

Tuesday, 31 May 2011

Bathurst Resources Limited (BTU)

In Brief

Initiating coverage

- Bathurst Resources is a coking coal explorer focussed on establishing production from its 100 percent owned Buller Coal Project. The project is located to the North of Christchurch on the South Island of New Zealand.
- **Development:** The company is now in the final stages of construction, which is progressing as planned. Commissioning work is set to get underway during the next quarter with production expected to start late in the December quarter.
- **Premium product:** Bathurst is aiming to be a marginal producer of premium quality coking coal (low ash, high fluidity, highly bituminous), and has marketed its product to offtake partners as a potential high-grade 'sweetener' for blending with lower quality coals – given its low impurity levels and ability to be blended (fluidity).
- **Scale:** Initial mining will be 0.5 to 1 million tonnes per annum (mtpa) of hard coking coal, to be mined from the first mine (two mining faces: one open pit, one wash plant). Production is aimed for ramp up to 2mtpa within two years, and then 4mtpa from FY15 – with two additional prospects being brought online for mining to the north (Deep Creek and North Buller).
- **Infrastructure:** Common user rail, a deep-water port and a mining-friendly town are already in place at Westport; where the company will be based. The port currently holds 1.5mtpa of available capacity (to be grown), while the rail operator has expressed interest in accommodating Bathurst to fill the void left by Pike River.
- **Capex:** A 100 percent interest in the Buller Project was acquired for \$140 million, with an expected remaining capex requirement of \$64 million to get the project through development and commissioning. With a production profile of 2-4mtpa, this equates to a capital cost of A\$50-\$100 per tonne – signifying a relatively cheap project with a 3-year break-even period.
- **Risks:** In addition to the usual execution and ramp up risks, Bathurst has also experienced some delays in securing a mining permit over its Deep Creek prospect and is subject to heavy rainfall year-round, which presents operational risks unique to Bathurst.
- **Recommendation:** We initiate coverage on Bathurst with an accumulate on weakness recommendation and a valuation of \$1.40 per share.

Financial Summary

Bathurst Resources		2010 (A)	2011 (E)	2012 (E)	2013 (E)
Total Revenue	\$m	0.0	0.0	26.9	164.0
EBITDA	\$m	-4.8	-7.9	11.6	89.5
D&A	\$m	0.0	0.0	0.6	4.2
EBIT	\$m	-4.8	-7.9	11.0	85.2
Reported NPAT	\$m	-9.3	-5.6	8.0	61.4
Sustainable NPAT	\$m	-9.3	-5.6	8.0	61.4
Cash Flow per share	¢	-8.1	-0.8	1.3	9.9
EPS	¢	-14.7	-0.8	1.2	9.2
PE Ratio	x	N/A	N/A	104.9	13.6
DPS	¢	0	0	0	0
Consensus NPAT	\$m	-9.3	-19.0	8.6	102.6

Recommendations

Short Term:	Accumulate
Long Term:	Accumulate
Risk:	High
Price:	\$1.22
Price Target:	\$1.40

Snapshot

Monthly Turnover	\$94.8m
Market Cap	\$793m
Shares Issued	666.1m
52-Week High	\$1.30
52-Week Low	\$0.13
Sector	Materials

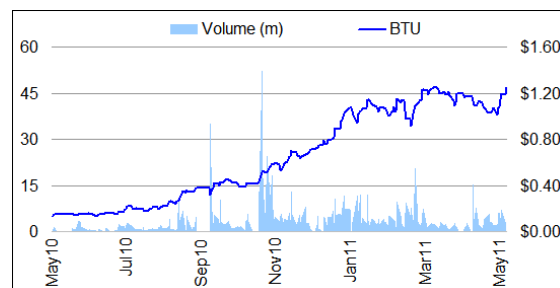
Business Description

Bathurst Resources Limited (BTU) is an Australian listed company focusing on becoming a producer of coking and thermal coal to niche export markets.

Investment Fundamentals

Year End	2010	2011	2012
Reported NPAT (\$m)	-9.3	-5.6	8.0
Sustainable NPAT (\$m)	-9.3	-5.6	8.0
EPS (¢)	-14.7	-0.8	1.2
PE Ratio (x)	N/A	N/A	104.9
DPS (¢)	0	0	0
Dividend Yield (%)	0%	0%	0%
Franking (%)	0	0	0
Consensus (\$m)	-9.3	-19.0	8.6

12-Month Price and Volume



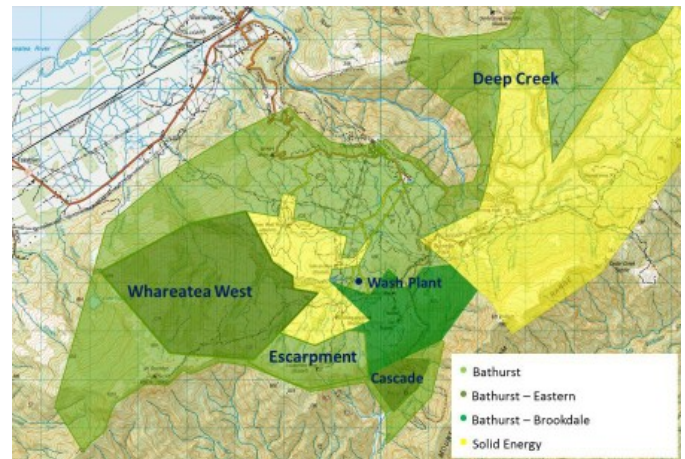
Analyst Name – Adrian Prendergast

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Disclosure: The author owns no shares in BTU.

- **Ore body:** The Buller Project is a high quality hard coking coal deposit. It is a continuation of the coal seams that were mined from the ill-fated Pike River (underground) Project. The key difference between the two projects is the seams run to shallower depths in Bathurst's tenements allowing them to be mined from an open pit.
- The coal seam ranges 4 to 6 metres in thickness under 30 to 40 metres of sandstone cover (versus Pike River which is under 200 metres of cover). At this stage, coal will be mined from two separate pits with two mining faces per pit to be developed giving the operation some optionality. While the geology is easy, the hardness of the rock requires drilling and blasting to mine. Along with a strip ratio of 8:1 (ranging from 5-10:1), this will prevent the project from keeping its operating expenses low.
- **OPEX:** Bathurst is estimating initial OPEX of A\$103 per tonne for the first 1mtpa of production at the south mine (Escarment prospect); mining the coal using drill and blast, truck and shovel. The higher cost mining method is required due to the presence of sandstone (hard) and old mine workings that will have to be mined through, the latter lowering recovery rates. While high, this still represents huge profit margins versus the current spot hard coking coal price of US\$300 per tonne.
- An extra 1mtpa of output is then expected to be added from the Deep Creek prospect, with a mining application currently pending. The contribution of Deep Creek will see total average OPEX for Bathurst decline to A\$83-\$88 per tonne according to company guidance.
- **Marketing:** Bathurst has importantly secured offtake partners for all of its initial mining operations. The company has also shown an interest in ultimately keeping 20-30 percent of its production uncommitted, allowing it to be sold into the spot market. Bathurst has offtake agreements with major coal consumers Stemcor (European) and CITIC Resources (Chinese), demonstrating its intention to diversify its customer base between resource consumers and traders – Stemcor being the world's largest independent steel trader; while CITIC Resources has invested billions in the mining sector (particularly in raw materials within Australia).
- **Eastern & Brookdale acquisitions:** Bathurst recently acquired neighbouring coal explorer Brookdale Mining Limited NZ, extending the company's footprint on the Buller Plateau. As shown in Figure 1, acquiring Brookdale's prospects 'fills the gap' between Bathurst's Escarpment and Deep Creek prospects, growing the potential for a larger operating scale or longer life mine at Escarpment.
- **Risks:** Bathurst has experienced some delays in securing a mining permit over its Deep Creek prospect following the tragedy at Pike River. However, considering Deep Creek will be an open pit operation, Bathurst is not expecting any long-term opposition to its mining operations expanding, with the government (so far) just asking for more information. The other major risk is weather - with the area subject to heavy rainfall year-round. This creates unique (tough) conditions for Bathurst. The company has designed its pits adequately but can not prevent some fines from being washed away. Also, given the project is in the mountains, operations are at times brought to a standstill by clouds touching down (creating dangerous zero visibility at site).

Figure 1:



South Buller Project

Figure 2:



Figure 3:



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Bathurst Resources Limited (BTU)

Analyst:	Adrian Prendergast
Date:	01 Jun 2011
Share Price: (\$A)	\$1.22
Issued Shares:	666.1m
Market Cap:	\$793m

Recommendations:	
Short Term:	Accumulate
Long Term:	Accumulate
Valuation:	\$1.40
Price Target:	\$1.40

Ratio Analysis

Year End: June 30	2010 (A)	2011 (E)	2012 (E)	2013 (E)
EBITDA Margin (%)			43.3%	54.5%
OCF ¢	-8.1	-0.8	1.3	9.9
PCF ¢	-15.5	-148.8	96.4	12.6
Basic EPS ¢	-14.7	-0.8	1.2	9.2
Adjusted EPS ¢	-14.7	-0.8	1.2	9.2
EPS Growth	N/A	N/A	N/A	N/A
P/E Ratio (x)	N/A	N/A	104.9	13.6

Balance Sheet (\$m)

Year End: June 30	2010 (A)	2011 (E)	2012 (E)	2013 (E)
Cash	8.3	65.6	12.3	63.4
Receivables	0.4	0.4	2.4	3.7
Other	0.2	0.2	0.2	0.2
Current Assets	8.8	66.1	14.8	67.3
Exploration, Research & Development	0.0	5.0	10.0	15.0
PPE	0.0	40.0	96.4	102.2
Investment & Invent	0.0	0.0	0.0	0.0
Other	5.8	5.8	5.8	5.8
Non-Current Assets	5.8	50.8	112.2	122.9
Total Assets	14.6	116.9	127.0	190.3
Payables	0.5	0.5	2.6	4.4
Borrowings	0.0	0.0	0.0	0.0
Provisions & Other	0.0	0.0	0.0	0.0
Current Liabilities	0.5	0.5	2.6	4.4
Borrowings	0.0	0.0	0.0	0.0
Provisions & Other	0.0	0.0	0.0	0.0
Non-Current Liabilities	0.0	0.0	0.0	0.0
Total Liabilities	0.5	0.5	2.6	4.4
Share Capital	33.0	140.9	140.9	140.9
Reserves	1.2	1.2	1.2	1.2
Retained Profits	-20.0	-25.6	-17.6	43.8
Outside Equity Int.				
Total Equity	14.2	116.5	124.4	185.9
Net Debt / (Cash)	-8.3	-65.6	-12.3	-63.4
Gearing (Net Debt / Net Debt + Equity)	-140.4%	-128.8%	-10.9%	-51.8%
Gearing (ND / Equity)	-58.4%	-56.3%	-9.8%	-34.1%

Financial Performance (\$m)

Year End: June 30	2010 (A)	2011 (E)	2012 (E)	2013 (E)
Total Operating Revenue	0.0	0.0	26.9	164.0
Operating Costs	0.0	0.0	13.1	72.6
Admin Expenses	4.4	2.9	2.2	1.9
Other Operating Expenses	0.4	5.0	0.0	0.0
Total Operating Expenses	4.8	7.9	15.3	74.5
EBITDA	-4.8	-7.9	11.6	89.5
D&A	0.0	0.0	0.6	4.2
EBIT	-4.8	-7.9	11.0	85.2
Net Interest	0.1	0.1	0.1	0.1
Pre-tax Profit	-4.7	-7.8	11.1	85.3
Tax	0.0	2.2	-3.1	-23.9
Reported NPAT	-9.3	-5.6	8.0	61.4
Significant Items				
Adjusted Profit	-9.3	-5.6	8.0	61.4

Cash Flow (\$m)

Year End: June 30	2010 (A)	2011 (E)	2012 (E)	2013 (E)
Cash Receipts	2.9	0.0	26.9	164.0
Cash Payments	-8.0	-7.9	-15.3	-74.5
Other	0.0	2.3	-3.0	-23.8
Operating Cash Flow	-5.1	-5.6	8.7	66.2
Capital Expenditure	-5.8	-45.0	-62.0	-15.0
Other	-0.2	0.0	0.0	0.0
Investing Cash Flow	-6.0	-45.0	-62.0	-15.0
Proceeds from Issues	19.8	107.9	0.0	0.0
Net Borrowings	-0.2	0.0	0.0	0.0
Dividends				
Other	0.0	0.0	0.0	0.0
Financing Cash Flow	19.6	107.9	0.0	0.0
Net Change in Cash	8.5	57.3	-53.3	51.2
Cash at start of period	0.2	8.3	65.6	12.3
Exchange Rate Adj.	-0.5	0.0	0.0	0.0
Cash at End of Year	8.3	65.6	12.3	63.4

Recommendations

Buy: Share price expected to appreciate by more than 10% during next 12 months.

Accumulate: Share price expected to appreciate by more than 10% during next 12 months. However, further short-term weakness possible.

Hold: Share price expected to trade between +10% and -10%.

Lighten: Share price expected to fall by more than 10% during next 12 months. However, share price may appreciate marginally in short term.

Sell: Share price expected to fall by more than 10% during next 12 months.

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