FOSTER STOCKBROKING

EQUITY RESEARCH

Materials

9 June 2017

TerraCom Ltd (TER.ASX)

Blair Athol acquisition completed – now poised to deliver

Event:

- **Operations update; Coal price revisions; Earnings changes.**

Investment Highlights:

- **Blair Athol completed.** TER recently completed its acquisition of Blair Athol after a drawn out approval process that took longer than we had expected.
- **We anticipate the company to mobilise operations this month, undergo mining** in July and ship first product coal beginning August 2017. This is two months later than we had previously expected.
- **The acquisition of Blair Athol allows TER to access an additional $24M of** working capital, including $11.6M from contractor Link Mining and an additional US$9M ($12M) from another provider. The company has previously drawn down US$3M from the latter facility.
- **Mongolia is ramping up month by month.** BNU mine coal shipments were 3kt in January, 42kt in February, and 52kt in March. TER stated it expected 60kt in April and shipped 200kt year-to-date by mid-May (implying May rate was ca. 80kt). While positive, the ramp up has taken longer than expected. We now forecast 0.3Mt for FY17e (previous 0.5Mt).
- **TER gains some debt relief.** The company forecast outgoing cashflows associated with interest and principal to be less than the interest due on Eurobond and the repayment of Senior Note A. We believe that the company has received support from lenders and deferred these repayments to FY18e**.**
- **We have upgraded our forecast thermal coal prices by 10% to 17% across FY17e to FY21e.** These are in-line with consensus estimates.
- **We view the recent Board appointments of Mr Wal King, the former Leighton** (now CIMIC) CEO and Mr Jim Soorley, Chairman of CS Energy as positive, given their collective coal mining, Mongolian, and Queensland government experience.

Earnings and Valuation:

- **We have downgraded our forecast FY17e loss to -$34.5M loss (previous -** $6.6M) mostly due to downgrades to Blair Athol and Mongolian coal production**.**
- **For FY18e we have increased forecast NPAT to $106M (prior $64M) due to** increase in our forecast Blair Athol earnings resulting from higher thermal prices.
- **We forecast that TER will meet its Eurobond repayments, as the increase in** Blair Athol earnings from FY18e offsets the lower FY17e production.
- **Our risked valuation of TER has risen to $0.109/share (previous $0.105/share)** due to the increase in Blair Athol valuation on higher thermal prices.

Recommendation:

- **We maintain our Buy recommendation with a 12-month PT $0.110/share (prior $0.105).** TER is currently trading at 0.8x P/E and 2.2x EBITDA on FY18e earnings, a significant discount to peers. To unwind the discount TER needs to demonstrate profitability of Mongolia and Blair Athol and progressively reduce its gearing. With the Blair Athol acquisition completed, now it is on the cusp of being able to demonstrate this.

Recommendation	**Buy**
Previous	Buy
Risk	High
Price Target	**$0.110**
Previous	$0.105
Share Price (A$)	**$ 0.029**
ASX Code	TER
52 week low - high (A$)	0.004-0.048
Valuation (A$/share) - risked	**$0.109**
Methodology	DCF
Capital structure	
Shares on Issue (M)	2,715
Market Cap (A$M)	**79**
Net (Debt)/Cash (A$M) end FY17e	-223
EV (A$M)	**302**
Options (M)	30
Warrants (M)	126
Fully diluted EV ($M)	**306**
12mth Av Daily Volume ('000)	5,023

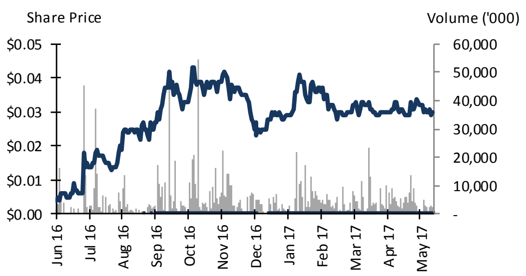
Y/e Jun (A$M)	2016a	2017e	2018e	2019e
Sales	9.9	24.7	358.8	326.2
Adj EBITDA	-18.0	0.3	149.7	99.8
Adj NPAT attributable	**-49.7**	**-34.5**	**106.4**	**37.5**
Adj EPS diluted $	-0.03	-0.01	0.04	0.01
PER x diluted	**nm**	**nm**	**0.8**	**2.2**
EV/EBITDA x	nm	nm	2.2	3.2

*Adj = underlying FSB estimate

Board	
Cameron McRae	Executive Chairman
Craig Wallace	Non-Executive Deputy Chairman
Michael Avery	Executive Director
David Stone	Executive Director
Tsogt Togoo	Non-Executive Director
Philip Forrest	Non-Executive Director
Wal King	Non-Executive Director
James Soorley	Non-Executive Director

Substantial Shareholders	
OCP Asia	15.9%

Share Price Graph



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The analyst owns 650,000 shares in TER.

Foster Stockbroking is engaged in providing corporate services to TER, for which it received 30M unlisted options. Foster Stockbroking was Sole Lead Manager in the $1M placement of 46.5M TER shares at $0.0215 in August 2016, and in the $4M placement of 133.3M TER shares at $0.03 in December 2016, both for which it earned fees.

Terracom Ltd (TER)

Full Year Ended 30 June.

Profit and Loss A$M	2016a	2017e	2018e	2019e
Sales revenue	9.9	24.7	358.8	326.2
Operating Costs	28.6	24.3	209.1	226.3
Underlying EBITDA	**-18.7**	**0.3**	**149.7**	**99.8**
D&A	3.9	32.2	25.3	25.3
Underlying EBIT	**-22.6**	**-31.9**	**124.4**	**74.5**
Net Interest exp / (income)	27.4	2.6	13.1	11.5
Profit before tax	**-50.0**	**-34.5**	**111.3**	**63.0**
Tax exp / (benefit)	0.0	0.0	4.8	25.4
NPAT before minorities	-50.0	-34.5	106.5	37.6
Minorities loss (income)	0.4	0.1	0.1	0.1
Underlying NPAT attributable	**-49.7**	**-34.5**	**106.4**	**37.5**
Non-recurring loss (income)	1.7	0.0	0.0	0.0
Reported NPAT attributable	**-51.4**	**-34.5**	**106.4**	**37.5**
Underlying EPS diluted ($)	**-0.03**	**-0.01**	**0.04**	**0.01**

Cashflow A$M	2016a	2017e	2018e	2019e
Underlying EBITDA	-18.7	0.3	149.7	99.8
Change in WC	3.4	-14.6	-17.6	-1.2
Tax paid	0.0	0.0	-4.8	-25.4
Other	0.4	0.0	0.0	0.0
Net interest	0.0	-2.6	-13.1	-11.5
Dividends	0.0	0.0	0.0	0.0
Share based expenses	0.0	2.7	0.0	0.0
Operating Cashflow	**-14.9**	**-14.2**	**114.2**	**61.7**
Purchase of PP&E	-3.7	-6.4	-15.3	-3.1
Exploration expenditure	-0.6	-0.4	-2.0	-2.0
Acquisition	-0.3	0.0	0.0	0.0
Investing Cashflow	**-4.6**	**-20.3**	**-17.3**	**-5.1**
Equity raise	0.0	7.2	0.0	0.0
Debt proceeds	20.2	41.1	0.0	0.0
Debt repayments	-0.1	0.0	-26.7	0.0
Financing Cashflow	**20.0**	**48.3**	**-26.7**	**0.0**
Net Cashflow	**0.5**	**13.8**	**70.3**	**56.6**

Balance Sheet A$M	2016a	2017e	2018e	2019e
Cash	1.2	94.6	164.9	221.5
Inventory	0.5	8.2	8.5	8.9
Receivables	8.3	11.2	28.1	26.3
PPE	115.2	117.6	125.3	120.8
Intangibles	0.8	0.9	0.9	0.9
Capitalised exploration	49.4	49.8	51.8	53.9
Other	4.0	9.9	10.1	10.3
Total Assets	**179.3**	**292.2**	**389.7**	**442.6**
Accounts payable	27.0	11.5	15.0	15.5
Provisions	1.0	1.0	1.0	1.0
Debt	169.0	217.4	195.2	199.6
Capitalised interest	0.0	20.1	30.6	41.0
Rehabilitation liability	0.0	79.6	79.6	79.6
Other	0.0	1.4	0.7	0.6
Total Liabilities	**197.0**	**331.0**	**322.0**	**337.3**
Reserves and capital	162.4	175.7	175.7	175.7
Retained earnings	-184.3	-218.9	-112.4	-74.9
Attributable equity	**-21.9**	**-43.2**	**63.3**	**100.8**
Minorities	4.3	4.3	4.4	4.5
Total equity	**-17.7**	**-38.8**	**67.7**	**105.3**

Operations $M	2016a	2017e	2018e	2019e
South Gobi	9.9	24.7	205.0	183.0
Blair Athol	-	-	153.9	143.2
Other				
Sales Revenue	**9.9**	**24.7**	**358.8**	**326.2**
South Gobi	-9.1	2.0	103.1	72.9
Blair Athol	-13.9	-1.1	43.7	24.0
Other	0.0	-0.5	-0.5	-0.5
Corporate	0.4	-4.0	-4.1	-4.1
Debt amort.	0.0	-28.2	-17.8	-17.8
EBIT	**-22.6**	**-31.9**	**124.4**	**74.5**

Source: Company;Foster Stockbroking estimates.

Financial Metrics	2016a	2017e	2018e	2019e
Sales growth %	nm	nm	1350%	-9%
EPS growth %	nm	nm	nm	-65%
EBITDA margin	nm	1%	42%	31%
EBIT margin	nm	-129%	35%	23%
Gearing (ND/ND+E)	68%	74%	64%	56%
Interest Cover (EBIT/net int)	nm	-12.3x	9.5x	6.5x
Average ROE %	nm	nm	738%	43%
Average ROA %	nm	-14%	36%	18%
Wtd ave shares (M)	1,638	2,648	2,715	2,715
Wtd ave share diluted (M)	1,638	2,805	2,871	2,871

Earnings multiples	2016a	2017e	2018e	2019e
P/E x	**nm**	**nm**	**0.8**	**2.2**
EV/EBITDA x	nm	979.2	2.2	3.2

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	539	$0.159	381	$0.128
Blair Athol	201	$0.059	163	$0.055
Mid Gobi	4	$0.001	1	$0.000
Northern Galilee	39	$0.011	8	$0.003
Springsure	4	$0.001	1	$0.000
Other Queensland	5	$0.001	1	$0.000
Other Mongolia	5	$0.001	1	$0.000
Indonesia option	71	$0.021	14	$0.005
Corporate	-36	-$0.011	-26	-$0.009
Net cash (debt)	-223	-$0.066	-223	-$0.075
Cash from options & warrants	4	$0.001	4	$0.001
Equity	**613**	**$0.181**	**325**	**$0.109**
Ordinary shares M	2,715		2,715	
Options & warrants M	156		156	
Shares assumed for Indonesia acq. I	517		103	
Diluted shares used in valn. M	**3,388**		**2,975**	

Commodity Assumptions	2016a	2017e	2018e	2019e
Hard coking coal benchmark US$/t	105	154	139	120
Thermal coal benchmark US$/t	59	79	74	68
A$:US$	0.74	0.74	0.74	0.74
Mongolia ROM	0.4	0.3	1.5	1.5
Australia ROM	0.0	0.0	1.7	2.0
Total ROM coal Mt	**0.4**	**0.3**	**3.2**	**3.5**
Coking coal Mt	0.1	0.3	1.3	1.3
Thermal coal Mt	0.0	0.0	1.7	1.7
Other/middlings Mt	0.1	0.1	0.2	0.2
Total coal product Mt	**0.2**	**0.4**	**3.2**	**3.2**
Realised price Mongolia US$/t	36.4	51.1	101.1	90.3
Realised price Australia US$/t	nm	63.9	66.6	61.2
AISC Mongolia US$/t	nm	54.7	49.1	53.2
AISC Australia US$/t	nm	18.3	46.7	50.0

JORC Resources Mt (attrib.)	Meas.	Ind.	Inf.	Total
South Gobi	15	9	59	83
Mid Gobi	-	32	189	221
Blair Athol	12	9	24	45
Northern Galilee	-	166	1,512	1,678
Springsure	-	15	53	68
Total	**27**	**231**	**1,837**	**2,095**

Capital structure	M
Ordinary shares	2,715
Warrants	126
Options	30
Fully diluted	**2,871**

Substantial Shareholders	%
OCP Asia	15.9%

BLAIR ATHOL MINING TITLE GRANTED

Blair Athol transfer completed

- In May 2017 TER satisfied the outstanding conditions required for the transfer of the Blair Athol mining title, which included water, offtake, and access agreements, as well as providing $13.5M that was required as security during the title transfer.
- Mining title to Blair Athol transferred to TER on 16 May and the completion of the acquisition became effective 31 May, approximately a month later than we had previously assumed.

We now expect first shipment in August 2017

- We expect the company to mobilise operations in June, with mining to have commenced by beginning July. We now expect first shipments in August, two months later than we had previously forecast given the lengthy government approval process for title transfer.

Title triggers access to approximately $24M of working capital facilities

- Following grant of title, TER can now access its $11.6M working capital facility provided through the Blair Athol mining contractor Link Mining. $4.1M of the facility is for general working capital and $7.5M for upfront mining and beneficiation costs.
- An additional US$9M ($12M) also becomes available from an existing US$12M working capital facility from another provider on production milestones (TER had already drawn down US$3M, or $4M, of this). While TER has not disclosed the milestones underpinning the US$9M draw down, we expect it will occur in stages over coming weeks.

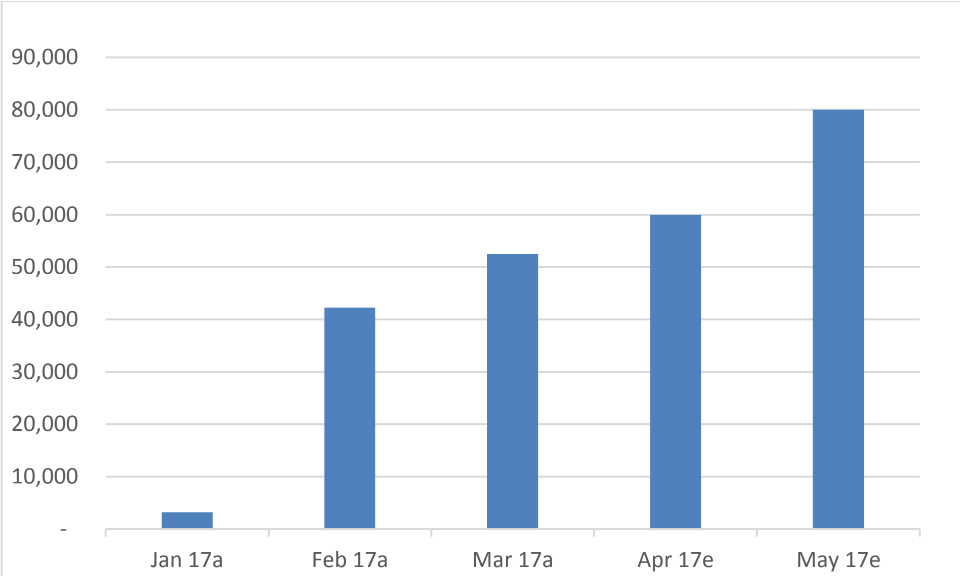
MONGOLIA RAMPING UP MONTH-BY-MONTH

- TER released its March quarterly in April, which showed operating cashflows of -$77k and negligible investing cashflow (capex) of -$36k. The quarterly gave some insight into the Mongolian BNU mine, although we caution reading too much given that the March quarter still encompassed ramping up of production and pre-strip removal of overburden, in contrast to steady-state operations. To exacerbate this, the period comprised swings in the seaborne export coking coal price.
- While strip ratio averaged 24x for the quarter, it was 17x for February-March due to the company building coal in-pit inventory. However we anticipate the strip to fall markedly in the current quarter as with most of overburden removed, TER will be moving significantly more coal relative to waste vs the March quarter. Longer term, we expect strip ratio to average 10x. We estimate total material moved was 5.5Mt for the quarter, with 2.3Mt moved in March. This is in-line with the target BNU forecast of 5.6Mt material per quarter, or 2Mt per month, which is positive.

Coal production ramping up

- Coal production continues to ramp up. 3kt was produced in January, 42kt in February, and 52kt in March for a total of 98kt produced in the quarter, with 97kt shipped. The company stated that a further 60kt was shipped in April bringing year-to-date (YTD) total to end of that month to 0.16Mt. In mid-May TER mentioned 0.2Mt had been shipped to YTD, implying 40kt was shipped in half a month, equivalent to a monthly rate of 80kt or almost 1Mt annualised rate. This gives us confidence that BNU is ramping up to the 1.5Mtpa rate. However, we now anticipate production will fall short of our previous expectation of 0.5Mt product coal for FY17e, due to ramp up taking longer than we expected. We now forecast 0.3Mt for FY17e.

Figure 1: TER Monthly Coal Shipments (t) - BNU



Source: Company; Foster Stockbroking estimates.

- TER reported $5.9M in receipts for the quarter. From shipments, this implies a prima facie average realised mine gate price of US$46/t for the raw product. However we caution against giving too much import to this figure for a number of reasons:
  - There was an amount of coal that was delivered for which receipts were not received by end March, implying the realised price to be higher.
  - We understand that a higher than expected proportion of coal sold was lower value thermal, being a by-product of the overburden stripping process through the oxidised zones. This is especially significant, given the marked price differential between BNU coking and thermal coal. We expect this skew to reverse in the current quarter.
  - Finally, it is important to remember that the price TER is receiving has been netted back for washing and freight. As an example, we estimate this net back to be US$24/t, implying a benchmark price for TER's total product of US$70/t. Assuming our long-term split of 82% coking: 18% other coal, it further implies realised net back price of US$82/t for coking coal. This price could be markedly higher if – as we suspect – the proportion of coking coal in product was less. Obviously we need to see more colour, especially on BNU product breakdown, before reading too much.
- In terms of operating cashflow payments, TER expended -$5.9M. There was no breakdown between that associated for BNU and that for other Mongolia, Australia, or corporate, with the exception that -$3.0M was for production. We conservatively estimate $4.8M in costs for Mongolia, which would including allocated site and mine development costs. This would equate to US$37/t per coal shipped. Again, these our estimates and inferences only, and no doubt made doubly more difficult as BNU was in ramp up mode and building in-pit inventory for which revenue benefits will flow later.

- Overall, we think unit pricing and production costs were likely both lower than we had expected, but this should offset when coal inventory is converted into sales.

CHPP plant to be commissioned end 1H FY18e – to provide significant benefits

- TER expects construction of its CHPP to begin end FY17e, and we expect the wash plant to be commissioned by mid-FY18e. We expect the benefits of its own CHPP to be material for TER. These include:
    - **Providing an uplift in yields** of 3% to 6% given it is designed to meet specific characteristics of BNU coal.
    - **Allow TER to claim 10% VAT against operating costs.**
    - **Reducing trucking costs for Kingho**, as the wash reject material is not hauled to the China-Mongolia border. This would reduce quantum of net back for pricing of BNU coal.
    - **Increase in margin.** We understand that the CHPP could generate in order of US$1M per month of additional cash margin, providing a 12 month payback for TER.

New pit being developed as part of multi-pit strategy

- TER recently started development of BNU Pit 3 as it continues to mine Pit 2 as part of the multi-pit strategy. By operating more than one pit at once, TER mitigates the impact of variable geology encountered in the Noyon Basin by moderating unit cost, operating efficiencies, and coal quality.
- The commencement of Pit 3, located alongside Pits 1 and 2, entails progressive mining of the coal sub crops of the Basin along the 50km strike that TER holds under mining licence. It provides the foundation for the company to eventually push production above 1.5Mtpa.

GETTING SOME DEBT RELIEF

- In its March quarterly TER stated it expected outgoing cashflows associated with interest and principal to be -$7.8M for the current (June) quarter. This is less than we had expected, given the following payments were due end June:

    - Principal (A$16M) and interest (A$3.4M) of the US$12M Super Senior Note A; and

    - 50% of the interest on the Eurobond (A$9.9M).

- These payments would have amounted to $29M. However, we understand that TER has been able to refinance its debt, although the company has made no announcement. We understand it has received debt holder support to defer most of the interest and principal payments, giventhe unforeseen lengthy delay in completing the Blair Athol acquisition and longer ramp up time in Mongolia. The support is not altogether surprising, given the debt holders previous demonstration of assistance. It also avoids the dilutive alternative of an equity raising.
- We now assume that only the interest ($3.4M) of the Super Senior Note A will be paid end FY17e, and the principal to be repaid by end FY18e. We also expect the 50% of interest due to be paid on the Eurobond will be pushed out to end FY18e from end FY17e.

- Another point to note is that there has been market concern over Noble's financial health. If anything, we expect this would strengthen TER's negotiating position should it wish to further refinance debt.

BOARD STRENGTHENED WITH EXPERIENCE

- Since our last report Mr Wal King was appointed to the TER board in May 2017. We see this as a positive given Mr King's previous experience as CEO of Leighton Holdings (now CIMIC) during 1987-2010, which encompassed providing contract coal mining, including both in Mongolia and Australia.
- In March 2017 Mr James Soorley was appointed as a Non-Executive Director. He brings considerable Queensland business and government experience, including currently being Chairman of CS Energy, a major supplier of the state's electricity.

UPGRADE TO THERMAL COAL PRICES

- We have revised up or thermal coal price forecasts to be more in-line with consensus. Our new price estimates are up 10%-17% over our prior forecasts. Our long-term price has increased to US$68/t from US$61/t.

Figure 2: Thermal Coal Price Forecasts – US$/t

Y/e Jun	FY17e	FY18e	FY19e	FY20e	FY21e	LT
New	**71**	**74**	**68**	**66**	**67**	**68**
Old	*62*	*63*	*61*	*60*	*60*	*61*
Chng %	*15%*	*17%*	*11%*	*10%*	*12%*	*11%*

Source: Foster Stockbroking estimates. All figures are nominal.

EARNINGS CHANGES – DOWNGRADE TO FY17e, UPGRADE TO FY18e

- We have amended our earnings forecasts for TER, the key changes being:
  - **First shipments from Blair Athol in August (previous June), hence we expect no shipments from the mine in FY17e.** Our previous assumption was 0.1Mt coal shipped FY17e. Our Blair Athol coal production forecasts for FY18e onwards remain unchanged at 2.0Mtp.a.
  - **Production and shipments from BNU reduced to 0.31Mt product coal for FY17e, vs previous forecast of 0.50Mt**. We expect shipments in the 4Q FY17e to be 0.21Mt, which would bring total for FY17e to 0.31Mt. We expect BNU's production rate to hit 1.5Mtpa by July 2017, and our forecast production of 1.5Mt coal in FY18e remains unchanged.

Figure 3: TER Coal Production (Mt)

Y/e Jun	2017e	Old	Chng	2018e	Old	Chng
Mongolia	0.3	0.5	-38%	1.5	1.5	0%
Australia	0.0	0.2	-100%	1.7	2.0	-15%
ROM coal	**0.3**	**0.7**	**-56%**	**3.2**	**3.5**	**-9%**
Coking	0.3	0.3	0%	1.3	1.3	0%
Thermal	0.0	0.1	-100%	1.7	1.7	0%
Other (middlings)	0.0	0.1	-100%	0.2	0.2	0%
Product coal	**0.3**	**0.5**	**-38%**	**3.2**	**3.2**	**0%**

Source: Foster Stockbroking estimates.

- **Higher realised prices for Blair Athol,** due to our increase in thermal price forecasts.
- **We have pulled back our realised BNU coal price and unit costs both by ca. US$12/t for FY17e and 1H FY18e.** We make no significant changes to price or cost assumptions for 2H FY18e onwards, when we expect TER commissioning its own CHPP to improve its realised coal pricing.
- **Utilisation of tax losses.** Given the longer than expected ramp up, we expect TER to utilise tax losses against profits in Mongolia in FY18e.
- **Amortisation of capitalised interest.** We have amortised capitalised interest across FY17e to FY21e, which we previously had not in our model.

FY17e downgraded on lower production, FY18e upgraded on higher prices for Blair Athol

- The net effect of our changes is that we have downgraded our forecast FY17e loss to -$34.5M (previously -$6.6M), mostly due to the downgrade to both Mongolian and Blair Athol coal production.
- For FY18e we have upgraded our forecast NPAT to $106M (prior $64M), mostly due to an increase in Blair Athol earnings from our thermal coal price upgrades, and to a lesser extent utilisation of Mongolian tax losses against profits.
- Our FY19e NPAT forecast has remain unchanged at $38M, with the increase in our Blair Athol earnings offset by our assumption of higher amortisation expense of capitalised interest.

Figure 4: TER Profit & Loss $M

Y/e June	**2017e**	**Old**	**Chng**	**2018e**	**Old**	**Chng**	**2019e**	**Old**	**Chng**
BNU	24.7	*67.2*	-91%	205.0	*224.3*	-9%	183.0	192.2	-5%
Blair Athol	0.0	*7.6*	-100%	153.9	*133.7*	15%	143.2	129.3	11%
Sales revenue	**24.7**	***74.9***	**-67%**	**358.8**	***358.0***	**0%**	**326.2**	**321.4**	**1%**
Cash costs	24.3	*51.3*	-53%	209.1	*239.6*	-13%	226.3	236.4	-4%
BNU	4.8	*29.4*	-84%	108.5	*105.1*	3%	78.3	75.8	3%
Blair Athol	0.0	*-1.8*	nm	45.9	*17.3*	165%	26.1	13.2	98%
Other	-0.5	*0.0*	nm	-0.5	*0.0*	nm	-0.5	0.0	nm
Corporate	-4.0	*-4.0*	0%	-4.1	*-4.0*	2%	-4.1	-4.0	2%
EBITDA	**0.3**	***23.6***	**-99%**	**149.7**	***118.4***	**27%**	**99.8**	**85.0**	**17%**
Depr and amort	32.2	*14.9*	116%	25.3	*16.0*	58%	25.3	16.0	58%
BNU	2.0	*24.0*	-92%	103.1	*99.7*	3%	72.9	70.4	4%
Blair Athol	-1.1	*-2.9*	-63%	43.7	*15.1*	189%	24.0	11.0	118%
Other	-0.5	*0.0*	nm	-0.5	*0.0*	nm	-0.5	0.0	nm
Corporate	-4.0	*-4.0*	0%	-4.1	*-4.0*	2%	-4.1	-4.0	2%
Debt amort	-28.2	*-8.4*	236%	-17.8	*-8.4*	111%	-17.8	-8.4	111%
EBIT	**-31.9**	***8.7***	**nm**	**124.4**	***102.4***	**22%**	**74.5**	**69.0**	**8%**
Net interest exp	2.6	*14.9*	-83%	13.1	*13.6*	-4%	11.5	13.3	-14%
PBT	-34.5	*-6.2*	nm	111.3	*88.8*	25%	63.0	55.7	13%
Tax exp.	0.0	*0.4*	nm	4.8	*24.9*	-81%	25.4	17.6	44%
Minorities loss	0.1	*0.0*	nm	0.1	*0.0*	nm	0.1	0.0	nm
NPAT	**-34.5**	***-6.6***	**nm**	**106.4**	***64.0***	**66%**	**37.5**	**38.1**	**-1%**
EPS diluted $	**-0.012**	***-0.019***	**nm**	**0.037**	***0.022***	**nm**	**0.013**	**0.013**	**0%**

Source: Foster Stockbroking estimates.

VALUATION

Risked NPV increases to $0.109/share from $0.105/share

- Our valuation of TER has marginally increased to $0.109/share (previously $0.105/share), mostly due to an increase in our Blair Athol valuation. This is partially offset by reduced FY17e production from delay in Blair Athol restart and longer BNU ramp up.
- We still forecast TER will be able to repay its Eurobond debt and capitalised interest due 2021, with the upgrade in Blair Athol earnings from FY18e onwards offsetting the impact of our cut to earnings in FY17e.

Figure 5: TER Valuation

Project	A$M	Unrisked A$/share	A$M	Risked A$/share	Risk Factor
South Gobi (incl BNU)	539	0.159	381	0.128	71%
Blair Athol	201	0.059	163	0.055	81%
Mid Gobi	4	0.001	1	0.000	20%
Northern Galilee	39	0.011	8	0.003	20%
Springsure	4	0.001	1	0.000	20%
Other Queensland	5	0.001	1	0.000	20%
Other Mongolia	5	0.001	1	0.000	20%
Indonesia option	71	0.021	14	0.005	20%
Corporate	-36	-0.011	-26	-0.009	74%
Net cash (debt) end FY17e	-223	-0.066	-223	-0.075	100%
Cash from options & warrants	4	0.001	4	0.001	100%
Equity	**613**	**0.181**	**325**	**0.109**	**53%**
Ordinary shares M	2,715			2,715	100%
Options & warrants M	156			156	100%
Shares assumed for Indonesia acq. M	517			103	20%
Diluted shares used in valn. M	3,388			2,975	88%

Source: Foster Stockbroking estimates. .

Significant discount to peer multiples – but catalysts now on the horizon

- On our FY18e and FY19e estimates TER is trading on a 0.8x and 2.2x P/E, and EBITDA multiple of 2.2x and 3.2x, both marked discounts to the average for the ASX mining sector of approximately 13.8x and 10.2x P/E, and 5.2x and 4.0x EBITDA. We think this is likely due to the company's high gearing, as well as the need to demonstrate a profitable track record at both South Gobi and Blair Athol.
- Given the ramping up of BNU, recent completion of the Blair Athol acquisition, and supportive coal prices, we believe TER is now perfectly placed to demonstrate its ability to generate earnings.

RECOMMENDATION – MAINTAIN BUY, 12MTH PT $0.110/SHARE (PRIOR $0.105)

- We maintain our Buy recommendation on TER, slightly lifting our 12-month price target to $0.110/share from $0.105/share, in-line with our revised valuation.
- We envisage a number of major catalysts for the share price ahead, especially now as both assets are under TER's ownership and both are in ramp up stage of production. These include:
  - Restart of production of Blair Athol;
  - First shipment from Blair Athol;
  - Ramping up of coal production from Mongolia and Blair Athol;
  - Demonstrated profitability form both BNU and Blair Athol;
  - Increase in coal prices;
  - Offtake agreements;
  - Indonesian coal acquisition;
  - Reduction in net debt; and
  - Reserve and resource upgrades.

APPENDIX

Figure A1: South Gobi Project Cashflows – Initial Five Years

Y/e Jun		2017e	2018e	2019e	2020e	2021e
Assumptions						
Coking coal benchmark	US$/t	154	139	120	115	115
Thermal coal benchmark	US$/t	79	74	68	66	67
A$	US$	0.75	0.74	0.74	0.74	0.74
ROM	Mt	0.31	1.50	1.50	1.50	1.50
HCC product	Mt	0.26	1.26	1.26	1.26	1.26
Other product	Mt	0.05	0.24	0.24	0.24	0.24
Total product	**Mt**	**0.31**	**1.50**	**1.50**	**1.50**	**1.50**
HCC shipped	Mt	0.30	1.26	1.26	1.26	1.26
Other shipped	Mt	0.06	0.24	0.24	0.24	0.24
Total shipped	**Mt**	**0.36**	**1.50**	**1.50**	**1.50**	**1.50**
Realised HCC price	US$/t	123	119	106	101	100
Realised other price	US$/t	9	9	9	9	9
Realised average, mine gate	**US$/t**	**51**	**101**	**90**	**86**	**86**
Cashflows:						
Revenues (A)		**18.6**	**151.7**	**135.4**	**129.6**	**128.5**
Unit costs per product						
Mining	US$/t	42.5	33.0	33.0	33.0	33.7
Processing*	US$/t	0.0	5.0	10.0	10.0	10.2
Site & corp alloc	US$/t	0.6	0.6	0.6	0.6	0.6
Marketing	US$/t	0.5	3.8	3.4	3.2	3.2
C1	US$/t	43.6	42.4	47.0	46.9	47.7
Royalties	US$/t	3.6	5.2	4.6	4.4	4.4
C2	US$/t	47.2	47.6	51.6	51.3	52.1
Total cash costs	US$M	15.0	71.4	77.5	76.9	78.2
EBITDA	**US$M**	**3.6**	**80.3**	**58.0**	**52.6**	**50.3**
	A$M	**4.8**	**108.5**	**78.3**	**71.1**	**68.0**
All in sustaining costs (C2+sust capex)	**US$/t**	**54.7**	**49.1**	**53.2**	**52.8**	**53.7**
All in sustaining costs	US$M	16.8	73.7	79.8	79.2	80.5
Cash margin after AISC	US$/t	-3.5	52.0	37.1	33.6	32.0
Project capex (C)	US$M	2.5	9.0	0.0	0.0	0.0
Chng in WC (D)	US$M	3.9	24.4	6.0	7.4	-0.2
Tax expense (E)	US$M	0.0	3.5	13.5	12.2	11.6
Net free cashflow (A-B-C-D-E)	**US$M**	**-4.7**	**41.0**	**36.1**	**30.7**	**36.6**
	A$M	**-6.2**	**55.4**	**48.8**	**41.5**	**49.5**

**Processing in FY17e undertaken by third party. From mid-FY18e undertaken at mine.*

Source: Foster Stockbroking estimates.

Figure A2: Blair Athol Cashflows – First Five Years

Y/e Jun		2017e	2018e	2019e	2020e	2021e
Thermal coal benchmark	US$/t	71	74	68	66	67
Discount	%	10%	10%	10%	10%	10%
Realised thermal price	**US$/t**	**64**	**67**	**61**	**59**	**60**
A$	US$	0.75	0.74	0.74	0.74	0.74
ROM	Mt	0.0	1.7	2.0	2.0	2.0
Thermal coal produced	**Mt**	**0.0**	**1.7**	**1.7**	**1.7**	**1.7**
Thermal coal shipped	**Mt**	**0.0**	**1.7**	**1.7**	**1.7**	**1.7**
Revenues (A)	A$M	0.0	153.9	143.2	139.0	141.1
Unit cost per product						
Mining	A$/t	-	20.8	24.2	24.2	24.7
Processing	A$/t	-	8.8	10.3	10.3	10.5
Rehab	A$/t	-	1.1	1.2	1.2	1.2
Site	A$/t	-	3.9	3.9	3.9	4.0
Port and rail	A$/t	-	20.7	20.7	20.7	21.1
Marketing	A$/t	-	1.5	1.5	1.5	1.5
C1	A$/t	-	56.9	61.8	61.8	63.1
Royalties	A$/t	-	6.3	5.8	5.6	5.7
C2	**A$/t**	**-**	**63.2**	**67.6**	**67.4**	**68.8**
Total cash costs	A$M	-	108.0	117.0	116.8	119.0
EBITDA	A$M	0.0	45.9	26.1	22.2	22.0
AISC (C2+sust capex)	**A$/t**	**-**	**63.2**	**67.6**	**67.4**	**68.8**
All in sustaining costs (B)	A$M	0.0	108.0	117.0	116.8	119.0
Cash margin after AISC	A$/t	-	26.8	15.1	12.8	12.7
Project capex (C)	A$M	0.0	0.0	0.0	0.0	0.0
Chng in WC (D)	A$M	6.6	2.8	-1.2	-0.2	0.0
Tax expense (E)	A$M	0.0	0.0	7.2	6.8	5.9
Net free cashflow (A-B-C-D-E)	**A$M**	**-6.6**	**43.1**	**20.1**	**15.6**	**16.1**

Source: Foster Stockbroking estimates.

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Review disclosure: The report was authored by the analyst named on the front page of the report and was reviewed and checked by Darren Odell, Research Analyst.

Disclosure review. All the disclosures in the report have been reviewed and checked by Mark Hinsley, Head of Corporate.