

# UBS Investment Research

## First Read: Guildford Coal

### All systems go

#### ■ Guildford receives North Pit mining licence

Guildford Coal has announced the receipt of the mining licence for the North Pit at its South Gobi project in southern Mongolia. This is a significant event for the company, as it allows it to immediately commence production. Guildford is targeting a swift path to mining, with establishment of critical infrastructure & mobilisation of equipment through Sept, pre-stripping & upgrading of the coal transport road through Oct-Nov, to enable first coal production by late Nov.

#### ■ Lowest-quartile cost operation

Guildford has hired experienced local mining contractor, Grand Power Mining, as the mining operator for the North Pit. However, the operations will be headed by the leadership team that managed the start up of the Tavan Tolgoi project by MacMahon Holdings. We view this as a favourable structure, which GUF expects to enable a lowest-quartile cost operation (UBSe US\$20-25/t). GUF expects to reach design production of 3.6mtpa from the North Pit by Mar qtr 2013.

#### ■ Offtake with Sojitz/Erdos & marketing agreement with Noble

A Heads of Agreement has been reached with the joint venture between Sojitz Corp of Japan & Inner Mongolia Zhongmeng Coal, for direct sales of ROM coal at the mine-gate plus transportation into China. A marketing agency agreement has also been signed with Noble Group, along with a loan to support initial capex.

#### ■ Valuation: NPV \$1.04/sh (DCF-based)

We plan to review our operational assumptions based on the announcement.

Highlights (A\$m)	-	06/11	06/12E	06/13E	06/14E
Revenues	-	0	0	34	75
EBIT (UBS)	-	(5)	(25)	5	24
Net Income (UBS)	-	(4)	(24)	2	19
EPS (UBS, A\$)	-	(0.01)	(0.05)	0.00	0.04
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	16.0	32.2
ROIC (EBIT) %	-	-	(27.4)	4.3	16.1
EV/EBITDA (core) x	-	-16.8	-4.7	23.3	4.9
PE (UBS) x	-	NM	NM	70.4	9.1
Net dividend yield %	-	0.0	0.0	0.0	0.0

Source: Company accounts, Thomson Reuters, UBS estimates. (UBS) valuations are stated before goodwill, exceptional and other special items. Valuations: based on an average share price that year, (E): based on a share price of A\$0.34 on 10 Sep 2012 23:37 EST

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## Global Equity Research

Australia

Mining

12-month rating **Buy**  
**Unchanged**

12m price target **A\$1.00/US\$1.03**  
**Unchanged**

Price **A\$0.34/US\$0.35**

RIC: GUF.AX BBG: GUF AU

11 September 2012

#### Trading data (local/US\$)

52-wk range	A\$1.15-0.31/US\$1.18-0.32
Market cap.	A\$0.15bn/US\$0.15bn
Shares o/s	440m (ORD)
Free float	54%
Avg. daily volume ('000)	1,147
Avg. daily value (m)	A\$0.6

#### Balance sheet data 06/12E

Shareholders' equity	A\$0.11bn
P/BV (UBS)	1.5x
Net Cash (debt)	A\$0.01bn

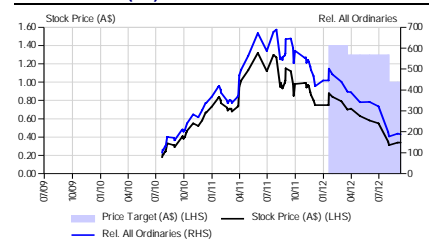
#### Forecast returns

Forecast price appreciation	+198.5%
Forecast dividend yield	0.0%
Forecast stock return	+198.5%
Market return assumption	8.1%
Forecast excess return	+190.4%

#### EPS (UBS, A\$)

	06/12E	06/11
	UBS	Cons. Actual
H1	(0.04)	- (.00)
H2E	(0.01)	- (0.01)
06/12E	(0.05)	(0.04)
06/13E	0.00	0.01

#### Performance (A\$)



Source: UBS

www.ubs.com/investmentresearch

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## ■ Guildford Coal

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 2012; we estimate production of 4.0mtpa 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 longer-term production options from the Middle Gobi project in Mongolia and the Hughenden & White Mountain projects in Queensland.

## ■ Statement of Risk

Investment risk inherent in the resource sector includes, but is not limited to, movement of commodity prices and currency, which may differ materially from the assumptions used in this report. Furthermore, the sector is subject to political, financial and operational risks, each of which has the potential to significantly impact industry performance.

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UBS 12-Month Rating	Rating Category	Coverage <sup>1</sup>	IB Services <sup>2</sup>
Buy	Buy	55%	33%
Neutral	Hold/Neutral	37%	31%
Sell	Sell	8%	16%
UBS Short-Term Rating	Rating Category	Coverage <sup>3</sup>	IB Services <sup>4</sup>
Buy	Buy	less than 1%	0%
Sell	Sell	less than 1%	0%

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 30 June 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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**Equity Price Targets** have an investment horizon of 12 months.

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**UBS Securities Australia Ltd:** Ben Wilson; Glyn Lawcock.

**Company Disclosures**

Company Name	Reuters	12-mo rating	Short-term rating	Price	Price date
Guildford Coal <sup>4, 5, 13</sup>	GUF.AX	Buy	N/A	A\$0.34	10 Sep 2012

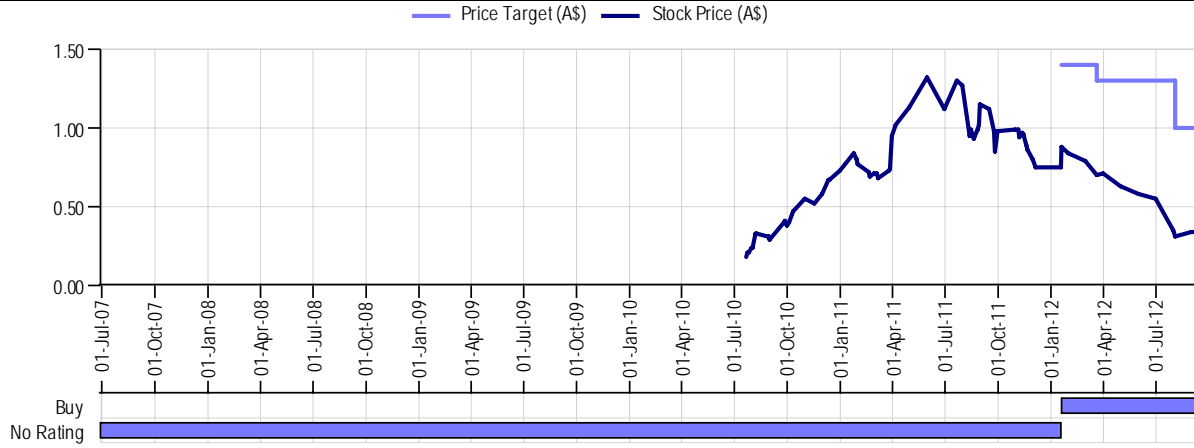
Source: UBS. All prices as of local market close.

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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Unless otherwise indicated, please refer to the Valuation and Risk sections within the body of this report.

### Guildford Coal (A\$)



Source: UBS; as of 10 Sep 2012

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