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# ASX Coal Sector

## Implications of recent M&A

Stock	Price	Target	Rating
BND	\$0.62	\$1.80	Spec Buy
AKM	\$0.44	\$1.16	Spec Buy
XAM	\$0.40	\$0.64	Spec Buy

**Charts**



Source: IRESS



Source: IRESS



Source: IRESS

### Appetite for coal assets continues

Recent coal sector acquisitions involving ASX listed or Australian based targets highlight the continued appetite for coal assets by Asian investors. The deals include: Yanzhou's (China) \$297m move on Wesfarmers' Premier Coal assets which produce around 3.5Mtpa thermal coal for domestic power generation and industrial purposes; GVK Group's (India) \$1.3b purchase of selected Hancock Coal Galilee Basin thermal coal projects and infrastructure; and Banpu's \$600m bid for Mongolian met and thermal coal developer Hunnu Coal Ltd.

These recent deals have implications for the coal companies we have under coverage: Bandanna Energy (BND); Aspire Mining (AKM); and Xanadu Mines (XAM).

### BND: Deals value South Galilee JV at \$0.20-0.50/sh

The GVK/Hancock deal has implications for BND's 1.2Bt South Galilee JV. We estimate that applying the GVK/Hancock EV/Resource metric to the South Galilee JV yields a value of \$0.20/sh to BND for this asset. Applying the August 2010 Linc/Adani deal metric can imply a value of >\$0.50/sh for BND's South Galilee interests. Our BND valuation of \$1.94/sh includes only \$0.16/sh for BND's South Galilee assets.

### AKM & XAM: Positioned to benefit from Mongolian interest

AKM and XAM are well positioned to participate in consolidation of the Mongolian minerals industry. Applications for exploration permits in Mongolia are closed and there is significant uncertainty as to when the process will be reopened. At present, the only avenue to build a Mongolian asset base is via acquisition and farm-in deals. Recent deals highlight the appetite for Mongolian based minerals assets. In July 2011, Guildford Coal announced it had increased its stake in Mongolian subsidiary Terra Energy LLC, which holds met and thermal coal prospects in the South Gobi region. In early September 2011, Banpu made its bid for Hunnu.

### XAM: Upside to our thermal coal resource value estimates

Our \$0.64/sh valuation on XAM attributes a conservative EV/Resource valuation of \$0.06/t for the company's sub-bituminous coal assets: Khar Tarvaga 327Mt resource and Galshar 200Mt resource target. There is upside risk to this valuation. Valuing the assets at EV/Resource of \$0.15/t (discount to Hunnu US\$0.71/t deal in recognition of sub-bituminous coal quality), would increase our XAM valuation by 40% to \$0.89/sh.

### AKM: Value premium reflects resource quality and potential

AKM is currently trading at around EV/Resource of \$1.00/t, versus the Banpu/Hunnu deal at US\$0.71/t and its peer group (ASX listed developers) trading at \$0.43/t. However, this premium is a reflection of the Ovoot Project's coal quality (high quality coking coal) and size potential (currently 330Mt resource with upside). Our AKM valuation of \$1.16/sh is based on the NPV of the Ovoot project and values the current resource at \$2.70/t. We anticipate a re-rating toward this metric as the project moves to development (Stage 1, up to 1Mtpa from 2012).

# Recent coal M&A

**Table 1 - Coal M&A comps table**

Bidder	Target	Date	Interest	Coal type	Deal status	Resource Mt (100%)	EV/ Resource US\$/t
CVRD	AMCI Holdings Australia	Feb-07	100%	SHCC	Completed	286	2.76
Xstrata	Gloucester Coal (GCL)	Apr-07	100%	SHCC	Rejected	91	3.67
SK Corp & KORES	Angus Place (CEY)	Jun-07	50%	Thm	Completed	243	0.55
Sojitz Corp	Moolarben (FLX)	Jul-07	10%	Thm	Completed	533	1.45
CITIC Resources	Macarthur Coal (MCC)	Jul-07	8%	PCI	Completed	1,130	1.02
CRC	Yarabee (FLX)	Jul-07	49%	PCI, Thm	Cancelled	25	4.73
CVRD	Belvedere project (AQA)	Jul-07	51%	HCC	Completed	2,700	0.07
Xstrata	Tahmoor (CEY)	Sep-07	86%	HCC	Completed	193	2.82
Xstrata	Anvil Hill (CEY)	Sep-07	100%	Thm	Completed	500	0.71
Tata Steel Ltd	Riverdale Mining Ltd (RIV)	Nov-07	35%	HCC&Thm	Completed	1,225	0.21
Xstrata	Resources Pacific (RSP)	Dec-07	100%	Thm	Completed	225	3.81
Macarthur Coal	Custom Mining Ltd	Dec-07	100%	PCI	Completed	70	3.48
Anglo American	Foxleigh, QLD mine	Dec-07	70%	PCI	Completed	290	3.05
ArcelorMittal	Macarthur Coal (MCC)	May-08	20%	PCI	Completed	1,200	3.42
Posco	Macarthur Coal (MCC)	Jun-08	10%	PCI	Completed	1,200	3.42
CITIC Resources	Macarthur Coal (MCC)	Jul-08	3%	PCI	On Market	1,200	3.01
Cleveland-Cliffs	Alpha Natural Resources	Jul-08	100%	HCC, Thm	Cancelled		
BMA	New Saraji (NHC)	Jul-08	100%	HCC	Completed	690	3.48
Teck Cominco	Fording Canadian	Jul-08	100%	HCC	Completed	4,706	2.94
J-Power & EDFT	Narrabri JV (WHC)	Aug-08	15%	Thm	Completed	439	3.59
Mineralogy P/L	Waratah Coal (WCI TSX)	Oct-08	100%	Thm	Completed	4,300	0.02
Arch Coal	Jacobs Ranch (RIO)	Mar-09	100%	Thm	Completed		
Noble Energy Ltd	Gloucester Coal (GCL)	May-09	100%	SHCC, Thm	Completed	209	1.53
Yanzhou	Felix Resources (FLX)	Aug-09	100%	SSCC, Thm	Completed	1,375	1.96
Macarthur Coal	Gloucester Coal (GCL)	Dec-09	100%	SHCC, Thm	Cancelled	164	3.56
Peabody Energy	Macarthur Coal (MCC)	May-10	100%	PCI, Thm	Rejected	1,226	2.70
WISCO	Zambeze Project (RIV)	Jun-10	40%	HCC	Completed	9,045	0.22
WISCO	Riverdale Mining Ltd (RIV)	Jun-10	8%	HCC	Completed	8,087	0.19
Banpu	Centennial Coal (CEY)	Jul-10	100%	Thm	Completed	2,072	1.15
Cockatoo Coal	Anglo Surat Basin assets	Jul-10	51%	Thm	Completed	606	0.29
Cockatoo Coal	Anglo Sutton Forest	Jul-10	30%	SHCC	Completed	115	0.54
Cockatoo Coal	KEPCO (Bylong, ex-Anglo)	Jul-10	30%	Thm	Call option	423	1.07
Gloucester Coal	Middlemount JV	Aug-10	20%	SHCC, PCI	Completed	123	3.61
Adani Enterprises	LNC Galilee Basin	Aug-10	100%	Thm	Completed	7,800	0.06
ITOCU	Maules Creek (AZT)	Dec-10	15%	PCI-Thm	Completed	610	3.69
New Hope Corp	Northern Energy Corp (NEC)	Feb-11	100%	HCC, Thm	Completed	565	0.38
Rio Tinto	Riversdale Mining Ltd (RIV)	Feb-11	100%	HCC&Thm	Completed	11,705	0.31
New Hope Corp	Northern Energy Corp (NEC)	Aug-11	100%	HCC, Thm	Pending	565	0.48
Peabody/ArcelorMittal	Macarthur Coal (MCC)	Aug-11	100%	PCI	Pending	1,717	2.80
Rio Tinto	Coal and Allied (CNA)	Aug-11	24.3%	HCC&Thm	Pending	1,989	5.61
Glencore	Optimum Coal (OPT.JSE)	Aug-11	85.7%	Thm	Pending	876	1.33
DADI Engineering Group	Metrocoal (MTE)	Sep-11	15.0%	Thm	Completed	1,016	0.06
GVK Group	Hancock Coal	Sep-11	79-100%	Thm	Pending	7,130	0.18
Banpu Minerals	Hunnu Coal Ltd (HUN)	Sep-11	87.9%	HCC, Thm	Pending	844	0.71
Yanzhou	Premier Coal (WES)	Sep-11	100.0%	Dom Thm	Pending	na	na
Median							1.49
Weighted average							1.20
Weighted average (producers)							3.25
Weighted average (deposits excluding Galilee)							0.45

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

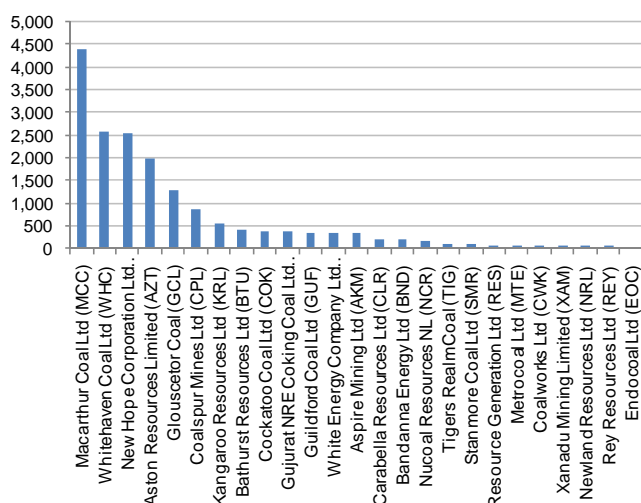
# ASX coals comps tables/charts

Table 2 - Coal comps table

	EV A\$m	Resource Mt	Reserve Mt	EV A\$/t	Key mines/project(s)
Aston Resources Limited (AZT)	2,003	576	280	3.47	Maules Creek (NSW), ramp-up 11Mtpa by 2016, 20% therm, 80% met
Aspire Mining Ltd (AKM)	331	331		1.00	Ovoot Project (Mongolia) targeting 12Mtpa met coal from 2017
Bandanna Energy Ltd (BND)	198	1,261	147	0.16	Springsure Creek (Bowen Basin) with 4Mtpa WICET capacity from 2014
Bathurst Resources Ltd (BTU)	417	73	10	5.72	Buller Coal Project (NZ) ramping up to 2Mtpa hard coking coal
Carabella Resources Ltd (CLR)	203	95		2.13	Mabbin Creek Complex (Bowen Basin) 3-5Mtpa met coal from 2015
Coalspur Mines Ltd (CPL)	878	1,458	260	0.60	Vista Coal Project (Canada) 9Mtpa thermal coal in BFS stage
Coalworks Ltd (CWK)	67	852		0.08	Vickery South JV (50%) 50Mt NSW met & thermal coal prospect
Cockatoo Coal Ltd (COK)	390	1,549	67	0.25	Baralaba (Bowen Basin) ramping up to 3.5Mtpa 90% PCI, 80% COK
Endocoal Ltd (EOC)	38	88		0.43	Orion Downs (Bowen Basin) thermal project requiring WICET Stage 2
Gloucester Coal (GCL)	1,288	279	76	4.62	Gloucester Basin (NSW) and Middlemont (Bowen Basin) mines
Guildford Coal Ltd (GUF)	363				Hughenden Project (Galilee) & recent Mongolian acquisitions
Gujarat NRE Coking Coal Ltd (GNM)	368	647	67	0.57	Wollongong met coal operations targeting 6Mtpa ROM by 2015
Kangaroo Resources Ltd (KRL)	553	4,623	656	0.12	Pakar Thermal Coal Project (East Kalimantan) ramping up to 20Mtpa
Macarthur Coal Ltd (MCC)	4,379	1,761	168	2.49	Bowen Basin met coal ramping up to 9.2Mtpa by FY14 (3.9Mt in FY11)
Metrocoal Ltd (MTE)	78	1,016		0.08	Bundi & Columboola thermal projects (Surat Basin)
New Hope Corporation Ltd (NHC)	2,534	2,048	656	1.24	New Acland mine and Elimatta Project (Brisbane/Surat Basins)
Newland Resources Ltd (NRL)	57				Comet Ridge & Spring Creek prospects (Bowen Basin)
Nucoal Resources NL (NCR)	167	505		0.33	Doyles Creek thermal project (NSW), 2015 ramp-up 4-5Mtpa
Resource Generation Ltd (RES)	80	2,271	539	0.04	Boikarabelo thermal project (South Africa), 15-20Mtpa potential
Rey Resources Ltd (REY)	50	536		0.09	Canning Basin (WA) 2Mtpa thermal 10-year potential from 2014
Stanmore Coal Ltd (SMR)	86	328		0.26	The Range thermal project (Surat), targeting 5Mtpa by 2015
Tigers Realm Coal (TIG)	93	154		0.60	Amaam coking coal project (NE Russia) 80%, 240-380Mt target
White Energy Company Ltd (WEC)	345	684	0	0.50	Coal briquette technology & South Australia Coal resource
Whitehaven Coal Ltd (WHC)	2,582	1,458	295	1.77	Gunnedah basin thermal & met coal mines producing >4mtpa
Xanadu Mining Limited (XAM)	60	327		0.18	Mongolia explorer in met coal JV with Noble Group
<b>Weighted average</b>				<b>0.77</b>	
<b>Weighted average - producers</b>				<b>1.01</b>	
<b>Weighted average - developers</b>				<b>0.43</b>	

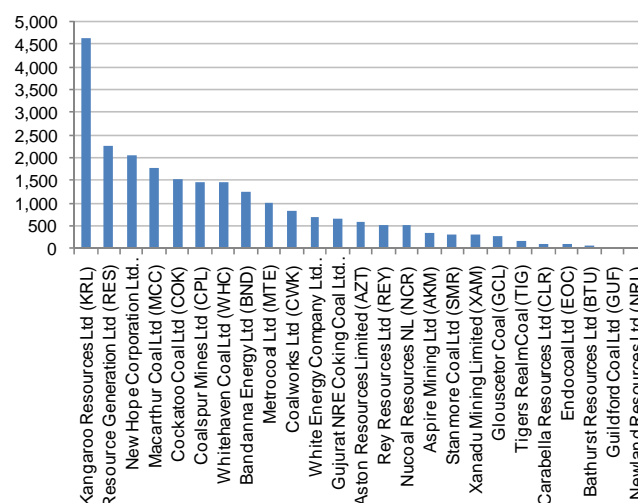
SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Figure 1 - Coal Comps ranked by EV \$m



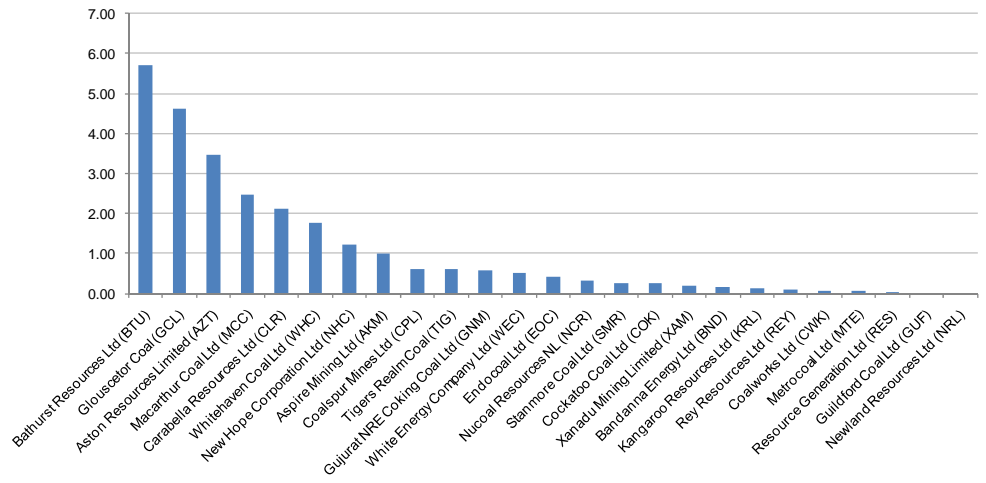
SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Figure 2 - Coal Comps ranked by resource Mt



SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

**Figure 3 - Coal comps ranked by EV/Resource A\$/t**



SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

# M&A implications: Bandanna Energy Ltd

## GVK Group/Hancock Coal: US\$0.18/t resource

On 16 September 2011, GVK Group announced the US\$1.26b acquisition of:

- Up to 79% of the Alpha (Tad's Corner) and Alpha West (Paul's Corner) coal projects, a 3.6Bt thermal coal resource;
- 100% of the Kevin's Corner coal project, 4.3Bt thermal coal resource; and
- 100% of the rail and port project connecting these coal projects to the port of Abbot Point.

The transaction values Hancock Coal's Galilee Basin assets at around US\$0.18/t.

## GVK/Hancock deal values BND's South Galilee JV at \$0.20/sh

Applying the GVK/Hancock metric to BND's 1.2Bt thermal coal joint venture with AMCI (50%), implies a value of \$210m, or \$0.20/sh to BND. However, the GVK deal also includes the right to a significant rail and port infrastructure project.

## Linc/Adani deal implies >\$0.50/sh for BND's South Galilee JV

We estimate that the South Galilee JV could be worth \$560m (\$0.53/sh) by applying the EV/coal quantity multiples from the (August 2010) Linc Energy (LNC) / Adani deal.

**Table 3 - LNC/Adani deal implies up to \$560m value for South Galilee**

	LNC/Adani deal		South Galilee JV (100%)
Location	North Galilee Basin		South Galilee Basin
Resource	7,800Mt		1,178Mt
Measured & Indicated resource	500Mt		373Mt
Reserve estimate (BP est.)	500Mt		400Mt
Note:	Low conversion due to North Galilee location		Higher conversion due to South Galilee Basin location
<b>Value of transaction</b>	<b>A\$700m</b>		
Value / resource	A\$0.09/t	=	A\$0.09/t
Value / indicated resource	A\$1.40/t	=	A\$1.40/t
Value / reserve est.	A\$1.40/t	=	A\$1.40/t
<b>Implied values</b>			
Using value / resource			A\$106m
Using value / indicated resource			A\$289m
<b>Using value / reserve estimate</b>			<b>A\$560m</b>
<b>Value to BND</b>			<b>A\$0.53/sh</b>

SOURCE: BELL POTTER SECURITIES ESTIMATES

In August 2010, LNC announced it had sold its 7.8Bt (7.3Bt inferred, 500Mt indicated) Galilee Basin coal resource to Indian company Adani Enterprises for \$500m plus a \$2/t royalty over 20 years of production. Linc estimated that the resource was capable of producing at 60Mtpa.

We valued this deal at an NPV of \$700m, not the \$1,500m suggested at the time by LNC. Our valuation is based on:

- LNC receiving \$500m plus a \$2/t royalty on 20 years of production;
- mine production of 30Mtpa, not LNC's ambitious 60Mtpa target;
- any mine development at the resource would be at least 8 years away; and
- a real discount rate of 10%.

In comparing the LNC/Adani asset with the South Galilee JV, we have also assumed that:

- Of the 7,800Mt LNC coal resource, 500Mt is upgraded to mineable reserve; and
- Of the 1,178Mt South Galilee JV resource, 400Mt is upgraded to mineable reserve.

Our assumption that the South Galilee JV is capable of upgrading to mineable reserve a larger proportion of its current resource than the LNC/Adani asset is based on:

- the LNC/Adani resource being at much greater depth (~100m) and only amenable to underground mining;
- the South Galilee JV's resource sub-cropping and amenable to open pit mining;
- the LNC/Adani resource is likely to include low grade coal seams which could not be mined upon extraction of the deeper higher grade coal seam;
- the South Galilee JV's resource calculation only includes its lower ash, higher quality coal (D) seams; and
- our understanding that the South Galilee JV's resource has an ash content of less than 10%, versus the LNC/Adani highest grade coal seam being greater than 25% ash.

### We apply more value to BND's Bowen Basin projects

The bulk of our BND valuation is attributed to its Bowen Basin projects. BND has two advanced feasibility stage thermal and met coal projects:

- Dingo West is an open cut, 1Mtpa LV-PCI project with production ramping-up from early 2013; and
- Springsure Creek is a large-scale underground longwall project with the potential to produce 11Mtpa thermal coal and 4Mtpa capacity at WICET Stage 1.

Recent capital raisings have provided enough cash for BND to progress the Dingo West and Springsure Creek projects to definitive feasibility study completion. We forecast that BND could be producing 5Mtpa by FY16 and over 10Mtpa by FY18. Our sum of parts valuation is \$1.94/sh.

**Table 4 - BND sum of parts valuation**

Shares on issue (BP est. post entitlement offer) m		527
Options (in the money) m		9
<b>Total m</b>		<b>536</b>
<b>Sum of parts valuation</b>	<b>\$m</b>	<b>\$/sh</b>
Dingo West	262	0.49
Springsure Creek	363	0.68
Arcturus	139	0.26
South Galilee (\$0.15/t resource)	88	0.16
WICET preference capital	37	0.07
Arcadia/other (\$0.20/t resource)	55	0.10
Corporate	-40	-0.07
Net cash/(debt) (BP est. post entitlement offer and fees)	136	0.25
<b>Total</b>	<b>1,040</b>	<b>1.94</b>

SOURCE: BELL POTTER SECURITIES ESTIMATES

# M&A implications: Xanadu Mines Ltd

## Potential valuation upside from thermal coal re-rating

Our base case XAM valuation conservatively attributes EV/Resource of \$0.06/t to the company's sub-bituminous coal assets: Khar Tarvaga 327Mt resource and Galshar 200Mt resource target. However, we note that:

- the recent Banpu/Hunnu deal valued resources at US\$0.71/t; and
- in May 2011, Hunnu acquired a 70% interest in Rio Tinto's Altai Nuurs Joint Venture with a resource target of 250-500Mt met coal. This transaction valued the average resource target at US\$0.15/t.

Our discounted approach was in recognition of the lower coal quality (sub-bituminous).

## Valuation scenarios: Upside case lifts our valuation by 40%

The following table shows two valuation scenarios applying different EV/Resource multiples to XAM's two sub-bituminous thermal coal assets only:

- Scenario 1 – Base case: applying an EV/Resource valuation of \$0.06/t; and
- Scenario 2 – Upside case: applies a higher EV/Resource valuation of \$0.15/t.

Scenario 2 results in a 40% increase in our valuation to \$0.89/sh.

**Table 5 - Valuation scenarios**

		Scenario 1	Scenario 2
		\$0.06/t for thermal coal assets	\$0.15/t for thermal coal assets
Noble Strategic Alliance (50%)	Assumes 50% of a 500Mt hard coking coal target valued at US\$0.15/t	37.5	37.5
Sharchuluut Uul (100%) \$m	Estimate based on recent copper-gold porphyry transaction	15.0	15.0
Elgen-Zos (earning 80%) \$m	Estimate	7.0	7.0
Khar Tarvaga (100%) \$m	327Mt @ EV/Resource Scenario	19.6	49.1
Galshar (100%) \$m	200Mt @ EV/Resource Target Scenario	12.0	30.0
Other projects \$m	Estimate	5.0	5.0
Enterprise value \$m		96.1	143.6
Cash \$m	at June 2011	23.6	23.6
Valuation \$m		119.7	167.1
Shares m		187.0	187.0
<b>Valuation \$/sh</b>		<b>0.64</b>	<b>0.89</b>
Share price \$/sh		0.40	0.40
<b>Upside to price target %</b>		<b>60%</b>	<b>123%</b>

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

## XAM recap: Portfolio of Mongolian resources and prospects

### 1. Ekhgoviin Chuluu LLC - Noble Strategic Alliance (50%): Hard coking coal focus

A Noble Group (50%) and XAM (50%) Mongolian-based joint venture, Ekhgoviin Chuluu LLC (EC), focussed on acquiring and developing coking coal prospects. The alliance aims to leverage off XAM's in-country experience and geological knowledge. The alliance will also look at acquiring and developing potential iron ore and ferro alloy assets.

### 2. Sharchuluut Uul (100%): Porphyry copper prospect

488km<sup>2</sup> exploration license located 40km northwest of the Erdenet copper-molybdenum deposit. Erdenet has operated since the 1970s, producing copper at rates of around 133ktpa. Mapping has identified a 7km<sup>2</sup> zone of porphyry related alteration and highly



anomalous copper, similar to that at Erdenet. Previous drilling by Japan International Cooperation Agency (JICA) & Metal Mining Agency of Japan (MMAJ) intersected geology consistent with the outer zone of a porphyry copper system.

**3. Elgen Uul – Zos Uul (earning 80%): Epithermal gold prospect**

Geophysics, structural mapping, alteration mapping, and surface geochemistry supports the potential for three shallow level epithermal gold systems.

**4. Galshar (100%): Thermal coal resource target of 200Mt**

Sub-bituminous, high moisture thermal coal resource target of 200Mt. Coal quality has the potential to support local electricity generation or as feed to coal upgrading technologies.

**5. Khar Tarvaga (100%): Thermal coal resource of 327Mt**

Sub-bituminous, high moisture, low energy thermal coal resource. XAM is currently in the process of a mining license application for Khar Tarvaga. Coal quality has the potential to support local electricity generation or as feed to coal upgrading technologies including coal to liquids.

**XAM's key assets**

Figure 4 - XAM's key assets



SOURCE: XAM



Table 6 - Financial summary

PROFIT AND LOSS							BALANCE SHEET						
Year ending 30 Jun	Unit	2010a	2011a	2012f	2013f	2014f	Year ending 30 Jun	Unit	2010a	2011a	2012f	2013f	2014f
Revenue	\$m	1	2	-	45	171	<b>ASSETS</b>						
Expense	\$m	(5)	(6)	(7)	(28)	(101)	Net working capital	\$m	1	19	(0)	5	9
<b>EBITDA</b>	\$m	<b>(4)</b>	<b>(4)</b>	<b>(7)</b>	<b>18</b>	<b>70</b>	Property, plant & equipment	\$m	10	19	178	273	833
Depreciation	\$m	(0)	(1)	-	(1)	(7)	Other	\$m	(0)	1	1	(4)	(8)
EBIT	\$m	(4)	(4)	(7)	16	63	Capital employed	\$m	11	39	180	273	833
Net interest expense	\$m	(0)	(0)	3	1	-	Net debt/(cash)	\$m	(20)	(66)	(22)	60	576
<b>PBT</b>	\$m	<b>(4)</b>	<b>(5)</b>	<b>(4)</b>	<b>17</b>	<b>63</b>	<b>Total equity</b>	<b>\$m</b>	<b>32</b>	<b>105</b>	<b>202</b>	<b>214</b>	<b>258</b>
Tax expense	\$m	-	-	1	(5)	(19)	Weighted average shares	m	358	399	477	527	527
<b>NPAT (reported)</b>	\$m	<b>(4)</b>	<b>(5)</b>	<b>(3)</b>	<b>12</b>	<b>44</b>	FINANCIAL RATIOS						
Abnormal items	\$m	-	-	-	-	-	Year ending 30 Jun	Unit	2010a	2011a	2012f	2013f	2014f
<b>NPAT (adjusted)</b>	\$m	<b>(4)</b>	<b>(5)</b>	<b>(3)</b>	<b>12</b>	<b>44</b>	<b>LIQUIDITY &amp; LEVERAGE</b>						
CASH FLOW							ND / E	%	-64%	-63%	-11%	28%	224%
Year ending 30 Jun	Unit	2010a	2011a	2012f	2013f	2014f	ND / (ND + E)	%	-179%	-171%	-12%	22%	69%
<b>OPERATING CASHFLOW</b>							ASSUMPTIONS - Prices						
Receipts	\$m	0	0	21	36	163	Year ending 30 Jun	Unit	2013f	2014f	2015f	2016f	LT real
Payments	\$m	(4)	(5)	(5)	(20)	(85)	Hard coking coal	US\$/t	235	230	215	204	180
Royalties	\$m	-	-	-	(3)	(12)	Semi-hard coking coal	US\$/t	201	188	182	175	155
Tax	\$m	-	-	1	0	(15)	LV PCI	US\$/t	190	170	170	165	146
Net interest	\$m	1	2	3	1	-	Semi-soft coking coal	US\$/t	160	145	140	135	120
Other	\$m	-	-	-	-	-	Thermal coal	US\$/t	118	113	108	101	90
<b>Operating cash flow</b>	\$m	<b>(3)</b>	<b>(3)</b>	<b>21</b>	<b>14</b>	<b>52</b>	CURRENCY						
Capex	\$m	(4)	(8)	(160)	(96)	(568)	AUD/USD	US\$/A\$	0.98	0.94	0.85	0.85	0.85
<b>FREE CASH FLOW</b>	\$m	<b>(7)</b>	<b>(11)</b>	<b>(139)</b>	<b>(82)</b>	<b>(516)</b>	FINANCIAL RATIOS						
FINANCIAL RATIOS							Year ending 30 Jun	Unit	2010a	2011a	2012f	2013f	2014f
<b>VALUATION</b>							<b>VALUATION</b>						
NPAT (adjusted)	\$m	(4)	(5)	(3)	12	44	NPAT (adjusted)	\$m	(4)	(5)	(3)	12	44
Reported EPS	c/sh	(4)	(1)	(1)	2	8	Reported EPS	c/sh	(4)	(1)	(1)	2	8
EPS growth	%	na	na	na	na	271%	EPS growth	%	na	na	na	na	271%
PER	x	-16.5x	-56.9x	-117.0x	27.6x	7.4x	PER	x	-16.5x	-56.9x	-117.0x	27.6x	7.4x
DPS	c/sh	-	-	-	-	-	DPS	c/sh	-	-	-	-	-
Franking	%	0%	0%	0%	0%	0%	Franking	%	0%	0%	0%	0%	0%
Yield	%	0%	0%	0%	0%	0%	Yield	%	0%	0%	0%	0%	0%
FCF/share	c/sh	(2)	(3)	(29)	(16)	(98)	FCF/share	c/sh	(2)	(3)	(29)	(16)	(98)
FCF yield	%	-3%	-4%	-47%	-25%	-158%	FCF yield	%	-3%	-4%	-47%	-25%	-158%
EV/EBITDA	x	(50)	(49)	(26)	11	3	EV/EBITDA	x	(50)	(49)	(26)	11	3
<b>PROFITABILITY RATIOS</b>							ASSUMPTIONS - Production (equity)						
EBITDA margin	%	-541%	-164%	0%	39%	41%	Year ending 30 Jun	Unit	2013f	2014f	2015f	2016f	2017f
EBIT margin	%	-557%	-187%	0%	36%	37%	Dingo West	Mt	0.3	1.0	1.0	1.0	1.0
Return on assets	%	-12%	-4%	-1%	5%	16%	Springsure Creek	Mt	-	-	2.0	4.1	5.6
Return on equity	%	-13%	-5%	-1%	6%	17%	Arcturus	Mt	-	-	-	-	-
							Total	Mt	0.3	1.0	3.0	5.1	6.6
							Thermal coal	Mt	-	-	2.0	4.1	5.6
							LV-PCI	Mt	0.3	1.0	1.0	1.0	1.0
							Total	Mt	0.3	1.0	3.0	5.1	6.6
RESOURCES							VALUATION						
Resources	Unit	Equity	Meas Indicated	Inferred	Total		<b>Issued capital</b>	Unit					
Dingo West	Mt	100%	-	-	91	91	Shares on issue	m	527				
Springsure Creek	Mt	100%	-	130	245	375	Options (in the money)	m	-				
Arcturus	Mt	100%	-	103	104	206	<b>Total</b>	<b>m</b>	<b>527</b>				
South Galilee	Mt	50%	167	206	805	1,178							
Arcadia	Mt	100%	-	-	273	273							
<b>Total (100%)</b>	<b>Mt</b>		<b>167</b>	<b>438</b>	<b>1,518</b>	<b>2,123</b>	<b>Sum of parts</b>	<b>\$m</b>	<b>\$/sh</b>	<b>\$m</b>	<b>\$/sh</b>	<b>\$m</b>	<b>\$/sh</b>
<b>Total (equity)</b>	<b>Mt</b>		<b>83</b>	<b>335</b>	<b>1,115</b>	<b>1,534</b>	Dingo West	262	0.50	324	0.61	449	0.85
							Springsure Creek	363	0.69	538	1.02	586	1.11
							Arcturus	139	0.26	153	0.29	168	0.32
							South Galilee (\$0.15/t resource)	88	0.17	97	0.18	107	0.20
							WICET preference capital	37	0.07	41	0.08	45	0.08
							Arcadia/other (\$0.20/t resource)	55	0.10	60	0.11	66	0.13
							Corporate	(40)	(0.08)	(40)	(0.08)	(40)	(0.08)
							Net cash/(debt)	136	0.26	22	0.04	(60)	(0.11)
							<b>Total</b>	<b>1,040</b>	<b>1.97</b>	<b>1,194</b>	<b>2.27</b>	<b>1,321</b>	<b>2.51</b>

SOURCE: BELL POTTER SECURITIES ESTIMATES

Table 7 - Financial summary

PROFIT AND LOSS							FINANCIAL RATIOS						
Year ending 30 Jun	Unit	2010a	2011f	2012f	2013f	2014f	Year ending 30 Jun	Unit	2010a	2011f	2012f	2013f	2014f
Revenue	\$m	-	0	-	127	161	<b>VALUATION</b>						
Expense	\$m	(1)	(4)	(8)	(104)	(143)	NPAT	\$m	(1)	(3)	(5)	6	4
<b>EBITDA</b>	\$m	<b>(1)</b>	<b>(4)</b>	<b>(8)</b>	<b>23</b>	<b>18</b>	Reported EPS	c/sh	0	(1)	(1)	1	1
Depreciation	\$m	(0)	-	-	(17)	(15)	PER	x	108.8x	-80.3x	-57.4x	48.1x	66.2x
EBIT	\$m	(1)	(4)	(8)	7	4	DPS	c/sh	-	-	-	-	-
Net interest expense	\$m	0	1	2	2	2	Yield	%	-	-	-	-	-
<b>PBT</b>	\$m	<b>(1)</b>	<b>(3)</b>	<b>(6)</b>	<b>8</b>	<b>6</b>	EV/EBITDA	x	-334.8x	-84.0x	-38.3x	13.7x	17.4x
Tax expense	\$m	-	1	2	(2)	(1)	<b>PROFITABILITY RATIOS</b>						
NPAT of associates	\$m	-	-	-	-	-	EBITDA margin	%	0%	-1969%	0%	18%	11%
<b>NPAT (reported)</b>	\$m	<b>(1)</b>	<b>(3)</b>	<b>(5)</b>	<b>6</b>	<b>4</b>	EBIT margin	%	0%	-1969%	0%	5%	2%
NPAT attributable to MI	\$m	-	-	-	-	-	Return on assets	%	-9%	-11%	-8%	7%	2%
<b>NPAT attributable to AKM</b>	\$m	<b>(1)</b>	<b>(3)</b>	<b>(5)</b>	<b>6</b>	<b>4</b>	Return on equity	%	-11%	-11%	-8%	7%	2%
Abnormal items	\$m	-	-	-	-	-	<b>LIQUIDITY &amp; LEVERAGE</b>						
<b>NPAT (adjusted)</b>	\$m	<b>(1)</b>	<b>(3)</b>	<b>(5)</b>	<b>6</b>	<b>4</b>	Net debt (cash)	\$m	(6)	(15)	(38)	(37)	(87)
							ND / E	%	-42%	-51%	-44%	-41%	-29%
							ND / (ND + E)	%	-71%	-104%	-79%	-68%	-42%
							<b>ASSUMPTIONS - Prices</b>						
							Year ending 30 Jun	Unit	2010a	2011f	2012f	2013f	LT Real
							<b>Coal prices</b>						
							Hard coking	US\$/t	146	247	270	235	181
							Semi-hard coking	US\$/t	119	209	234	201	155
							LV PCI	US\$/t	110	196	225	190	147
							Semi-soft coking	US\$/t	102	190	205	160	121
							Thermal	US\$/t	77	106	128	118	91
							<b>CURRENCY</b>						
							AUD/USD	US\$/A\$	0.87	0.99	1.06	0.98	0.85
							<b>ASSUMPTIONS - Production</b>						
							Year ending 30 Jun	Unit	2010a	2011f	2012f	2013f	2014f
							<b>Production</b>						
							Ovoot - Stage 1	Mt	-	-	-	0.6	0.8
							Ovoot - Stage 2	Mt	-	-	-	-	-
							Total	Mt	-	-	-	0.6	0.8
							<b>Production split</b>						
							Hard coking	%	0%	0%	0%	100%	100%
							Semi-hard coking	%	0%	0%	0%	0%	0%
							LV PCI	%	0%	0%	0%	0%	0%
							Semi-soft coking	%	0%	0%	0%	0%	0%
							Thermal	%	0%	0%	0%	0%	0%
							<b>VALUATION</b>						
							<b>Issued capital</b>	Unit					
							Shares on issue	m	541				
							Options	m	248				
							New issue	m	150				
							<b>Total</b>	<b>m</b>	<b>938</b>				
							Discount rate	%	13%			\$m	\$/sh
							Ovoot - Stage 1					7.20	0.01
							Ovoot - Stage 2					1,337.69	1.43
							Infrastructure					(319.75)	(0.34)
							Other assets					20.00	0.02
							Corporate overheads					(30.00)	(0.03)
							<b>Total</b>					1,015.15	1.08
							Net cash					72.02	0.08
							<b>Equity value</b>					<b>1,087.17</b>	<b>1.16</b>

SOURCE: BELL POTTER SECURITIES ESTIMATES

**Recommendation structure**

**Spec Buy:** Expect >30% total return on a 12 month view but carries significantly higher risk than its sector

**Buy:** Expect >15% total return on a 12 month view

**Accumulate:** Expect total return between 5% and 15% on a 12 month view

**Hold:** Expect total return between -5% and 5% on a 12 month view

**Reduce:** Expect total return between -15% and -5% on a 12 month view

**Sell:** Expect <-15% total return on a 12 month view

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