Value (\$m)	Value (\$ps)	Comment/Methodology
				target (100%, mt)	12 mth view (mt, equity)						
Hughenden											
- EPC1260	56%	TC		0-745	230						White Mountain Project
- EPC1250	100%	TC		40-70	50						White Mountain Project
- EPC1300,1477,1478	80%-100%	TC		540-4905	980						
Hughenden total		TC	O, U	580-5720	1260	0.40	504	1.20			ASX coal exploration/development peers median multiple
Queensland - other	100%	HCC, PCI, TC	O, U	40-780	0				0.00		Conservative given early exploration stage
South Gobi	70%	Coking, TC	O	0-700	170	0.60	102	0.24			Peer comparables multiple
Middle Gobi	70%	Coking, TC	O	30-680	220	0.30	66	0.16			Conservative reflecting infrastructure constraints
GUF sub-total				650-7880	1650	0.41	672	1.60			
Och-Ziff call option over 25% of Terra Energy									(17)	-0.04	\$25m proceeds less dilution impact
PV of royalty payments									(8)	-0.02	Capped royalty assoc with FTB tenement (Hughenden)
PV of payment to The Chairmen1 Pty Ltd									(46)	-0.11	Exploration success fee - agreement entered at time of IPO
Enterprise Value							601	1.43			
Net (debt)/cash							20	0.05			Current estimate
Total equity valuation					1650	0.35	581	1.48			12 month valuation \$1.50/share

Source: Company data, Moelis & Company estimates

Our resource tonnage multiple-based valuations have been **based on our estimate of potential resource size across key projects on a 12 month view**. This is consistent with the 12 month investment horizon over which our target price, estimated total return and therefore recommendation are based.

We also highlight that analysis based on comparable peer EV/resource tonne multiples **does reflect the recent broader equity market correction** driven primarily by European and US sovereign debt concerns. Since the start of August, the ASX coal sector has fallen by over 20%. **Our valuation methodology does not assume a sector re-rating (or further de-rating) over our investment horizon.**

We have taken a conservative stance at this point in time in attributing zero value to Guildford's five other Queensland projects. Whilst some, or all, of these projects may prove quite valuable, they are i) at very early stages of, or pre, exploration, ii) with the possible exception of the Kolan project, generally appear likely to contain hard coking coals that may require extensive washing, iii) appear somewhat reliant on exploration success delivering higher quality extensions, and iv) have less certain infrastructure solutions. That said, they provide some risk diversification and should enhance Guildford's corporate appeal.

Figure 4: GUF valuation based on ASX coal EV/t and recent transaction multiples

		ASX Coal EV/t of total resource	ASX Coal explorers/developers EV/t of total resource	Transaction multiples - EV/t of total resource - pre-production
	ASX average EV/t (\$):	0.98	0.53	2.08
	ASX median EV/t (\$):	0.36	0.36	0.87
	months (mt, equity)	Value (\$m) based on median	Value (\$m) based on median	Value (\$m) based on median
Hughenden	1260	454	454	1096
Mongolia	390	140	140	339
other	0	0	0	0
sub-total	1650	594	594	1436
net cash	\$m	20	20	20
Total equity value*	\$m	614	614	1456
Total equity value*	\$/share	1.47	1.47	3.49

* pre-adjustments for Och-Ziff call option, FTB royalties and exploration success fees – aggregate value of -\$0.17/share (see Figure 3)
 Source: Company data, CapitalIQ, Moelis & Company estimates

A discussion of our primary valuation methodologies follows:

i) Comparable peer valuation per tonne of resource

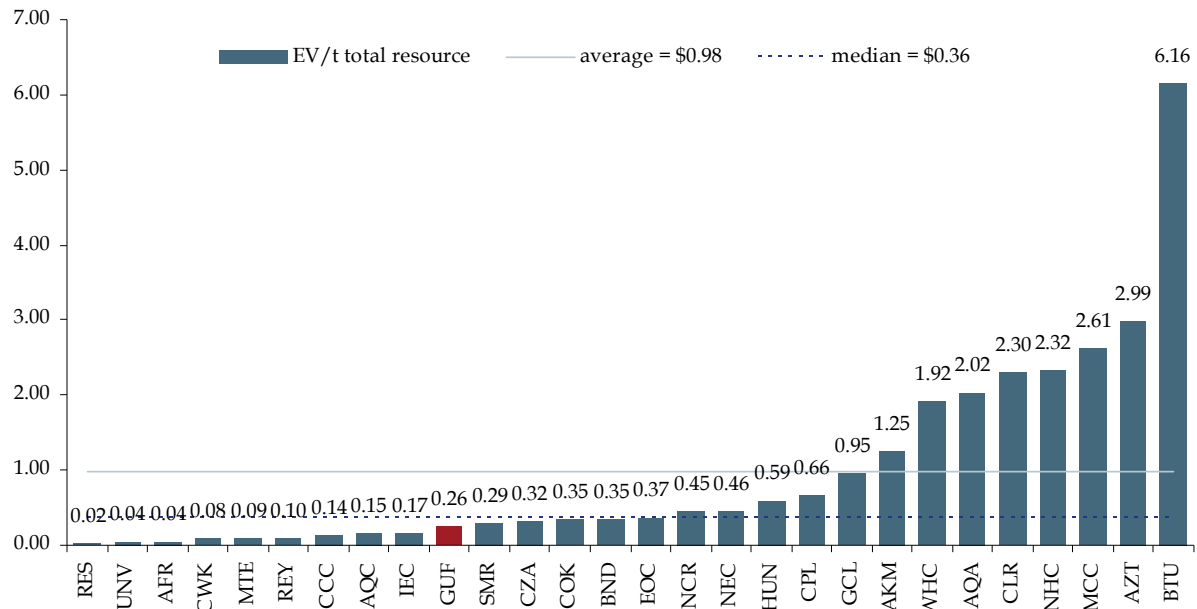
We acknowledge the shortcomings of this methodology given it fails to differentiate between individual company attributes including: geological - coal type/quality/depth; costs (capex and operating); time to first production; growth rates; location; and access to infrastructure. That said, we note **GUF's portfolio of projects is well diversified** across a range of attributes including coal type (thermal, coking, PCI), planned mine type (open-cut and underground), time to first production, location (Queensland's major coal basins and Mongolia) and access to infrastructure.

Independent geologists have issued target resource estimates for GUF's Hughenden and Mongolian projects.

- For Hughenden, a resource target of **0.58 to 5.72 bt** (thermal coal) has been estimated. *We consider a reasonable estimate of total resource for Hughenden on a 12 month view of ~1.4bt (1.1bt equity basis).*
- For South Gobi and Middle Gobi, resource target ranges of **0-700mt and 30-680mt** respectively have been estimated. *We have factored in resource estimates for these projects on a 12 month view of ~240mt (170mt equity) and ~ 310mt (220mt equity).*

At a broader ASX coal sector level, average and median EV/t of total resource are currently \$0.98/t and \$0.36/t respectively.

Figure 5: EV/t of total resource (\$/tonne) - ASX Coal sector

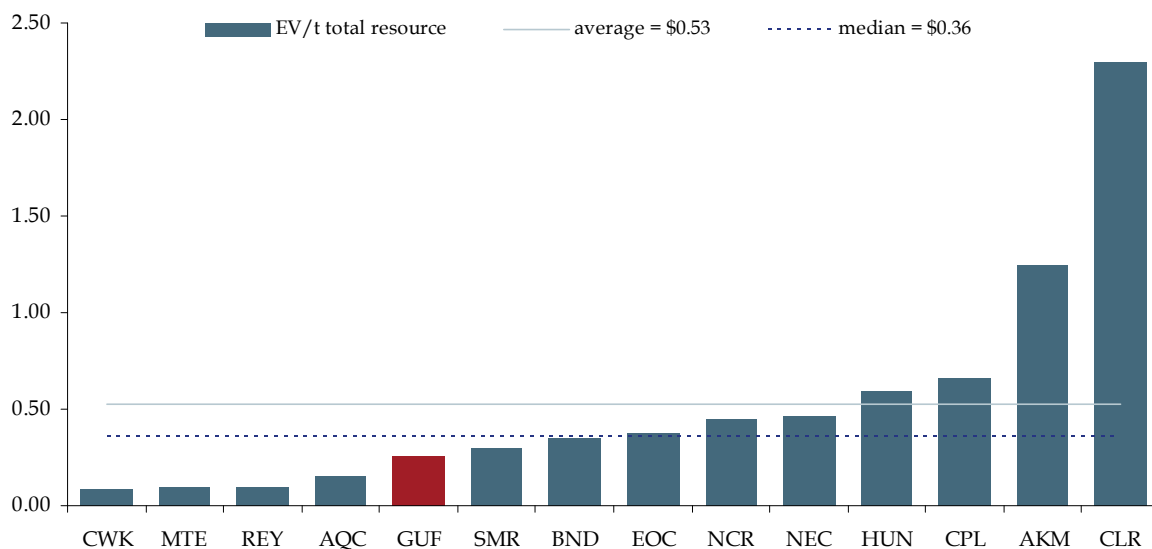


Source: Company data, CapitalIQ, Moelis & Company estimates

Given GUF's projects are in the exploration stage in their life-cycle, we consider it more reasonable to assess valuation on a narrower sub-set of peers, excluding late development stage and existing producers. On this basis, **ASX coal explorers and early-stage developers are trading on average and median EV/t of \$0.53/t and \$0.36/t respectively.**

Applying this median multiple to our 12 month total resource estimate of 1.65bt (GUF equity) derives an equity value of \$1.47/share (prior to adjustments).

Figure 6: EV/t of total resource (\$/tonne) - explorers and developers only



Source: Company data, CapitalIQ, Moelis & Company estimates

Mongolian assets

We note listed Mongolian coal companies with defined resources are trading on an average EV per tonne of total resource of \$2.11/t, with a wide range of \$0.59-\$4.26/t.

Figure 7: Listed Mongolian coal companies EV/t of resource

Company	Ticker	Primary coal type	EV(A\$m)	Total Resource (mt)	EV/t (\$/t)
Aspire Mining	AKM.AU	hard coking	412	330	1.25
Hunnu*	HUN.AU	semi-soft	401	675	0.59
Mongolia Mining	975.HK	hard & semi-soft	3319	779	4.26
SouthGobi Resources	1878.HK	semi-soft	1255	536	2.34
Average					2.11

* Hunnu under agreed takeover by Banpu - \$1.80/share, EV/t of \$0.68/t
Source: Company data, Bloomberg, Moelis & Company estimates

Hunnu (HUN) is currently under takeover by Banpu, with the \$1.80/share offer valuing Hunnu at \$0.68/t of resource. Hunnu has three primary projects, the nearest to production being the Tsant Uul semi-soft coking coal project (80% equity in 167mt JORC resource), which is scheduled to commence production in the December quarter of this year. This project is located in the South Gobi region.

Aspire Mining (AKM, Buy, Target Price \$0.76) has a large-scale premium hard coking coal deposit in northern Mongolia. A maiden resource of 330mt at Aspire's Ovoot deposit was announced in October 2010. The project ultimately requires significant investment in infrastructure, being 550km from where the rail commences at Erdenet.

Mongolian Mining and SouthGobi Resources have both been producing coal in Mongolia for 2-3 years, with current production of ~4mt pa and 2.5mt pa respectively. Guildford's South Gobi project is located approximately 50km east of SouthGobi's Ovoot Tolgoi mine.

Potential separate listing of Guildford's Mongolian assets

GUF is exploring the possibility of spinning out its Mongolian assets into a separately listed entity. The logic behind such a move would likely be to capitalise on an expected re-rating of the Mongolian assets, and provide an opportunity for GUF to sell down part of its stake in these assets to help fund the development of its Queensland projects, particularly Hughenden. This would also help management focus on development of the Hughenden Project. In normal circumstances we would be sceptical of attempts to realise value through spin-offs. However, given continued corporate appeal of coal assets, we believe such a strategy in the current circumstance could result in value accretion versus the current structure.

ii) NPV valuation of South Gobi and Hughenden

We have made a preliminary estimate of the potential net present value (NPV) for both the South Gobi and Hughenden projects.

Figure 8: Preliminary base-case NPV estimates for GUF's priority projects

		South Gobi	Hughenden
LOM project capex	\$m	40	850
long-term coal price	US\$/t	35	105
long-term AUDUSD	\$	0.90	0.90
Total cash cost	US\$/t	25 (mine gate)	75 (FOB)
volume	mt pa	3	5 (2018), 10 (2022)
first production		2013	2015
mine life	years	20	35
WACC (real)	%	8%	8%
Project NPV (100%)	\$m	316	628
Project NPV (100%)	\$/share	0.75	1.50

Source: Moelis & Co estimates

Other adjustments to valuation

Royalty payments

We have factored in our estimate of the NPV of royalty payment relating to GUF's recent acquisition of the remaining 20% of FTB from Carpentaria Exploration Limited. A royalty of 50 cents per tonne of coal sold from the FTB tenements, capped at 10mt per year for 20 years from first coal production with a potential value of up to \$100m. We estimate the NPV of this royalty at -\$8m.

Exploration success fee

On 26 May 2010, GUF acquired controlling interests in three entities from The Chairmen1 Pty Ltd (major shareholder in GUF), the assets of which are GUF's current Queensland projects. A Management agreement was entered into with TheChairmen1, which provides for the payment of a \$2.5m pa annual management fee and an exploration Success Fee of up to \$20m, in either cash or shares, for every 100mt of Indicated Resource to a maximum of \$100m. Any shares paid within the first two years must be restricted securities. The Success Fee obligation concludes after five years from the date this agreement was entered into (July 2010). Our base case valuation of GUF factors in our estimate of the present value of these potential success fees.

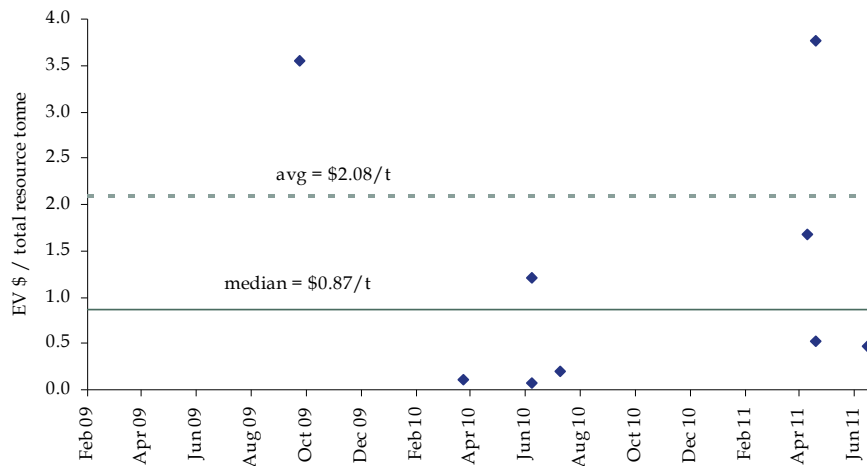
iii) Comparable ASX coal sector transaction multiples

We expect the recent trend of corporate activity in the Australian and global coal sectors to continue, driven by the resource requirements of large developing economies such as China and India. A list of recent ASX coal sector transactions is presented in Figure 10.

Average and median EV per total resource tonne for these transactions were \$2.70/t and \$1.27/t respectively. Given the broad range of multiples and adequate sample size, we consider the median estimate a better

measure of central tendency. Further, to be consistent with the 12 month investment horizon on which our investment view is based, we have narrowed the transaction subset to pre-production assets only. This **pre-production sub-set has an average and median EV/total resource tonne of \$2.08/t and \$0.87/t respectively** (Figure 9).

Figure 9: Recent coal market transactions (A\$ EV/t) - pre-production assets only



Source: Company data, Bloomberg, Moelis & Co estimates

Risks

Key risks include:

- **Slower global economic growth** resulting in reduced demand for steel/energy and therefore coal prices and demand for coal equities;
- **Exploration** results falling short of expectations. GUF's projects are at pre-feasibility stage, with maiden JORC resource estimates yet to be declared;
- **Severe weather** events, particularly flooding in Queensland, which could delay exploration activity;
- **Political uncertainty** - Mongolian government mine ownership laws may change (government election in 2012). Potential changes to planned Australian carbon tax and Mineral Resource Rent Tax;
- **Financing** risk - ability to fund exploration, project development and infrastructure;
- **Key personnel** risk;
- **Native title** claims;
- **Infrastructure** development;
- **Human resource** constraints. and

Figure 10: Australian coal sector transaction multiples

Announcement date	Target	Acquirer	Consideration		Coal type	Mine type	Operating mine	EV \$/M&I resource tonne	EV \$/Total resource tonne
			(A\$m)	Stake					
12-Sep-11	Hunnu	Banpu Public Company Ltd	462	100%	HCC, TC	O	No	0.83	0.68
29-Aug-11	Northern Energy	New Hope Corporation	46	19%	TC, PCI, HCC	U	No	0.97	0.46
11-Jul-11	Macarthur Coal	PEAM Coal	3727	100%	PCI, TC, coking	O, U	Yes	4.8	2.56
16-May-11	Monash	Gloucester Coal	150	100%	SSCC	U	No		0.52
16-May-11	Donaldson Coal	Gloucester Coal	585	100%	TC, SSCC	U, O	Yes		0.66
6-May-11	Aston Resources / Maules Creek	ITOCHU Corporation	345	15%	SSCC, PCI, TC	O	No	5.2	3.77
24-Aug-10	MDL162	Macarthur Coal	334	90%	SHCC, PCI	O	No	2.7	1.68
4-Aug-10	Noble /Middlemount mine project	Gloucester Coal	278	30%	SHCC, PCI	O	No	13.5	9.24
3-Aug-10	Galilee coal tenement	Adani Enterprises	1500	100%	TC		No	3.0	0.19
5-Jul-10	Centennial Coal	Banpu Public Company Ltd	2504	80%	TC, coking	U, O	Yes	1.6	1.51
5-Jul-10	Anglo American plc / Taroom, Collingwood & Omnaview	Cockatoo Coal	106	51%	TC	O	No	1.1	
5-Jul-10	Anglo American plc / Bylong	KEPCO	403	100%	TC	U	No	2.7	
5-Jul-10	Anglo American plc / Sutton forest	POSCO	72	100%	TC	U	No	0.6	
19-Apr-10	South Australian Coal	White Energy	39	100%	low rank TC	O	No	0.2	0.08
6-Apr-10	Gloucester	Nobel	130	12%	TC, coking	O	Yes	7.8	14.1
4-Nov-09	Maules Creek	Aston Resources	480	100%	SSCC, PCI, TC	O	No	1.8	1.21
20-Oct-09	Vickery	Whitehaven	32	100%	SCC, TC	O, U	No	0.1	0.11
13-Aug-09	Felix Resources	Yanzhou Coal Mining Company	3539	100%	TC, PCI, SSCC	U, O	Yes	4.3	
27-Feb-09	Gloucester	Noble	383	66%	TC, coking	O	Yes	5.5	
6-Aug-09	Narrabri	Korean Consortium	136	8%				6.0	4.14
26-Nov-08	Peabody Energy Corp / Baralaba mine	Cockatoo Coal	52	63%	TC, PCI	O	Yes	2.9	
19-Nov-08	Resource Pacific Holdings / Ravensworth u/g mine	Marubeni Corporation	188	12%	SSCC	U	Yes	8.3	
1-Aug-08	Whitehaven / Narrabri project	Electric Power Development Co Ltd	125	7.5%	TC	U	No	5.5	
1-Aug-08	Whitehaven / Narrabri project	EDF Trading	129	7.5%	TC	U	No	5.7	
17-Jul-08	New Hope Cop / New Saraji project	BHP Billiton	2450	100%	coking	U	No	15.7	3.55
2-Jan-08	Moolarben	Korean Consortium	90	10%				1.6	1.27
21-Dec-07	POSCO & Itochu JV / Foxleigh coal mine	Anglo American plc	712	70%	PCI	O	Yes	3.5	
10-Dec-07	Monto Coal 2 pty ltd	Noble	49	20%	TC	O	No	4.0	
10-Dec-07	Custom Mining	Macarthur	275	100%	PCI, coking	O		4.0	
5-Dec-07	Resource Pacific Holdings	Xstrata plc	1082	100%	SSC, TC	U		7.0	
17-Sep-07	Austral Coal Limited / Tahmoor mine	Xstrata plc	557	100%	HCC	U		3.1	
17-Sep-07	Anvill Hill Project	Xstrata plc	425	100%	TC	O		2.3	0.85
7-Aug-07	Iluka Resources / Narama mine	Xstrata plc	54	50%	TC	O	Yes	8.8	
2-Jul-07	Macarthur Coal	CITIC	113	8%	PCI, TC	O	Yes	2.2	
27-Jun-07	Gloucester	AMCI	40	10%	coking, TC	O	Yes	4.5	
7-Jun-07	Felix Resources / Moolarben project	Sojitz	90	10%	TC	U	No	1.7	
21-Mar-07	Felix Resources Ltd	AMCI	188	19%	coking, TC	U	Yes	2.0	
	avg							4.16	2.70
	median							3.30	1.27

Source: Company data, Moelis & Co estimates

Projects

A summary of some of the key geological attributes of GUF's Queensland projects is presented in Figure 11.

Figure 11: Guildford's Queensland coal projects

Project	Target Formation	Basin	Age	Depth (M)	Method	Product	Beneficiation
Hughenden	Blantyre/Injune Creek	Eromanga	Jurassic	0-100	Open cut	Domestic Thermal	No
Hughenden	Blantyre/Injune Creek	Eromanga	Jurassic	0-100	Open cut	Export Thermal	Yes
Hughenden	Betts Creek Beds	Galilee	Permian	0-150	Open cut	Domestic Thermal	No
Hughenden	Betts Creek Beds	Galilee	Permian	0-150	Open cut	Export Thermal	Yes
Hughenden	Betts Creek Beds	Galilee	Permian	150-500	Underground	Export Thermal	Yes
Hughenden	Betts Creek Beds	Galilee	Permian	300-900	In-situ Gasification	SynGas	n/a
Sierra	Burngrove	Bowen	Permian	0-100	Open cut	Coking	Yes
Sierra	Fair Hill	Bowen	Permian	0-100	Open cut	Coking	Yes
Sierra	Crocker	Bowen	Permian	0-100	Open cut	Export Thermal	No
Comet	Rangal Coal Measures	Bowen/Denison	Permian	300-500	Underground	Export Thermal	No
Sunrise	Birkhead	Surat	Jurassic	0-100	Open cut	Export Thermal	No
Sunrise	Bandanna	Bowen/Denison	Permian	400-600	Underground	Export Thermal	No
Sunrise	Bandanna	Bowen/Denison	Permian	400-600+	In-situ Gasification	SynGas	n/a
Sunrise	Reids Dome	Bowen/Denison	Permian	600+	In-situ Gasification	SynGas	n/a
Monto	Mulgildie	Nagoorin Graben	Jurassic	0-200	Open cut	Export Thermal	Yes
Monto	Mulgildie	Mulgildie	Jurassic	0-200	Open cut	Export Thermal	Yes
Kolan	Burrum Coal Measures	Maryborough	Cretaceous	0-100	Open cut	Export Thermal / Coking	Yes

Source: Guildford Coal

Hughenden Project - Galilee / Eromanga Basins

Exploration

The Hughenden Project covers 16,500km² of exploration permits for coal (of which ~11,500km² has so far been granted) at the northern end of Queensland's Galilee Basin.

The project is targeting substantial export thermal coal tonnages with open cut and underground mining potential which are located in close proximity to infrastructure, with the Mt Isa to Townsville rail line running across the project area.

Independent geologists (MDM) have assessed recent and historical geological and exploration data, with an **Exploration Target range of 0.58 - 5.72 billion tonnes**. There is potential for this target to increase with further positive results from the current exploration program.

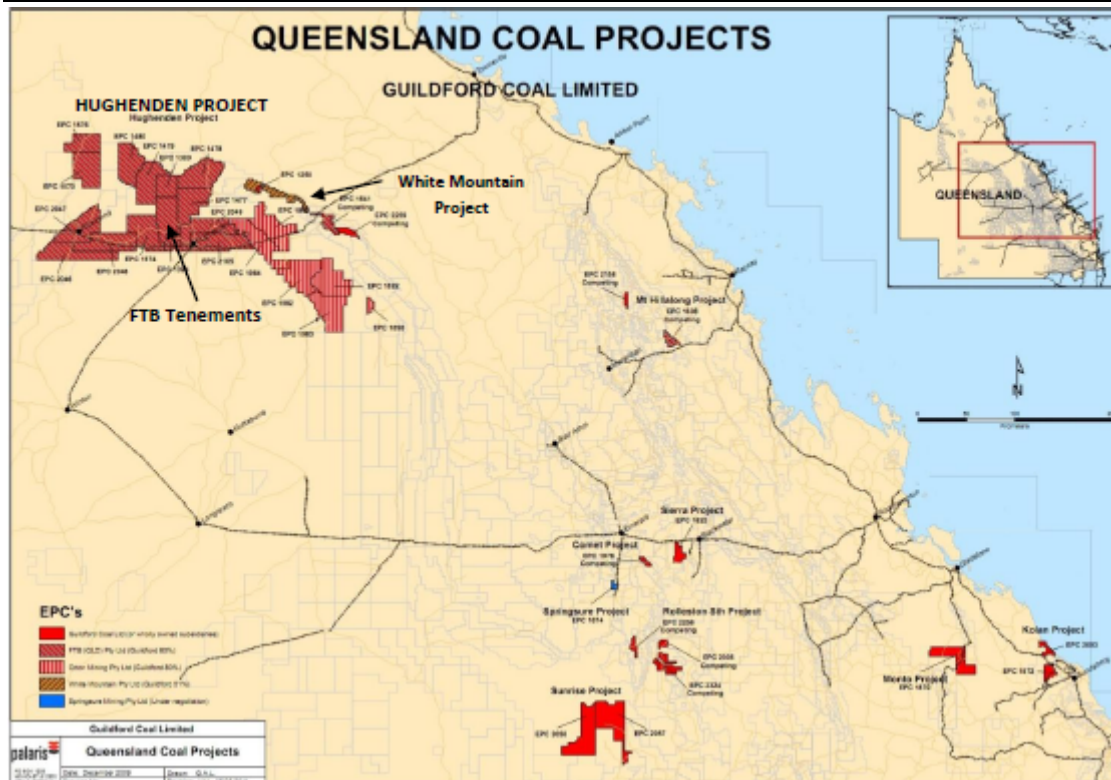
Operations

The first mine is expected to be a relatively shallow (likely strip ratio sub 4:1) open cut mine on EPC1260. The south-eastern boundary of EPC1260 is only ~15km from the nearest rail siding at Pentland.

The Hughenden project is expected to be a contractor operation, producing 5-10mt pa of product coal. Up to 5mt of capacity is currently available on the rail line, and work is being done to increase the rail line capacity to 10mt pa over the next 24 months.

Early analysis suggests costs for Hughenden are likely to be ~\$65/t FOB, including royalties. A 5500-6000kCal product is expected, with likely yield of 75-80%. Mine life is expected to be in excess of 30 years.

Figure 12: Guildford's Queensland coal projects



Source: Guildford Coal

Infrastructure

GUF's competitive advantage over other Galilee Basin developers is that its Hughenden project appears to be the only project where rail and port capacity isn't the critical path.

GUF's Hughenden Project is located ~15km from Pentland, which sits on the Mt Isa to Townsville rail line. Distance by rail to the Port of Townsville is ~320km. We understand the rail line has ~5mt pa of capacity available.

GUF has entered a heads of agreement with the Port of Townsville and the Australian Railroad Group (ARG), the bulk freight subsidiary of Queensland Rail (QR). GUF's Hughenden Project is expected to use berth 12, an expansion berth, at the Port of Townsville. A feasibility study for the port expansion is due to be completed by the end of CY2011. GUF has also lodged an expression of interest with the North Queensland Bulk Port Corporation, in capacity at Abbott Point Coal Terminal. We expect Townsville to be the preferred option for GUF, given distance and time to availability.

Other projects being developed in the Galilee Basin are more progressed from an exploration, feasibility study and permitting perspective. However, they appear to have more onerous infrastructure challenges, particularly with regards to rail. These projects include;

- South Galilee Coal Project – AMCI / Bandanna Energy;
- Alpha Coal and Kevin's Corner - Hancock Prospecting recently sold 79% stake to India's GVK for \$1.26bn;
- China First – Waratah; and
- Carmichael - Linc/Adani.

Mongolia

GUF’s Mongolian projects are owned through a 70% stake in Mongolian company Terra Energy (TE, unlisted). TE owns two projects comprising six exploration licenses over prospective coking and thermal coal targets. *Combined Exploration Target is 30mt to 1.38bt. Maiden resource estimates for both projects are expected to be delivered by the end of October 2011.*

South Gobi Project

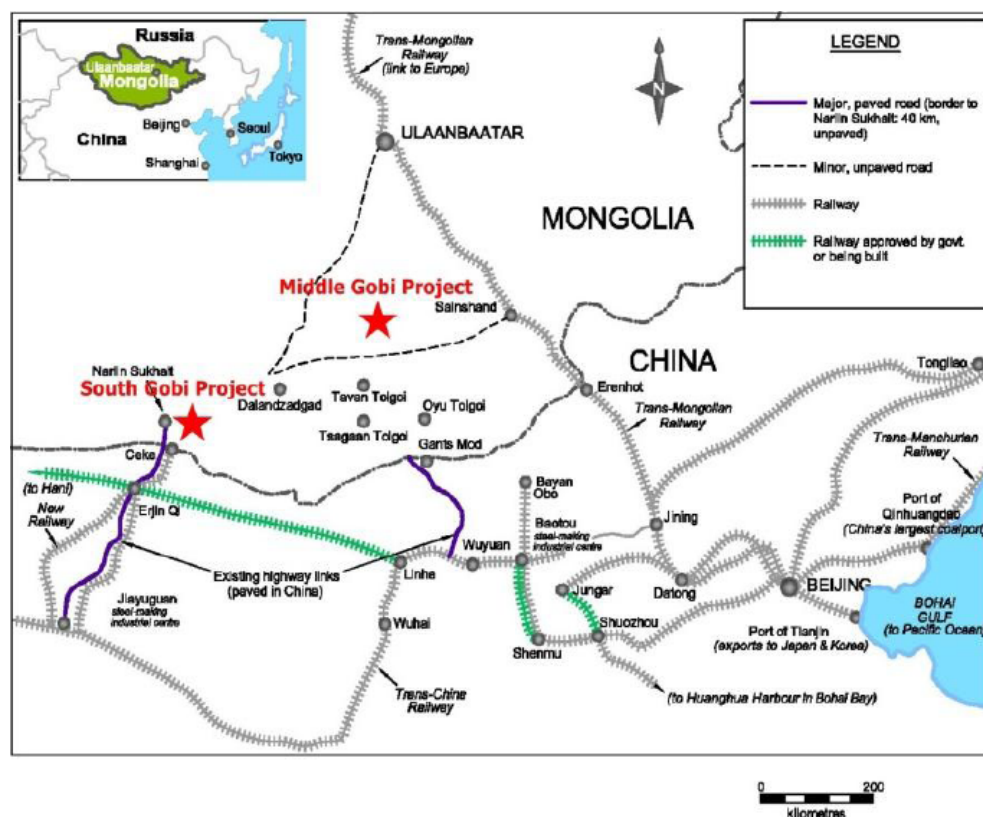
Located in South Gobi Basin, adjacent to two operating mines (SGS and MAK) that are currently producing high volatile bituminous coals marketed as a mixture of both thermal and coking coal products, at a combined +5mt pa annualised rate.

The South Gobi project is located ~60km from the Chinese border station of Ceke, where coal from Mongolia is already trucked into China by other producers.

Prospects consist of four exploration licenses, with potential for a mixed coking/thermal coal product. GUF is currently drilling (5 rigs), with a maiden resource expected to be announced in October 2011.

Independent consulting geologists have estimated an Exploration Target of **0 to 700mt**. This was upgraded earlier this month from previous range of 0 to 582mt.

Figure 13: Guildford’s Mongolian coal projects



Source: Guildford Coal

If the current exploration program delivers to expectations, and a licence to mine is received, first production could commence as early as 2H CY2012. South Gobi is expected to be developed as a DSO operation, with a mixed coking/thermal coal product sold at mine gate. It is expected to be a contractor operation, with low

upfront capital costs. A 60km road will need to be constructed to the border with China. Given the relatively small tonnages and distance, this is expected to be a gravel road and should therefore cost under \$10m to build.

Middle Gobi Project

The Middle Gobi Project consists of two potential coal deposits (two exploration licences) in the Dugovi Province of Mongolia.

The project covers an area of approximately 36,000 hectares. It is located ~200km south of the capital of Ulaanbaatar, ~200km north of Tavan Tolgoi, and just over 200km west of the Mongolian railway grid.

Independent geologists have developed an **Exploration Target of 30 to 680mt**.

A maiden JORC estimate for the 12929X target is expected in October 2011. This is expected to be a low rank thermal coal. The other license, 15466X, is adjacent to a currently operating mine, Tsagann Owoo, which supplies coal to the domestic energy market.

Given its location, 200km west of the Mongolian railway, the Middle Gobi project faces the challenge of access to rail infrastructure. Current rail construction costs in Mongolia are ~US\$3m per km (Mongolian Mining Corporation budgeted US\$699m to build a 245km railway). At this stage it is too early to identify exactly when the necessary rail infrastructure will be constructed, and how it will be funded. That said, we expect infrastructure solutions to emerge over the medium-longer term given the rapidly expanding number of resource projects emerging in the country.

Other Queensland projects

Sierra Project – Bowen Basin

The Sierra Project contains one exploration permit (EPC1822, 100% GUF) which has recently been granted. Drilling is scheduled to commence in the last week of October, with hard coking coal the target. The project is targeting the Fair Hill, Burngrove and Crocker Formations of the Bowen Basin.

The coal in these formations tends to be banded with a high ash content. This will likely require heavy washing (low yield). Selective mining will be difficult. However, given the ash is in bands, it should be relatively easy to wash out.

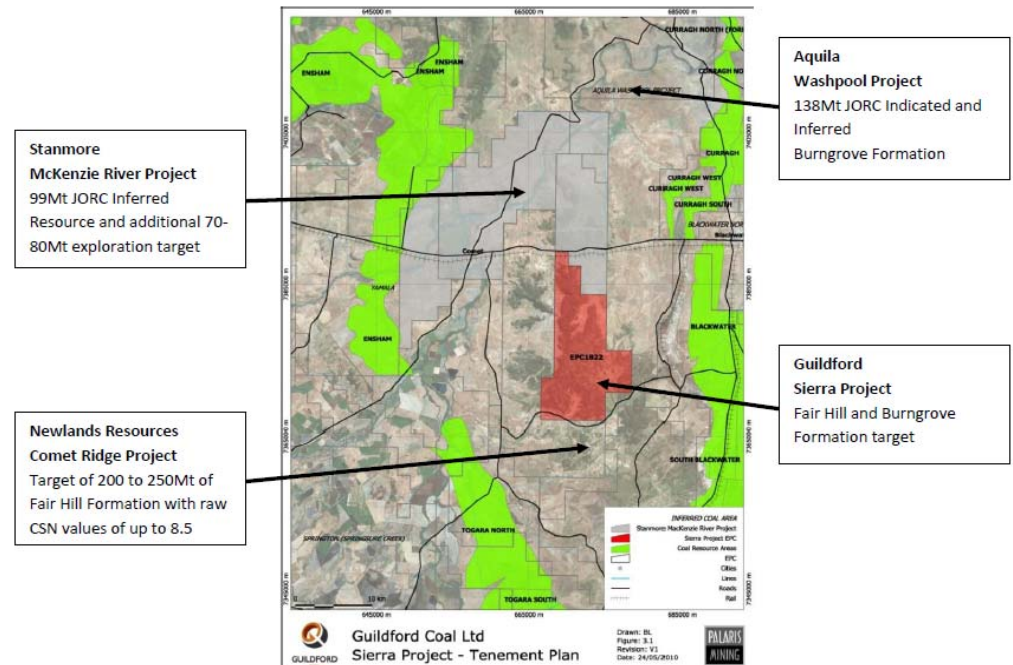
We note mixed assessments of treatment options for coal at nearby projects:

Newland Resources (ASX: NRL) has indicated that conventional washing and/or selective mining of its nearby Comet Ridge project (Fair Hill seam) is not feasible, requiring an alternative processing strategy. This would involve a dry process to remove stone and a two stage wet HMC process to recover coking and thermal products.

Aquila Resources (ASX: AQA) has completed a concept study on the viability of the Washpool Project, which occurs along strike to the north of EPCA 1822. The Washpool Project primarily targets the Burngrove Formation seams and indicates that although the coal is banded and has high raw ash contents, the coal can be beneficiated with sufficient yields to produce a hard coking coal product. This relies on a theoretical washability yield of 41% to produce a product with 15% ash content.

Stanmore Coal's (ASX: SMR) Mackenzie River coking coal project is to the north-west of Sierra, targeting the Burngrove seam. Aquila Resources' (ASX: AQA) Washpool project is also on the Burngrove seam.

Figure 14: Sierra Project location in relation to other explorers targeting similar sequence



Source: Guildford Coal

Kolan Project – Bowen Basin

The Kolan Project contains two exploration permits (EPC1872 and EPC2003) which are in the application stage.

The primary exploration target within the Kolan Project is the Burrum Coal Measures, which shall be explored in the hope that the area contains a potential resource of low ash, high energy coal and high quality coking coal. The coal is expected to be in one lenticular seam (variable thickness), at a shallow depth of ~40m. Guildford is targeting ~5m seam thickness.

Exploration by Consolidated Goldfields Pty Ltd in the 1970s covered a significant tenement area overlapping the current Kolan Project EPCs, and identified relatively thin seams of the Burrum Coal Measures within the area sub-cropping and close to the surface. The drilling was shallow and the borehole data is of low quality, however it has confirmed the presence of coal potentially conducive to open cut mining.

The borehole B001C was drilled between EPCA 1872 and EPCA 2003 and contained 5.5 metres net thickness of coal. The basal seam intersected was 4.38m in thickness. Further south in the Kolan Basin, Northern Energy Corporation Ltd announced in January 2010 an Inferred resource of approximately 57 million tonnes of hard coking coal at the planned Colton Mine. It is understood that coal mined from Colton would require beneficiation to produce a hard coking coal.

Sunrise Project – Surat / Bowen Basins

The Sunrise Project contains two exploration permits (EPC2057 and EPC2058) which are in the application stage.

The only historical coal exploration in the area was conducted by Agip Australia within A-P 385C in the 1980s. This area, known as Westgrove, is located adjacent to the south-eastern tip of current EPC 2058. The report identified three possible targets for coal exploration in the area:

- Jurassic Walloon Coal Measures which outcrops near the surface;
- Upper Permian Bandanna Formation which occurs between 450 and 550 metres depth; and
- Lower Permian Reids Dome Beds (below 1,000 metres depth).

Monto Project – Nagoorin Graben and Mulgildie Basin

The Monto Project contains one exploration permit (EPC1870), which is in the application stage.

The exploration philosophy for the Monto Project is to test for a southern extension to the Nagoorin Graben, and to also assess the potential for a highly speculative northern extension of the Mulgildie Basin.

Both the Nagoorin Graben and the Mulgildie Basin contain sequences of low rank, Jurassic coals. The Nagoorin Graben contains very thick sequences of lignite coal that may have the potential to be bulk mined. The extent of the Nagoorin Graben is not well defined and exploration within EPCA 1870 hopes to encounter coal bearing sequences in the southern portion of the basin.

Board & Management

Mr Craig Ransley – Non-Executive Chairman

Mr Ransley has a broad entrepreneurial background, founding and developing a number of companies, including Guildford Coal. He was a founder of labour hire and services companies TESA Group Pty Limited and Res Co Services, and was also the founder and instrumental in listing of Doyles Creek Mining (NuCoal Resources NL). He is a director and shareholder of TheChairmen1 Pty Ltd (substantial holder in Guildford Coal), which acquired ~20,000km² of coal exploration tenements in Queensland which were subsequently vended into GUF which listed in July 2010. He is also non-executive chairman of labour hire and recruitment company Humanis Group (ASX: HUM).

Mr Anthony Bellas – Non-Executive Deputy Chairman

Mr Bellas is an experienced company director, currently chairman of CTM Travel Limited and a non-executive director of ERM Power Limited and Australian Water (Qld) Pty Ltd. Previously Chief Executive at each of the Seymour Group, CS Energy and Ergon Energy.

Mr Michael Avery – Managing Director

Mr Avery has over 25 years experience in the coal industry. He has performed senior management and technical roles for a number of blue-chip mining companies, including BHP Billiton and Rio Tinto. His experience spans the full life-cycle of coal assets from resource exploration through to operation. He is also Joint Company Secretary of Guildford Coal. Mr Avery has an MBA, Bachelor of Mining Engineering (First Class Honours), and a NSW Open Cut Coal Mine Manager's Certificate of Competency.

Mr Michael Chester – Non-Executive Director

Mr Chester has over 26 years experience in the resources sector in the fields of investment banking, company research and analysis and funds management. He is currently a non-executive director of NuCoal Resources NL and Black Fire Minerals Limited and a director of Axiom Advisory Pty Ltd, a corporate advisory firm.

The Hon. Alan Griffiths – Non-Executive Director

The Hon. Alan Griffiths has broad business experience, including as principal of transport company Quantm Ltd. He served five terms in the Australian House of Representatives and held various Ministerial and Cabinet positions, including Minister responsible for the resources and energy sector.

Ms Norah St. George – Chief Financial Officer

Ms St George has 15 years experience in the Australian black coal industry. She has held senior financial and commercial management positions with companies including international blue chip mining companies, including Peabody Resources and BHP, and a top tier full service mining contractor.

GUILDFORD COAL (ASX: GUF)

Price \$

1.015

Mark Cap

\$426m

Buy

Key Stock Data

y/e 30 June	2011A	2012E	2013E	2014E	2015E
EPS (adj.)	-\$0.01	-\$0.02	-\$0.03	\$0.00	\$0.02
EPS growth	n.m.	87%	28%	-102%	2545%
P/E Ratio	-79.8 x	-42.6 x	-33.2 x	n.m.	50.6 x
EV/EBITDA	-95.0 x	-40.4 x	-32.9 x	119.0 x	30.5 x
FCPS	-\$0.01	-\$0.03	-\$0.06	-\$0.02	\$0.03
Price / FCPS	-131	-37	-17	-62	40
Free Cash Yield	-0.8%	-2.7%	-6.0%	-1.6%	2.5%
DPS	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Dividend Yield	0.0%	0.0%	0.0%	0.0%	0.0%
EBIT Interest Cover	n.m.	n.m.	n.m.	0.0 x	0.0 x
Net Debt / ND + E	nm	-12%	-3%	0%	0%
NTA per share	\$ 0.06	\$ 0.28	\$ 0.52	\$ 0.62	\$ 0.63
Price / NTA	17.0 x	3.7 x	1.9 x	1.6 x	1.6 x
12 mth fwd dividend yield		0.0%			
12 mth target price		1.50			
Total est. 12 mth return		48%			

Profit and Loss (\$m)

y/e 30 June	2011A	2012E	2013E	2014E	2015E
Revenue	2	4	12	46	144
<i>growth</i>		66%	250%	276%	210%
EBITDA	(4)	(10)	(19)	5	29
Depr & Amort	(0)	0	(0)	(1)	(6)
EBIT	(4)	(10)	(19)	4	23
<i>growth</i>	n.m.	n.m.	92%	-121%	459%
Net interest expense	(0)	0	0	0	0
Pre-tax profit	(4)	(10)	(19)	4	23
Tax	(1)	0	0	(1)	(7)
<i>Tax Rate</i>	-27%	0%	0%	29%	29%
Preference Dividends	0	0	0	0	0
Minorities	(0)	0	0	(2)	(4)
Adjustments	0	0	0	0	0
NPAT (Adj)	(5)	(10)	(19)	0	13
NPAT (pre-one off)	(5)	(10)	(19)	0	13
One-off items	0	0	0	0	0
NPAT (reported)	(5)	(10)	(19)	0	13

Balance Sheet (\$m)

y/e 30 June	2011A	2012E	2013E	2014E	2015E
Cash	34	22	14	33	79
Inventories	0	0	1	4	12
Current Receivables	1	0	1	4	12
PP&E	0	94	114	129	139
Intangibles	89	89	89	89	89
Investments/other	0	0	200	227	497
Total Assets	124	205	419	486	827
Current Payables	12	0	1	5	15
Debt	0	0	0	0	327
Provisions	0	0	0	0	0
Other	0	0	0	0	0
Total Liabilities	12	0	1	5	342
Net Assets	112	205	417	481	485
Shareholders Equity	112	205	417	481	485
Minorities	0	0	0	0	0
Total Equity	112	205	417	481	485
Net Debt/(cash)	(34)	(22)	(14)	(33)	248

Cashflow (\$m)

y/e 30 June	2011A	2012E	2013E	2014E	2015E
EBIT	(4)	(10)	(19)	4	23
Depr & Amortisation	(0)	0	(0)	(1)	(6)
Net interest paid	2	4	1	1	3
Tax Paid	0	0	0	0	(1)
Change in working cap	0	0	(1)	(2)	(5)
Other	(1)	0	1	2	12
Operating Cashflow	(3)	(6)	(19)	5	26
Capital expenditure	0	(5)	(20)	(15)	(10)
Acquisitions	(17)	0	0	0	0
Divestments	0	0	0	0	0
Investments/other	0	(20)	(220)	(20)	(297)
Investing Cashflow	(17)	(25)	(240)	(35)	(307)
Equity raised	57	20	250	50	0
Dividends paid	0	0	0	0	0
Net borrowings	0	0	0	0	327
Other	(3)	0	0	0	0
Financing Cashflow	54	20	250	50	327
Exchange Rate Adj	(1)	0	0	0	0
Net incr/(decr) in cash	33	(11)	(9)	20	46

Profitability, Leverage & Liquidity Ratios

y/e 30 June	2011A	2012E	2013E	2014E	2015E
EBITDA/Sales	-178%	-283%	-154%	11%	20%
EBIT / Sales	-179%	-283%	-156%	9%	16%
ROA	-3%	-5%	-5%	1%	3%
ROE	-4%	-5%	-5%	0%	3%
ROIC	-10%	-8%	-7%	1%	4%
Net Debt / EBITDA	8.9 x	2.2 x	0.7 x	-6.6 x	8.5 x
Net Debt / EBIT	8.8 x	2.2 x	0.7 x	-8.2 x	10.9 x
Net debt / ND + Eq	-43%	-12%	-3%	-7%	34%
EBIT interest cover	n.m.	n.m.	n.m.	n.m.	n.m.
Div payout ratio	0%	0%	0%	0%	0%
Capex / Depreciation	0 x	n.m.	80 x	15 x	2 x
Working Cap / Sales	0%	0%	-5%	-4%	-4%

Source: Company data, IRESS and Moelis & Company estimates

12 October 2011

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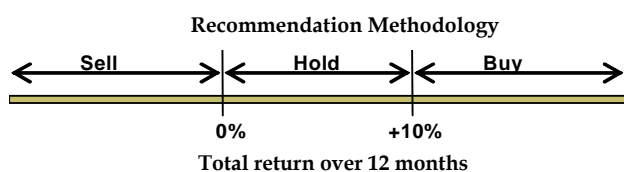
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