

UBS Investment Research

Guildford Coal

Approvals in hand; time to steppe up to first production

■ Guildford receives mining licence for North Pit at South Gobi project

Guildford has announced that a mining licence has been granted for the North Pit of its South Gobi project in southern Mongolia. This implies local ratification of the pre-mining agreement issued by the federal government in September.

■ Construction already underway; still targeting first production in late Nov

Mobilisation of equipment and construction of infrastructure has commenced, with Guildford confirming its previously announced timeline to first production by late November. We have left our forecasts for the North Pit unchanged; we expect first production in Mar qtr 2013, reaching design rates of 3.6mtpa from Sep qtr 2013.

■ East Pit potential starting to emerge

Guildford has released preliminary raw coal quality results from drilling at the East Pit to date. The results demonstrate the potential for a high grade coking coal; including 7,445kcal/kg, 72% fixed carbon, 8.4% ash & 14.6% volatiles. This data presents upside to likely pricing received under the North Pit dual-coking coal stream. A start-up mine design has been developed, subject to completion of the current drilling program. We continue to expect first production from the East Pit in Dec qtr 2013, ramping up to full production of 3.6mtpa by Jun qtr 2014.

■ Valuation: NPV \$3.02 (unrisked) / \$1.38 (risky); PT \$1.40

Our South Gobi asset valuation is 50% risk-weighted (to A\$857m), pending first cashflow from the North Pit & a maiden resource / final mine plan for the East Pit. Our PT is set broadly in line with our NPV.

Highlights (A\$m)	06/11	06/12	06/13E	06/14E	06/15E
Revenues	0	0	52	272	380
EBIT (UBS)	(5)	(24)	17	146	219
Net Income (UBS)	(4)	(22)	12	122	191
EPS (UBS, A\$)	(0.01)	(0.05)	0.02	0.23	0.37
Net DPS (UBS, A\$)	0.00	0.00	0.00	0.04	0.09

Profitability & Valuation	5-yr hist av.	06/12	06/13E	06/14E	06/15E
EBIT margin %	-	<-500	32.9	53.7	57.7
ROIC (EBIT) %	-	(23.7)	11.7	76.6	96.5
EV/EBITDA (core) x	-	-10.4	13.4	0.8	0.1
PE (UBS) x	-	NM	17.5	1.8	1.1
Net dividend yield %	-	0.0	0.0	8.8	21.8

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\$0.42 on 12 Oct 2012 23:37 EST

Ben Wilson
Analyst
ben-g.wilson@ubs.com
+61-2-9324 2392

Glyn Lawcock
Analyst
glyn.lawcock@ubs.com
+61-2-9324 3675

James Brennan-Chong
Analyst
james.brennan-chong@ubs.com
+61-2-9324 3623

Global Equity Research

Australia

Mining

12-month rating **Buy**
Unchanged

12m price target **A\$1.40/US\$1.44**
Unchanged

Price **A\$0.42/US\$0.43**

RIC: GUF.AX BBG: GUF AU

15 October 2012

Trading data (local/US\$)

52-wk range	A\$1.08-0.31/US\$1.12-0.32
Market cap.	A\$0.22bn/US\$0.22bn
Shares o/s	521m (ORD)
Free float	54%
Avg. daily volume ('000)	644
Avg. daily value (m)	A\$0.2

Balance sheet data 06/13E

Shareholders' equity	A\$0.14bn
P/BV (UBS)	1.6x
Net Cash (debt)	(A\$0.03bn)

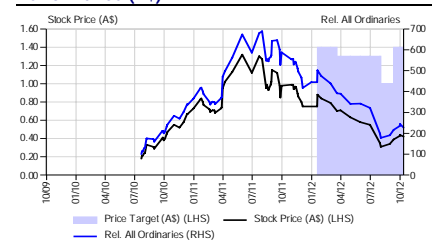
Forecast returns

Forecast price appreciation	+233.3%
Forecast dividend yield	0.0%
Forecast stock return	+233.3%
Market return assumption	7.6%
Forecast excess return	+225.7%

EPS (UBS, A\$)

	06/13E	06/12
	UBS	Cons. Actual
H1E	(0.01)	- (0.04)
H2E	0.03	- (0.01)
06/13E	0.02	0.01
06/14E	0.23	0.17

Performance (A\$)



Source: UBS

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UBS assumptions

Table 1: South Gobi project – UBS operational & financial assumptions

		DQ12	MQ13	JQ13	SQ13	DQ13	MQ14	JQ14	FY13	FY14	FY15	FY16	FY17
Fat coal price (nominal)	US\$/t	80.5	81.0	81.5	82.0	82.5	83.0	83.5	80.7	82.8	84.8	87.0	89.1
Gas coal price (nominal)	US\$/t	65.4	65.8	66.2	66.6	67.0	67.5	67.9	65.6	67.2	68.9	70.7	72.4
Exchange rate (AUD:USD)		1.01	1.01	1.01	1.01	1.01	0.99	0.98	1.01	1.00	0.94	0.88	0.81
North Pit (100%)													
Waste movement	bcm(m)	0.0	2.8	4.1	3.6	3.6	3.6	3.6	6.9	14.4	15.1	15.8	16.6
Strip ratio		5.5	5.5	5.5	4.0	4.0	4.0	4.0	5.5	4.0	4.2	4.4	4.6
Fat coal product	mt	0.0	0.3	0.5	0.5	0.5	0.5	0.5	0.8	2.2	2.2	2.2	2.2
Gas coal product	mt	0.0	0.2	0.3	0.4	0.4	0.4	0.4	0.5	1.4	1.4	1.4	1.4
East Pit (100%)													
Waste movement	bcm(m)	0.0	0.0	0.0	0.0	2.8	4.1	5.0	0.0	11.8	14.4	15.1	15.8
Strip ratio		n/a	n/a	n/a	5.5	5.5	5.5	5.5	n/a	5.5	4.0	4.2	4.4
Fat coal product	mt	0.0	0.0	0.0	0.0	0.3	0.5	0.5	0.0	1.3	2.2	2.2	2.2
Gas coal product	mt	0.0	0.0	0.0	0.0	0.2	0.3	0.4	0.0	0.9	1.4	1.4	1.4
Total production (attrib.)													
Fat coal	mt	0.0	0.2	0.3	0.3	0.5	0.6	0.7	0.4	2.1	2.7	2.7	2.7
Gas coal	mt	0.0	0.1	0.2	0.2	0.3	0.4	0.5	0.3	1.4	1.8	1.8	1.8
Mining costs (real)	US\$/bcm	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5
G&A costs (real)	US\$/bcm	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Total cash costs (real)	US\$/t	n/a	27.8	27.8	21.0	23.4	24.1	24.4	27.8	23.2	21.5	22.4	23.3
Growth capex	US\$m	15	15	10	10	10	10	10	40	40	40	0	0
Sustaining capex	US\$m	0.0	1.0	1.5	1.8	1.8	1.8	1.8	2.5	7.2	7.2	7.2	7.2
Sales revenue	A\$m	0.0	20.8	31.4	37.9	64.6	79.6	89.7	52	272	380	414	461
Operating costs	A\$m	0.0	7.8	11.8	10.8	20.9	26.4	30.2	20	88	111	126	146
Royalties	A\$m	0.0	1.8	2.7	3.3	5.6	6.9	7.8	5	24	33	36	40
EBITDA	A\$m	0.0	11.1	16.8	23.8	38.1	46.2	51.7	28	160	236	252	275
EBITDA margin	%	0%	54%	54%	63%	59%	58%	58%	54%	59%	62%	61%	60%
Asset free cash flow	A\$m	(14.9)	(6.4)	2.9	8.6	20.8	27.5	32.0	(18)	89	152	207	226
Asset NPV (risked)	A\$m	857											
Asset NPV (risked)	A\$/sh	1.65											

Source: UBS estimates

Guildford Coal (GUF.AX)

Analyst/s: Ben Wilson/Glyn Lawcock
 Email: ben-g.wilson@ubs.com
 15-Oct-12

MARKET INFORMATION

Rating:	Buy
Price (as of 14-Oct-12):	0.42
Price Target (12 months):	1.40
Issued Capital:	521.0
Market Capitalisation:	218.8
Avg. daily turnover (US\$m)	0.3
Year end:	Jun 2013
Website:	http://www.guildfordcoal.com.au/
Major Shareholders:	The Chairmen1 Pty Ltd

INVESTMENT SUMMARY

(A\$m)	2013E	2014E	2015E	2016E
Net profit [reported] (\$m)	12.5	122.4	191.1	200.9
Net profit [adjusted] (\$m)	12.5	122.4	191.1	200.9
EPS [reported] (\$)	0.02	0.23	0.37	0.39
EPS [adjusted, diluted] (\$)	0.02	0.23	0.37	0.39
EPS Growth (%)	NM	880.7	56.2	5.1
PER [adjusted] (x)	17.5	1.8	1.1	1.1
Dividend (\$)	0.0	0.0	0.1	0.1
Payout ratio (%)	0.0	15.7	25.0	25.0
Dividend Yield (%)	0.0	8.8	21.8	22.9
FCF Yield (%)	(11.7)	44.5	72.1	92.6
Franking (%)	0.0	0.0	0.0	0.0
Shares [period-average, diluted] (m)	521.0	521.0	521.0	521.0

VALUATION

Valuation per share [NAV @ 10%] (\$)	\$1.38
Share Price Target [12 months] (\$)	\$1.40
Price/NAV (x)	0.30

Assets

	A\$m	A\$/sh
South Gobi	857	1.65
Corporate / exploration	-126	-0.24
Exploration upside	0	0.00
Net (debt) / cash	-13	-0.02
Total	718	\$1.38

ENTERPRISE VALUE

(A\$m)	2013E	2014E	2015E	2016E
Enterprise Value	202	90	(21)	(176)
EV/EBITDA (x)	11.6	0.6	<0	<0
EV/Operating Free Cash Flow (x)	<0	1.5	<0	<0

EPS SENSITIVITIES

Commodity	Base Change	2014E	2015E	2016E
		EPS Change		

CASH FLOW

(A\$m)	2013E	2014E	2015E	2016E
Operating income [EBIT, UBS]	17	146	219	233
Depreciation & Amortisation	0	3	6	8
Net change in working capital	(4)	(19)	(11)	(2)
Other (operating)	4	19	11	2
Pre-tax op cash flow	17	149	225	241
Interest (paid) / received	(1)	(0)	6	4
Tax paid	(1)	(4)	(24)	(35)
Other	0	0	0	0
Operating cash flow	16	145	208	211
Capital expenditure	(42)	(47)	(50)	(8)
Free cash flow	(26)	97	158	203
Net (acquisitions) / disposals	0	0	0	0
Dividends paid (Common)	0	0	(42)	(48)
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-2012. 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.

OPERATIONAL ASSUMPTIONS

	2013E	2014E	2015E	2016E	2017E	2018E
Commodity Prices						
Semi soft (UBS forecast)	116.3	118.0	115.0	113.5	112.4	114.9
Semi soft (applied 'China price')	80.7	82.8	84.8	87.0	89.1	91.4
Exchange rate (AUD:USD)	1.01	1.00	0.94	0.88	0.81	0.80
Production						
Semi soft [Mt]	0.8	2.2	2.2	2.2	2.2	2.2
Higher ash [Mt]	0.5	1.4	1.4	1.4	1.4	1.4
Operating Costs						
Total FOB cash costs [US\$/t]	4.5	4.5	4.5	4.5	4.5	4.5

DIVISIONAL BREAKDOWN (EBIT)

(A\$m)	2013E	2014E	2015E	2016E	2017E	2018E
South Gobi	27.6	156.9	230.4	244.3	265.7	270.3

PROFIT & LOSS

(A\$m)	2013E	2014E	2015E	2016E	2017E	2018E
Sales Revenue	52	272	380	414	461	479
Operating Cash Profit	32	183	270	288	315	322
Depn & Amortisation	(0)	(3)	(6)	(8)	(9)	(10)
Operating Profit	32	181	263	281	306	312
Others	(5)	(24)	(33)	(36)	(40)	(42)
SGA	(11)	(11)	(11)	(11)	(11)	(11)
EBIT	17	146	219	233	255	259
Net interest	(1)	(0)	6	4	9	13
Profit before tax	17	146	226	238	263	273
Tax expense	(4)	(24)	(35)	(37)	(40)	(41)
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	122	191	201	224	232
Abnormal Gain/(Loss) after Tax	0	0	0	0	0	0
Net Profit [adjusted]	12	122	191	201	224	232
EBITDA margin (%)	33.4	54.7	59.3	58.2	57.2	56.1
Net Interest Cover [EBIT] (x)	NM	NM	34.9	56.0	29.0	19.6
Tax Rate (%)	0.2	0.2	15%	15%	15%	15%
EBIT/Total Assets (%)	8.6	39.9	45.6	36.7	31.3	26.2
NPAT/Equity (%)	8.5	41.6	43.1	33.7	29.1	24.5

BALANCE SHEET [Selected Items]

(A\$m)	2013E	2014E	2015E	2016E	2017E	2018E
Net Working capital	(6)	(26)	(37)	(39)	(42)	(43)
Fixed Assets	42	87	131	131	131	131
Net Other	137	147	152	152	152	152
Capital Employed	173	208	246	245	241	240
Net Cash / (Debt)	(26)	86	197	351	528	706
Total Equity [incl. minorities]	147	294	443	596	769	946
Minorities	11	11	11	11	11	11
Net Debt / Equity (%)	17.8	(29.3)	(44.4)	(59.0)	(68.6)	(74.6)
Book Value per Share(\$)	0.3	0.56	0.85	1.14	1.48	1.81

■ 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. 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.

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UBS 12-Month Rating	Rating Category	Coverage ¹	IB Services ²
Buy	Buy	50%	31%
Neutral	Hold/Neutral	41%	31%
Sell	Sell	9%	20%
UBS Short-Term Rating	Rating Category	Coverage ³	IB Services ⁴
Buy	Buy	less than 1%	33%
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 September 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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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; James Brennan-Chong.

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\$0.42	12 Oct 2012

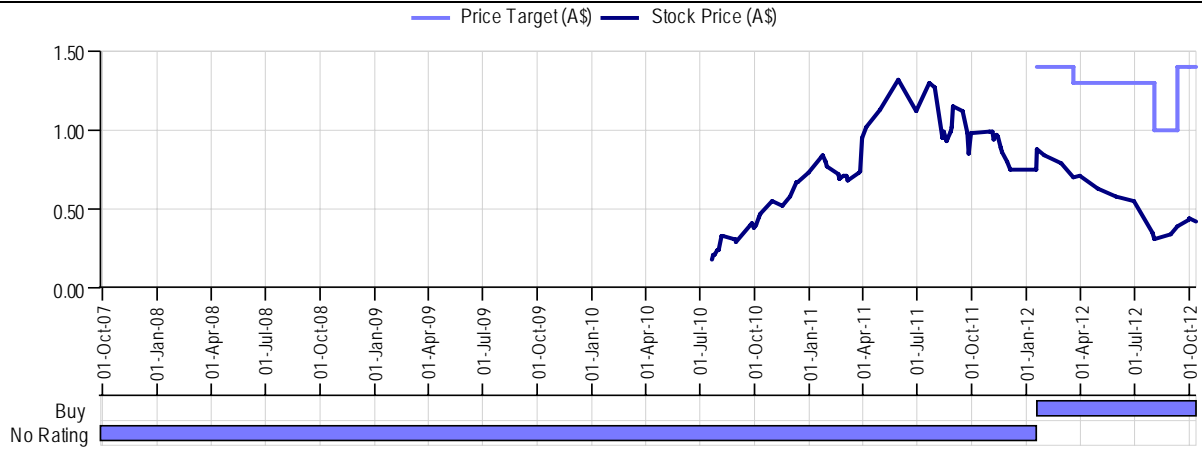
Source: UBS. All prices as of local market close.

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Guildford Coal (A\$)



Source: UBS; as of 12 Oct 2012

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