

# UBS Investment Research

## Guildford Coal

### Moving to first production

#### ■ First production from the North Pit in November

Guildford has reiterated its announced timetable to first production by late Nov 12, with mobilisation of equipment and construction of infrastructure having commenced. We leave our forecasts for the North Pit unchanged; we expect first production in Mar qtr 2013, reaching design rates of 3.6Mtpa from Sep qtr 13.

#### ■ East pit shaping up – looking to add 2Mtpa

During the quarter, positive drilling results and preliminary mine design work on the proposed East Pit continued to show the growing potential for a second pit in the South Gobi Project. The East pit has an exploration target 56-241Mt and has a mining licence already granted. GUF has advanced its mining contractor negotiations and is targeting 2Mtpa from the East pit. GUF has also secured a \$10m convertible bond to fast track the progression of the East Pit. We forecast first production from the East Pit in the December quarter 2013.

#### ■ Queensland assets looking for a mining licence

A maiden resource estimate for the Hughenden project in the Northern Galilee Basin of 123Mt was declared during the quarter and studies in support of an IAS and EIS have commenced. These activities are prerequisites for mining licence applications, which GUF expects to lodge by the end of 2012.

#### ■ Valuation \$3.02ps (unrisked) / \$1.38ps (risked); PT \$1.40ps

No change to valuation/earnings. Our South Gobi asset valuation is 50% risk-weighted (to A\$857m), pending first cash flow from the North Pit & a maiden resource/final mine plan for the East Pit. Our PT is set 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)	(6)	(24)	17	146	219
Net Income (UBS)	(5)	(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) %	-	(23.8)	11.7	76.6	96.5
EV/EBITDA (core) x	-	-10.4	15.8	1.1	0.2
PE (UBS) x	-	NM	20.9	2.1	1.4
Net dividend yield %	-	0.0	0.0	7.4	18.3

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\$0.50 on 31 Oct 2012 19:12 EST

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

**Jo Battershill**  
Analyst  
jo.battershill@ubs.com  
+61-2-9324 2834

**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\$1.45**  
**Unchanged**

Price **A\$0.50/US\$0.52**

RIC: GUF.AX BBG: GUF AU

31 October 2012

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

52-wk range	A\$0.99-0.31/US\$1.03-0.32
Market cap.	A\$0.26bn/US\$0.27bn
Shares o/s	521m (ORD)
Free float	54%
Avg. daily volume ('000)	763
Avg. daily value (m)	A\$0.3

#### Balance sheet data 06/13E

Shareholders' equity	A\$0.14bn
P/BV (UBS)	1.9x
Net Cash (debt)	(A\$0.03bn)

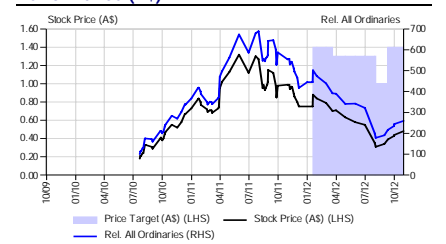
#### Forecast returns

Forecast price appreciation	+180.0%
Forecast dividend yield	0.0%
Forecast stock return	+180.0%
Market return assumption	7.7%
Forecast excess return	+172.3%

#### 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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# Guildford Coal (GUF.AX)

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

## MARKET INFORMATION

Rating:	Buy
Price (as of 30-Oct-12):	0.48
Price Target (12 months):	1.40
Issued Capital:	521.0
Market Capitalisation:	250.1
Avg. daily turnover (US\$m)	0.4
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)	20.0	2.0	1.3	1.2
Dividend (\$)	0.0	0.0	0.1	0.1
Payout ratio (%)	0.0	15.7	25.0	25.0
Dividend Yield (%)	0.0	7.7	19.1	20.1
FCF Yield (%)	(10.3)	38.9	63.1	81.0
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)	0.35

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
<b>Total</b>	<b>718</b>	<b>\$1.38</b>

## 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
<b>Pre-tax op cash flow</b>	<b>17</b>	<b>149</b>	<b>225</b>	<b>241</b>
Interest (paid) / received	(1)	(0)	6	4
Tax paid	(1)	(4)	(24)	(35)
Other	0	0	0	0
<b>Operating cash flow</b>	<b>16</b>	<b>145</b>	<b>208</b>	<b>211</b>
Capital expenditure	(42)	(47)	(50)	(8)
<b>Free cash flow</b>	<b>(26)</b>	<b>97</b>	<b>158</b>	<b>203</b>
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
<b>Commodity Prices</b>						
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
<b>Production</b>						
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
<b>Operating Costs</b>						
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
<b>Operating Cash Profit</b>	<b>33</b>	<b>186</b>	<b>276</b>	<b>296</b>	<b>324</b>	<b>331</b>
Depn & Amortisation	(0)	(3)	(6)	(8)	(9)	(10)
<b>Operating Profit</b>	<b>32</b>	<b>183</b>	<b>270</b>	<b>288</b>	<b>315</b>	<b>322</b>
Others	(5)	(26)	(39)	(44)	(49)	(52)
SGA	(11)	(11)	(11)	(11)	(11)	(11)
<b>EBIT</b>	<b>17</b>	<b>146</b>	<b>219</b>	<b>233</b>	<b>255</b>	<b>259</b>
Net interest	(1)	(0)	6	4	9	13
<b>Profit before tax</b>	<b>17</b>	<b>146</b>	<b>226</b>	<b>238</b>	<b>263</b>	<b>273</b>
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
<b>Net Profit [reported]</b>	<b>12</b>	<b>122</b>	<b>191</b>	<b>201</b>	<b>224</b>	<b>232</b>
Abnormal Gain/(Loss) after Tax	0	0	0	0	0	0
<b>Net Profit [adjusted]</b>	<b>12</b>	<b>122</b>	<b>191</b>	<b>201</b>	<b>224</b>	<b>232</b>
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
<b>Capital Employed</b>	<b>173</b>	<b>208</b>	<b>246</b>	<b>245</b>	<b>241</b>	<b>240</b>
Net Cash / (Debt)	(26)	86	197	351	528	706
<b>Total Equity [incl. minorities]</b>	<b>147</b>	<b>294</b>	<b>443</b>	<b>596</b>	<b>769</b>	<b>946</b>
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

Source: GUF, UBS estimates

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UBS 12-Month Rating	Rating Category	Coverage <sup>1</sup>	IB Services <sup>2</sup>
Buy	Buy	50%	31%
Neutral	Hold/Neutral	41%	31%
Sell	Sell	9%	20%
UBS Short-Term Rating	Rating Category	Coverage <sup>3</sup>	IB Services <sup>4</sup>
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:** Glyn Lawcock; Jo Battershill; James Brennan-Chong.

## 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\$0.48	30 Oct 2012

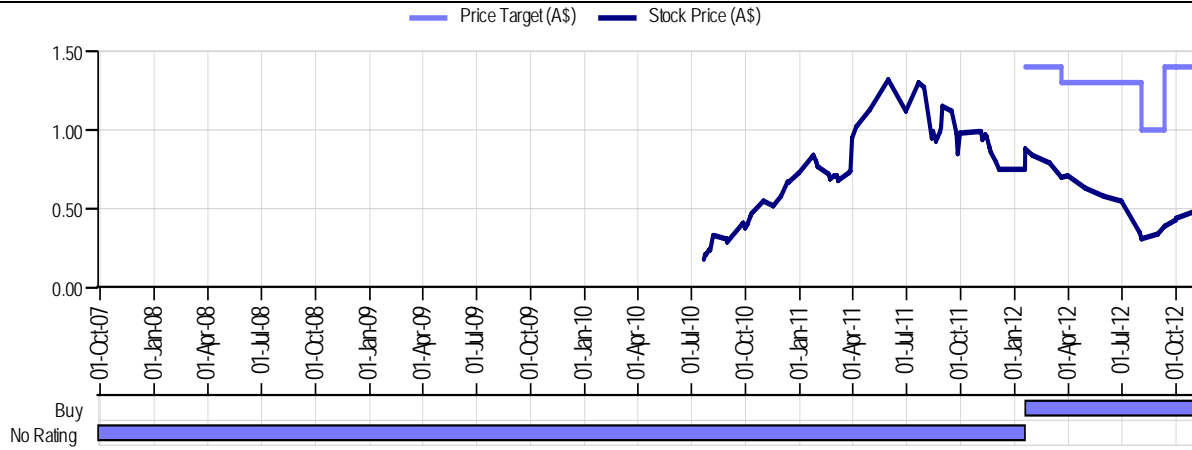
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Guildford Coal (A\$)



Source: UBS; as of 30 Oct 2012

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