

Guildford Coal Ltd (GUF.ASX)

Quality and Quantity

Overview: Guildford Coal Ltd (“Guildford”, “the Company”) is an Australian mining company with a diversified portfolio of coal assets in Mongolia and Queensland. Its current focus is the South Gobi Project, which hosts Measured, Indicated and Inferred coal resources totalling 68 Million tonnes (Mt), and pre production construction is complete. The Company’s broader coal resource portfolio totals 289Mt in Mongolia and 2,128Mt in Australia.



Catalysts: Commercial production at South Gobi is Guildford’s major value growth driver. With construction completed, it is contingent on coking quality tests now underway, and subsequent offtake partnerships. The Company is subject to a scrip based takeover bid by Singapore based, Sino Construction Ltd, with a current implied value of \$0.058/share.

Hurdles: Targeted coking coal specifications at South Gobi remain to be supported by quality appraisals and offtake partnerships. With interest bearing liabilities of US\$103m, restructuring discussions remain to be formalised and a large degree of near term cash flow will be directed to loan amortisation.

Investment View: Guildford offers speculative exposure to the coal mining industry. We are attracted to the potentially imminent cash flow from its South Gobi Project, and scale of coal resources contained in its Australian portfolio. Balance sheet risks are significant but mitigated to a degree by the Sino Construction Ltd takeover offer. Confirmation of coking product qualities at South Gobi, offtake agreements, and restructuring of borrowings offer near term drivers. Our valuation of \$0.058/share represents a premium of 75 per cent to recent trade, but does not incorporate a premium for control. Whilst restructuring discussions are formalised, we initiate coverage.

Guildford Valuation Summary

Method	Assumption	Valuation	Per Share
Comparables	0.2x - 0.3x Invested Capital	\$47.5m	\$0.042
Discounted Cash Flow	Coal Price US\$110/t	\$81.7m	\$0.073
Average		\$64.6m	\$0.058

19 Jan 2015

Last Price: \$0.033

Initiating Coverage

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Valuation: \$0.058

Corporate Summary

Shares on Issue	917.6m
Other Securities	
	<i>US\$10m Con Notes (\$0.06, July 2015)</i>
	<i>66.7m Warrants (\$0.17, Jan 2019)</i>
	<i>2.4m Performance Rights (\$0, Oct 2016)</i>
Net Debt	\$117m
Market Cap	\$30m

Asset Overview

Title	Sth Gobi Project	Galilee Project
Location	Mongolia	Qld, Australia
Status	Resource	Resource
Resource	68MT M+I+I	1936MT M+I+I
Grade	Coking	Thermal

Board of Directors

Chairman	Mr Craig Ransley
Managing Director	Mr Michael Avery
Exec Director	Mr Tsogt Togoo
Non Exec Director	Hon Craig Wallace

Shareholders

Directors	2.0%
Maiora Special Situations	17.7%
C1 Commodities Pte Ltd	10.9%
TheChairmen1 Pty Ltd	8.8%
Och Ziff Capital Mgt	5.4%
Top 20	63.5%

Share Price \$



Source: Bloomberg

Glossary

Buy	Increasing value of established business operations is likely to yield share price appreciation
Spec Buy	Increasing value of a new or developing business operation is likely to yield share price appreciation.
Hold	There exists an even balance of risks
Sell	There is elevated risk of share price depreciation.
Stop	Our recommended, pre determined sell price, to be executed if the share price fails to appreciate
JORC	Joint Ore Reserves Committee. A body sponsored by the Australian mining industry and its professional organisations, which sets minimum standards for the measurement and reporting and mineral reserves and resources.
Exploration	A category of companies that have yet to define resources beyond the 'inferred' category according to JORC standards
Resource	A category of companies that have defined resources classified as 'measured' and/or 'indicated' according to JORC standards.
Reserve	A category of companies that have defined mineral reserves according to JORC standards.

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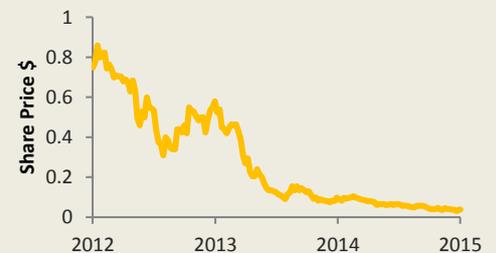
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Natural Resources

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Jan-15 Initiating Coverage



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