

Guildford Coal Ltd (GUF.ASX)

Hughenden Indicated Resource and company update

Event:

- GUF maiden JORC Indicated Resource – EPC 1477 and changes to commodity forecasts.

Details:

- GUF, yesterday announced a maiden JORC Indicated Resource of 123.6 Mt at their Hughenden project in QLD. We have also changed our commodity price forecasts as well as revised our EV/Resource estimates for existing exploration assets.

Analysis:

- GUF has achieved its first milestone JORC Indicated Resource at Hughenden:** The JORC Indicated Resource of 123.63Mt has been identified from EPC 1477. The Indicated Resource in our view is at depths ranging between 365m-425m suitable for underground mining methods and gives us greater confidence in the consistency of the current Resource.
- The Indicated resource triggers a success fee payment to Chairmen 1 Pty Ltd (C1) in shares. Under the original management agreement with C1, a milestone payment of \$20m for every 100Mt of JORC Resource capped at 500Mt is payable over a five year period across GUF's IPO assets in QLD. We factored this success fee into our corporate line but expected a cash payment once Mongolia was in production. However GUF will make a payment of \$20m consideration in shares based on the 30 day vwap, (covering 15 days pre and 15 days post announcement). We estimate new GUF shares to be issued at ~\$0.52/sh, which would imply an additional issue of 38.4m shares to C1 taking the total amount of GUF ownership to 46.4%. GUF's new share on issue post success fee will equate to ~513.8m shares.
- Additional drilling is ongoing at White Mountain, Springsure and Hughenden, with a view to achieving additional resources this quarter. White Mountain project excludes any payment to C1 for JORC Indicated Resources.
- South Gobi project targeting production this quarter:** In addition to drilling activities in QLD, GUF is progressing its South Gobi project targeting production this quarter. We are currently expecting an off take partner and mining contractor to be announced in the coming weeks after a slight delay in the lead up to the Mongolian election. Our valuation on South Gobi ~\$503m or \$1.06/Sh, underwrites GUF's current market capitalisation.
- We have changed commodity forecasts.** Our thermal price forecasts have declined by 24%, 21%, 15% in 2013, 2014, 2015 and 9% over the long-term \$100/t, while our Hard coking forecasts have been reduced by 8% and 12% for 2014 and 2015 while long-term has been revised up by 20% to \$180/t. Our A\$ forecasts have remained relatively unchanged with Long-term being reduced to 0.80 from 0.85 currently.

Catalysts

- South Gobi Scoping Study results including mining contractor and offtake.
- White Mountain open pit JORC Indicated Resource.
- Commencement of production at South Gobi.

Recommendation:

- We maintain our BUY recommendation with a revised PT of \$1.80/sh (\$2.20)**

Rating	BUY
Previous	BUY
Price Target (A\$)	\$1.80
Previous (A\$)	\$2.20

Share Price (A\$)	\$0.47
52 week low - high (A\$)	0.45 - 1.32
Valuation (A\$/share)	\$1.82
Methodology	DCF/Sum of Parts
Risk	High

Capital Structure	
Shares on Issue (m)*(post new share issue)	513.8
Market Cap (A\$m)	241.5
Net Debt/(Cash) (A\$m)	-23.3
EV (A\$m)	218.2
Options on issue (m)	0.0
12mth Av Daily Volume ('000)	800

Board	
Hon Peter Lindsay	Independent Chairman
Michael Avery	Managing Director
Craig Ransley	Non Executive Director
Hon Alan Griffiths	Non Executive Director
Mike Chester	Non Executive Director
Louis Chait	Non Executive Director

Major Shareholders	
TheChairmen1 Pty Ltd* (post share issue)	46.4%
Och-Ziff Capital Management	10.0%
Brispot Nominees Pty Ltd	7.5%
Regal Funds Management	5.2%

Key Milestones	
Scoping Study results	Q3 CY12
Offtake partner South Gobi Project	Q3 CY12
Upgraded JORC White Mountain/Hughenden	Q3 CY12

Key Metrics				
Year to June	2011a	2012e	2013e	2014e
Revenue (A\$m)	2.1	0.0	50.6	72.3
EBITDA (A\$m)	-3.8	-12.1	14.6	27.7
NPAT (A\$m)	-4.8	-19.6	6.8	16.0
EPS (c)	0.0	0.0	0.0	0.0
Op Cashflow (A\$m)	-3.0	-9.0	17.7	27.2
Capex (A\$m)	-0.3	-17.8	-11.7	-4.8
FCF (A\$m)	-3.3	-26.9	6.1	22.4

Share Price Graph



Analyst	
Craig Brown	+612 9993 8163
	craig.brown@fostock.com.au

Guildford Coal Ltd (GUF.ASX)

Full Year Ended 30 Jun

Profit & Loss (A\$m)	2011a	2012e	2013e	2014e
Revenue	0.0	0.0	50.6	72.3
Other Revenue	2.1	0.0	0.0	0.0
Revenue	2.1	0.0	50.6	72.3
Operating costs	0.0	0.0	23.2	32.2
Exploration	0.0	6.0	7.5	6.0
Corporate costs	5.9	6.1	5.2	6.4
EBITDA	-3.8	-12.1	14.6	27.7
EBITDA margin (%)	nm	nm	28.9	38.3
D & A	0.0	7.5	7.6	10.0
EBIT	-3.8	-19.6	7.0	17.8
EBIT margin (%)	nm	nm	13.9	24.5
Net Interest (exp) / income	0.0	0.0	0.2	0.4
Associates	0.0	0.0	0.0	0.0
Profit before tax	-3.8	-19.6	6.8	17.4
Tax (exp) / benefit	1.0	0.0	0.0	1.4
NPAT pre minorities	-4.8	-19.6	6.8	16.0
Minority Interests	0.0	0.0	0.0	0.0
NPAT pre sig items	-4.8	-19.6	6.8	16.0
Significant items	0.0	0.0	0.0	0.0
NPAT reported	-4.8	-19.6	6.8	16.0
NPAT adjusted *	-4.8	-19.6	6.8	16.0
WA # Shares Diluted (m)	413.5	457.5	513.8	513.8
EPS adj c/ps	-0.01	-0.04	0.01	0.03

* NPAT adjusted for significant items and amortisation of intangibles

Cash Flow (A\$m)	2011a	2012e	2013e	2014e
EBITDA	-3.8	-12.1	14.6	27.7
Net Interest (exp) / income	0.0	0.0	0.2	0.4
Tax	1.0	0.0	0.0	1.4
Other	0.0	0.0	0.0	0.0
Operating Cashflow	-3.0	-9.0	17.7	27.2
Capex	-0.3	-17.8	-11.7	-4.8
Net Acquisitions	-16.5	0.0	0.0	0.0
Asset Sales	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0
Investing Cashflow	-16.8	-17.8	-11.7	-4.8
Equity proceeds	57.0	25.0	20.0	0.0
Debt proceeds / (repayment)	0.0	0.0	0.5	-0.5
Dividends paid	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0
Financing Cashflow	57.0	25.0	20.5	-0.5
Net Cashflow	37.2	-1.9	26.5	21.9
Free Cashflow	-3.3	-26.9	6.1	22.4

Balance Sheet (A\$m)	2011a	2012e	2013e	2014e
Cash	33.8	23.3	51.4	77.1
Receivables	0.8	0.8	5.3	8.1
Inventories	0.0	0.0	0.0	0.0
PPE	0.2	10.3	14.9	14.1
Exploration & Development	88.8	83.0	75.0	64.6
Other	0.5	0.5	0.5	0.5
Total Assets	124.0	117.9	147.1	164.4
Payables	12.0	0.5	2.5	4.2
Tax liabilities	0.0	0.0	0.0	0.0
Debt	0.0	0.0	0.5	0.0
Other	0.0	0.0	0.0	0.0
Total Liabilities	12.1	0.5	2.9	4.3
Reserves and capital	96.2	121.2	141.2	141.2
Retained earnings	-4.8	-24.4	-17.6	-1.6
Minorities	20.5	20.5	20.5	20.5
Total Equity	112.0	117.4	144.1	160.2

Recommendation: BUY

Price Target \$1.80

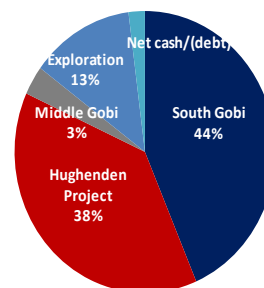
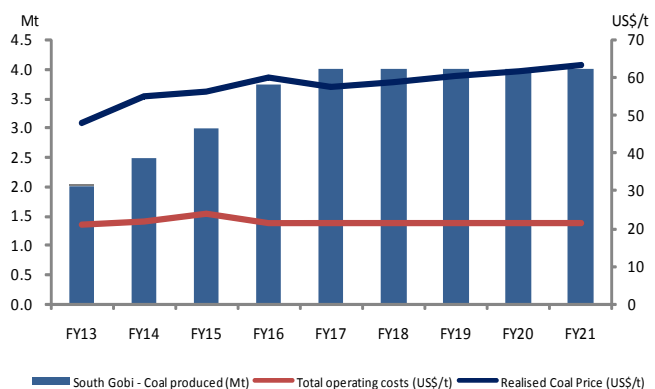
Capital Structure	
Shares on Issue (m)	513.8
Shares on Issue diluted (m)	513.8
Market Cap (A\$m)	241.5
Net Debt/(Cash) (A\$m)	-23.3
EV (A\$m)	218.2

Key Assumptions	2012e	2013e	2014e	LT
Coal - Thermal US\$/t	111	103	103	100
Mongolia coal (Mine Gate) US\$/t	45	46	50	50
AUD/USD	1.00	1.00	0.95	0.80

Production Summary	2011a	2012e	2013e	2014e
Production profile (t)	N/A	2.0	2.5	3.0
Operating costs (US\$/t)	N/A	21	22	24

Resource (100% Basis)	Type	Indicated	Inferred	Mt
Hughenden Project	JORC	123	1,496	1,619
South Gobi	JORC	40	31	70
Middle Gobi	JORC	32	189	221

Valuation Summary	A\$m	P/NPV	\$/share
South Gobi	503	0.53	\$0.98
Hughenden Project	441	1.00	\$0.86
Middle Gobi	39	0.70	\$0.08
Exploration (QLD other)	148	1.00	\$0.29
Corporate	-138	1.00	-\$0.27
Outstanding Success Fee	-80	1.00	-\$0.16
Net cash/(debt)	23	1.00	\$0.05
Total	936		\$1.82

Valuation Split (%)

Production (Mt) and Cost Profile (100% Basis)


COMPANY VALUATION AND PRICE TARGET

Price Target - \$1.80/share

- We have revised our valuation from \$967m (\$2.20/sh) to \$936m (\$1.82/share) based on our new commodity forecasts and consideration of additional shares on issue.
- At South Gobi, we have modelled first production from 2012 based on an initial 15 year mine life at an average rate of 3.5Mtpa, providing a NPV¹⁰ valuation of US\$503m or US\$0.98/sh assuming a 52.5% interest for GUF.
- For Hughenden, we have used EV/resource metrics using the existing JORC at \$0.25/t (\$0.30/t previous) which takes our valuation on Hughenden to \$441m, \$0.86/sh.
- We have also included GUF's outstanding success fee, that will equate to \$80m upon the delineation of 500Mt of JORC Indicated resource from GUF's QLD projects.

Figure 1: Valuation Summary

Valuation Summary	A\$m	P/NPV	\$/share
South Gobi	503	0.53	\$0.98
Hughenden Project	441	1.00	\$0.86
Middle Gobi	39	0.70	\$0.08
Exploration (QLD other)	148	1.00	\$0.29
Corporate	-138	1.00	-\$0.27
Outstanding Success Fee	-80	1.00	-\$0.16
Net cash/(debt)	23	1.00	\$0.05
Total	936		\$1.82

Source: FSB Research

RECOMMENDATION

- **We maintain our BUY recommendation on GUF and revise our price target to \$1.80/sh, (previously \$2.20/sh) which represents >250% upside to the current share price.**
- The major change in our valuation is driven by a DCF on South Gobi given the recent JORC and granting of a mining licence and the recognition of corporate success fee at Hughenden.
- Our PT for Hughenden is derived using EV/resource metrics using \$0.25/t.
- Catalysts for the stock over the next 12 months include, commencement of a pre-feasibility study on the Hughenden project as well as production in Mongolia.
- We don't discount the early entry of a corporate and or major coming onto GUF's register to take a longer-term position in GUF given it remains relatively under developed and has its foot on a number of key assets.

FOSTER STOCKBROKING DIRECTORY

Name	Department	Phone	Email
Stuart Foster	Dealing	+61 2 9993 8131	stuart.foster@fostock.com.au
Kevin Massey	Dealing	+61 2 9993 8130	kevin.massey@fostock.com.au
Trenton Brown	Dealing	+61 2 9993 8161	trenton.brown@fostock.com.au
Alex Drysdale	Dealing	+61 2 9993 8167	alex.drysdale@fostock.com.au
Tolga Dokumcu	Trade Execution	+61 2 9993 8144	tolga.dokumcu@fostock.com.au
George Mourtzouhos	Trade Execution	+61 2 9993 8136	george.mourtzouhos@fostock.com.au
Martin Carolan	Equity Research Sales	+61 2 9993 8168	martin.carolan@fostock.com.au
Mark Hinsley	Equity Research Sales	+61 2 9993 8166	mark.hinsley@fostock.com.au
Craig Brown	Equities Research	+61 2 9993 8163	craig.brown@fostock.com.au
Haris Khaliqi	Equities Research	+61 2 9993 8152	haris.khaliqi@fostock.com.au

FOSTER STOCKBROKING Pty Limited A.B.N 15 088 747 148 FSR Licence No. 223687
 Level 21, 25 Bligh Street, SYDNEY, NSW 2000 Australia
 Tel: +612 9221 8711 Dealing: +612 9221 8700 Fax: +612 9221 1031
 Email: contact@fostock.com.au
 PARTICIPANT OF ASX GROUP

Foster Stockbroking recommendation ratings: Buy = return >10%; Hold = return between -10% and 10%; Sell = return <-10%. Spec Buy = return > 20% for stock with very high risk. All other ratings are for stocks with low-to-high risk. Returns quoted are annual.

Important Notice:

Disclaimer & Disclosure of Interests. Foster Stockbroking Pty Limited has prepared this report. This document contains general securities advice only. In preparing the report, Foster Stockbroking did not take into account the specific investment objectives, financial situation or particular needs of any specific recipient. The report is published only for informational purposes and is not to be construed as a solicitation or an offer to buy or sell any securities or related financial instruments. Foster Stockbroking is not aware that a recipient intends to rely on this report and is not aware of the manner in which it will be used by the recipient. Investors must obtain personal financial advice from their investment advisor to determine whether the information contained in this report is appropriate to the investor's financial circumstances. Recipients should not regard the report as a substitute for the exercise of their own judgment. The views expressed in this report are that of the analyst named on the cover page, and no part of compensation of the analyst is directly related to inclusion of specific recommendations or views in this report. The analyst receives compensation partly based on Foster Stockbroking revenues, including any investment banking and proprietary trading revenues, as well as performance measures such as accuracy and efficacy of both recommendations and research reports. Foster Stockbroking believes that the information contained in this document is correct and that any estimates, opinions, conclusions or recommendations are reasonably held or made at the time of its compilation in an honest and fair manner that is not compromised. However, no representation or warranty is made as to the accuracy, completeness or reliability of any estimates, opinions, conclusions or recommendations (which may change without notice) or other information contained in this document and, to the maximum extent permitted by law, Foster Stockbroking disclaims all liability and responsibility for any direct or indirect loss or damage which may be suffered by any recipient through relying on anything contained in or omitted from this document. Foster Stockbroking is under no obligation to update or keep current the information contained herein and has no obligation to tell you when opinions or information in this report change. Foster Stockbroking, and its directors, officers and employees or clients may have or had interests in the securities of the instruments referred to herein, and may make purchases or sales in them as principal or agent at any time and may affect transactions which may not be consistent with the opinion set out in this report. Foster Stockbroking and its Associates state that they may earn brokerage, fees or other benefits from securities referred to in this report. Furthermore, Foster Stockbroking may have or have had a relationship with or may provide or has provided investment banking, capital markets and/or other financial services to the relevant Company.

Specific disclosure: The analyst, Foster Stockbroking and/or associated parties have beneficial ownership or other interests in securities issued by GUF at the time of this report. Diligent care has been taken by the analyst to maintain an honest and fair objectivity in writing the report and making the recommendation. Foster Stockbroking acted as the lead manager and received fees for services provided to GUF in respect of the March 2012 equity capital raising.