Bathurst Resources (BTU.AX / BTU AU)

INITIATION

Rating	OUTPERFORM* [V]
Price (18 Jan 11, A$)	0.97
Target price (A$)	1.50[1]
Market cap. (A$mn)	584.53

Projected return:	
Capital gain (%)	54.6
Gross yield (%)	—
Total return (%)	56.3
52-week price range (A$)	0.96 - 0.06

** Stock ratings are relative to the relevant country benchmark.*
[1]Target price is for 12 months.
[V] = Stock considered volatile (see Disclosure Appendix).

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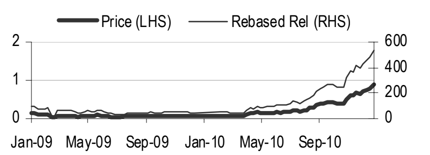
Initiate with Outperform. BTU is trading at less than half our $2.15/sh "un-risked" valuation

- **We initiate coverage on Bathurst Resources with an OUTPERFORM rating and a $1.50/sh target price set at 0.7x our $2.15/sh DCF valuation. The discount to valuation reflects development risk. Significant value remains despite the recent run in the share price and we see potential for further share price appreciation to our $1.50/sh TP as BTU moves towards first production, possibly in CY2011 (pending approvals).**
- **Low capex and high quality hard coking coal provide compelling project economics.** We believe BTU's Buller project has compelling project economics which supports our valuation case and distinguishes BTU from many ASX listed peers. These two key factors are: 1) Extremely low capex intensity (US$35/t) vs. competing projects that typically range between US$50-US$200/t, low capex significantly reduces equity dilution from financing; and 2) Buller is a high quality hard coking coal product which should attract materially better pricing than lower rank coals (refer Figure 6) – a hard coking coal project like Buller would be expected to generate US$90mn (~US$45/t) and US$200mn (~US$100/t) more revenue than an equivalent 2mtpa PCI or thermal coal project using MarQ 2011 prices (more if we use spot coal prices).
- **Approvals the crucial catalyst and risk.** BTU needs access approvals and environmental approvals to get into production. If approvals are granted in JunQ in line with management expectations, BTU could be in production in CY2011. We believe community support for the project is high and BTU will get necessary approvals, but see potential for delays – in our base modelling we have delayed first production by six months from management forecasts.
- **Our base case DCF valuation for BTU is $2.15/sh** modelled over life-of-mine, (WACC) of 10%. A summary of assumptions used is in Figure 3.

Share price performance



The price relative chart measures performance against the Australia S&P/ASX 200 index which closed at 4834.6 on 18/01/11
On 18/01/11 the spot exchange rate was A$1./US$1

Performance Over	1M	3M	12M
Absolute (%)	47.7	111.0	—
Relative (%)	46.9	107.8	—

Financial and valuation metrics

Year	06/10A	06/11E	06/12E	06/13E
Revenue (A$mn)	—	—	—	180.5
EBITDA (A$mn)	-4.7	-6.8	-6.0	89.3
EBIT (A$mn)	-4.7	-6.8	-6.0	87.7
Net income (A$mn)	-9.3	-6.3	-3.5	60.2
EPS (CS adj.) (Ac)	-4.12	-1.04	-0.58	9.88
Change from previous EPS (%)	n.a.	—	—	—
Consensus EPS (Ac)	n.a.	—	—	—
EPS growth (%)	—	—	—	—
P/E (x)	NM	NM	NM	9.7
Dividend (Ac)	—	—	—	—
Dividend yield (%)	—	—	—	—
P/B (x)	—	—	—	—
Net debt/equity (%)	net cash	net cash	net cash	3.8

*Source: Company data, ASX, Credit Suisse estimates, * Adj. for goodwill, notional interest and unusual items. Relative P/E against ASX/S&P200 based on pre GW in AUD. Company PE calculation is based on displayed EPS Currency*

Figure 1: Financial Summary

Bathurst Resources — BTU.AX

In AUDmn, unless otherwise stated — Year ending 30 Jun

Share Price: 0.97

Profit & Loss	2009A	2010A	2011F	2012F	2013F
Sales revenue	**-**	**-**	**-**	**-**	**180.5**
EBITDA	**-1.2**	**-4.7**	**-6.8**	**-6.0**	**89.3**
Depr. & Amort.	-	0.0	-	-	1.6
Goodwill amort.	-	-	-	-	-
EBIT	**-1.2**	**-4.7**	**-6.8**	**-6.0**	**87.7**
Associates	-	-	-	-	-
Net interest	-	-	-0.4	-2.5	1.8
Reported PBT	**-12.2**	**-9.3**	**-6.3**	**-3.5**	**85.9**
Income tax	-	-	-	-	25.8
Profit after tax	**-1.2**	**-4.7**	**-6.3**	**-3.5**	**60.2**
Minorities	-	-	-	-	-
Preferred dividends	-	-	-	-	-
Normalized NPAT	**-12.2**	**-9.3**	**-6.3**	**-3.5**	**60.2**
Analyst adjustments	-	-	-	-	-
Unusual item after tax	-11.0	-4.5	-	-	-
Reported NPAT	**-23.2**	**-13.8**	**-6.3**	**-3.5**	**60.2**

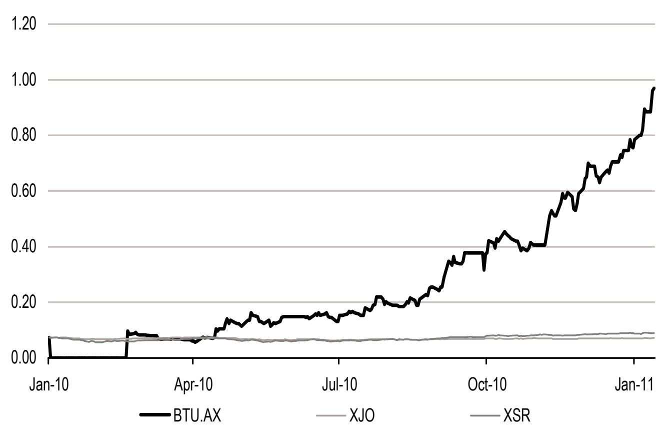
Balance Sheet	2009A	2010A	2011F	2012F	2013F
Cash & equivalents	0.2	8.3	73.7	4.9	73.6
Inventories	-	-	-	-	-
Receivables	0.2	0.4	0.4	0.4	34.5
Other current assets	1.1	0.2	0.2	0.2	0.2
Current assets	**1.5**	**8.8**	**74.3**	**5.5**	**108.3**
Property, plant & equip.	10.0	0.0	35.0	100.0	180.0
Intangibles	-	-	-	-	-
Other non-current assets	9.1	5.8	5.8	5.8	5.8
Non-current assets	**19.0**	**5.8**	**40.8**	**105.8**	**185.8**
Total assets	**20.5**	**14.6**	**115.1**	**111.3**	**294.1**
Payables	4.3	0.5	2.2	2.0	30.0
Interest bearing debt	8.0	-	-	-	80.0
Other liabilities	0.4	-	-	-	14.7
Total liabilities	**12.8**	**0.5**	**2.2**	**2.0**	**124.7**
Net assets	**7.8**	**14.2**	**112.9**	**109.3**	**169.5**
Ordinary equity	7.8	14.2	112.9	109.3	169.5
Minority interests	-	-	-	-	-
Preferred capital	-	-	-	-	-
Total shareholder funds	**7.8**	**14.2**	**112.9**	**109.3**	**169.5**

Cashflow	2009A	2010A	2011F	2012F	2013F
EBIT	-1.2	-4.7	-6.8	-6.0	87.7
Net interest	-0.2	0.0	0.4	2.5	-1.8
Depr & Amort	-	0.0	-	-	1.6
Tax paid	-	-	-	-	-11.1
Working capital	-	-4.1	1.8	-0.2	-6.1
Other	0.4	3.7	1.8	1.0	1.0
Operating cashflow	**-1.0**	**-5.1**	**-2.8**	**-2.8**	**71.3**
Capex	-	-	-35.0	-65.0	-81.6
Acquisitions & Invest	-0.1	-5.8	-1.8	-1.0	-1.0
Asset sale proceeds	-	-	-	-	-
Other	-3.4	-0.2	-	-	-
Investing cashflow	**-3.5**	**-6.0**	**-36.8**	**-66.0**	**-82.6**
Dividends paid	-	-	-	-	-
Equity raised	1.6	21.3	105.0	-	-
Net borrowings	-0.5	-1.6	-	-	80.0
Other	0.9	-	-	-	-
Financing cashflow	**1.9**	**19.6**	**105.0**	**-**	**80.0**
Total cashflow	**-2.6**	**8.5**	**65.4**	**-68.8**	**68.7**
Adjustments	0.5	-0.5	-	-	-
Net Change in Cash	**-2.1**	**8.0**	**65.4**	**-68.8**	**68.7**

Financial Summary		2009A	2010A	2011F	2012F	2013F
Reported NPAT	mn	-23.2	-13.8	-6.3	-3.5	60.2
Credit Suisse NPAT	mn	-12.2	-9.3	-6.3	-3.5	60.2
Credit Suisse EPS	c	-5.4	-4.1	-1.0	-0.6	9.9
EPS growth	%		24.0	74.9	43.8	1,794.8
P/E	x	-17.9	-23.5	-93.6	-166.4	9.8
P/Earnings Growth	x		-1.0	-1.2	-3.8	0.0
Dividend payout ratio	%	0.0	0.0	0.0	0.0	0.0
DPS	c	0.0	0.0	0.0	0.0	0.0
Yield	%	0.0	0.0	0.0	0.0	0.0
Franking	%	100.0	100.0	100.0	100.0	100.0
Operating CFPS	c	-0.5	-2.3	-0.5	-0.5	11.7
P/OCF	x	-214.1	-42.7	-210.8	-211.3	8.3
EV/EBITDA	x	-502.0	-122.8	-86.3	-97.1	6.5
FCF yield	%	-0.5	-2.3	-0.5	-0.5	11.8

Financial Ratios		2009A	2010A	2011F	2012F	2013F
Profitability Ratios						
EBITDA margin	%					49.5
EBIT margin	%					48.6
Return on equity	%	-157.2	-65.4	-5.6	-3.2	35.5
Return on assets	%	-59.4	-63.4	-5.5	-3.2	20.5
ROIC	%	-7.5	-80.5	-17.2	-5.7	34.9
Effective tax rate	%	0.0	0.0	0.0	0.0	30.0
Balance Sheet Ratios						
Net debt	mn	7.8	-8.3	-73.7	-4.9	6.4
Net debt/Equity	%	100.5	-58.4	-65.3	-4.5	3.8
Net debt/Capital	%	50.1	-140.4	-188.4	-4.7	3.6
Interest cover	x			15.4	2.4	48.8
Capex/Sales	%					45.2
Capex/Depn	%		0.0			5,040.7
Working capital/Sales	%					-3.4
Share Items						
Equiv. FPO (period avg.)	mn	224.9	224.9	608.9	608.9	608.9

Share Price Performance — 52wk range: 0.06-0.97



Source: Reuters — Share price as of 19-Jan-11, 18:21

Source: Credit Suisse estimates

Asset overview

Bathurst Resources (BTU) plans to develop the Buller Project which is located in the Buller Coalfield on the west coast of the South Island of New Zealand. The Buller coalfield is one of the country's most significant fields, accounting for approximately half of New Zealand's coking coal.

High quality hard coking coal in NZ

The Buller project area comprises two permits that cover over 10,000 hectares of the Buller Coalfield. Coal from the Buller region is low ash and has high fluidity with the majority of production suitable for export to overseas steel making industries as a hard coking coal. Railway lines adjacent to the coalfields service the entire west coast coal mining industry and connect to both river and deep water ports.

High fluidity coal used for blending in coke making

The project's exploration potential is in the order of 60-90 million tonnes of coking and thermal coal, with current JORC compliant resources of 47.1 million tonnes. Management is planning to be in production by late 2011 pending approvals. Initially this will involve commencing mining at the Escarpment Block. This is planned to be followed in FY2013 by the development of the Deep Creek mine.

Production to commence once approvals have been granted.

Both the Escarpment and Deep Creek blocks are planned to be conventional open cast coal mining operations, utilising diesel powered hydraulic excavators and rear dump trucks to mine and haul the coal to the Coal Preparation Plant (CPP). At full production, the two mining blocks should produce approximately 3mtpa of raw coal which after washing though the CPP would produce 2.0mt of Product (or Saleable) coal. The CPP is to be located on the Denniston Plateau, with the final product transported via a coal transport pipeline to a proposed rail load out on the coastal plain below, at Fairdown. The coal will then be carried via train to the port of either Westport or Lyttelton.

BTU could be in production as early as CY2011

Figure 2: **BTU's Buller Project**

Source: Company presentation

Investment case: Low capex and high quality hard coking coal provides compelling project economics

Compelling project economics reflect unique project characteristics

We believe BTU's Buller project has compelling project economics which supports our valuation case and distinguishes BTU from other ASX listed peers. These two key factors are: 1) extremely low capex intensity; and 2) high quality hard coking coal product.

Buller capex of US$35/t capacity vs. competing projects of US$50/t – US$200/t

(1) **Low capex intensity reduces earnings dilution and supports project economics.** BTU has completed a Definitive Feasibility Study (DFS) which outlines that US$69.2mn will be required for 2mtpa of installed production capacity. This equates to ~US$35/t, which is extremely low compared to competing projects which typically range in capital intensity from US$50/t–US$200/t of installed capacity. The benefit of low capex intensity comes through reduced equity dilution (and hence higher EPS and valuations) when the project is financed.

Low capex reduces equity dilution from financing – shareholders retain upside

- **Why is BTU's capex so much lower than industry standards?** Primarily because the Buller Project can use existing port, rail, roads, water and power infrastructure to bring its project into production. The ability to utilise existing infrastructure is a direct $mn capital saving for BTU. The existing infrastructure was built to service the New Zealand forestry industry which is no longer in operation. With the ability to utilise existing infrastructure, BTU's main capital cost will be the wash plant (US$18.5mn) and slurry pipeline (US$21.5mn). BTU's DFS has been peer reviewed by SRK Consulting which supported the major findings of the DFS including capex requirements.

Spare infrastructure capacity = low capex

(2) **High quality hard coking coal product drives margins, earnings and valuation** The second benefit of BTU's project is the coal quality – for the first five years of production 100% of BTU's product will be high quality hard coking coal. Production from 2016 onwards will incorporate coal from the North Buller mine which will be 80% coking coal and ~20% high quality export thermal coal.

- The majority of new projects being developed by ASX listed independent coal companies are semi-soft coking coal, PCI coal or thermal coal which sell at a significant price discount to hard coking coal. If we were to use the latest coal price settlements as a guide (MarQ 2011, ignoring the impact of recent Qld floods) – the hard coking coal price of US$225/t settled at a US$45/t premium to the PCI coal price of US$180/t and at a US$100/t premium to the current spot thermal coal price of US$125/t.

Hard coking coal generates higher margins – refer BTU margins vs. peers in Figure 6

- Using very simple analysis a hard coking coal project like **Buller should generate US$90mn and US$200mn more revenue than an equivalent 2mtpa PCI or thermal coal project at current prices**. These additional revenues flow straight to the bottom line and drive significantly higher margins, earnings and valuations for hard coking coal projects. If we were to spot hard coking coal prices which are currently >US$250/t due to the flooding in QLD, the likely revenue difference would be greater still.

- **We believe BTU's long term ~A$70-75/t NPAT margin will be roughly double MCC's A$30-35/t.** The best way to demonstrate the importance of coal quality is to look at the impact on margins. We have outlined our forecasts of BTU's $/t margins vs. peers at full production in Figure 6. At our LT coal price forecasts we believe BTU can generate a margin of A$70-75/t, this is more than double our estimate of Macarthur Coal's long term margin of ~A$30-35/t. **So in effect 2mt of BTU's hard coking coal has potential to deliver NPAT equivalent to 4mt of MCC's coal.**

- **Access and environment approvals the catalyst (and risk) for first production.** BTU has financing and is ready to start mine construction and commence first production in CY2011 pending receipt of necessary approvals (discussed in more detail later in the report). Management believes production could commence in 10 weeks once it is on site. The company is waiting on access and environmental approvals which it expects by JunQ of 2011. We see possibility for environmental approvals to take an additional six months if BTU needs to go to environmental court which could push approval into the DecQ of 2011.

Approvals needed for first production – key risk is delay

- **Potential to be in production by end of CY2011.** Management believes the pre-strip would take around 10 weeks once approvals are granted. So if approvals are received in JunQ as planned, management anticipates first production in 2011. The wash plant is being constructed off site and so does not require site access and will not be delayed by approvals. We would see 2011 production as a 'best case' scenario. In our forecasts we assume production from 1-July-2012 (ie – FY13) which allows for some slippage in the environmental approval process. From a valuation perspective, a six-month delay in first production is immaterial to valuation.

Infrastructure capacity is currently available unlike for most Australian peers

- **Two routes to market.** BTU has the ability to get coal to market via barging from the Port of Westport (10kms away) to the Port of Taranaki for export, or via train to the Port of Lyttelton. Given excess infrastructure capacity we think BTU is in a strong position to negotiate a favourable infrastructure outcome.

Project is financed to production in our view

- **BTU needs a further $20mn of financing for first production – we expect this financing is available from a second offtake agreement.** In our view BTU is financed to production. BTU has ~$145mn of near-term financing commitments, made up of ~A$70mn of Buller project capex and A$35mn for the acquisition of the Eastern Resources Group from Galilee plus a milestone payment to L&M Coal Holdings of US$40mn (for acquisition of Buller Project) payable at first production. BTU has A$125mn of available financing at the moment made up of $75mn cash on hand post the A$110mn of equity in November 2010 ($35mn was paid to L&M Holdings post completion of the DFS study in November 2010) and a US$50mn loan from an offtake facility with Stemcor. Near term, we estimate BTU needs another $20mn of financing to fund the $140mn needed for capex, the Galilee acquisition and the first US$40mn milestone payment. BTU is planning to fund this additional amount with financing from an offtake partner which we think is available. BTU must make a final US$40mn payment L&M Coal Holdings once the first 1mt of sales have been made (we estimate in 2013). We expect BTU can fund this payment from cashflow.

Significant potential earnings support at 2mtpa production

- **BTU could generate sustainable EPS of ~$0.25/sh from FY15 (refer Figure 5)** assuming successful ramp-up of 2.0mtpa and our long-term coal price assumptions. Capitalising the $0.25/sh of EPS at a nominal 10x provides potential support for a $2.50/sh equity valuation on a four- to five-year view. So while BTU is a development asset with development risks, successfully implementing the production plan provides a potential payoff of two to three times on a four- to five-year view. An alternative way to view this is that at the current share price of $0.97/sh, the equity is pricing 3.9x our base case sustainable earnings of ~$0.25/sh in FY15.

- **Un-risked DCF valuation of $2.15/sh highlights compelling valuation potential.** Our base case 'un-risked' DCF valuation for BTU is $2.15/sh. We have modelled the Buller project development progressing as planned by Bathurst Resources but with a six-month delay to account for 'slippage' risks to getting necessary access and environmental approvals. Our valuation is outlined in Figure 3 and our operating and coal price assumptions are outlined in Figure 5. We have assessed the impact of variability of changing coal prices on our earnings and valuation assumptions in Figure 7.

- **A discount to valuation is warranted given risk – but how much is appropriate?** BTU is not currently in production. The planned production profile is subject to risks including environmental and access approvals, timing risk, capex risk, infrastructure risk and coal price risks inherent in our modelling assumptions. We believe BTU should trade at a discount to our DCF valuation to reflect these risks. The key question for equity investors is what is the appropriate risk discount? BTU is trading at 0.45x our DCF valuation of $2.15/sh – which looks attractive when compared to peers (those with development assets and met coal exposures - refer Figure 6); AZT (0.65x), RIV (0.68x), AQA (0.91x) and WHC (0.98x).

First coal possible in CY2011. We model from 1-July -2012

- **$1.50/sh TP reflects 0.70x DCF valuation and results in an OUTPERFORM rating.** To set our $1.50/sh TP we have applied a 70% risk weighting to our $2.15/sh Bathurst valuation – the discount reflects the risks outlined above. Over the next 12 months we expect BTU will receive access and environmental approvals necessary to bring the mine into production and will de-risk the project and close the gap between the valuation and the share price. Comparison with peers suggests at a 0.70x DCF multiple BTU would be trading in line or at a discount to peers - refer Figure 6.

Valuation support remains despite recent share price performance

Valuation and peer comparison

TP set at 0.70x valuation to incorporate development risk

Our base case DCF valuation for BTU is $2.15/sh modelled over a 20-year life-of-mine, using a beta of 1 and a weighted average cost of capital (WACC) of 10%. A summary of assumptions used is in Figure 3. We have set our target price at $1.50/sh which is 0.70x our DCF valuation. The discount reflects project risks including environmental and access approvals, timing risk, capex risk, infrastructure risk and coal price risks inherent in our modelling assumptions.

The equity story for BTU is about near-term production rather than large scale exploration potential. BTU is targeting a 60–90mt resource which would enable a significant mine life at 2mtpa production target. Post FY15, BTU is targeting 4mtpa+ of production. The theory would be to duplicate its operations. We have left this as 'upside' in our equity case and have not considered it in our modelling or valuation.

Figure 3: **Bathurst Resources Valuation**

Bathurst Resources Valuation summary @	Unrisked Valuation A$m	A$/sh
BTU Project Valuation	**1,295.2**	**2.13**
Corporate / exploration / other	-45.4	-0.10
Total mining enterprise	**1,249.8**	**2.05**
Net debt @ Dec-10	-75.1	-0.12
Total equity value (pre-MRRT)	**1,324.9**	**2.15**
Impact of MRRT	0.0	0.00
Total equity value (post-MRRT)	**1,324.9**	**2.15**
Current share price		**0.97**
NPV up/(down) side to SP		**122%**

Source: Credit Suisse estimates

Valuation cross check – is 2mtpa of hard coking coal worth $1.3bn? We think so.

The market is paying A$450/t to A$850/t of current production

Our $2.15/sh DCF valuation equates to ~$1.3bn. Does it make sense? We think so.

The market pays **a lot** more for production than for resources in the ground. We believe BTU is well placed to deliver near-term production and as such it is appropriate to look at how the market prices production.

This implies a valuation range of $900mn (1.50/sh) to $1.7bn ($2.80/sh) for BTU at 2mtpa

In Figure 4 we have calculated EV per tonne of current production – we acknowledge this is simplistic analysis but believe it is a better guide than EV/t of resources or reserves which can place a value on un-commercial resources.

Of the stocks in our research coverage the market is currently paying between ~A$450/t (for NHC – which is 100% thermal coal) and ~A$850/t of production (GCL – mix of thermal and semi-hard coking coal). Using this range, we could justify an EV of between $900mn and $1.7bn for BTU, or between $1.50/sh and $2.80/sh. We acknowledge this is simplistic analysis, but we believe it provides a good cross check of the potential re-rating of BTU's share price if production can be delivered as planned.

Given the likely higher margins that BTU's hard coking coal could generate, we believe BTU may attract a multiple in excess of the trading multiples of peers. A more detailed comparison of BTU vs. peers is outlined in Figure 6.

Figure 4: **How much does the market pay per tonne of production?**

		Thermal producers		*Met and Thermal*				*Met Coal Producers*		
	Units	**CNA**	**NHC**	**WHC**	**AZT**	**GCL**	**AQA**	**BTU**	**MCC**	**RIV**
EV	A$m	10,800	2,693	3,459	1,953	1,858	3,362	**576**	3,830	3,625
FY10 sales volumes	mt	18.3	6.0	4.2	na	2.2	1.2	**?**	5.3	0.7
EV/ t 2010 production	A$/t	589	450	826	na	863	2,700	**?**	723	5,326
FY11 sales volumes	mt	21.0	5.8	5.9	na	2.3	0.8	**?**	4.4	0.6
EV/t 2011 production	A$/t	513	464	588	na	821	4,198	**?**	878	6,042

Source: Credit Suisse estimates

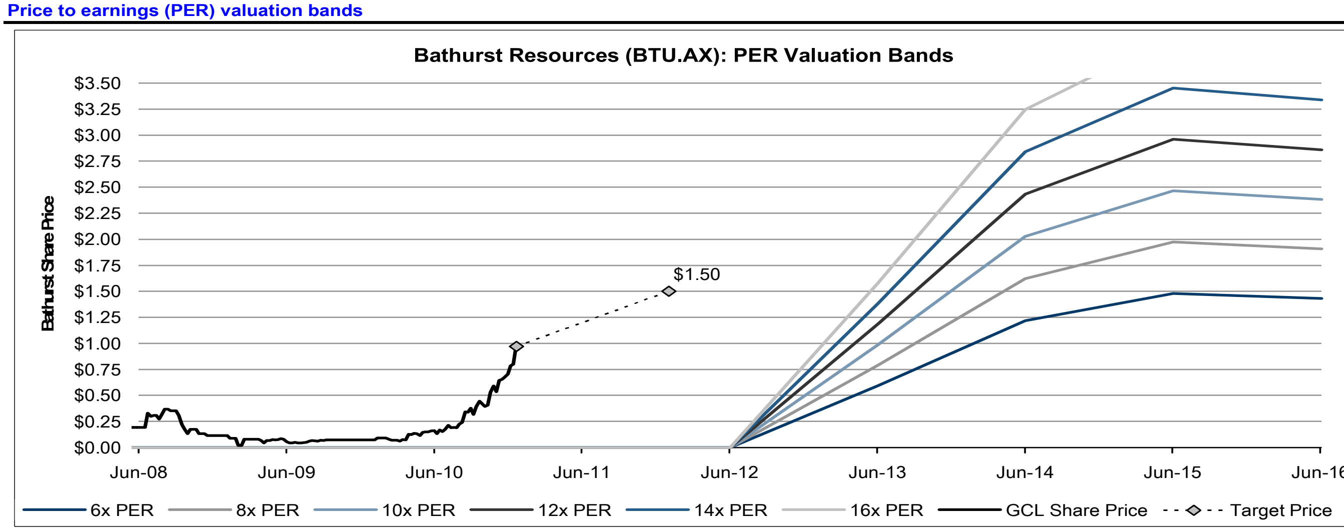
Figure 5: Bathurst Resources One Page Earnings Model

Bathurst Resources: One page earnings model….

Profit and Loss: A$/t Analysis	Ref	FY09	FY10	FY11F	FY12F	FY13F	FY14F	FY15F	FY16F
Thermal coal price (US$/t)	US$/t		102.5	109.1	118.8	121.3	106.7	96.9	96.3
PCI Coal Price (US$/t)	US$/t		102.5	169.9	161.3	133.1	127.5	127.4	126.7
Hard coking coal (US$/t)	US$/t		102.5	226.0	215.0	177.5	170.0	169.9	169.4
BTU Realised Coal Price: Post hedging (US$/t)	**US$/t**	**-**	**-**	**-**	**-**	**176.6**	**170.1**	**169.9**	**162.1**
FX Rate	Rate	0.75	0.88	0.94	0.95	0.91	0.86	0.84	0.82
BTU Realised Coal Price: Post-hedging (A$/t)	A$/t, 1	**-**	**-**	**-**	**-**	**195.1**	**198.9**	**203.2**	**198.3**
Mining costs (A$/t)	A$/t	-	-	-	-	55.0	55.0	55.0	55.0
Selling and distribution expenses (A$/t)	A$/t	-	-	-	-	35.0	35.0	35.0	35.0
Royalties (A$/t)	A$/t	-	-	-	-	2.8	2.0	2.0	2.0
Other costs (A$/t)	A$/t	-	-	-	-	6.5	3.4	3.0	3.0
EBITDA Margin (A$/t)	A$/t	**-**	**-**	**-**	**-**	**96.6**	**103.9**	**108.3**	**103.2**
Depreciation (A$/t)	A$/t	-	-	-	-	1.8	1.8	1.8	1.8
EBIT Margin (A$/t)	A$/t, 2	**-**	**-**	**-**	**-**	**94.8**	**102.1**	**106.6**	**101.5**
Interest and taxes (A$/t)	A$/t	-	-	-	-	29.8	31.6	31.5	28.9
NPAT Margin (A$/t)	A$/t, 3	**-**	**-**	**-**	**-**	**65.0**	**70.6**	**75.1**	**72.6**
Total costs to EBITDA level	A$/t	-	-	-	-	99.3	95.4	95.0	95.0
Total cost of sales to EBIT (A$/t) to EBIT	A$/t, 4	-	-	-	-	101.1	97.2	96.8	96.7
Production Breakdown by type									
Thermal coal sales (mt)	mt	-	-	-	-	-	-	-	0.2
PCI coal sales (mt)	mt	-	-	-	-	-	-	-	-
Hard coking coal sales (mt)	mt	-	-	-	-	0.9	1.8	2.0	1.8
Coal sales - BTU Equity (produced coal) (mt)	mt, 5	**-**	**-**	**-**	**-**	**0.9**	**1.8**	**2.0**	**2.0**
Growth (%)			*nm*	*nm*	*nm*	*nm*	*89%*	*14%*	*0%*
Production Breakdown by site									
Total Escarpment Sales - BTU Equity (mt)	mt	-	-	-	-	0.8	1.0	1.0	1.0
Total Deep Creek Sales- BTU Equity (mt)	mt	-	-	-	-	0.2	0.8	1.0	1.0
Total North Buller Sales- BTU Equity(mt)	mt	-	-	-	-	-	-	-	-
Coal sales - BTU Equity (produced coal) (mt)	mt, 5	**-**	**-**	**-**	**-**	**0.9**	**1.8**	**2.0**	**2.0**

Profit and Loss: A$mn Calculations		FY09	FY10	FY11F	FY12F	FY13F	FY14F	FY15F	FY16F
Revenue calculation (A$mn)									
BTU Realised Coal Price: Post-hedging (A$/t)	1	-	-	-	-	195.1	198.9	203.2	198.3
Coal sales - BTU Equity (produced coal) (mt)	5	-	-	-	-	0.9	1.8	2.0	2.0
Revenue (A$mn)	1 x 5	-	-	-	-	180.5	348.1	406.3	396.5
Operating Cost calculation (A$mn)									
Total cost of sales to EBIT (A$/t) to EBIT	4	-	-	-	-	101.1	97.2	96.8	96.7
Coal sales - BTU Equity (produced coal) (mt)	5	-	-	-	-	0.9	1.8	2.0	2.0
Total cost of sales (A$/mn) - to the EBIT level	4 x 5	-	-	-	-	93.5	170.0	193.6	193.5
Earnings (A$mn)									
EBIT Margin (A$/t)	1 - 4	-	-	-	-	94.8	102.1	106.6	101.5
EBIT (A$mn)		-	-	-	-	87.7	178.8	213.2	202.9
NPAT Margin (A$/t)	3	-	-	-	-	65.0	70.6	75.1	72.6
Coal sales - BTU Equity (produced coal) (mt)	5	-	-	-	-	0.9	1.8	2.0	2.0
NPAT (A$mn)	3 x 5	**-**	**-**	**-**	**-**	**60.2**	**123.5**	**150.2**	**145.1**
Shares on issue	mn	224.9	224.9	608.9	608.9	608.9	608.9	608.9	608.9
EPS	**A$/sh**	**-**	**-**	**-**	**-**	**0.10**	**0.20**	**0.25**	**0.24**
EPS Change	**%**	**nm**	**nm**	**nm**	**nm**	**nm**	**105%**	**22%**	**-3%**
Share Price	A$/sh	0.97	0.97	0.97	0.97	0.97	0.97	0.97	0.97
PER	x	nm	nm	nm	nm	9.8x	4.8x	3.9x	4.1x

Price to earnings (PER) valuation bands



Source: Credit Suisse Estimates

Credit Suisse Australian Coal Comps

Figure 6: Credit Suisse: Australian Coal Comps

		Thermal producers		Met and Thermal				Met Coal Producers		
Key valuation metrics	**Units**	**CNA**	**NHC**	**WHC**	**AZT**	**GCL**	**AQA**	**BTU**	**MCC**	**RIV**
Share price	A$/sh	129.60	4.96	7.20	8.70	13.16	9.89	**0.97**	14.00	16.38
Target price	A$/sh	142.0	6.25	7.00	9.50	15.00	8.00	**1.50**	13.00	18.50
Return to TP	%	10%	26%	-3%	9%	14%	-19%	**55%**	-7%	13%
Target Price vs. Valuation	x									
Rating		N	O	N	O	N	U	**O**	N	N
Unrisked 12m Forward Valuation										
Unrisked DCF Valuation (excl. MRRT)	A$/sh	120.76	6.31	6.84	13.36	13.10	10.66	**2.15**	11.69	16.40
Price to DCF valuation	x	1.07x	0.79x	1.05x	0.65x	1.00x	0.93x	**0.45x**	1.20x	1.00x
Unrisked DCF Valuation (incl. MRRT)	A$/sh	114.72	6.00	6.36	11.33	12.37	10.19	**2.15**	11.53	16.56
Price to DCF valuation	x	1.13x	0.83x	1.13x	0.77x	1.06x	0.97x	**0.45x**	1.21x	0.99x
FY10 Operating Summary										
FY10 sales volumes	mt	18.3	6.0	4.2	na	2.2	1.2	**na**	5.3	0.7
Realised coal price (post hedging)	A$/t	115.0	102.5	97.2	na	116.4	104.8	**na**	128.3	126.0
Cash cost of coal sold (incl. royalties) (A$/t)	A$/t	82.2	71.6	73.5	na	81.7	82.5	**na**	83.0	117.4
Total cost of coal sold (incl. dep) to EBIT (A$/t)	A$/t	88.6	17.0	-9.1	na	94.6	146.2	**na**	95.9	156.5
EBITDA Margin (A$/t)	A$/t	33.0	30.5	26.0	na	38.5	-41.9	**na**	40.7	-2.2
EBIT Margin (A$/t)	A$/t	26.5	23.9	18.3	na	19.1	-47.1	**na**	34.3	-13.0
NPAT Margin (A$/t)	A$/t	20.4	30.7	13.2	na	15.2	-26.6	**na**	25.7	2.0
NPAT	A$mn	374.1	183.8	55.1	na	32.7	-33.1	**na**	136.0	1.3
EPS	A$/sh	4.32	0.22	0.11	na	0.40	-0.10	**na**	0.49	0.00
PER	x	30.0x	22.4x	63.5x	na	32.9x	-96.4x	**na**	28.5x	na
FY11 Operating Summary										
FY11 sales volumes	mt	21.0	5.8	5.9	na	2.3	0.8	**na**	4.4	0.6
Realised coal price (post hedging)	A$/t	137.1	96.7	88.0	na	131.8	166.0	**na**	173.8	197.6
Cash cost of coal sold (incl. royalties) (A$/t)	A$/t	85.9	71.3	64.1	na	85.8	93.4	**na**	99.3	103.9
Total cost of coal sold to EBIT (A$/t)	A$/t	92.4	15.8	-10.1	na	98.8	138.7	**na**	113.0	87.2
EBITDA Margin (A$/t)	A$/t	51.2	26.0	23.8	na	59.5	33.4	**na**	66.8	120.4
EBIT Margin (A$/t)	A$/t	44.7	22.0	17.9	na	32.6	28.0	**na**	60.8	110.4
NPAT Margin (A$/t)	A$/t	32.9	26.4	12.4	na	22.9	28.3	**na**	43.7	91.1
NPAT	A$mn	692.9	153.2	73.1	na	51.9	22.7	**na**	190.8	54.7
EPS	A$/sh	8.00	0.18	0.15	na	0.37	0.07	**na**	0.65	0.24
PER	x	16.2x	26.9x	47.9x	na	35.6x	140.6x	**na**	21.4x	67.5x
FY12 Operating Summary										
FY12 sales volumes	mt	23.1	6.0	5.5	1.6	3.1	1.3	**na**	6.5	1.0
Realised coal price (post hedging)	A$/t	141.6	121.5	133.0	148.8	160.1	168.3	**na**	170.1	198.9
Cash cost of coal sold (incl. royalties) (A$/t)	A$/t	88.3	73.4	72.2	35.2	94.9	89.6	**na**	100.1	100.3
Total cost of coal sold to EBIT (A$/t)	A$/t	94.8	17.1	-14.7	81.5	106.1	119.8	**na**	108.6	94.4
EBITDA Margin (A$/t)	A$/t	53.4	48.6	60.8	72.2	59.4	54.6	**na**	67.5	115.1
EBIT Margin (A$/t)	A$/t	46.9	44.6	53.5	67.2	53.5	48.6	**na**	61.5	105.1
NPAT Margin (A$/t)	A$/t	34.2	43.2	37.1	52.6	37.2	39.7	**na**	44.2	82.4
NPAT	A$mn	789.6	258.3	203.7	85.0	114.7	52.3	**na**	286.3	82.9
EPS	A$/sh	9.12	0.31	0.42	0.30	0.82	0.16	**na**	0.98	0.37
PER	x	14.2x	15.9x	17.2x	28.6x	16.1x	61.0x	**na**	14.3x	44.5x
FY13 Operating Summary										
FY13 sales volumes	mt	23.7	6.8	6.2	4.4	4.1	1.4	**0.9**	7.5	2.0
Realised coal price (post hedging)	A$/t	141.0	128.8	139.6	139.0	160.3	154.3	**195.1**	153.9	196.2
Cash cost of coal sold (incl. royalties) (A$/t)	A$/t	76.7	56.5	69.4	73.7	97.3	86.7	**99.3**	99.4	86.4
Total cost of coal sold to EBIT (A$/t)	A$/t	83.7	14.8	-15.0	80.7	107.2	104.1	**101.1**	107.6	88.4
EBITDA Margin (A$/t)	A$/t	64.3	72.9	70.3	63.3	61.2	55.9	**96.6**	52.1	117.9
EBIT Margin (A$/t)	A$/t	57.3	68.9	62.8	58.3	53.4	49.9	**94.8**	46.1	107.9
NPAT Margin (A$/t)	A$/t	41.9	58.5	44.2	42.1	37.9	41.1	**65.0**	33.4	78.7
NPAT	A$mn	993.7	396.9	275.0	184.7	155.7	57.6	**60.2**	250.5	159.2
EPS	A$/sh	11.48	0.48	0.57	0.66	1.11	0.18	**0.10**	0.86	0.71
PER	x	11.3x	10.4x	12.7x	13.2x	11.9x	55.4x	**9.8x**	16.3x	23.2x
FY14 Operating Summary										
FY14 sales volumes	mt	28.4	7.8	7.7	7.9	5.2	1.4	**1.8**	7.6	4.2
Realised coal price (post hedging)	A$/t	129.8	120.1	133.1	137.9	161.1	153.5	**198.9**	155.3	178.4
Cash cost of coal sold (incl. royalties) (A$/t)	A$/t	69.7	55.1	70.0	72.6	98.1	86.3	**95.4**	101.4	93.6
Total cost of coal sold to EBIT (A$/t)	A$/t	76.7	13.1	-15.0	74.1	107.1	103.7	**97.2**	109.5	104.4
EBITDA Margin (A$/t)	A$/t	60.2	65.3	63.0	68.8	59.0	55.8	**103.9**	52.2	85.8
EBIT Margin (A$/t)	A$/t	53.2	61.3	55.5	63.8	55.2	49.8	**102.1**	46.2	75.8
NPAT Margin (A$/t)	A$/t	39.3	52.1	39.9	45.9	39.9	35.3	**70.6**	33.7	53.4
NPAT	A$mn	1116.4	405.3	306.9	362.4	207.9	49.4	**123.5**	257.3	222.4
EPS	A$/sh	12.89	0.49	0.63	1.30	1.48	0.15	**0.20**	0.88	0.99
PER	x	10.1x	10.2x	11.4x	6.7x	8.9x	64.5x	**4.8x**	15.9x	16.6x
FY15 Operating Summary										
FY15 sales volumes	mt	32.2	8.8	7.7	10.3	5.3	2.8	**2.0**	9.4	7.1
Realised coal price (post hedging)	A$/t	125.7	112.0	127.2	135.9	159.6	175.7	**203.2**	158.8	187.2
Cash cost of coal sold (incl. royalties) (A$/t)	A$/t	71.3	53.9	69.6	67.8	97.8	93.5	**95.0**	103.8	85.4
Total cost of coal sold to EBIT (A$/t)	A$/t	77.3	11.8	-15.0	72.8	106.8	105.3	**96.8**	111.5	95.8
EBITDA Margin (A$/t)	A$/t	54.4	58.8	57.6	68.1	61.5	82.3	**108.3**	53.7	102.5
EBIT Margin (A$/t)	A$/t	48.4	54.8	50.1	63.1	53.0	76.3	**106.6**	47.7	92.5
NPAT Margin (A$/t)	A$/t	36.0	46.6	36.5	45.7	39.0	50.5	**75.1**	34.7	64.7
NPAT	A$mn	1161.1	409.3	281.1	472.2	208.0	138.9	**150.2**	326.4	459.6
EPS	A$/sh	13.41	0.49	0.58	1.69	1.48	0.43	**0.25**	1.12	2.04
PER	x	9.7x	10.1x	12.5x	5.2x	8.9x	22.9x	**3.9x**	12.5x	8.0x
Reserves and Resources										
Reserve	mt	847	513	247	356	102	138	**13**	125	326
Resource - measured and indicated only	mt	2,586	717	760	439	191	597	**79**	944	2,116
EV/Reserve	A$/t	12.7	5.3	14.0	5.5	18.2	24.4	**45.7**	30.5	11.1
EV/Resource	A$/t	4.2	3.8	4.6	4.4	9.7	5.6	**7.3**	4.1	1.7
Balance sheet										
Gearing (ND/ND+E)	%	-21%	-153%	-5%	27%	4%	-196%	**-58%**	-28%	-96%
Price / book value (FY10)	x	7.3x	1.8x	3.4x	4.5x	2.8x	9.0x	**5.2x**	3.6x	7.7x
Market cap	A$m	11,059	4,110	3,505	1,804	1,851	3,631	**585**	4,079	3,872
Net debt (FY10) (negative = net cash)	A$m	-260	-1,416	-46	149	7	-268	**-8**	-249	-247
Equity	A$m	1,523	2,340	1,023	403	669	405	**113**	1,129	506
EV	A$m	10,800	2,693	3,459	1,953	1,858	3,362	**576**	3,830	3,625

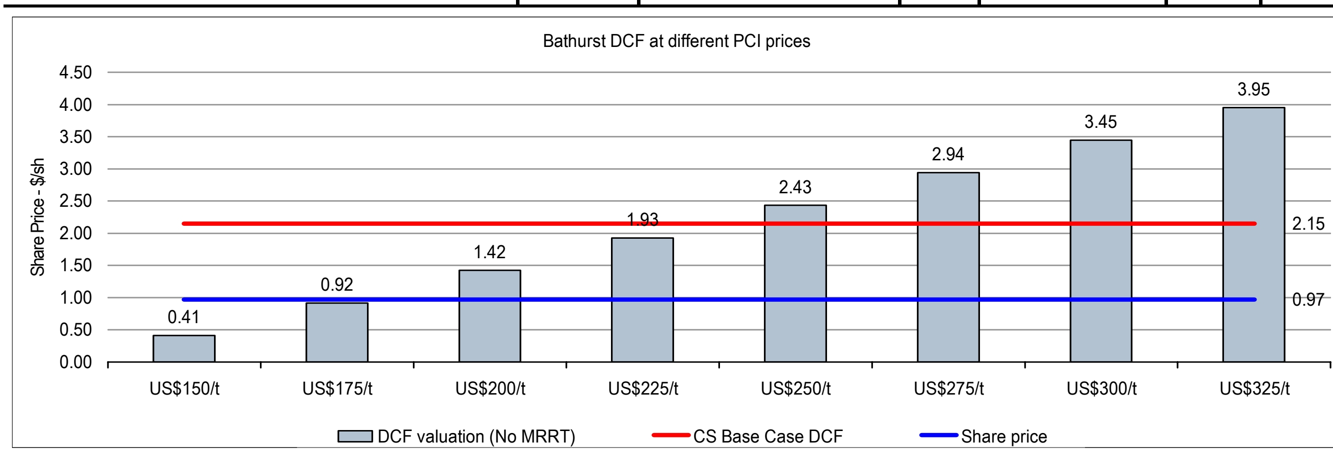
Source: Credit Suisse Estimates

BTU – Sensitivity to changing coal prices

Figure 7: Bathurst Resources: Sensitivity Analysis at spot fx

Bathurst Resources: Sensitivity Analysis

ASSUMPTIONS		CS Base Case				MarQ			Spot	
Hard coking coal (US$/t)	**US$/t**		**US$150/t**	**US$175/t**	**US$200/t**	**US$225/t**	**US$250/t**	**US$275/t**	**US$300/t**	**US$325/t**
Thermal coal price (US$/t)	US$/t		59	76	92	109	125	142	158	175
FX Rate	Rate		0.99	0.99	0.99	0.99	0.99	0.99	0.99	0.99
VALUATION										
DCF valuation (No MRRT)	A$/sh	**2.15**	0.41	0.92	1.42	1.93	2.43	2.94	3.45	3.95
MRRT Impact on DCF	A$/sh	**0.00**	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
DCF valuation (including MRRT)	A$/sh	**2.15**	0.41	0.92	1.42	1.93	2.43	2.94	3.45	3.95
Share price	A$/sh	**0.97**	0.97	0.97	0.97	0.97	0.97	0.97	0.97	0.97
Δ to DCF valuation (No MRRT)	%	**136%**	-54%	4%	61%	118%	175%	232%	289%	347%
Δ to DCF valuation (including MRRT)	%	**136%**	-54%	4%	61%	118%	175%	232%	289%	347%
NET PROFIT										
2011 NPAT	A$m	**-4.4**	-4.4	-4.4	-4.4	-4.4	-4.4	-4.4	-4.4	-4.4
2012 NPAT	A$m	**12.5**	1.1	4.2	7.3	10.4	13.6	16.7	19.8	23.0
2013 NPAT	A$m	**60.6**	12.5	28.8	45.0	61.2	77.5	93.7	109.9	126.1
2014 NPAT	A$m	**120.2**	26.1	56.3	86.5	116.7	146.9	177.0	207.2	237.4
2015 NPAT	A$m	**150.6**	32.6	68.7	104.7	140.8	176.8	212.9	249.0	285.0
2011 NPAT - Mark to market vs. CS Base Case	%	**0%**	0%	0%	0%	0%	0%	0%	0%	0%
2012 NPAT - Mark to market vs. CS Base Case	%	**0%**	-92%	-67%	-42%	-17%	9%	34%	59%	84%
2013 NPAT - Mark to market vs. CS Base Case	%	**0%**	-79%	-53%	-26%	1%	28%	55%	81%	108%
EARNINGS MULTIPLES										
2011 EPS	A$/sh	**-0.01**	-0.01	-0.01	-0.01	-0.01	-0.01	-0.01	-0.01	-0.01
2012 EPS	A$/sh	**0.02**	0.00	0.01	0.01	0.02	0.02	0.03	0.03	0.04
2013 EPS	A$/sh	**0.10**	0.02	0.05	0.07	0.10	0.13	0.15	0.18	0.21
2014 EPS	A$/sh	**0.20**	0.04	0.09	0.14	0.19	0.24	0.29	0.34	0.39
2015 EPS	A$/sh	**0.25**	0.05	0.11	0.17	0.23	0.29	0.35	0.41	0.47
2011 PER	x	**na**	na	na	na	na	na	na	na	na
2012 PER	x	47.2x	559.1x	141.1x	80.8x	56.6x	43.5x	35.4x	29.8x	25.7x
2013 PER	x	9.7x	47.2x	20.5x	13.1x	9.6x	7.6x	6.3x	5.4x	4.7x
2014 PER	x	4.9x	22.6x	10.5x	6.8x	5.1x	4.0x	3.3x	2.9x	2.5x
2015 PER	x	3.9x	18.1x	8.6x	5.6x	4.2x	3.3x	2.8x	2.4x	2.1x
MARGINS										
2011 EBITDA	A$m	**-6.8**	-6.8	-6.8	-6.8	-6.8	-6.8	-6.8	-6.8	-6.8
2012 EBITDA	A$m	**15.7**	-0.7	3.8	8.2	12.7	17.2	21.6	26.1	30.6
2013 EBITDA	A$m	**89.2**	21.2	44.2	67.2	90.2	113.2	136.2	159.2	182.2
2011 EBITDA Margin	A$/t	**0.0**	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2012 EBITDA Margin	A$/t	**87.2**	-3.9	21.0	45.9	70.8	95.7	120.6	145.5	170.4
2013 EBITDA Margin	A$/t	**96.4**	22.9	47.7	72.6	97.5	122.3	147.2	172.1	196.9
2011 EBIT Margin	A$/t	**0.0**	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2012 EBIT Margin	A$/t	**85.5**	-5.7	19.2	44.1	69.0	93.9	118.8	143.7	168.6
2013 EBIT Margin	A$/t	**94.6**	21.1	46.0	70.8	95.7	120.6	145.4	170.3	195.2
2011 NPAT Margin	A$/t	**0.0**	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2012 NPAT Margin	A$/t	**69.7**	5.9	23.3	40.7	58.2	75.6	93.0	110.5	127.9
2013 NPAT Margin	A$/t	**65.5**	13.5	31.1	48.6	66.2	83.7	101.3	118.8	136.3
2011 SalesVolumes	mt	**0.0**	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2012 Sales Volumes	mt	**0.2**	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
2013 Sales Volumes	mt	**0.9**	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9



Source: Credit Suisse Estimates

Approvals – the key catalyst to production

BTU requires two approvals before it can go into first production; we believe BTU will successfully receive both approvals. In our view the key risk is timing of approvals. There is potential for BTU to go to environmental court to receive environmental approvals, if this happens (a possibility which is to some degree out of BTU's control), we would expect approvals could be delayed by six to nine months.

(1) Mine access approvals – expected in 1Q2011

BTU requires access to the plateau where the mine will be situated. Access to the plateau is controlled by the Department of Conservation. BTU has submitted the required documentation to the Department of Conservation. The Department of Conservation has asked for some additional information in the aftermath of the Pike River disaster, additional information relates to BTU's water plan and technical reports on the dam structures to demonstrate that they can withstand earthquakes. Management expects to receive mine access approval in 1Q2011.

(2) Environmental approvals – expected in 1H2011

BTU requires environmental approvals to commence production. Environmental approval is granted by the local council. Our channel checks suggest that the majority of the local community supports the Buller Project primarily because of the economic benefit the development will provide to the local community. We believe the community support for the project has increased since the Pike River tragedy which along with loss of life, has resulted in an increase in unemployment in the local area. Environmental concerns are likely to be assessed in conjunction with economic benefits to the community. We believe environmental concerns raised can be adequately addressed by BTU possibly via agreeing to remedial action and BTU will ultimately be successful in gaining environmental approval.

It is important to highlight that the open cut mine plan proposed by BTU is very different to the underground mining employed by Pike River. We believe the community understands that the BTU and Pike River have different operational risk profiles.

The key risk as we see it is delays to the environmental approval, rather than ultimate approval. There is a risk that BTU will be taken to the Environmental Court; if this was to occur it could take six to nine months to resolve. Management is anticipating environmental approval process to be resolved in the JunQ of 2011 and is expecting more clarity on the situation in the coming weeks.

Public submissions have been received with a total of 48 submissions for the project, six neutral and 42 against. **The key environmental concern is air borne pollution.**

The community is primarily caused by dust etc. from the stockpile. Solid Energy has a stockpile facility nearby which is ~20 years old and holds run-of-mine (ROM) coal which is loaded from a roadway. We would expect BTU's stockpile to produce less air borne pollution than Solid's operation because BTU is transporting washed coal (rather than ROM coal) primarily via a slurry pipeline (which is enclosed). BTU's capex proposal is for the stockpile to be covered, which should also reduce air borne pollution.

Infrastructure capacity

BTU is exploring two options to get its coal to market (refer Figure 8): 1) Barging coal from the Port of Westport to the Port of Taranaki for loading onto export vessels; and 2) Rail from Buller to the Port of Lyttelton. We believe there is spare capacity available for BTU via both options, and that both options are estimated to cost around $32/t. We believe BTU is in a strong negotiating position for infrastructure capacity given limited competing users:

BTU is in a strong negotiating position to secure a favourable infrastructure outcome

(1) Barging from the Port of Westport (Westport) to the Port of Taranaki (Taranaki)

- The Buller mine site is within 10km of the Westport. BTU can utilise existing rail infrastructure to take coal to Westport. Westport is a shallow river port which could only load 10,000t ships, which is too small to load export coal ships. Coal would need to be barged in 10,000t ships from Westport to Taranaki at New Plymouth where it would be loaded onto an export coal vessel. Ships would need to be specially made because the river entrance to the port is shallow (ship needs to be very shallow and wide).

Infrastructure capacity is currently available

- A number of companies are working with the Port of Westport to provide BTU with a full barging solution from the Port of Westport to an export facility, which would include building barges. We expect the cost of barging will be around $32/t, which will include a capital cost for provision of the barges. A 10,000t barge could do 1mtpa which equates to 100 trips per year. Two barges will be required for 2mtpa planned by BTU. Any more than 2mpta is likely to require a significant port expansion at Westport.

Port and rail costs likely to be $30-$35/t

- Shipping is common on the west coast of New Zealand along that same route proposed by BTU. There is a cement company currently shipping for Westport as far as Auckland on a 3,000t vessel, and forestry products have been barged in the past.
- Westport would need to spend ~$13mn capex on 20kt storage shed, moorings, land purchases, conveyor and rail load out facility to do 2mtpa required by BTU. Westport will apply for funding from the West Coast Development Trust which has $107mn cash to fund West Coast NZ infrastructure and development. The trust was set up as compensation after the New Zealand Government shut down the timber mills.
- BTU is the only likely user of Westport at the moment. Westport has not received expressions of interest for capacity from any other local businesses.

(2) Rail east to the Port of Lyttelton (Lyttelton)

- There is existing rail infrastructure to take coal from the Buller project east to the port of Lyttelton. Buller is 380kms from Lyttelton.
- Rail access is controlled by Solid Energy until 2025, which is a New Zealand state government owned entity. Solid Energy is able to contract with third-parties for access to the rail line.
- Pike River had a 1.3mtpa contract with Solid Energy. Pike River's port charges were NZ$41/t, which at an exchange rate of A$:NZ$ of 1.3:1 equates to A$31.50/t. This rate required no upfront capex from Pike River and included port handling charges. Given the recent disaster at Pike River, this contract will not be fulfilled and so the capacity should be available for BTU.
- We would expect BTU would be in a position to contract with Solid Energy for rail capacity on similar terms to those negotiated by Pike River – i.e. around $32/t. Capacity up to 2mtpa is available, beyond 2mtpa would require new capital investment in capacity.

Figure 8: **BTU assessing two paths to market**

Source: Google Maps, Credit Suisse estimates

Production profile

We have assumed a six-month delay to first production which incorporates a delay in environmental approval (i.e. – first production in 1HFY13 rather than 2HFY12)

We have taken a more conservative stance to the production profile than management, the difference in production profiles are outlined in Figure 9. Our forecast allows for the possibility of a six-month delay to the environmental approvals. Management is targeting environmental approvals in the JunQ of 2011 which would facilitate first production by CY11. From a valuation perspective, the six-month delay in our modelling is immaterial to our BTU valuation.

Our forecasts factor in approvals in the DecQ of 2011 and production from 1 July 2012 (i.e. – FY13). The basis for the difference is conservatism. If BTU is taken to Environmental Court prior to receiving approval it could delay production by six to nine months.

Management believes the pre-strip and works to first production will take around 10 weeks once it has access to the site. The key capex item is the wash plant which is being constructed off-site so construction is not impacted by approval delays.

It is Bathurst's intention to develop further mining operations in the Southern and Northern Buller Project tenements in the medium term. This will be aided by the recent acquisition of Eastern Resources Limited (Eastern) from Galilee for ~$35mn. Eastern owns the Cascade coking coal mine and has the highly prospective Whareatea West project.

Bathurst's intention is to be a 4Mtpa coking coal producer in 2016 – at this stage we have excluded these volumes from our analysis, but they could obviously present further upside. During the course of FY2011 the company plans to undertake further drilling and mine evaluation work such that a platform for developing additional mines can be implemented.

Figure 9: **Credit Suisse production profile vs. management**

Sales volumes and infrastructure capacity	FY09	FY10	FY11F	FY12F	FY13F	FY14F	FY15F	FY16F
Total Escarpment Sales - BTU Equity (mt)	0.0	0.0	0.0	0.0	0.8	1.0	1.0	1.0
Total Deep Creek Sales- BTU Equity (mt)	0.0	0.0	0.0	0.0	0.2	0.8	1.0	1.0
Total North Buller Sales- BTU Equity(mt)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Coal sales - BTU Equity (produced coal) (mt)	**0.0**	**0.0**	**0.0**	**0.0**	**0.9**	**1.8**	**2.0**	**2.0**
Purchased Coal Sales - BTU Equity (mt)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total coal sales - BTU Equity (inc purch coal) (mt)	**0.0**	**0.0**	**0.0**	**0.0**	**0.9**	**1.8**	**2.0**	**2.0**
Thermal coal sales (%)	0%	0%	0%	0%	0%	0%	0%	10%
PCI coal sales (%)	0%	0%	0%	0%	0%	0%	0%	0%
Hard coking coal sales (%)	0%	0%	0%	50%	100%	100%	100%	90%
Management forecast								
Hard coking coal sales (mt)	0.00	0.00	0.00	0.36	1.10	1.75	2.00	2.00
Difference: CS vs. Management	0.00	0.00	0.00	-0.36	-0.17	0.00	0.00	0.00
Difference: CS vs. Management	0%	0%	0%	-100%	-16%	0%	0%	0%

Source: Company presentations and Credit Suisse estimates

Operating costs

The Escarpment has a life-of-mine strip ratio of 9.5:1 (Waste bcm to ROM tonnes) with Deep Creek having a strip ratio of 5.6:1. Raw coal will be transported to the CPP where the yield ranges from 65% to 75% depending upon feed for washed coal and will be 100% for direct shipping production from Deep Creek.

The DFS estimates mining costs of $51/t and port and rail costs of $33/t. We are modelling $55/t mining and $35/t port and rail costs in nominal 2013$.

Figure 10: **Credit Suisse operating costs**

Consolidated P&L: Per tonne analysis	FY09	FY10	FY11F	FY12F	FY13F	FY14F	FY15F	FY16F
BTU Realised Coal Price: Post hedging (US$/t)	-	-	-	-	176.6	170.1	169.9	162.1
FX Rate	0.75	0.88	0.94	0.95	0.91	0.86	0.84	0.82
BTU Realised Coal Price: Post-hedging (A$/t)	-	-	-	-	195.1	198.9	203.2	198.3
Mining costs (A$/t)	-	-	-	-	55.0	55.0	55.0	55.0
Selling and distribution expenses (A$/t)	-	-	-	-	35.0	35.0	35.0	35.0
Royalties (A$/t)	-	-	-	-	2.8	2.0	2.0	2.0
Other costs (A$/t)	-	-	-	-	6.5	3.4	3.0	3.0
EBITDA Margin (A$/t)	-	-	-	-	96.6	103.9	108.3	103.2
Depreciation (A$/t)	-	-	-	-	1.8	1.8	1.8	1.8
EBIT Margin (A$/t)	-	-	-	-	94.8	102.1	106.6	101.5
NPAT Margin (A$/t)	-	-	-	-	65.0	70.6	75.1	72.6
Total cost of sales to EBIT (A$/t)	-	-	-	-	101.1	97.2	96.8	96.7

Source: Credit Suisse estimates

Capital expenditure and financing

Low capex intensity reduces earnings dilution and supports project economics.

BTU has completed a Definitive Feasibility Study (DFS) which outlines that US$69.2mn will be required for 2mtpa of installed production capacity. This equates to ~US$35/t, which is extremely low compared to competing projects which typically range in capital intensity from US$50/t–US$200/t of installed capacity. The benefit of low capex intensity comes through reduced equity dilution (and hence higher EPS and valuations) when the project is financed.

Why is BTU's capex so much lower than industry standards?

Primarily because the Buller Project will be able to use existing port, rail, roads, water and power infrastructure to bring its project into production. The ability to utilise existing infrastructure is a direct $mn capital saving for BTU. The existing infrastructure was built to service the New Zealand forestry industry which has since been shut down. With the ability to utilise existing infrastructure, the main capital cost will be the wash plant (US$18.5mn) and slurry pipeline (US$21.5mn).

BTU has ~$140mn of near-term financing commitments made up of:

- $70mn of Buller project capex
- $35mn for the acquisition of the Eastern Resources Group from Galilee; and
- $40mn milestone payment to L&M Coal Holdings payable at first production.

We estimate BTU needs another $20mn of financing to fund commitments

BTU must make a further US$40mn payment L&M Coal Holdings once the first 1mt of sales have been made (we estimate in 2013).

BTU has $125mn of available financing made up of:

- $75mn of cash. BTU raised $110mn of equity in 2HCY2010 of which ~$35mn has been paid to L&M Holdings post completion of the definitive feasibility study.
- $50mn loan from an offtake facility with Stemcor.

BTU will seek required funding from an off take agreement

We believe the Buller Project needs an addition $20mn of financing which it can secure from an offtake partner

Near term, we estimate BTU needs another $20mn of financing to fund the $140mn needed for capex.

BTU is planning to fund this additional amount with financing from an offtake partner. We believe BTU will have significant demand for its coal in the current environment and will not have difficulty securing this additional financing facility.

The final $40mn L&N milestone payment is unfunded (trigged once 1mt of coal has been shipped) at the moment but we believe BTU will be able to fund this with cash flows once in production.

Coal quality

Hard coking coal – 100% of production until FY15 (~80% post FY15)

BTU's primary product is genuine hard coking coal product, and should be priced in line with Qld hard coking coal prices (i.e. – US$225/t MarQ 2011 settlement). Support for coal quality has been provided by the offtake agreement signed with Stemcor on 9 December 2010. As part of the agreement Stemcore has agreed to provide a US$50mn coal finance facility, this facility has been priced in reference to the hard coking coal price.

Stemcor off-take agreement supports coal quality

Technical specifications are outlined in Figure 11. The primary selling point of BTU's coal is the high fluidity (>10,000 ddm) which provides benefit in blending when making coke. High fluidity is inversely correlated to strength and means the coal is not self-coking; it would need to be blended to produce coke. The coal is also very low in raw ash and sulphur and has high fixed carbon. The coal is high volatile at 37%, but this is offset to some degree by the very high energy content.

Management believe a premium to the HCC price is possible – waiting further coal testing

Management believes the coal could attract a premium to the hard coking coal price, but this is yet to be demonstrated. Coal quality is currently being tested and the company expects to receive results of the testing in coming months. At this stage we have not factored any 'price premium' above the hard coking coal price for BTU's coal, but highlight potential for further upside.

Thermal coal – 20% of production post FY15

Coal quality varies through seams. Seddon Ville and North Buller seams will have less hard coking coal. Production from these seams is scheduled post FY15 and is likely to incorporate up to 20% thermal coal product. Thermal coal will be high energy and relatively low ash coal suitable for export.

Figure 11: **Coking coal quality specifications**

Property	Coking
Fixed Carbon (by difference)	58.9%
Maximum fluidity (ddpm)	>10,000
Phosphorus	0.014%
Ash (adb)	3-5%
Total Sulphur (adb)	0.7%
Estimated Total Moisture (ar)	8%
Inherent Moisture (adb)	1.1%
Volatile Matter (adb)	37%
FSI	9+
CV (adb) (kcal/kg)	8,238
Calorific Value (ar) (kcal/kg)	7,660
Base acid Ratio	0.13
Nitrogen (daf)	1.2%

Source: Company presentations

Reserves, resources and exploration

The equity story for BTU is about near-term production rather than large scale exploration potential.

Resources upside to provide additional mine life

BTU is targeting a 60–90mt resource which would enable a significant mine life at 2mtpa production target. Post FY15 BTU is targeting 4mtpa+ of production. The theory would be to duplicate its operations. We have left this as 'upside' in our equity case and have not considered it in our modelling.

To support an expanded production base of 4mtpa we believe further resource drilling success is required. BTU is targeting further resources on the Denniston Plateau which would extend the operating life of the 2mtpa project and provide potential scope for expansion.

Figure 12: **Bathurst Resource Statement**

Status	Prospect	Resource (Mt)	Total (Mt)
Measured	Escarpment	3.8	
	Deep Creek	6.2	10.0
Indicated	Escarpment	1.6	
	North Buller	4.8	
	Blackburn	10.8	
	Deep Creek	3.1	
	Millerton North	4.3	24.6
Inferred	Escarpment	1.9	
	North Buller	9.0	
	Deep Creek	1.6	12.5
Total JORC Resource[1]			47.1
Further Potential			
Target	Millerton	5 – 9	
Target	Denniston	16 – 35	21 – 44
Exploration Target[2]			~60 – 90

Source: Company presentations

Risks

- **Approvals, permits and leases.** Failure to obtain, or delays in obtaining approvals, licenses, permits or easements required are key investment risks for the Buller project. BTU requires two key approvals: 1) Access to the plateau which is granted by the Department of Conservation; and 2) Environmental approval which is provided by the local council.
- **Port and rail capacity.** BTU is planning to use either the Port of Westport (10kms from the mine site), or to rail coal (380kms) to the east coast and export through the Port of Lyttleton. BTU has no infrastructure allocation through either facility at this stage.
- **Geology.** While resources have been drilled to the requirements under the JORC standards, there are general geological risks associated with all mining operations.
- **Capex overruns/project delays.** As with all project developments, the ability to manage capital costs and bring the project in on time will be the key to achieving anticipated project IRRs and supporting valuation.
- **Operating costs**. Likewise, higher-than-expected operating costs will have a negative impact on our assessed valuation.
- **Financing.** BTU has ~$140mn of near-term financing commitments, plus a further $40mn due post the first 1mt of production (~2013). The $140mn of commitments are made up of A$65mn of Buller project capex and A$35mn for the acquisition of the Eastern Resources Group from Galilee plus a milestone payment to L&M Coal Holdings of US$40mn payable at first production. BTU must make a further US$40mn payment L&M Coal Holdings once the first 1mt of sales have been made (we estimate in 2013). BTU has A$125mn of financing at the moment made up of A$110mn of equity in 2HCY2010 (of which ~$35mn has been paid to L&M Holdings post completion of the definitive feasibility study) and a US$50mn loan from an offtake facility with Stemcor. Near term, we estimate BTU needs another US$15mn of financing to fund the $140mn needed for capex, the Galilee acquisition and the first US$40mn milestone payment. BTU is planning to fund this additional amount with financing from an offtake partner.
- **Coal prices and exchange rates.** Lower-than-expected coal prices or a higher-than-anticipated AUD/USD FX rate will have a negative impact on our assessed valuation.

Figure 13: **Detailed profit and loss statement**

Price and cash costs	FY09	FY10	FY11F	FY12F	FY13F	FY14F	FY15F	FY16F
Thermal coal price (US$/t)	115	103	109	119	121	107	97	96
PCI Coal Price (US$/t)	115	103	170	161	133	128	127	127
Hard coking coal (US$/t)	115	103	226	215	178	170	170	169
FX: AUDUSD	0.75	0.88	0.94	0.95	0.91	0.86	0.84	0.82
BTU Realised Coal Price: Pre-hedging (A$/t)	-	-	-	-	195	199	203	198
Realised gain / (loss) hedging and fixed contracts (A$/t)	-	-	-	-	-	-	-	-
BTU Realised Coal Price: Post-hedging (A$/t)	-	-	-	-	195	199	203	198
Cash cost of coal sold (excl. dep) (A$/t)	-	-	-	-	93	92	92	92
Admin and other expenses (A$/t)	-	-	-	-	6.5	3.4	3.0	3.0
Total cost of coal sold (incl. dep) (A$/t)	-	-	-	-	95	94	94	94
EBITDA Margin (A$/t)	-	-	-	-	97	104	108	103
EBIT Margin (A$/t)	-	-	-	-	95	102	107	101
NPAT Margin (A$/t)	-	-	-	-	65	71	75	73
Sales volumes and infrastructure capacity	**FY09**	**FY10**	**FY11F**	**FY12F**	**FY13F**	**FY14F**	**FY15F**	**FY16F**
Total Escarpment Sales - BTU Equity (mt)	0.0	0.0	0.0	0.0	0.8	1.0	1.0	1.0
Total Deep Creek Sales- BTU Equity (mt)	0.0	0.0	0.0	0.0	0.2	0.8	1.0	1.0
Total North Buller Sales- BTU Equity(mt)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Coal sales - BTU Equity (produced coal) (mt)	**0.0**	**0.0**	**0.0**	**0.0**	**0.9**	**1.8**	**2.0**	**2.0**
Purchased Coal Sales - BTU Equity (mt)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total coal sales - BTU Equity (inc purch coal) (mt)	**0.0**	**0.0**	**0.0**	**0.0**	**0.9**	**1.8**	**2.0**	**2.0**
Thermal coal sales (%)	0%	0%	0%	0%	0%	0%	0%	10%
PCI coal sales (%)	0%	0%	0%	0%	0%	0%	0%	0%
Hard coking coal sales (%)	0%	0%	0%	50%	100%	100%	100%	90%
Management forecast								
Hard coking coal sales (mt)	0.00	0.00	0.00	0.36	1.10	1.75	2.00	2.00
Difference: CS vs. Management	0.00	0.00	0.00	-0.36	-0.17	0.00	0.00	0.00
Difference: CS vs. Management	0%	0%	0%	-100%	-16%	0%	0%	0%
Consolidated P&L (A$mn)	**FY09**	**FY10**	**FY11F**	**FY12F**	**FY13F**	**FY14F**	**FY15F**	**FY16F**
Sale of goods	0.0	0.0	0.0	0.0	180.5	348.1	406.3	396.5
Impact of fixed price coal contracts and FX hedges (realised)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Revenues from operating activities	**0.0**	**0.0**	**0.0**	**0.0**	**180.5**	**348.1**	**406.3**	**396.5**
Other income	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Total revenues	**0.0**	**0.1**	**0.0**	**0.0**	**180.5**	**348.1**	**406.3**	**396.5**
Operating expenses	0.0	0.0	0.0	0.0	50.9	96.3	110.0	110.0
Selling and administration expenses	0.0	0.0	0.0	0.0	32.4	61.3	70.0	70.0
Royalties	0.0	0.0	0.0	0.0	1.9	2.8	3.6	4.1
(Gain) / loss on purchased coal	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other expenses	1.2	4.8	6.8	6.0	6.0	6.0	6.0	6.0
Total operating expenses	**1.2**	**4.8**	**6.8**	**6.0**	**91.2**	**166.3**	**189.6**	**190.1**
EBITDA	**-1.2**	**-4.7**	**-6.8**	**-6.0**	**89.3**	**181.8**	**216.7**	**206.4**
Depreciation and amortisation	0.0	0.0	0.0	0.0	-1.6	-3.1	-3.5	-3.5
EBIT	**-1.2**	**-4.7**	**-6.8**	**-6.0**	**87.7**	**178.8**	**213.2**	**202.9**
Net interest	0.0	0.0	0.4	2.5	-1.8	-2.3	1.4	4.4
Profit before tax	**-1.2**	**-4.7**	**-6.3**	**-3.5**	**85.9**	**176.4**	**214.6**	**207.3**
Tax	0.0	0.0	0.0	0.0	-25.8	-52.9	-64.4	-62.2
Resources Super Profits Tax	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Normalised NPAT	**-1.2**	**-4.7**	**-6.3**	**-3.5**	**60.2**	**123.5**	**150.2**	**145.1**
Net significant items (post tax) / OEI	-11.0	-4.5	0.0	0.0	0.0	0.0	0.0	0.0
Reported NPAT	**-12.2**	**-9.3**	**-6.3**	**-3.5**	**60.2**	**123.5**	**150.2**	**145.1**
Consolidated P&L: Per tonne analysis	**FY09**	**FY10**	**FY11F**	**FY12F**	**FY13F**	**FY14F**	**FY15F**	**FY16F**
BTU Realised Coal Price: Post hedging (US$/t)	-	-	-	-	176.6	170.1	169.9	162.1
FX Rate	0.75	0.88	0.94	0.95	0.91	0.86	0.84	0.82
BTU Realised Coal Price: Post-hedging (A$/t)	-	-	-	-	195.1	198.9	203.2	198.3
Mining costs (A$/t)	-	-	-	-	55.0	55.0	55.0	55.0
Selling and distribution expenses (A$/t)	-	-	-	-	35.0	35.0	35.0	35.0
Royalties (A$/t)	-	-	-	-	2.8	2.0	2.0	2.0
Other costs (A$/t)	-	-	-	-	6.5	3.4	3.0	3.0
EBITDA Margin (A$/t)	-	-	-	-	96.6	103.9	108.3	103.2
Depreciation (A$/t)	-	-	-	-	1.8	1.8	1.8	1.8
EBIT Margin (A$/t)	-	-	-	-	94.8	102.1	106.6	101.5
NPAT Margin (A$/t)	-	-	-	-	65.0	70.6	75.1	72.6
Total cost of sales to EBIT (A$/t)	-	-	-	-	101.1	97.2	96.8	96.7
Impact of MRRT		**FY10**	**FY11F**	**FY12F**	**FY13F**	**FY14F**	**FY15F**	**FY16F**
NPAT under existing system (A$mn)		-9.3	-4.5	-2.6	61.9	125.3	154.5	149.3
Net impact of RSPT (A$mn)		0.0	0.0	0.0	0.0	0.0	0.0	0.0
Adjusted NPAT (A$mn)		-9.3	-4.5	-2.6	61.9	125.3	154.5	149.3
Impact of RSPT on NPAT (A$mn)		**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Impact of RSPT on NPAT (%)		**0%**	**0%**	**0%**	**0%**	**0%**	**0%**	**0%**
Impact of RSPT on NPAT (A$/t)		-	-	-	-	-	-	-
Taxes and Royalties - Under RSPT		15%	30%	30%	29%	29%	29%	29%
Taxes and Royalties - Existing System		15%	30%	30%	32%	31%	31%	31%

Source: Credit Suisse estimates

Figure 14: **Detailed balance sheet, cash flow and ratios**

Key financials	**FY09**	**FY10**	**FY11F**	**FY12F**	**FY13F**	**FY14F**	**FY15F**	**FY16F**
Normalised EPS - basic (cps)	-0.5	-2.1	-1.0	-0.6	9.9	20.3	24.7	23.8
Normalised EPS - diluted (cps)	-0.5	-2.1	-1.0	-0.6	9.9	20.3	24.7	23.8
Reported EPS - basic (cps)	-5.4	-4.1	-1.0	-0.6	9.9	20.3	24.7	23.8
Reported EPS (diluted)	-5.4	-4.1	-1.0	-0.6	9.9	20.3	24.7	23.8
Cash EPS (diluted)	**-5.4**	**-4.1**	**-1.0**	**-0.6**	**10.1**	**20.8**	**25.2**	**24.4**
EPS growth	0%	309%	-51%	-44%	-1795%	105%	22%	-3%
Diluted average shares	224.9	224.9	608.9	608.9	608.9	608.9	608.9	608.9
PER (x) (norm EPS - basic)	**-182.3x**	**-44.5x**	**-90.7x**	**-161.3x**	**9.5x**	**4.6x**	**3.8x**	**3.9x**
PER (x) (norm EPS - diluted)	**-182.3x**	**-44.5x**	**-90.7x**	**-161.3x**	**9.5x**	**4.6x**	**3.8x**	**3.9x**
DPS (cps)	0.0	0.0	0.0	0.0	0.0	5.3	12.3	11.9
Payout ratio (%)	0%	0%	0%	0%	0%	50%	50%	50%
Dividend yield (net)	**0.0%**	**0.0%**	**0.0%**	**0.0%**	**0.0%**	**5.6%**	**13.1%**	**12.7%**
Franking	0%	0%	0%	0%	0%	0%	0%	0%
Dividend yield (gross)	**0.0%**	**0.0%**	**0.0%**	**0.0%**	**0.0%**	**5.6%**	**13.1%**	**12.7%**
Free cash flow yield	**-0.5%**	**-2.4%**	**-0.5%**	**-0.5%**	**12.2%**	**24.2%**	**27.1%**	**25.7%**
Key operational financials	**FY09**	**FY10**	**FY11F**	**FY12F**	**FY13F**	**FY14F**	**FY15F**	**FY16F**
Gross cash mining margin	0%	0%	0%	0%	54%	55%	56%	55%
EBITDA margin (%)	0%	0%	0%	0%	49%	52%	53%	52%
EBIT margin (%)	**0%**	**0%**	**0%**	**0%**	**49%**	**51%**	**52%**	**51%**
NPAT margin	**0%**	**0%**	**0%**	**0%**	**33%**	**35%**	**37%**	**37%**
Tax rate	0%	0%	0%	0%	30%	30%	30%	30%
EBITDA growth (pcp)	0%	309%	42%	-11%	-1589%	103%	19%	-5%
EBIT growth (pcp)	0%	309%	42%	-11%	-1562%	104%	19%	-5%
Normalised NPAT growth (pcp)	0%	309%	33%	-44%	-1795%	105%	22%	-3%
Gearing	**FY09**	**FY10**	**FY11F**	**FY12F**	**FY13F**	**FY14F**	**FY15F**	**FY16F**
Net Debt	7.8	-8.3	-73.7	-4.9	6.4	-98.9	-177.9	-251.2
Net Debt / Equity (%)	100%	-58%	-65%	-5%	4%	-38%	-53%	-61%
Net Debt / (Equity+Net Debt) (%)	50%	-140%	-188%	-5%	4%	-61%	-112%	-160%
Interest cover (x) (EBITDA)	0x	0x	15x	2x	50x	78x	-157x	-47x
Interest cover (x) (EBIT)	0x	0x	15x	2x	49x	77x	-155x	-46x
Net debt / EBITDA	6.7x	-1.7x	-10.9x	-0.8x	-0.1x	0.5x	0.8x	1.2x
Cashflows (A$mn)	**FY09**	**FY10**	**FY11F**	**FY12F**	**FY13F**	**FY14F**	**FY15F**	**FY16F**
Operating cashflows (pre-tax)	-1.0	-5.1	-2.8	-2.8	82.4	181.5	217.9	213.5
Cash Tax Paid	0.0	0.0	0.0	0.0	-11.1	-40.2	-59.3	-63.2
Capex - maintenance	-	-	-	-	-1.6	-3.1	-3.5	-3.5
Free cash flow	**-1.0**	**-5.1**	**-2.8**	**-2.8**	**69.7**	**138.2**	**155.1**	**146.8**
Capex - growth	-	-	-35.0	-65.0	-80.0	-	-	-
Other investing cashflows	-3.5	-6.0	-1.8	-1.0	-1.0	-1.0	-1.0	-1.0
Debt drawdowns / (repayment)	-0.5	-1.6	-	-	80.0	-	-	-
Equity raisings	1.6	21.3	105.0	-	-	-	-	-
Dividends	-	-	-	-	-	-32.0	-75.1	-72.6
Other cash flows	-0.9	-	-	-	-	-	-	-
Net increase in cash	**-2.6**	**8.5**	**65.4**	**-68.8**	**68.7**	**105.2**	**79.0**	**73.3**
Cash at end of the year	**0.2**	**8.3**	**73.7**	**4.9**	**73.6**	**178.9**	**257.9**	**331.2**
Balance Sheet (A$m)	**FY09**	**FY10**	**FY11F**	**FY12F**	**FY13F**	**FY14F**	**FY15F**	**FY16F**
Cash	0.2	8.3	73.7	4.9	73.6	178.9	257.9	331.2
Trade receivables	0.2	0.4	0.4	0.4	34.5	58.2	67.1	65.5
Inventories	-	-	-	-	-	-	-	-
Plant & equipment	5.7	0.0	35.0	100.0	180.0	180.0	180.0	180.0
Deferred tax assets	-	-	-	-	-	-	-	-
Intangibles	-	-	-	-	-	-	-	-
Other assets	14.4	5.9	5.9	5.9	5.9	5.9	5.9	5.9
Assets	**20.5**	**14.6**	**115.1**	**111.3**	**294.1**	**423.1**	**510.9**	**582.7**
Payables	4.3	0.5	2.2	2.0	30.0	54.7	62.3	62.5
Provisions	-	-	-	-	-	-	-	-
Tax liabilities	-	-	-	-	14.7	27.4	32.5	31.5
Total Borrowings	5.2	-	-	-	80.0	80.0	80.0	80.0
Other liabilities	3.3	-	-	-	-	-	-	-
Liabilities	**12.8**	**0.5**	**2.2**	**2.0**	**124.7**	**162.1**	**174.9**	**174.0**
Net Assets	**7.8**	**14.2**	**112.9**	**109.3**	**169.5**	**261.0**	**336.1**	**408.6**
Net Tangible Assets	7.8	14.2	112.9	109.3	169.5	261.0	336.1	408.6
Period end shares	224.9	224.9	608.9	608.9	608.9	608.9	608.9	608.9
NAV per share	0.0	0.1	0.2	0.2	0.3	0.4	0.6	0.7
ROE (%)	-30%	-67%	-11%	-6%	71%	95%	89%	71%
P / NAV (P/BV)	27.2x	14.9x	5.1x	5.2x	3.4x	2.2x	1.7x	1.4x
NTA per share	0.0	0.1	0.2	0.2	0.3	0.4	0.6	0.7
ROTE (%)	-314%	-131%	-11%	-6%	73%	97%	91%	73%
P / NTA (x)	27.2x	14.9x	5.1x	5.2x	3.4x	2.2x	1.7x	1.4x
EV ($mn)	19.7	25.3	498.6	567.4	578.7	473.5	394.4	321.2
EV / net debt (x)	-2.5x	3.1x	6.8x	115.1x	-90.9x	4.8x	2.2x	1.3x

Source: Credit Suisse estimates

Companies Mentioned *(Price as of 18 Jan 11)*
Aquila Resources (AQA.AX, A$9.89, UNDERPERFORM [V], TP A$8.00)
Aston Resources Ltd (AZT.AX, A$8.70, OUTPERFORM [V], TP A$9.50, OVERWEIGHT)
Bathurst Resources (BTU.AX, A$.97, OUTPERFORM, TP A$1.50)
Coal & Allied Industries Limited (CNA.AX, A$129.60, NEUTRAL, TP A$142.00, OVERWEIGHT)
Gloucester Coal (GCL.AX, A$13.16, NEUTRAL [V], TP A$15.00, OVERWEIGHT)
MacArthur Coal (MCC.AX, A$14.00, NEUTRAL [V], TP A$13.00)
New Hope Corporation (NHC.AX, A$4.96, OUTPERFORM, TP A$6.25)
Riversdale Mining (RIV.AX, A$16.38, NEUTRAL [V], TP A$18.50)
Whitehaven Coal (WHC.AX, A$7.20, NEUTRAL [V], TP A$7.00)

Disclosure Appendix

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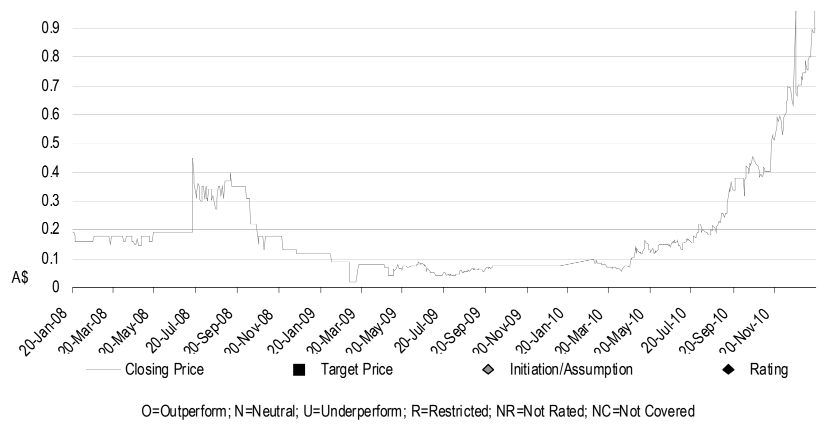
3-Year Price, Target Price and Rating Change History Chart for BTU.AX

BTU.AX Date	Closing Price (A$)	Target Price (A$)	Rating	Initiation/ Assumption



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Method: Our target price of $1.50/sh is set at 0.70x our "un-risked" discounted cashflow (DCF) valuation of $2.15/sh. BTU's Buller project is not in production. We have set our TP at a 30% discount to our valuation to reflect development risk inherent in our modeling assumptions. Our DCF is modeled over life of mine with a beta of 1 and a weighted average cost of capital of 10%.

Risks: Risks to our $1.50/sh target price include 1) Gaining access and environmental approvals needed to start production, 2) Accessing port and rail capacity, 3) Geology and coal quality risk, 4) Risk that capex is higher than management estimates, 5) Risk that operating expenses are higher than management estimates, 6) Risk that target production volumes are not met, 7) Financing risk - BTU requires an additional $20mn in financing to fund capex, and 5) Coal price and FX risk.

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