



TerraCom Ltd (TER.ASX)

Rebirth – right commodity at the right time

Event:

- We initiate research coverage on TerraCom Ltd (TER).

Investment Highlights:

- We expect TER to be producing at least 3.5Mtpa ROM coal in CY2017**, as it restarts production in Mongolia and the recently acquired Blair Athol coal mine by end CY2016. Both coking and thermal coal prices are currently providing strong tailwinds.
- Mongolian hard coking coal operations restructured.** Following hiatus in production earlier this year, TER has engaged a new logistics chain, including commissioning an onsite CHPP which should reduce costs and improve yields. We also expect new marketing agreements - such as that with Kingho – will have better linkage of coal pricing to that of export markets, avoiding the unwarranted discounting of the past.
- Blair Athol purchase perfectly timed.** TER acquired the Blair Athol thermal coal mine for just \$1, in return receiving mining license, fully functional mine, all plant and equipment, and \$80M cash for rehabilitation bond. A perfect storm of the mine reaching the end of its life and the severe depression of the coal markets engendered the low price.
- Indonesian asset potential.** TER has identified a hard coking coal mine in Central Kalimantan on which it is undertaking due diligence. This could add further value if it can execute an acquisition at reasonable price.
- Experienced coal industry management,** headed by Executive Chairman Cameron McRae, are highly credentialed with expansive coalmine experience including in Mongolia and Australia for majors such as BHP, Rio and Glencore.
- Capex sunk, now to take advantage of coal prices.** The attraction of TER is that capex is mostly sunk in Mongolia and Blair Athol, so now it's a matter of executing on production restart. The company has entered into agreements with mining contractors to fund its working capital.

Earnings and Valuation:

- We forecast TER to earn NPAT of \$50M in FY17e and \$37M in FY18e, based on production from both Mongolia and Blair Athol.** The decrease in FY18e earnings is driven by our forecast decline in coal prices in-line with consensus. TER valuation is attractive with PE of 2.0x FY17e and EV/EBITDA of 3.3x.
- We value TER by DCF, deriving an NPV₁₀ of \$0.083/share risked and \$0.15/share unrisked,** or \$234M risked and \$469M unrisked for the company.
- Interest covered.** TER has \$168M in net debt. With recent restructuring we forecast TER should be able to service its interest with cover of 3x-5x.

Recommendation:

- We initiate with a Buy recommendation and PT \$0.083 /share, based on valuation.** We envisage multiple catalysts based on delivering milestones, including restart of production at Mongolia and Blair Athol; executing Indonesia acquisition; reaching production targets; achieving profitable pricing for both thermal and coking coal; and generating positive net free cashflow inclusive of servicing debt interest.

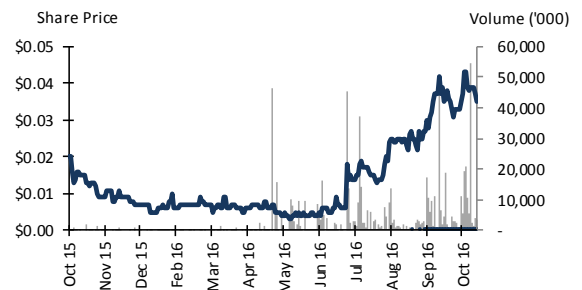
Recommendation	Buy
Previous	n/a
Risk	High
Price Target	\$0.083
Previous	n/a
Share Price (A\$)	\$ 0.037
ASX Code	TER
52 week low - high (A\$)	0.002-0.048
Valuation (A\$/share) - risked	\$0.083
Methodology	DCF
Capital structure	
Shares on Issue (M)	2,582
Market Cap (A\$M)	96
Net (Debt)/Cash (A\$M)	-168
EV (A\$M)	264
Options (M)	30
Warrants (M)	126
Fully diluted EV (\$M)	269
12mth Av Daily Volume ('000)	2,745

Y/e Jun (A\$M)	2016a	2017e	2018e	2019e
Sales	9.9	188.7	321.9	299.5
Adj EBITDA	-18.0	80.5	83.1	63.4
Adj NPAT attributable	-49.7	49.7	37.1	21.4
Adj EPS diluted \$	-0.03	0.02	0.01	0.01
PER x diluted	nm	2.0	2.7	4.7
EV/EBITDA x	nm	3.3	3.2	4.2

*Adj = underlying FSB estimate

Board	
Cameron McRae	Executive Chairman
Craig Wallace	Non-Executive Deputy Chairman
Michel Avery	Executive Director
David Stone	Executive Director
Tsoegt Togoo	Non-Executive Director
Philip Forrest	Non-Executive Director
Loo Hwee Fang	Non-Executive Director

Share Price Graph



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Foster Stockbroking is engaged in providing corporate services to TER and was Sole Lead Manager in the \$1M placement of 46.5M TER shares at \$0.0215 in August 2016 for which it earned fees, including 30M unlisted TER options.



TerraCom Ltd (TER)

Full Year Ended 30 June.

Profit and Loss A\$M	2016a	2017e	2018e	2019e
Sales revenue	9.9	188.7	321.9	299.5
Operating Costs	27.9	108.2	238.8	236.2
Underlying EBITDA	-18.0	80.5	83.1	63.4
D&A	3.9	14.9	15.9	15.9
Underlying EBIT	-21.8	65.6	67.2	47.5
Net Interest exp / (income)	27.4	15.9	13.4	13.2
Profit before tax	-49.3	49.7	53.7	34.2
Tax exp / (benefit)	0.0	0.0	16.6	12.9
NPAT before minorities	-49.3	49.7	37.1	21.4
Minorities loss (income)	-0.4	0.0	0.0	0.0
Underlying NPAT attributable	-49.7	49.7	37.1	21.4
Non-recurring loss (income)	1.7	0.0	0.0	0.0
Reported NPAT attributable	-51.4	49.7	37.1	21.4
Underlying EPS diluted (\$)	-0.03	0.02	0.01	0.01

Cashflow A\$M	2016a	2017e	2018e	2019e
Underlying EBITDA	-18.0	80.5	83.1	63.4
Change in WC	3.4	-3.9	-18.2	-2.8
Tax paid	0.0	0.0	-16.6	-12.9
Other	-0.3	0.0	0.0	0.0
Net interest	0.0	-15.9	-13.4	-13.2
Dividends	0.0	0.0	0.0	0.0
Operating Cashflow	-14.9	60.6	34.8	34.5
Purchase of PP&E	-3.7	-3.6	-12.5	-0.2
Exploration expenditure	-0.6	-1.6	-2.1	-2.0
Acquisition	-0.3	0.0	0.0	0.0
Investing Cashflow	-4.6	-5.2	-14.5	-2.2
Equity raise	0.0	3.4	0.0	0.0
Debt proceeds	20.2	16.0	0.0	0.0
Debt repayments	-0.1	-27.5	0.0	0.0
Financing Cashflow	20.0	-8.1	0.0	0.0
Net Cashflow	0.5	47.3	20.3	32.3

Balance Sheet A\$M	2016a	2017e	2018e	2019e
Cash	1.2	128.5	148.8	181.1
Inventory	0.5	10.3	17.5	16.3
Receivables	8.3	15.5	26.5	24.6
PPE	115.2	118.8	131.3	131.4
Intangibles	0.8	0.8	0.8	0.8
Capitalised exploration	49.4	51.0	53.0	55.1
Other	4.0	4.0	4.0	4.0
Total Assets	179.3	328.8	381.8	413.3
Accounts payable	27.0	22.9	19.6	17.5
Provisions	1.0	3.6	7.9	7.8
Debt	169.0	164.7	171.9	179.1
Capitalised interest	0.0	11.0	22.1	33.1
Rehabilitation liability	0.0	80.0	80.0	80.0
Other	0.0	11.1	7.7	1.8
Total Liabilities	197.0	293.3	309.3	319.3
Reserves and capital	162.4	165.9	165.9	165.9
Retained earnings	-184.3	-134.6	-97.6	-76.2
Attributable equity	-21.9	31.2	68.3	89.7
Minorities	4.3	4.3	4.3	4.3
Total equity	-17.7	35.5	72.6	94.0

Source: Company; Foster Stockbroking estimates

Financial Metrics	2016a	2017e	2018e	2019e
Sales growth %	nm	nm	71%	-7%
EPS growth %	nm	nm	-25%	-42%
EBITDA margin	nm	43%	26%	21%
EBIT margin	nm	35%	21%	16%
Gearing (ND/ND+E)	64%	27%	19%	-2%
Interest Cover (EBIT/net int)	nm	4.1x	5.0x	3.6x
Average ROE %	nm	nm	69%	26%
Average ROA %	nm	26%	19%	12%
Wtd ave shares (M)	1,638	2,582	2,582	2,582
Wtd ave share diluted (M)	1,638	2,738	2,738	2,738

Earnings multiples	2016a	2017e	2018e	2019e
P/E x	nm	2.0	2.7	4.7
EV/EBITDA x	nm	3.3	3.2	4.2

Company Valuation	A\$M	A\$/sh	A\$M	A\$/sh
DCF, WACC 10% nominal				
	Unrisked	Unrisked	Risked	Risked
Segment	A\$M	A\$/sh	A\$M	A\$/sh
South Gobi	460	\$0.15	308	\$0.110
Blair Athol	71	\$0.02	68	\$0.024
Mid Gobi	4	\$0.00	1	\$0.000
Northern Galilee	39	\$0.01	15	\$0.006
Springsure	4	\$0.00	2	\$0.001
Other Queensland	5	\$0.00	2	\$0.001
Other Mongolia	5	\$0.00	2	\$0.001
Indonesia option	61	\$0.02	12	\$0.004
Corporate	-16	-\$0.01	-12	-\$0.004
Net cash (debt)	-168	-\$0.05	-168	-\$0.060
Cash from options & warrants	4	\$0.00	4	\$0.002
Equity	469	\$0.15	234	\$0.083
Ordinary shares	2,582		2,582	
Options & warrants	156		156	
Shares assumed for Indonesia acq.	375		75	
Diluted shares used in valn.	3,113		2,813	

Commodity Assumptions	2016a	2017e	2018e	2019e
Hard coking coal benchmark US\$/t	104	116	117	108
Thermal coal benchmark US\$/t	59	62	62	60
A\$:US\$	0.74	0.73	0.73	0.73
Mongolia coal prod'n Mt	0.0	0.6	1.5	1.5
Australia coal prod'n Mt	0.0	0.9	1.7	1.7
Total coal prod'n mt	0.0	1.4	3.2	3.2
Mongolia AISC US\$/t	nm	59.3	57.3	56.6
Australia AISC US\$/t	nm	70.1	67.9	67.5

JORC Resources Mt (attrib.)	Meas.	Ind.	Inf.	Total
South Gobi	15	9	52	76
Mid Gobi	-	32	189	221
Blair Athol	-	0	10	10
Northern Galilee	-	166	1,512	1,678
Springsure	-	15	53	68
Total	15	222	1,816	2,054

Capital structure	M
Ordinary shares	2,582
Warrants	126
Options	30
Fully diluted	2,738

AUSTRALIA'S NEXT MAJOR EMERGING COAL PRODUCER

Production of at least 3.5Mtpa ROM coal next year from Australia and Mongolia

Cusp of being a major coking and thermal coal producer.

- TerraCom Limited (TER), formerly known as Guildford Coal, is an ASX listed coal company with mines and exploration projects in both Mongolia and Australia. The company is headquartered in Thirroul, NSW, although once the Blair Athol acquisition completes, TER plans to establish corporate office in Clermont, Queensland. The company is on the cusp of becoming a major coal producer, with production from its South Gobi project and Blair Athol expect to commence by end CY2016, which should equate to 3.5Mtpa of ROM coal. An exciting Indonesia acquisition opportunity is also being considered that can materially add further production tonnes.

MONGOLIA – RESTARTING OPERATIONS IN A MORE POSITIVE ENVIRONMENT

Aiming for production of 1.5Mtpa in CY2017

- TER has 15 licenses across three coal project areas in Mongolia: South Gobi, Middle Gobi, and Uvs. Its strategy is to produce 1.5Mtpa of coal by 2017 and 5Mtpa by 2020. All equity interest in the tenements is held via TER's 100% controlled subsidiary Terra Energy. South Gobi projects comprise mostly coking coal, while Middle Gobi is predominantly thermal.

JORC Resources of 297Mt

- TER has 297Mt (attributable) of coking and thermal coal JORC Resources in Mongolia (Figure 1).

Figure 1: TER Mongolia JORC Coal Resources (Mt) - Attributable

Project	Meas.	Ind.	Inf.	Total	Type	Expl Target
Sth Gobi North (incl. BNU)	15	9	3	27	coking	na
Sth Gobi East (incl. Hogvuun)	0	0	34	34	coking/therm.	na
Khar-Servegen (incl. 12600X)	0	0	15	15	coking/therm.	26-45
South Gobi total	15	9	52	76	coking/therm.	26-45
Mid Gobi	0	32	189	221	therm.	na
Mongolia total – equity	15	41	241	297	coking/therm.	26-45
Mongolia total- 100%	15	41	248	304		

Source: Company; Foster Stockbroking estimates.

South Gobi Project – Hard coking coal focus

Restarting production in South Gobi, Mongolia.

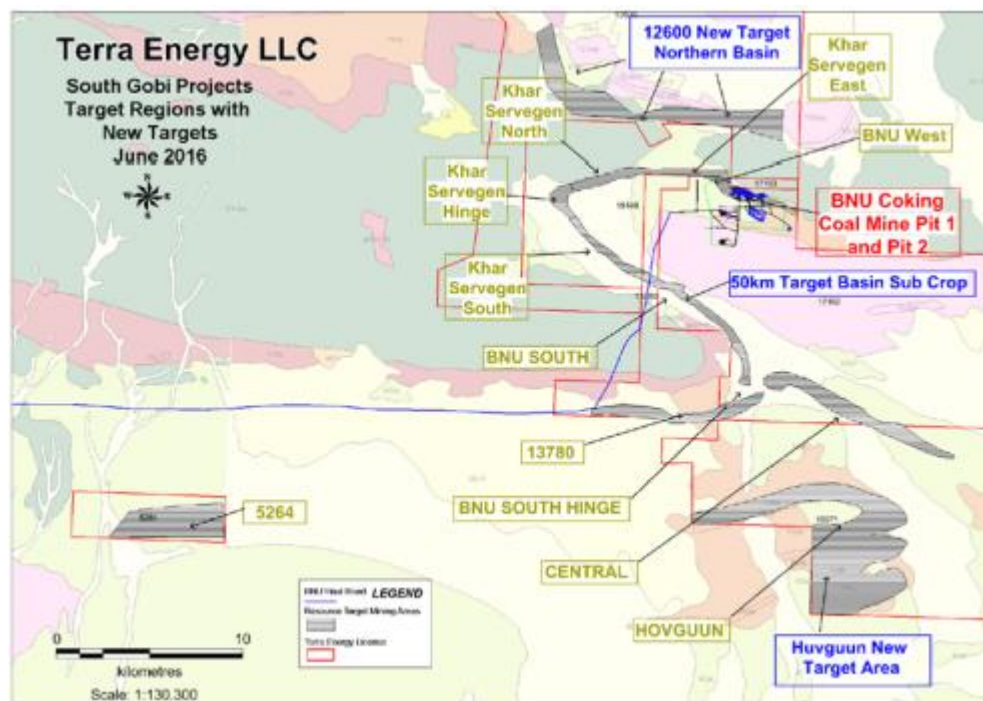
- The South Gobi Project (South Gobi) consists of hard coking coal deposits across 10 licenses: three under application for mining licenses; three with mining licenses; and four exploration; all located in the South Gobi (Umnigovi Aimag) and Bayandalai provinces of Mongolia. The South Gobi region contains some of the country's major coal mines including Ovoot Tolgoi and MAK Nariin Sukhait. The project is 850km south-west of the capital Ulaanbaatar, appx 100km from the Chinese border station of Ceke, and 100km east of the Ovoot Tolgoi mine owned by South Gobi Resources.
- The three major deposits areas of South Gobi are:**
 - North (TER 100%):** This includes Baruun Noyon Uulcoal (BNU) North, which contains the BNU North mine, mining and exploration license;
 - East (TER 83.9%):** Includes Hogvuun East Pit, mining and exploration licenses; and
 - Khar-Servegen (KS) (TER 100%).** Includes KS North Mine, mining and exploration license.

Multi-pit strategy targeting shallow hard coking coal.

Mining along the basin edge using multiple pits

- The South Gobi deposits are hosted on the coking coal rich Noyon Uul coal basin, covering most of its north-west extent. There exists up to 66km of basin edge shallow coal stratigraphy across the tenements, with the BNU Mine located over 5km of it. Progressive development of multiple pits along the basin edge is TER’s mining strategy, as it allows better management of the complex geology. For example faulting, seams pinching and swelling, and coal quality variations inherent in the basin. At some stage we would expect TER could have two to three pits operating simultaneously, eg. one being recently commissioned, one in middle of life, and one toward end of life.

Figure 2: South Gobi Project locations



Source: Company.

Target areas along the basin include:

- BNU North Mine – ca. 5km of coal bearing stratigraphy;
- KS hinge – extension of seams being mined at BNU north (8km of coal bearing stratigraphy);
- KS South - South limb of Noyon Uul syncline (5km);
- BNU South - south limb extension of Noyon (9km);
- BNU South Hinge - fault displaced south western extension of BNU south (9km);
- Central – 4km; and
- Hovguun (East Pit) - 8km.

**BNU North (TER 100%) – Mining poised to restart end 2016 after restructure**

- After acquiring permits and receiving grant of mining license in 2011-12, TER commenced box cut and mine development at BNU in 2013 and commissioned the mine in 2014. The mine is an open pit coking coal operation with average strip ratio for LOM is 13.3x. Mining utilises drill and blast, dozers, excavator, and trucks. The mine has workshop, ROM pad, offices, wastewater treatment facility, storage area, site access roads, and laboratory.
- TER initially mined Pit 1 from 2014 to 2015, and opened a new pit (BNU pit 2) in July 2015. Pit 2 is a micro basin 500m x 200m with thick seams (up to 45m gross and 35m net, with 14m average) located 200m from BNU Pit 1, and the thickest discovered at its license.
- After cessation of mining early 2016, mostly due to a downturn in the coal markets and accumulation of stockpiles, TER is seeking to restart Pit 2 at a rate of 0.125Mt per month, or 1.5Mtpa by the end of CY2016.
- The geometry of BNU North's strata is interpreted to be a synclinal basin, with coal strike running at horizontal to shallow dips (ca. 15°) in the centre of the basin, steepening up to 40° at the sub crop.

Aiming to restart production by end 2016 from BNU Pit 2.

Logistics – New arrangements should reduce costs and improve yields

- Initially, coal from BNU is to be transported by third party 100km on TER's proprietary haulage road to the Shivee Khuren border crossing road in Mongolia, and then a further 40km across to the Ceke border station in China where a third party coal handling preparation plant (CHPP) is located. After a number of problems initially in the supply chain, TER entered into agreements with a new import agent, new CHPP operator, and new trucking company in March 2016 while mining had ceased. We expect this should reduce costs and improve yields once mining restarts.

New logistics chain – transport, wash plant, agent – should improve efficiency...

New third party CHPP...

- TER expects the new CHPP to be utilised in Ceke should handle the volume of coal being moved and processed, whereas the previous arrangement led to accumulation of higher than anticipated stockpiles. The new wash plant has 3.0Mtpa capacity and utilises jigs and flotation. The key area of improvement is expected to be yield, middling recovery, and ash control, from better management of the fine size coal fraction and the processing configuration.

... while CHPP on-site in 2017 will further increase efficiency

- While the new CHPP at Ceke will be an improvement over the previous arrangement, a third-party, off-site plant in another jurisdiction is still not an ideal situation. It can result in variances, yield loss and manipulation by third parties, and various inefficiencies, including not being bespoke to treat its particular coal characteristics, particularly the recovery of fines.
- In order to achieve better performance and control, TER has commissioned construction of its own CHPP to be located on-site at BNU. We expect final regulatory approvals for the plant by end CY2016, and final wet commissioning by end FY17. The plant will be 100% vendor financed and 100% owned. We estimate cost to be US\$9M. Specifications of the plant are raw feed of 1.5Mtpa, modular for future scalability, ability to deliver 9.5% ash product, and operate in extreme temperatures (-30°C to 40°C).

...with on-site CHPP in mid-2017 to further enhance productivity.

Advantages of own CHPP

- We envisage a number of advantages of TER's own on-site CHPP. These include:



- **Tailored for coal.** TER's CHPP will be tailored to process BNU's soft and friable coal which comprises a high proportion of fines. It is the fines that contain a large proportion of vitrinite which characterise its coking properties.
- **Higher yield.** TER expects improvement of yields by 3% to 6% due to bespoke process to treat fines, as well as allowing the company to claim 10% Mongolian VAT against operating costs.
- **Reduction in transport costs.** Both rejects and middlings do not need to be transported, and middlings are sold in Mongolia.
- **Provides platform for consolidation.** Having its own CHPP provides TER the ability to expand and treat third party coal in future. This could include consolidating the South Gobi region by developing operating and marketing arrangements with surrounding mines and projects. The haul road and the eventual on site CHPP will make it an attractive hub.

Metallurgy – A premium hard coking coal with low sulfur, low ash

- Wash tests have confirmed that BNU coal can be rated as a premium mid-vol hard coking coal naturally low in ash and sulphur. Its high fines generation allows it to be markedly improved by washing, especially if the CHPP is designed to process fines.

Premium mid-vol hard coking coal.

Figure 3: BNU coal quality

Coal Target Specification	Washed	Raw
Ash, adb	<10.5%	20%
Volatile Matter (VM), ad	23-27%	24-26%
CSR	>55	na
CSN	9	na
G caking index	80-95	60-90
Y Sapoznikov tests	19-24	22-26
Total Moisture (TM), ar	8%	Na
Sulfur, adb	0.3%-0.6%	0.3%-0.7%

Source: Company.

Desirable coking performance

- Wash tests to date show BNU product to be a premium mid-vol hard coking coal with 8.0% to 10.5% ash, G>75, CSN averaging 9.0, VM of 25%, and sulfur 0.3% to 0.55%. It has high fluidity suggesting a high reactive content. Only CSR is inferior to benchmark. We expect the low ash and low S to be highly desirable, especially with the increase in demand for clean burning coals. In 2014 the Chinese government restricted imports of coal that do not meet particular ash and sulfur specifications, to 40% and 3% respectively – a major positive for BNU coal.
- We estimate TER will sell all its ROM coal. 10% will be bypass – raw – which does not require wash and sold as hard coking coal. Of the 90% that is washed, we estimate a product yield of 82% (73.8% of ROM) is hard coking coal product. The wash rejects (or middlings, 16.2% of ROM) can be sold as a thermal coal/semi-soft/PCI.

Offtake – New agreement with Kingho for 7.5Mt over 5.5 years

- Most of the customers of BNU coal have been steel mills and coke works located in China and nearby regions of inner Mongolia. Coal markets for Mongolian coal traditionally include the China provinces of Inner Mongolia, Hebei, and Gansu, with distance from mine to mills ranging from 430km to 1,900km.
- TER's customers to date have included Zhonghment in China, a JV between Sojitz (Japan) and RDOS Group (China); JISCO (Jiuquan Iron & Steel) in the Gansu province; Baoutou Iron & Steel Co, and Jiuquan Haohai Chemical Co Ltd.



Significant upside for Mongolia as coal pricing linked more to that of seaborne export than in past.

- Recently TER announced a 5 year offtake for BNU coal with a company associated with Kingho Group, one of largest private coal companies in China, for 7.5Mt over 5.5 year, on a mine gate basis.

Pricing - Mongolian linkage to seaborne export pricing provides upside risk

- Historically prices for Mongolian coals have been heavily discounted, even after netting back the appropriate CFR, to their seaborne equivalents, due to lack of infrastructure, landlocked geography, China's opportunism, and relative inexperience of the country's mining industry.
- Mongolian coal producers can only export coal to the seaborne markets via long land transport routes via China or Russia – for example the Trans Mongolian railway to the north which links with the Trans-Siberian railway in Russia and through to the ports of Vostochny and Vanino. Given infrastructure, logistics, and distance challenges, most Mongolian coal is exported to China via two border crossings – Shiveekhuren/Ceke and Gashuun Sukhait (Mongolia)/ Gants Mod (China). From these locations coal is generally transported by rail within China and sold to regional coastal steel mills.
- **Pressing for netback pricing.** However we understand that as the Mongolian coal industry has become more sophisticated, and as coal markets have recently turned, producers – including TER – are moving and pressing for a more transparent linkage to export pricing, removing the unwarranted and arbitrary discounts incurred in the past. For example, the price of landed coal at a China port netted back to Mongolia mine gate.

Hovguun East (TER 83.9%)

- Hovguun East is located immediately south-east of BNU North. In 2012, TER developed a conceptual open pit mine plan of 2Mtpa, consisting of an initial box cut targeting cropping and sub cropping coal. A mining license already has been granted. Intersections indicate the presence of up to seven seams with coal logged as shallow as 8m from surface. All seams dip in a synform structure.

KS (TER 100%)

- The KS license (including 12600X) is located immediately west of BNU. 12 coal seams have been identified with up to 36 plies. A mining license has been granted for KS-North. A royalty agreement with a third party exists for KS, being US\$7.5/t for first 5Mt sold, US\$4.25/t for next 5Mt and thereafter \$1.25/t until aggregate royalty paid to Noble is US\$65M. This is not a balance sheet liability, as it is only payable if coal from KS is mined and sold.

SOUTH GOBI VALUATION AND CASHFLOW

NPV \$460M unrisks, \$308M risks

- We have derived a valuation for the South Gobi project using DCF analysis (NPV₁₀) of \$460M unrisks, and \$308M risks. The major risk factor is the conversion of inferred resources to measured and indicated. The major assumptions we have used are:
 - Production commencing end CY2016;
 - ROM of 1.1Mtpa for first six months, then 1.5Mtpa thereafter;
 - Product coal of 1.1Mtpa for first six months, then 1.5Mtpa thereafter;
 - Pits mined sequentially, with average capex to open pit of US\$2.5M. Average pit life and production of ca. six years and 9Mt ROM;

We value South Gobi at risked NPV₁₀ of \$308M.



We assume realised coking coal price linked to seaborne and netted back to mine gate.

- All South Gobi JORC resources mined in unrisks scenario. Risked scenario assumes 2/3 of JORC Resources mined;
- Realised coking coal price linked to consensus (LT US\$108/t) which is netted back to mine gate by CFR;
- Consensus A\$ forecast (LT US\$0.73);
- Third party CHPP at Ceke used for first six months, own CHPP on-site vendor financed US\$9M used from June 2017;
- A\$21M in existing payables to be paid out of cashflows over four years commencing FY17e;
- Average strip ratio of 10.0x bcm/t;
- Coal product breakdown: 10% bypass coking; 74% washed coking; and 16% middlings;
- Mongolian royalty averaging 7.5% and corporate tax rate of 25%;
- Utilisation of existing Mongolian tax losses A\$44.9M
- Long-term mine gate all-in-sustaining costs of US\$57/t;
- Long-term realised average price for all coal of US\$84/t;

Restarting production at opportune time with capex already sunk

- We expect production commencing December 2016 from mining of BNU Pit 2, with an initial 1.1Mtpa and using the Ceke third party CHPP (Stage 1). Stage 2 will be utilisation of own CHPP beginning June 2017. A new pit scheduled in April 2017 (Pit 3).
- TER is in the fortunate position of having undertaken the hard yards – expending significant capex on mine infrastructure such as haulage roads, offices, workshop, and water facility, in the preceding years, while organising the marketing, logistics and mine contractor arrangements. Timing of the restart sits well with the recent upturn in coking coal markets, where TER can take advantage of high prices.

Most capex is sunk – now TER poised to take advantage of high coking coal prices.

Figure 4: Coal price forecasts

Y/end June	Unit	FY17e	FY18e	FY19e	FY20e	FY21e
Coking coal benchmark	US\$/t	116*	117	108	108	110
Thermal coal benchmark	US\$/t	62*	62	60	59	60
A\$	US\$	0.73	0.73	0.73	0.74	0.74

*Includes US\$161/t forecast for coking and US\$85/t for thermal coal prices in the 2H FY17e.

Source: Foster Stockbroking estimates.



Figure 5: South Gobi Project Cashflows – Initial Five Years

Y/e Jun		2017e	2018e	2019e	2020e	2021e
Coking coal benchmark	US\$/t	116*	117	108	108	110
Thermal coal benchmark	US\$/t	62	62	60	59	60
A\$	US\$	0.73	0.73	0.73	0.74	0.74
ROM	Mt	0.55	1.50	1.50	1.50	1.50
Coking coal product	Mt	0.46	1.26	1.26	1.26	1.26
Middling product	Mt	0.09	0.24	0.24	0.24	0.24
Realised coking coal price	US\$/t	154*	108	99	99	101
Realised middling price	US\$/t	9	9	9	9	9
Realised average, mine gate	US\$/t	130	92	84	84	86
Cashflows:						
Revenues (A)	US\$M	71.7	138.4	126.5	126.3	128.8
Costs/product, mine gate						
Mining	US\$/t	35.5	35.0	35.0	35.0	35.7
Processing	US\$/t	10.0	10.0	10.0	10.0	10.2
Site & corp alloc	US\$/t	2.0	2.0	2.0	2.0	2.0
Road	US\$/t	1.0	1.0	1.0	1.0	1.0
Import, fee, tax, other	US\$/t	1.0	1.0	1.0	1.0	1.0
Marketing	US\$/t	1.8	3.5	3.2	3.2	3.2
C1	US\$/t	51.3	52.5	52.2	52.2	53.2
Royalties	US\$/t	7.8	4.7	4.3	4.3	4.4
C2	US\$/t	59.1	57.2	56.5	56.5	57.6
Total cash costs	US\$M	31.8	85.8	84.7	84.7	86.4
EBITDA	US\$M	39.9	52.7	41.8	41.6	42.4
All in sust costs (C2+sust capex)	US\$/t	59.3	57.3	56.6	56.5	57.7
All in sustaining costs (B)	US\$M	32.6	85.9	84.8	84.8	86.5
Project capex (C)	US\$M	2.5	9.0	0.0	0.0	0.0
Chng in WC (D)	US\$M	3.9	13.6	3.0	3.9	0.1
Tax (E)	US\$M	0.0	12.2	9.4	9.4	9.6
Net free cashflow (A-B-C-D-E)	US\$M	32.6	17.8	29.2	28.1	32.6

*Forecast benchmark hard coking coal price in 2nd Half FY17e is US\$161/t. Realised price is based on 2H.

Source: Foster Stockbroking estimates.

EBITDA of over US\$40M pa at long-term price

South Gobi to generate US\$40M EBITDA assuming long-term coking coal prices.

- We forecast that South Gobi can generate over US\$40M of EBITDA at forecast long-term prices of US\$108/t at 1.5Mtpa, with a long term cash margin of ca. US\$27/t assuming ca. US\$84/t realised average price and US\$57/t mine gate costs. In the short-term we expect this could be higher, given current coking coal prices are markedly above long-term consensus – we estimate South Gobi could generate US\$37M in net free cashflow in just the 2nd half FY17e alone, assuming only 0.6Mt of production and US\$161/t coking coal benchmark price.

Mid Gobi Project (TER 100%) – Exploration stage thermal coal

- Mid Gobi contains two exploration licenses – the Tsagaan Ovoo and Tsakhiurt Gobi Deposits - in the coal bearing Ongi Gol Basin of the Dundgovi Province which is appx 200km south of Ulaanbaatar and 200km west of the Mongolian railway. A logistic solution for any mine would



be rail to Erlianhaote border crossing into China. The project is close to potential customers including Mongolian and Chinese electricity generators. One of the licenses surrounds the Tsagaan Ovoo coal mine.

- While at exploration stage, TER sees potential for large scale open pit operations, with depth from surface to the first seam as shallow as only 3m. Drilling to date has intersected coal that is moderately dipping. Correlation of coal seams has been difficult due to intensive folding and faulting. This discontinuity would also make consistent production challenging.
- Coal quality is expected to be low rank thermal (Tsakhiurt) to high rank sub-bituminous (Tsagaan). Drill holes at Tsakhiurt showed medium to high ash thermal coal across three seams, while no coal has been intersected from Drilling at Tsagaan Ovoo.

UVs project (TER 100%) – prospective for lithium, potash, coal

- UVs consists of four licenses, containing the Baruun Termes tenements, which lies in the Karkhiraa coking coal basin, in the UVs province of North West Mongolia. It lies 12km south of the Russian border (Borshoo border crossing) which can be accessed by the sealed Kyzyl Highway which intersects the project. The project is also 12km east of existing power line and 50km from the provincial centre Ulaangom. UVs is prospective for coal and potash (sylvite) which have graded up to 65% KCl, as well as magnesium, lithium, and coking coal.

Other

- Other projects in Mongolia include an application for a coal bed methane project in South Gobi and the East Gobi project, which contains the Nariin and Khongor exploration licenses, located in East Gobi province of South East Mongolia, appx 85km north of the provincial centre Sainshand. TER is targeting coal resources in the Permian Tavan Tolgoi coal-bearing strata.

AUSTRALIA – BLAIR ATHOL ACQUISITION TO ADD IMMEDIATE PRODUCTION

- TER’s Australian coal assets are all in Queensland, and comprise the Blair Athol mine on the edge of the Bowen Basin, and a suite of exploration assets in the Galilee, Eromanga, and Bowen basins.

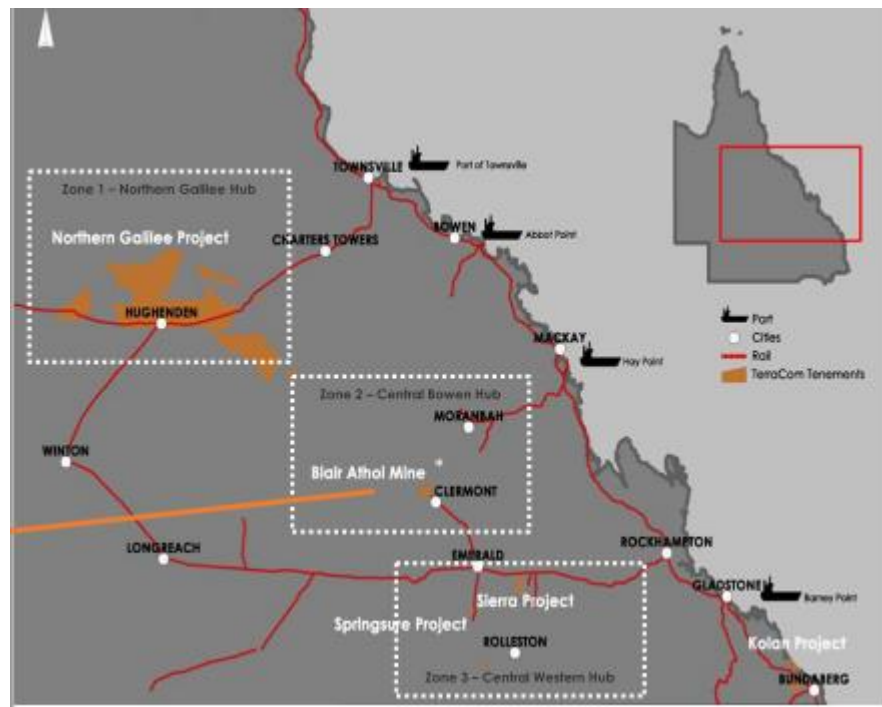
BLAIR ATHOL (TER 100%) – HIGH QUALITY THERMAL MINE

Mine, equipment, and bond acquired all for just \$1

- In July 2016 TER entered into an agreement to purchase the Blair Athol thermal coal mine, Queensland, from the Blair Athol Coal Joint Venture (BACJV). Consideration for the purchase was \$1.00. In return TER received mine lease, plant and equipment, and rehabilitation bond:
 - **\$80M cash will be received by TER** from the vendor to meet the mine’s rehabilitation costs. The \$80M is to be held in trust account controlled by the Queensland Government Department of Environment and Heritage Protection. The rehabilitation liability is determined by the Queensland Government, and is undertaken annually (most recently November 2015). This should cover all of TER’s rehabilitation costs at the mine.

Blair Athol thermal coal mine lease, plant and equipment, and \$80M for rehabilitation received for \$1 consideration.

Figure 6: TER Australia Assets



Source: Company.

- **Mining lease, licenses, contracts, and all mining plant and equipment for both production and rehabilitation to be owned by TER.** The equipment is impressive and includes a dragline and two shipping containers of parts, mobile fleet (trucks, graders, SUVs, dozers) as well as site infrastructure including offices, workshops, and stores full of mine inventory.
- **Sizeable mine infrastructure.** Blair Athol’s mine infrastructure is capable of supporting 12Mtpa, as production once reached 11.3Mtpa in 2009. The mine is located 20km north-west of Clermont on the edge of the Bowen Basin of Central Queensland.

Sizeable infrastructure capable of supporting 12Mtpa.

**Site visit confirms well maintained asset with rehab already underway**

- We recently visited the site and found the asset to be in very good condition. RIO operators were present, the company having undertaken care and maintenance – including rehabilitation – since Blair Athol ceased production in 2012. We noted that there was already tree growth in previously mined areas of the pit.

Timing now looks perfect

- Given the consideration paid, it is logical to ask why so cheap, and is there a catch? Our understanding is that Blair Athol had reached the near end of its mine life, and that logically RIO wanted to move on. Additionally, the coal markets at the time TER was negotiating were significantly depressed and no indication of the upturn had yet appeared, no doubt making it difficult to attract a large number of buyers.

Timing of acquisition engendered low price.

JORC Resources of 10Mt with upside

- JORC Resources at Blair Athol – as last reported by RIO in its 2015 annual report – are 10.2Mt, mostly classified as Measured Resources (Figure 7). However these Resources were previously classified as Reserves and only moved to Resource because of mining ceasing in 2012. Obviously the size is immaterial for RIO but presents a significant opportunity for TER. Should TER be able to convert Inferred into Measured and Indicated, this would deliver a mine plan capable of delivering 2Mtpa for five years, easily accommodated by the mine infrastructure and equipment on site.
- We expect TER will conduct desktop work initially with mine consultants to determine if the resources can improved in category and/or increased in size. We understand that for RIO, exploration was not the focus towards the end of Blair Athol's life but rehabilitation was. Any immaterial increment that exploration represented for RIO may however be material for TER.

10Mt JORC Measured Resource should ensure 5 year life at 2Mtpa ROM coal.

Figure 7: Blair Athol - Coal JORC Resources

Category	Mt
Measured	10.0
Indicated	0.2
Inferred	0.0
Total	10.2

Source: Rio Tinto Ltd

Production to restart end CY2016 – taking advantage of high thermal prices

- TER is seeking to restart production at Blair Athol by end CY2016 at rate of 2Mtpa ROM coal. The company is awaiting indicative approval for mining license transfer from the Minister of Natural Resources and Mines, which would pave the way for the ensuing transfer of mining lease following some weeks later. We expect this to completed by mid-November. Until then the BAJCV remains owner and RIO the manager. In the interim TER has engaged in planning production, including the appointment of a mine contractor and recruitment of key staff, so as to be ready as soon as practical for production.
- The BACJV mined seam no. 3 which had thickness of 20-30m. We understand some of this is still unmined with waste bulldozed over it to prevent it oxidising, including 10kt coal sitting on ROM pad. We expect TER to mine this, and mostly the seam below - seam 4 - which still has attractive thickness of 5m to 10m, lying at ca. 40m depth. TER envisages an average product strip ratio of 8:1.

Production restart by end CY2016 to take advantage of high thermal coal prices.

Local workforce and wash plant on-site.

Local workforce

- Mine workers will be based in nearby Clermont (about half an hour drive away on sealed road and highway), obviously providing costs and social benefits over fly-in fly-out. TER estimates that over 100 people will be engaged at the mine. Link Mining Services Pty Ltd (Link) has been appointed by TER as the full service mining contractor.

Wash plant on site

- A piece of plant on-site not owned by the BACJV and not part of the acquisition was the CHPP. However TER has negotiated a purchase from the owner Sedgman.
- TER believes it can mine selectively, with bypass ranging from 25%-50% of ROM and washed coal 50%-75%. Following the retro fitment of a tailings dewatering system, fine rejects from the wash plant will be dried and co-disposed in dry form, allowing for speedier rehabilitation than if tailings were wet.

Coal quality clean burning

- TER will target product specification of 12.5% ash (ad), 6,000kcal/kg, and 0.3% sulfur. The low sulfur (Figure 8) and impurities make it a clean burning coal.

Figure 8: Blair Athol Coal Quality

Parameter, adb	Value
Inherent moisture, %	6.7
Ash, %	12.5
Volatile matter, %	26.3
Fixed carbon, %	54.5
Net calorific value, kcal/kg	6,000
Sulfur, %	0.32
Nitrogen	1.6

Source: Company; Foster Stockbroking estimates.

Adjacent nearby rail to two ports.

Transport and marketing – rail loading adjacent to mine

- TER is negotiating to utilise the neighbouring nearby rail infrastructure to rail its coal to port. We observed the rail infrastructure abuts Blair Athol, markedly reducing trucking and fuel costs. Coal can be railed to either Abbott Point or Darymple Bay Coal Terminal (DCBT).

Expect significant demand for product

- As would be expected for coal of Blair Athol’s reputation and quality, we believe there is significant interest from buyers wanting to secure offtake. This is especially so from the Japanese utilities which traditionally were where Blair Athol customers. We do not envisage any problems in selling coal.

Pricing – expect 10% discount

- We expect Blair Athol coal to receive a 10% discount to Newcastle benchmark thermal, mostly because of its lower calorific value (6,000 kcal/kg vs 6,500 kcal).

Potential to extend life of assets

- Blair Athol’s plant and equipment provide TER with impetus to scour for neighbouring properties that can offer mining opportunities beyond the life of the current mine.



BLAIR ATHOL VALUATION AND CASHFLOWS

NPV \$71M unrisks, \$68M risks

We value Blair Athol at a risks NPV₁₀ of \$68M.

- We have derived an NPV₁₀ for Blair Athol of \$71M unrisks and \$68M risks, the main risk factor being applied for restart risk. The major assumptions used are:
 - Production commencing end CY2016;
 - ROM production of 2.0Mtpa for LOM;
 - Product coal of 1.7Mtpa;
 - All JORC Resources mined (5 year LOM).
 - Realised thermal price of 10% discount to Newcastle benchmark;
 - Consensus A\$ forecast;
 - Average strip ratio of 7.7x bcm/t.
 - Coal product breakdown: 16% bypass thermal; 84% coal washed of which 84% yield (71% of ROM) is thermal product. Wash rejects (13% of ROM) sent to tailings;
 - Utilisation of existing Australian tax losses against profits generated;
 - Repayment of contractor-financed working capital in FY18e.
 - FoB costs of A\$67/t long-term;
 - Realised coal price of A\$73/t long-term;
 - Valuation risks by 5% to account for restart risk.

Working capital costs contractor funded

- TER has negotiated to have \$11.6M in working capital, mine and processing recommissioning, and mobilisation costs funded by Link. Additionally, TER has secured a US\$12M funding facility should it require it for working capital. We assume TER will pay Link out of cashflows in FY18e. We note that TER also has flexibility to free up more cash should it need it, by selling mobile fleet, and dragline.

Long-term EBITDA of \$8M to \$10M p.a, but we forecast \$30M in FY17e

- We expect Blair Athol to generate EBITDA of \$8M to \$10M p.a. assuming long term thermal benchmark price US\$54/t. However given the current spike in thermal coal prices, we forecast Blair Athol - with only half a year's production - will generate \$30M EBITDA, assuming a thermal coal benchmark price of US\$85/t in the 2nd Half FY17e (vs current spot of >US\$100/t).

We forecast Blair Athol EBITDA of \$30M in FY17e based on high thermal price, and \$8-\$10M using long-term prices.



Figure 9: Blair Athol Cashflows – First Five Years

FY/end June		2017e	2018e	2019e	2020e	2021e
Thermal coal benchmark	US\$/t	62*	62	60	59	60
Discount	%	10%	10%	10%	10%	10%
Realised thermal price	US\$/t	77*	56	54	53	54
A\$	US\$	0.73	0.73	0.73	0.74	0.74
ROM	Mt	1.0	2.0	2.0	2.0	2.0
Thermal product	Mt	0.9	1.7	1.7	1.7	1.7
Revenues (A)	A\$M	90.6	132.7	127.3	124.2	126.0
Costs/product t						
Mining	A\$/t	24.5	24.5	24.4	24.3	24.7
Processing	A\$/t	10.4	10.4	10.3	10.3	10.5
Rehab	A\$/t	1.2	1.2	1.2	1.2	1.2
Site	A\$/t	4.0	4.0	4.0	4.0	4.0
Port and rail	A\$/t	21.0	21.0	20.9	20.8	21.1
Marketing	A\$/t	1.7	1.5	1.5	1.5	1.5
C1	A\$/t	62.8	62.5	62.3	62.2	63.1
Royalties	A\$/t	7.3	5.4	5.1	5.0	5.1
C2	A\$/t	70.1	67.9	67.5	67.2	68.2
Total cash costs	A\$M	60.7	117.6	116.8	116.3	118.0
EBITDA	A\$M	30.0	15.1	10.5	7.9	8.0
All in sust. costs (C2+sust capex)	A\$/t	70.1	67.9	67.5	67.2	68.2
All in sustaining costs (B)	A\$M	60.7	117.6	116.8	116.3	118.0
Project capex (C)	A\$M	0.0	0.0	0.0	0.0	0.0
Chng in WC (D)	A\$M	0.0	4.6	-0.3	-0.2	0.0
Tax (E)	A\$M	0.0	0.0	0.0	0.0	0.0
Net free cashflows (A-B-C-D-E)	A\$M	30.0	10.5	10.8	8.1	8.0

*Forecast thermal benchmark is US\$85/t in the 2H FY17e. Realised price is 10% discount to the 2H price.
Source: Foster Stockbroking estimates.

QUEENSLAND EXPLORATION PROJECTS - EARLY BUT POTENTIAL IN BUOYANT MARKET

JORC Resources of 2.1bt (100% basis)

- TER has eight exploration tenements covering 11.5k sq km across coal bearing Bowen, Galilee, and Maryborough Basins, with most being close to existing rail and port infrastructure. The two priority projects are the Springsure and Northern Galilee Projects. Given the resurgence in coal markets, TER has been in discussions with offtakers and potential jv partners to fund further exploration and development of the projects. Combined resources total 2.1Bt of thermal and PCI coal.

Partners and offtakers sought to fund Qld exploration projects.

**Figure 10: Queensland Exploration Projects JORC Resources (100% basis)**

Project	Measured	Indicated	Inferred	Total	Expl target	Coal type
Hughenden	0	133	1,076	1,209	285-2,830	thermal
Clyde Park	0	51	677	728	40-815	thermal
Pentland	0	0	0	0	295-2,890	thermal/PCI
Northern Galilee	0	184	1,753	1,937	620-6,535	thermal/PCI
Springsure	0	43	148	191	60-235	thermal/PCI
Kolan	0	0	0	0	60-400	coking
Total	0	227	1,901	2,128	740-7,170	thermal /PCI

Source: Company; Foster Stockbroking. Resources reported on 100% basis. TER's attributable interest in all projects is 100% except for Springsure (35.8%) and Clyde Park (64.4%).

Northern Galilee Project (Hughenden, Clyde Park, and Pentland)

Northern Galilee and Springsure projects are the most advanced of the Qld exploration assets.

- The Northern Galilee Project comprises three thermal coal tenement areas – Hughenden, Clyde Park, and Pentland. Tests to date highlight raw coal quality of 5,000-6,000kcal. While no studies have been released, TER has commented on the potential for production of 10-15Mtpa from multiple potential open cut and underground operations. The project is located close to the Townsville port and the Mt Isa to Townsville rail. The rail has 3-5Mtpa capacity and could be upgraded to 10-15Mtpa, but is currently not allocated.
- **Hughenden (TER 100%).** Hughenden is located in northern part of the Galilee/north-eastern part of the Eromanga. A JORC resource of 1.2bt mostly in inferred is at depths of 350m to 600m. Coal has the potential to be export thermal with high calorific value after washing and the project potential for multiple underground mining operations reaching 5Mtpa ROM with coal transported 58km to a potential CHPP at Clyde Park. 40 different seams have been identified, yielding 11.9m net coal containing multiple plies ranging up to 5.5m thick. A portion of the resource is in thin seams at depth which is unlikely to be converted into reserves.
- **Clyde Park (TER 64.4%).** Located in the north-eastern edge of Galilee Basin, and appx 80km north of Hughenden. It contains coal seams suitable for underground mining but some areas could be open pitable. Average depths range from 190m to 230m. Application to convert to mining lease has been submitted. Coal quality has the potential for export thermal, wash results to date showing moderate ash (15% adb) and calorific value (5,800kcal/kg adb) and low S (0.5% adb). Average seam thickness ranges from 0.3m to 2.6m across 27 seams.
- **Pentland (TER 100%).** Comprises six tenements in northern end of the Galilee and Eromanga, appx. 25km west of the town of Pentland. There is potential for thermal with mining by open cut or underground.

Springsure (TER 35.8%)

- Springsure is located in the central-western Bowen Basin, 8km north of the Springsure town and 45km south of Emerald. TER owns 35.8% and the management rights. Coal quality results are similar to neighbouring on-strike Minerva mine where up to six seams have been mined. Eight seams are the primary exploration target, and range from 1m to 5m. Likely to be underground operation only.
- Tests reveal that coal, raw and washed, can be high energy (>6,000kcal, nar), low ash <12%), and low S, suitable as export thermal coal. The Minerva rail line runs near the north-west corner of Springsure, providing proximity to the rail system to export terminals at Port of Gladstone. A project mine development application for part of the tenement has been granted.

**Kolan (TER 100%) and Sierra (TER 100%)**

- Kolan is located in the Maryborough Basin, 18km east of Bundaberg. It is connected to Port of Gladstone via the Maryborough North Coast coal line which runs adjacent to the project. Coal seams intersected to date have been thin and shallow. Potential for open cut mining for modest tonnage of coking and PCI coal, targeting high CSN, low ash, low moisture. Exploration target of 60-400Mt is at depth of 20 to 150m with cumulative thickness of 1 to 1.3m.
- Sierra comprises a hard coking coal target in the Bowen Basin. Project has access to the Blackwater rail system infrastructure in the northern edge of the tenement. Drill holes in 2011 were barren, but may be updip of coal bearing units. Sierra is 20km west of Blackwater and 260km west of Rockhampton. Potential open cut.

INDONESIA – OPPORTUNITY TO DIVERSIFY**Intention to acquire existing coking coal mine**

- TER has announced it is considering acquisition of a coal project in Central Kalimantan with an existing production license and mine, located close to Muara Teweh town. JORC Resources comprise 3.5Mt, with mineable coal of 2.2Mt. Quality is mid-vol coking coal with high fluidity, CSN of 9, and average calorific value 7,600kcal/kg (adb) across two pits. Seams are thick and shallow, with no complex geology.

Indonesia hard coking coal mine acquisition opportunity could provide significant upside.

Existing logistics and infrastructure

- The mine has capability to produce 0.5-0.7Mtpa, implying a six year mine life. Infrastructure and logistics are attractive, the mine located close to road, barge, and port. 28km from the Barito River, and 400km upstream of Taboneo transshipment port which utilise 2kt to 10kt barges. Currently the coal is being sold to China.
- The company believes there is significant upside on lease of which only 5% has been explored to date. TER stated that negotiations with vendors on a non-binding term sheet are at an advanced stage and its due diligence process nearing completion. The company expects it would be an all share transaction, providing it with ca. 95% ownership of the project, and confident it would satisfy Indonesian ownership laws. The company has identified an Australian contractor it would employ for mining. There would exist immediate opportunities to acquire neighbouring 0.7Mtpa coking coal mine, increasing production to 1.2-1.5 Mtpa.

NPV Valuation \$61M unrisks, \$12M risks

- We value the Indonesia project at an NPV of \$61M unrisks and \$12M risks by a DCF analysis. Key assumptions include:
 - Acquisition to complete in end FY17, and production to start soon after;
 - Product coal of 0.38Mtpa over life of six years;
 - Realised price of 5% discount to benchmark;
 - FoB costs of US\$50/t;
 - Risk factor for risks NPV of 20% to account for deal execution risk.
 - Consensus coking coal forecasts.

We value Indonesia at risks NPV₁₀ of \$12M.

Cashflow – EBITDA of US\$15M p.a.

- We estimate the Indonesia project could generate over US\$15M in EBITDA p.a. assuming consensus coking coal price forecasts.



CORPORATE – NET DEBT \$168M

Net debt of \$168M including secured bond with ability to capitalise interest.

- TER is heavily geared, having currently \$168M in net debt, comprising \$1M in cash and \$169M in debt, which was recently restructured. Composition of debt is as follows:
 - **Secured Bond: US\$124M.** This is a 5 year interest only bond, increasing to US\$129M on 30 June 2017 and maturing June 2021. Interest is paid semi-annually in arrears (except first payment due 30 June 2017). Interest comprises a fixed 12.5% p.a. component and a special mine gate revenue share component 0.75% payable every 6 months. TER has the option to capitalise 50% of each fixed interest payment to assist with cashflow management. The bond is on balance sheet as US\$91M plus associated interest liability of A\$8M with the balance of the bond (US\$33M) is to be amortised over its life.
 - **Secured Super Senior Note: US\$17M.** The note comprises US\$12M (Note A) repayable 30 June 2017 along with interest of 15% p.a. repayable on same date, and US\$5M (Note B) which will roll into the secured bond.
 - **Fuel Facility: US\$8.1M.** This is fully drawn, with interest rate of 9.7% and due December 2016.
 - **Non-interest bearing loan: US\$3M.** Due October 2020.

EARNINGS FORECASTS

We forecast NPAT of \$50M in FY17e and \$37M in FY18e

- Our earnings forecasts for TER are shown in Figure 11. Earnings are underpinned from two producing assets of South Gobi (Mongolia) and Blair Athol (Australia) in our forecasts. We do not include any Indonesian acquisition in our earnings or TER's other projects in Mongolia and Queensland being developed.
- We forecast NPAT of \$50M in FY17e and \$37M in FY18e, driven by the start of production in South Gobi and Blair Athol end CY2016. The decrease in NPAT in FY18e is driven by our forecast decline in coking and thermal coal prices in-line with consensus, partially offset from increased production due to a full year of both Blair Athol and South Gobi.

PER of 2.0x and EV/EBITDA 3.3x highlight value opportunity

PE of 2.0x and EV/EBITDA of 3.3x on FY17 e earnings.

- Our FY17e and FY18e forecasts imply TER is on an inexpensive valuation with P/E of 2.0x and 2.7x, and EV/EBITDA of 3.3x and 3.2x. We think the market is discounting its production restart timelines for both Blair Athol and BNU, its funding capability, its management of debt, and conscious of its troubled history operating in Mongolia.
- However we are confident that with the company's new management, the revamping of Mongolian operations and marketing, as well as the country's improved sovereign environment for miners, that TER can achieve. With capex essentially sunk, it is up to TER to ensure efficient production and realise attractive pricing.

Interest expense can be serviced

We forecast interest cover of 3x-5x.

- We forecast net free cashflow after accounting for interest repayments and repayment of payables and working capital with interest coverage (EBIT/net interest expense) 3x to 5x over the next few years.



Figure 11: TER Profit and Loss (A\$M)

FY/end Jun	2017e	2018e	2019e	2020e
Mongolia	98.1	189.3	172.3	171.6
Australia	90.6	132.7	127.3	124.2
Sales revenue	188.7	321.9	299.5	295.8
Mongolia	54.5	72.0	56.9	56.5
Australia	30.0	15.1	10.5	7.9
Corporate	-4.0	-4.0	-4.0	-4.0
EBITDA	80.5	83.1	63.4	60.4
Depr and amort	14.9	15.9	15.9	15.9
Mongolia	49.1	66.5	51.4	51.0
Australia	28.9	12.9	8.3	5.8
Corporate	-12.3	-12.3	-12.3	-12.3
EBIT	65.6	67.2	47.5	44.5
Net interest	15.9	13.4	13.2	13.2
PBT	49.7	53.7	34.2	31.3
Tax	0.0	16.6	12.9	12.8
NPAT attrib underlying	49.7	37.1	21.4	18.6
EPS diluted \$	0.018	0.014	0.008	0.007
PER x	2.0x	2.7x	4.7x	5.5x
EV/EBITDA x	3.3x	3.2x	4.2x	4.4x
Net free cashflow	57.0	22.3	34.4	30.5

Source: Foster Stockbroking estimates.

TER VALUATION

NPV \$0.15/share unrisks, \$0.083/share risks

- Our NPV valuation of TER shares is \$0.083/share risks and \$0.15/share unrisks, or \$234M risks and \$469M unrisks for the company. The producing assets South Gobi and Blair Athol have been valued using DCF (10% WACC).
- For other projects – Mid Gobi, Northern Galilee, Springsure, and other resources in Queensland and Mongolia - we have applied A\$0.02 EV per tonne of JORC resource, which is at the bottom end of comparable listed ASX-listed coal developer/explorer peers. We would need to see further development milestones being achieved for these exploration assets prior to re-rating them.
- We have also included a value based on DCF for the Indonesia opportunity. We have assumed the consideration for the asset will be \$15M TER shares issued at \$0.04/share (375M shares).
- The major risking we have applied is on the Indonesia project – 20% to account for risk of not succeeding in acquisition – and the resources at South Gobi and Blair Athol (risk assumes only 2/3 resource is mined).

We value TER shares at \$0.083/share risks.



Figure 12: TER Company Valuation

Segment	A\$M	A\$/share	A\$M	A\$/share	Risk factor
South Gobi	460	0.15	308	0.110	67%
Blair Athol	71	0.02	68	0.024	95%
Mid Gobi	4	0.00	1	0.000	20%
Northern Galilee	39	0.01	15	0.006	40%
Springsure	4	0.00	2	0.001	40%
Other Queensland	5	0.00	2	0.001	30%
Other Mongolia	5	0.00	2	0.001	30%
Indonesia option	61	0.02	12	0.004	20%
Corporate	-16	-0.01	-12	-0.004	71%
Net cash (debt)	-168	-0.05	-168	-0.060	100%
Cash from options & warrants	4	0.00	4	0.002	100%
Equity	469	0.15	234	0.083	50%
Ordinary shares	2,582		2,582		100%
Options & warrants	156		156		100%
Shares assumed for Indo acq.	375		75		20%
Diluted shares used in valn.	3,113		2,813		90%

Source: Foster Stockbroking estimates.

Figure 13: Sensitivity analysis

Each US\$10/t change in coal prices adds \$0.04/share to risked valuation.

Commodity	Chng in unrisked val'n per share	Chng in risked val'n per share
Coking coal price \pm US\$10/t	\$0.05	\$0.03
Thermal coal price \pm US\$10/t	\$0.03	\$0.01
All coal prices \pm US\$10/t	\$0.08	\$0.04

Source: Foster Stockbroking estimates

RECOMMENDATION – INITIATE WITH BUY, PT \$0.083/SHARE

Initiate with Buy recommendation, \$0.083/share PT.

- We initiate on TER with a Buy recommendation and price target of \$0.083/share, based on our valuation.
- The company has attractive valuation, and has many catalysts ahead that it achieve them , we see the shareprice higher,
- Major catalysts for the shareprice include:
 - Commissioning of Blair Athol and BNU;
 - Increase in coal prices;
 - Offtake agreements;
 - Agreement for Indonesian acquisition;; and
 - Reserve and resource upgrades.

Catalysts include restarts of Blair Athol and South Gobi, resource upgrades, Indonesian acquisition.



Highly credentialed board with extensive coal mine industry experience including Australia and Mongolia, headed by Executive Chairman Cameron McRae.

BOARD

- **Cameron McRae. Executive Chairman.** *MBA, B. Fin Admin.* Appointed June 2016, Mr McRae has worked 28 years at RIO, holding executive positions across five countries. Was CEO-President of Oyu Tolgoi (OT) copper gold business in Mongolia. CEO Richards Bay Minerals, MD of Murowa Diamonds and Project Director for Hail Creek Coal Mine expansion project. In 1995 was member of M&A team involved in merger of RTZ plc and CRA Ltd to form RIO.
- **Hon Craig Wallace. Non-Executive Deputy Chairman.** Served as Queensland Minister for Main Roads, Fisheries, and Marine infrastructure from 2009 to 2012, delivering major infrastructure projects. Was member of Executive Council of Australia and Roads Australia. In 2012 formed Shanghai Investment and Consulting.
- **Michael Avery. Executive Director.** Vice President Corporate Development. *MBA, BEng (Mining),* Worked in coal industry for over 25 years including senior management roles for a number of mining companies including RIO and BHP both in Australia and overseas. Roles included exploration, construction, operation, and management. A founder managing director of TER when known as Guildford Coal. Member Australian Institute of Mining and Metallurgy.
- **Mr David Stone. Executive Director.** Vice President Operations. *BEng (Mining), Dip Risk Management, Dip. Australian institute of Company Directors.* A leader in mining businesses for global corporations, including Mt Isa Mines/Xstrata (now Glencore) and Anglo America, spanning 20 years with experience in senior management, project development, operations, or technical roles. Has worked in diverse geographic locations and environments.
- **Tsogt Togoo. Non-Executive Director.** *MBA, MEc, BEc.* 20 years' experience in the Mongolian public sector. Led privatisation division of the State Property Committee and had roles in privatisation, restructuring and deregulation across the energy, banking, and power sectors.
- **Mr Philip Forrest. Non-Executive Director.** *BCom.* Has lived in Asia for over 33 years, involved in directorships, not for profits, and consulting and advisory. Experience includes regional responsibilities at Westpac, NatWest, and ANZ.
- **Ms Loo Hwee Fang. Non-Executive Director.** *LLB, Barrister at law.* Legal practitioner. Was partner at Singapore law firm Lee and Lee. Since 2013 Group General Counsel of Yoma Strategic Holdings Ltd. Also Director of HL Global Enterprises Ltd Singapore.

RISKS

The following risks may negatively impact the TER shareprice:

- **Resource risk.** Errors and redeterminations can cause negative revision to resources, which can negatively impact size, quality, economic and valuations.
- **Sovereign risk.** Any change in government, legislation, or fiscal regimes of Australia or Mongolia may markedly impact the ownership, financing, permitting, or economics of TER's projects.
- **Commodity price risk.** Declines in the coking and thermal coal or prices may negatively impact the revenues and profitability of some or all of TER's projects
- **Currency risk.** The TER shareprice is denominated in A\$ and yet the company sells commodities priced in US\$. Any rise in the A\$ may reduce translational impact of US\$ into A\$.
- **Operating risk.** Problems may occur during the mining, processing, transporting and selling of coal that may negatively impact revenues, costs, and profit.
- **Financing risk.** The company has a high level of debt, and may need to raise equity to reduce it, or if not, may default with risk of bankruptcy if it cannot generate sufficient cashflows to meet repayments.



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