

UBS Investment Research

Guildford Coal

Progress on several fronts

■ March quarter a busy one across Queensland and Mongolian projects

Guildford made significant progress across its key projects in the March qtr. In Queensland, the company upgraded its Hughenden resource, recorded a maiden resource at White Mountain and acquired a controlling stake in the Springsure project. In Mongolia, the company continued its discussions with key stakeholders ahead of first production in the September qtr. Maintain Buy, trading at 0.5x NPV.

■ Consolidating its position in the northern Galilee Basin

In March, Guildford reported a maiden 262Mt resource at White Mountain at depths suitable for open pit mining (25-300m) and upgraded the Hughenden resource to 1,619Mt. Drilling is continuing up-dip at both projects. The company also announced today the acquisition of the remaining 20% of the Pentland project, adjacent to Hughenden. Guildford plans to operate 1 drill rig at Pentland for at least the next 12 months. We allocate \$200m in value to the Queensland projects, but note this is largely offset by the PV of our corporate & exploration expense.

■ Key negotiations for South Gobi project nearing completion

Guildford has reported that negotiations with the mining contractor should be complete by mid-May, with an 8-10 week period for mobilisation prior to first production. Preliminary costings from the Scoping Study are in line with forecasts, while indicative pricing from potential offtake partners has exceeded expectations. We model cash costs of US\$22.50/t & raw semi-soft pricing of US\$70/t (real).

■ Valuation: NPV \$1.29 / PT \$1.30

Our South Gobi project valuation (\$1.25/sh) forms the majority of our group NPV.

Highlights (A\$m)	-	06/11	06/12E	06/13E	06/14E
Revenues	-	0	0	57	123
EBIT (UBS)	-	(5)	(25)	16	47
Net Income (UBS)	-	(4)	(24)	12	40
EPS (UBS, A\$)	-	(0.01)	(0.05)	0.03	0.08
Net DPS (UBS, A\$)	-	0.00	0.00	0.00	0.00
Profitability & Valuation	5-yr hist av.	06/11	06/12E	06/13E	06/14E
EBIT margin %	-	<-500	<-500	28.0	38.2
ROIC (EBIT) %	-	-	(26.3)	12.8	33.0
EV/EBITDA (core) x	-	-16.8	-9.9	14.5	4.4
PE (UBS) x	-	NM	NM	24.0	7.4
Net dividend yield %	-	0.0	0.0	0.0	0.0

Source: Company accounts, Thomson Reuters, UBS estimates. (UBS) valuations are stated before goodwill, exceptionals and other special items. Valuations: based on an average share price that year, (E): based on a share price of A\$0.63 on 30 Apr 2012 19:42 EST

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Global Equity Research

Australia

Mining

12-month rating **Buy**
Unchanged

12m price target A\$1.30/US\$1.35
Unchanged

Price A\$0.63/US\$0.65

RIC: GUF.AX BBG: GUF AU

30 April 2012

Trading data (local/US\$)

52-wk range	A\$1.32-0.63/US\$1.42-0.65
Market cap.	A\$0.27bn/US\$0.29bn
Shares o/s	440m (ORD)
Free float	54%
Avg. daily volume ('000)	664
Avg. daily value (m)	A\$0.5

Balance sheet data 06/12E

Shareholders' equity	A\$0.11bn
P/BV (UBS)	2.7x
Net Cash (debt)	A\$0.01bn

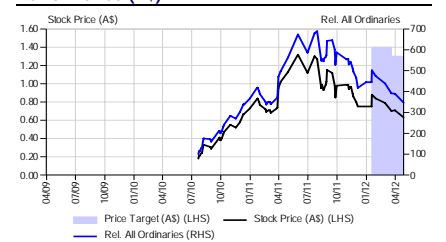
Forecast returns

Forecast price appreciation	+108.0%
Forecast dividend yield	0.0%
Forecast stock return	+108.0%
Market return assumption	8.2%
Forecast excess return	+99.8%

EPS (UBS, A\$)

	06/12E		06/11	06/11
	From	To	Cons.	Actual
H1	(0.04)	(0.04)	-	(.00)
H2E	(0.01)	(0.01)	-	(0.01)
06/12E	(0.05)	(0.05)	(0.03)	
06/13E	0.03	0.03	0.02	

Performance (A\$)



Source: UBS

www.ubs.com/investmentresearch

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Guildford Coal (GUF.AX)

Analyst/s: Ben Wilson/Glyn Lawcock
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30-Apr-12

MARKET INFORMATION

Rating:	Buy
Price (as of 30-Apr-12):	0.63
Price Target (12 months):	1.30
Issued Capital:	439.6
Market Capitalisation:	277.0
Avg. daily turnover (US\$m)	0.5
Year end:	Jun 2012
Website:	http://www.guildfordcoal.com.au/
Major Shareholders:	The Chairmen1 Pty Ltd

INVESTMENT SUMMARY

(A\$m)	2013E	2014E	2015E	2016E
Net profit [reported] (\$m)	12.4	40.0	47.0	42.7
Net profit [adjusted] (\$m)	12.4	40.0	47.0	42.7
EPS [reported] (\$)	0.03	0.08	0.10	0.09
EPS [adjusted, diluted] (\$)	0.03	0.08	0.10	0.09
EPS Growth (%)	NM	223.4	17.5	(9.2)
PER [adjusted] (x)	24.2	7.5	6.4	7.0
Dividend (\$)	0.0	0.0	0.0	0.0
Payout ratio (%)	0.0	0.0	0.0	25.0
Dividend Yield (%)	0.0	0.0	0.0	3.6
FCF Yield (%)	3.5	14.4	15.5	13.8
Franking (%)	0.0	0.0	0.0	0.0
Shares [period-average, diluted] (m)	475.4	475.4	475.4	475.4

VALUATION

Valuation per share [NAV @ 10%] (\$)	\$1.29
Share Price Target [12 months] (\$)	\$1.30
Price/NAV (x)	0.5

Assets	A\$m	A\$/sh
South Gobi	597	1.25
Corporate / exploration	-195	-0.41
Exploration upside	200	0.42
Net (debt) / cash	10	0.02
Total	612	\$1.29

ENTERPRISE VALUE

(A\$m)	2013E	2014E	2015E	2016E
Enterprise Value	334	306	270	233
EV/EBITDA (x)	20.6	6.4	5.0	4.6
EV/Operating Free Cash Flow (x)	136.2	9.4	6.4	6.0

EPS SENSITIVITIES

Commodity	Base Change	2014E	2015E	2016E
		EPS Change		

CASH FLOW

(A\$m)	2013E	2014E	2015E	2016E
Operating income [EBIT, UBS]	16	47	54	50
Depreciation & Amortisation	0	0	1	1
Net change in working capital	(4)	(5)	(1)	(0)
Other (operating)	4	5	1	0
Pre-tax op cash flow	16	48	54	51
Interest (paid) / received	0	2	3	2
Tax paid	(0)	(4)	(9)	(10)
Other	0	0	0	0
Operating cash flow	16	45	49	43
Capital expenditure	(6)	(2)	(2)	(2)
Free cash flow	10	43	46	41
Net (acquisitions) / disposals	0	0	0	0
Dividends paid (Common)	0	0	0	0
Shares issued/(repurchased)	0	0	0	0

Source: UBS estimates

COMPANY DESCRIPTION

Guildford Coal has near-term semi-soft coking coal production from its South Gobi project in Mongolia, supported by a 70mt resource with meaningful exploration upside. The company plans first coal by end-June quarter 2012; we estimate production of 3.6mtpa from two open pits. Guildford plans to use a simple model for the project, located only 60km from the China border, by employing contract miners and utilising mine-gate sales to offtake providers for ultimate sale in China. The company also has medium-term production options from the Middle Gobi project in Mongolia and the Hughenden project in Queensland.

OPERATIONAL ASSUMPTIONS

	2013E	2014E	2015E	2016E	2017E	2018E
Commodity Prices						
Semi soft (UBS forecast)	131.3	119.8	115.0	113.5	112.7	115.6
Semi soft (applied 'China price')	71.8	73.5	75.4	77.3	79.2	81.2
Exchange rate (AUD:USD)	1.03	0.98	0.91	0.84	0.80	0.80
Production						
Semi soft [Mt]	1.3	2.5	2.5	2.5	2.5	2.5
Higher ash [Mt]	0.5	1.1	1.1	1.1	1.1	1.1
Operating Costs						
Total FOB cash costs [US\$/t]	22.5	22.5	22.5	25.0	27.5	27.5

DIVISIONAL BREAKDOWN [EBIT]

(A\$m)	2013E	2014E	2015E	2016E	2017E	2018E
South Gobi	27.1	58.1	64.6	65.2	63.4	64.9

PROFIT & LOSS

(A\$m)	2013E	2014E	2015E	2016E	2017E	2018E
Sales Revenue	57	123	137	152	163	167
Operating Cash Profit	36	78	87	90	90	92
Deprn & Amortisation	(0)	(0)	(1)	(1)	(1)	(1)
Operating Profit	36	77	86	89	89	91
Others	(9)	(19)	(21)	(24)	(25)	(26)
SGA	(11)	(11)	(11)	(15)	(15)	(15)
EBIT	16	47	54	50	48	50
Net interest	0	2	3	2	3	4
Profit before tax	16	49	57	53	52	54
Tax expense	(4)	(9)	(10)	(10)	(10)	(10)
Equity Associated NPAT	0	0	0	0	0	0
Minority Interests	0	0	0	0	0	0
Dividends [preferred]	0	0	0	0	0	0
Net Profit [reported]	12	40	47	43	42	44
Abnormal Gain/(Loss) after Tax	0	0	0	0	0	0
Net Profit [adjusted]	12	40	47	43	42	44
EBITDA margin (%)	28.3	38.6	39.5	33.5	30.1	30.3
Net Interest Cover [EBIT] (x)	42.0	29.1	17.1	22.3	15.3	13.2
Tax Rate (%)	0.2	0.2	17%	19%	18%	18%
EBIT/Total Assets (%)	8.9	21.0	19.6	15.9	13.9	13.1
NPAT/Equity (%)	7.6	19.8	18.9	14.6	13.0	12.3

BALANCE SHEET [Selected Items]

(A\$m)	2013E	2014E	2015E	2016E	2017E	2018E
Net Working capital	(17)	(21)	(22)	(22)	(22)	(22)
Fixed Assets	11	13	14	16	18	19
Net Other	142	157	167	172	177	182
Capital Employed	137	149	159	166	173	179
Net Cash / (Debt)	25	54	90	126	151	178
Total Equity [incl. minorities]	162	202	249	292	323	357
Minorities	14	14	14	14	14	14
Net Debt / Equity (%)	(15.6)	(26.5)	(36.1)	(43.2)	(46.6)	(49.8)
Book Value per Share(\$)	0.3	0.43	0.52	0.61	0.68	0.75

■ Guildford Coal

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UBS 12-Month Rating	Rating Category	Coverage ¹	IB Services ²
Buy	Buy	51%	34%
Neutral	Hold/Neutral	40%	35%
Sell	Sell	9%	15%
UBS Short-Term Rating	Rating Category	Coverage ³	IB Services ⁴
Buy	Buy	less than 1%	25%
Sell	Sell	less than 1%	17%

1:Percentage of companies under coverage globally within the 12-month rating category.

2:Percentage of companies within the 12-month rating category for which investment banking (IB) services were provided within the past 12 months.

3:Percentage of companies under coverage globally within the Short-Term rating category.

4:Percentage of companies within the Short-Term rating category for which investment banking (IB) services were provided within the past 12 months.

Source: UBS. Rating allocations are as of 31 March 2012.

UBS Investment Research: Global Equity Rating Definitions

UBS 12-Month Rating	Definition
Buy	FSR is > 6% above the MRA.
Neutral	FSR is between -6% and 6% of the MRA.
Sell	FSR is > 6% below the MRA.
UBS Short-Term Rating	Definition
Buy	Buy: Stock price expected to rise within three months from the time the rating was assigned because of a specific catalyst or event.
Sell	Sell: Stock price expected to fall within three months from the time the rating was assigned because of a specific catalyst or event.

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Forecast Stock Return (FSR) is defined as expected percentage price appreciation plus gross dividend yield over the next 12 months.

Market Return Assumption (MRA) is defined as the one-year local market interest rate plus 5% (a proxy for, and not a forecast of, the equity risk premium).

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UBS Securities Australia Ltd: Ben Wilson; Glyn Lawcock; Daniel Morgan.

Company Disclosures

Company Name	Reuters	12-mo rating	Short-term rating	Price	Price date
Guildford Coal ^{4, 5, 13}	GUF.AX	Buy	N/A	A\$0.63	27 Apr 2012

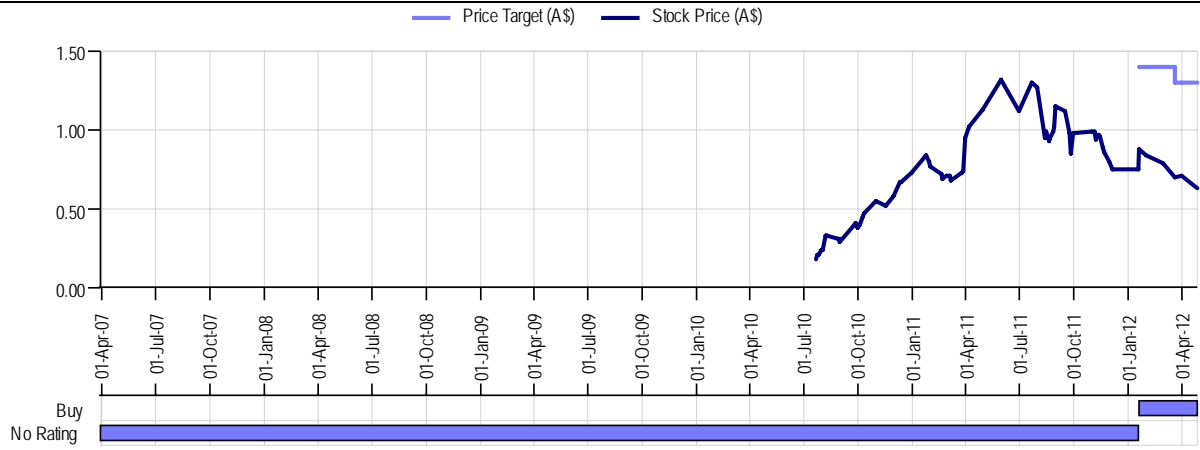
Source: UBS. All prices as of local market close.

Ratings in this table are the most current published ratings prior to this report. They may be more recent than the stock pricing date

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Guildford Coal (A\$)



Source: UBS; as of 27 Apr 2012

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