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Singapore Coal Sector

The fastest growing coal producers

SINGAPORE | MINING| SECTOR UPDATE & INITIATION

- **Singapore listed coal producers are growing production by 60% this year**
- **Indonesia domestic demand for coal is expected to double in ten years**
- **Coal prices to remain stable as China keeps demand-supply in check**

Investment Thesis

Indonesia is the sweet spot for coal production: Indonesia enjoys demand from two captive sources. Firstly, Indonesia fulfils 40% of China's imported coal requirements. Secondly, Indonesia will provide the spurt in demand domestically. We expect domestic demand for coal to ramp from 85mn tonnes in 2017 to 155mn tonnes in 2026. Demand for coal in Indonesia will be fuelled by the large roll-out of power plants. Indonesia aims to increase 35 GW of installed power capacity.

China will provide stability to coal prices: China is the world largest consumer and producer of thermal coal. As of 2016, total consumption volume of thermal coal is close to 4bn tonnes which accounted for around 50% of world consumption. China dictates global thermal coal prices. China's policy is to stabilise coal prices and even out demand-supply in order to benefit both thermal power and coal producers domestically. Under the 13th Five-Year Plan, China aims to further curb the growth of coal production, targeting at 3.9bn by 2020. This is a meagre 0.5% growth p.a. from the production of 3.8bn in 2015. The number of coal mines will be cut by 38% to 6000 by 2020. On demand, China plans to cap the coal consumption at 4.1bn tonnes by 2020 (2016: 4bn tonnes).

Singapore listed coal producers enjoying stellar growth: The coal producers under our coverage are expected to grow their production by 60% in FY17. This is much faster than their listed peers in Indonesia, whose production is set to grow by 8%. In addition to the accelerated growth, the valuations in Singapore are cheaper on a P/E and EV/reserve basis.

Investment Actions

Golden Energy and Resources (GEAR): The largest Singapore listed coal producer. It has four producing coal concession and coal reserves of 778mn tonnes. GEAR is ramping up its production by 90% over two years to 18mn in FY18e. We initiate coverage with a BUY rating with a target price of S$0.59 for FY18e.

Blackgold Natural Resources (BNR): BNR started coal production only in 2016 with a meagre 30k tonnes. We expected production to spike up to 1.3mn tonnes in FY18e after securing four new customers. BNR has sizeable coal reserves of 147mn tonnes. The award of a Riau 1 mine mouth power plant project could further triple production by 3.5mn tonnes. The ability to fund this huge project will be the challenge. We initiate BNR with a Trading BUY and target price of S$0.16. At our target price of S$0.16, BNR will be trading at 10x PE FY18e. This will be in line with regional peers.

Geo Energy Resources Ltd (GEO): In FY17, GEO targets to sell 10mn tonnes of coal. This is an 82% jump over FY16. The current reserves are over 90mn tonnes. We maintain our BUY rating with a target price of S$0.44.

28 August 2017

Golden Energy & Resources
BUY (INTIATION)

BLOOMBERG CODE	GER SP
CLOSING PRICE	SGD 0.445
FORECAST DIV	SGD 0.000
TARGET PRICE	SGD 0.590
TOTAL RETURN	32.6%

Blackgold Natural Resources
TRADING BUY

BLOOMBERG CODE	BHR SP
LAST TRADED PRICE	SGD 0.118
FORECAST DIV	SGD 0.000
TARGET PRICE	SGD 0.160
TOTAL RETURN	35.6%

Geo Energy Resources
BUY (MAINTAIN)

BLOOMBERG CODE	GERL SP
CLOSING PRICE	SGD 0.265
FORECAST DIV	SGD 0.000
TARGET PRICE	SGD 0.440
TOTAL RETURN	66.0%

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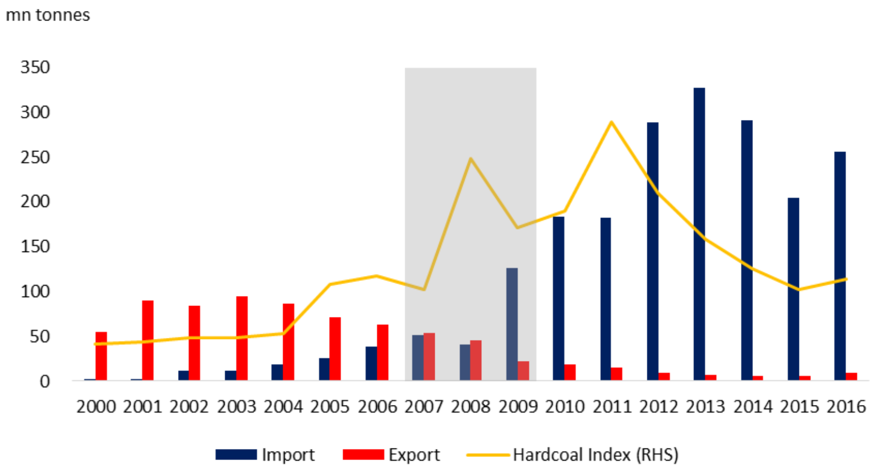
Investment Thesis

CHINA

China is the price setter for thermal coal

Thermal coal market is dictated by China since it is both the largest coal producer and consumer globally. As of 2016, China's coal production and consumption reached 3.5bn tonnes and 3.8bn tonnes, representing 46% and 51% of the total world volume respectively. However, multiple factors such as coal grade, logistics costs and environmental policies, make it challenging for the domestic coal supply is to fulfil the local demand. China is pushed to import. As per Figure 1, 2007-08 were watershed years as imports began to climb faster than exports. Coal prices then began their ascent to record highs. The move culminated in 2009 when China for the first time became a net importer of coal. China had not looked back since and is consistently a major importer of coal.

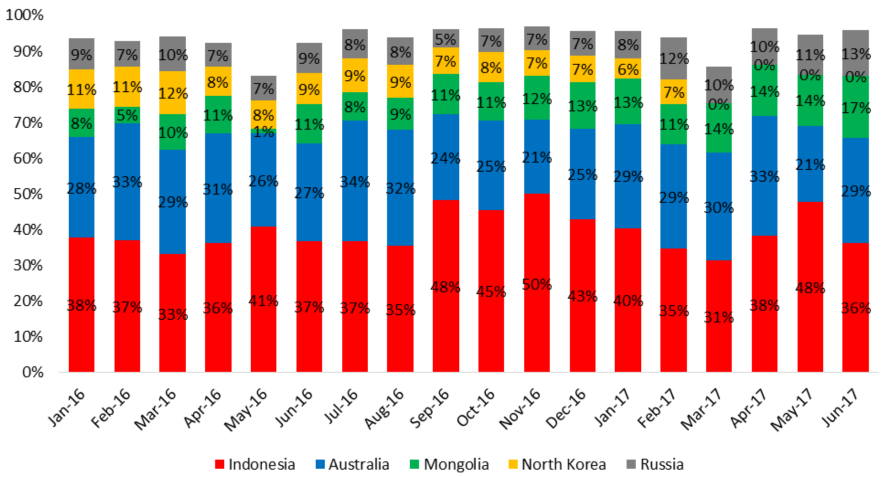
Figure 1: Watershed period of 2007-09 when China turned from net exporter to importer



Source: National Bureau Statistics of PRC, Bloomberg, PSR

Indonesia, Australia, North Korea, Russia and Mongolia are the five key countries that export coal to China. Over the period from Jan-16 to Jun-17, apart from North Korea where China started to ban imported coal from in Mar-17, the share of each country maintains at a stable range, with Indonesia the largest exporter (Figure 2).

Figure 2: Indonesia is the key source of coal imports into China



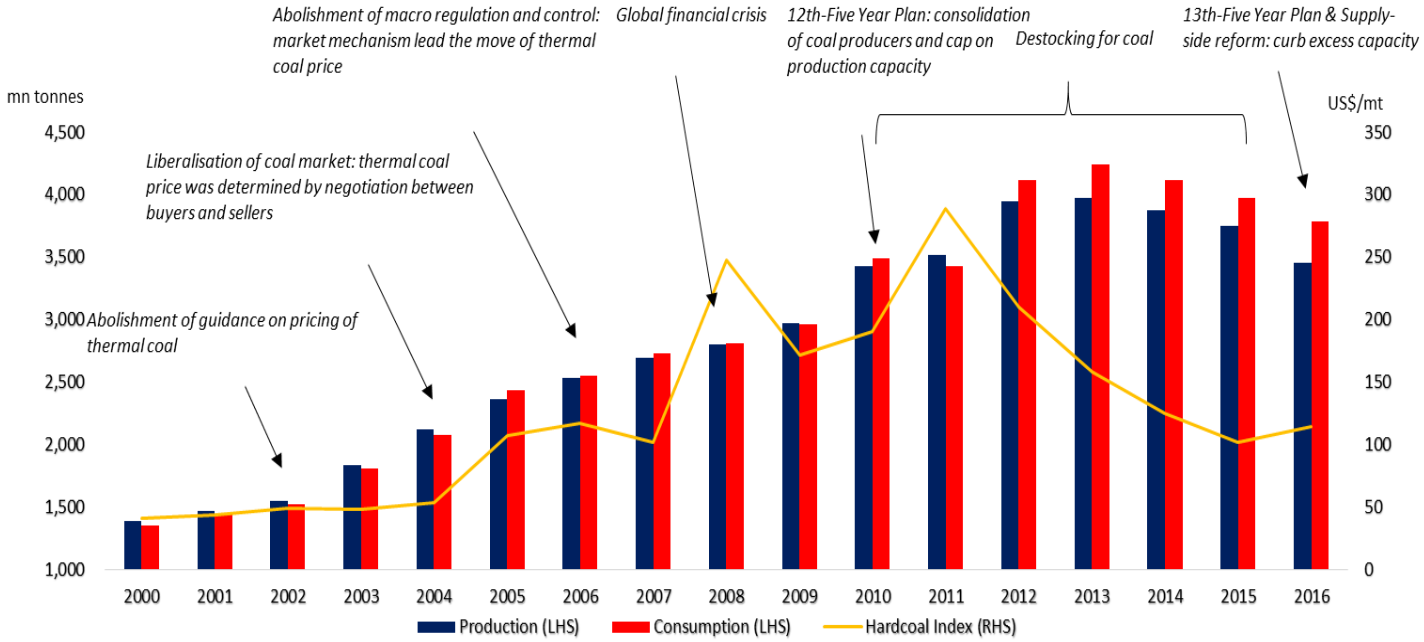
Source: General Administration of Customers of PRC, PSR

Over the years, China's government policies play an important role in the development and regulation of the coal market. These policies affect production and ultimately coal price (Figure 3).

The uptrend of coal production and consumption ended in 2013, but the bear market started two years before. The domestic top-down administrative regulations as well as macro guidance on coal market, listed below, had been paving a path for prices. Prior to 2010, China dedicated to the liberalisation of the coal market, aiming to integrate domestic prices with International ones. The loosened measures favoured the establishment of a bull market which lasted more than a decade. However, inefficient production and overstock surfaced with the end of the bull run. China had started to restructure the domestic coal market, and regulations started be tightened since 2010.

In 2016, the "Supply-side Reform" initiative further restricted coal production nationwide, resulting in a regional shortage of coal supply. Accordingly, the amount of imported coal surged amid the price rally.

Figure 3: Major policies and events impact on coal price in China



Source: National Bureau Statistics of PRC, China Coal Industry Yearbook, Bloomberg, PSR

Next five year plan is to curb production

13th Five-Year Plan for Coal Industry is the most important guide for domestic coal market in next five years. In general, China aims to further curb the growth of both coal production and consumption from 2016 to 2020, mainly through supply-side policies, shown in Figure 4. We believe that the government aims to consolidate the industry to eliminate excess capacity moving forward.

Figure 4: Summary of main guidelines for China's coal market in 1H17

Time	Department	Policy	Remark
Dec-16	National Energy Administration	13th Five-Year Plan for Coal Industry	800mn tonnes of obsolete coal production capacity is expected to be eliminated each year during 2016-20;
			500mn tonnes of advanced capacity will be added each year;
			Total coal production is estimated to be 3.9bn tonnes by 2020 (2015: 3.75bn tonnes)
			Total coal consumption will be capped at 4.1bn tonnes by 2020 (2015: 3.96bn tonnes)
			Total coal mines drop to 6,000 by 2020 (2015: 9,700)
			Coal producers drop to <3,000 (2015: 6,000)
			Percentage of large-cap enterprices with annul capacity of >50 mn tonnes increases to 60% (2015: 55%)
Jan-17	State Council	Plan on energy conservation and emission reductions for the 2016-2020	Energy consumption per unit of GDP reduces by more than 15%
			China's total energy consumption will be capped at 5bn tonnes of coal equivalent by 2020
May-17	National Development and Reform Commission	Guidelines on resolving steel and coal overcapacity in 2017	Phase out about 50mn tonnes of crude steel capacity and over 150mn tonnes of coal capacity

Source: NEA, State Council, NDRC, PSR

In the process, it is inevitable to generate a seasonal and regional shortage of supply, resulting in a volatile demand for imported coal. China attempts to stabilise coal prices by balancing the interests of domestic coal producers and power plants. Periodically is will also look to cool down coal import, see Figure 5.

Figure 5: Major events in China's coal market in 1H17

Time	Event	Remark
Feb-17	Suspend coal imports from North Korea	Find substitutes to supplement the shortage
May-17	Discuss measures to curb low-quality coal imports	Aim to decrease coal import volume by 5% to 10% YoY
Jul-17	Ban coal imports at small ports	More negative impact on coal trading in the southeast coast areas

Source: PSR

Longer-term China wants to shift to cleaner energy

China aims to structurally shift its energy consumption to cleaner energy (natural gas and renewables). According to "World And China Energy Outlook 2050 (2017)" published by CNPC Economics & Technology Research Institute, the peak of coal demand is gone, and the reduction of which will continue in the future and accelerate after 2030. It is estimated that demand for coal will drop from c.3.8bn tonnes in 2016 to 2.58bn tonnes by 2050. Clean energy will gradually substitute coal by 2030 and account for more than 50% of total consumption by 2045.

INDONESIA

Promising domestic demand for Indonesian coal

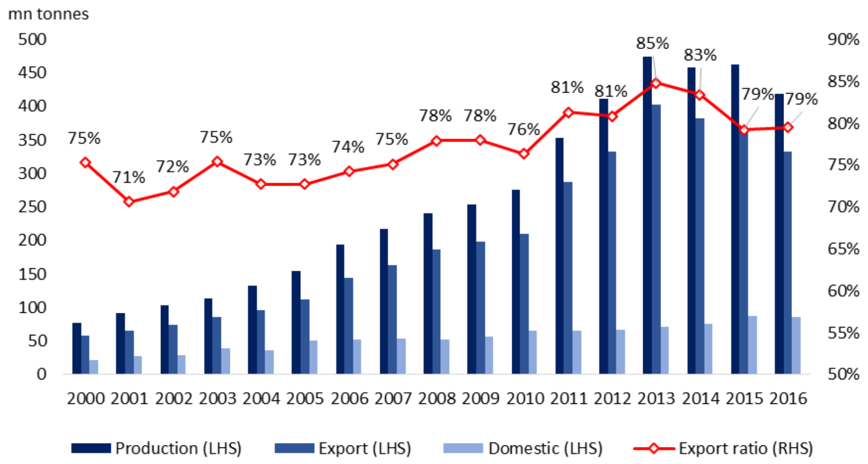
Indonesia is known for being the largest thermal* coal exporter in the world, accounting for more than half of the market share in terms of thermal coal export in Asia. According to The Ministry of Energy and Mineral Resources of the Republic of Indonesia, as of 2015, the coal reserves arrived at 32.3bn tonnes, of which 24.0bn tonnes were probable, and 8.3bn tonnes were proven. Breaking down by coal grade, 64% of the total reserve was within the range between 4,700 GAR to 5,700 GAR, and 28% of that was below 4,700 GAR.

Shown in Figure 6, from 2000 to 2015, the coal production grew at the CAGR of 13%, and meanwhile, the export ratio, proportion of export in total production, maintained at above 70% per annum or even reached above 80% in recent years. Therefore, domestic production mainly caters to the export demand. Referring to Figure 7, China, India, Japan, and Korea are the four top countries where Indonesia's coal is supplied to, whose demand takes up on average more than 40% of total export volume. Therefore, the coal sector is more subject to the variation of demand from these countries.

**Thermal or sometimes called steam coal, is used by power plants to generate steam in the production of electricity. This is in contrast to metallurgical coal (or coking coal) used in the making of steel.*

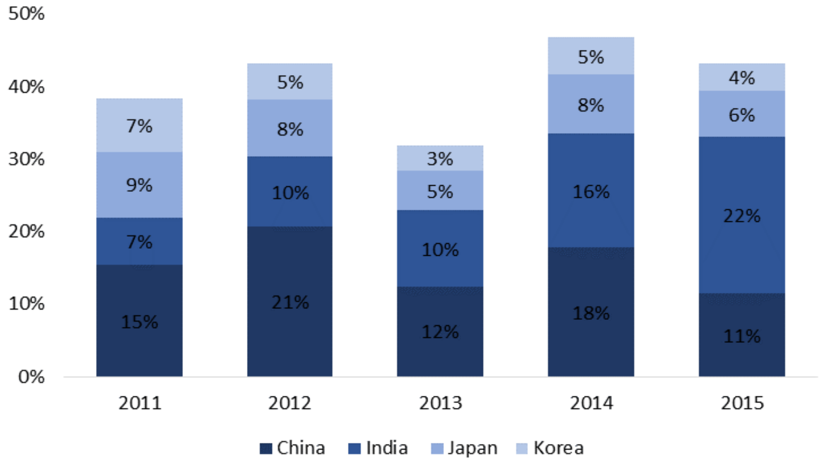
There are 4 broad ranking of coal: 1) Lignite, lowest quality and referred as brown coal (2200-4600kcal). It is more like soil than rock; 2) Sub-bituminous can be called the black lignite and higher quality coal for power plants and industrial users like cement (4700-7200kcal); 3) Bituminous, considered coking coal grade (6100-8100kcal); 4) Anthracite, which is the highest rank and relatively rare, called hard coking coal. It is almost pure carbon (7200-8300kcal). In general, the harder the coal, the higher the energy content and ranking.

Figure 6: Exports having been pulling up coal production



Source: Handbook of energy economy statistics of Indonesia 2016, PSR

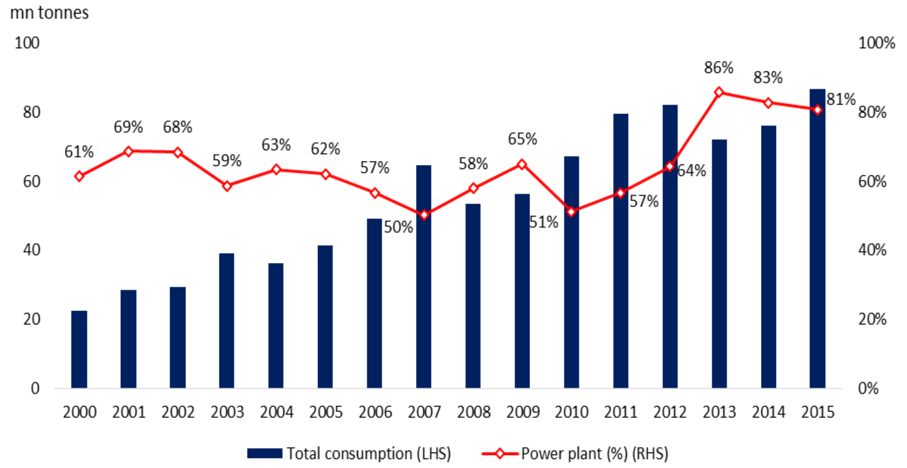
Figure 7: Percentage breakdown of exported coal by destinations



Source: Handbook of energy economy statistics of Indonesia 2016, PSR

Though coal exports are expected to dominate the coal sales in Indonesia in the near term, domestic consumption of coal has been scaling up owing to country's ambitious electrification plan. As shown in Figure 8, over the period from 2000 to 2015, the amount of coal that was used for power generation had been rising consistently. In particular, the percentage had arrived at more than 80% since 2013. In the next decade, coal consumption structure is expected to lean on the power sector.

Figure 8: Uptrend of domestic coal consumption is driven by power generation



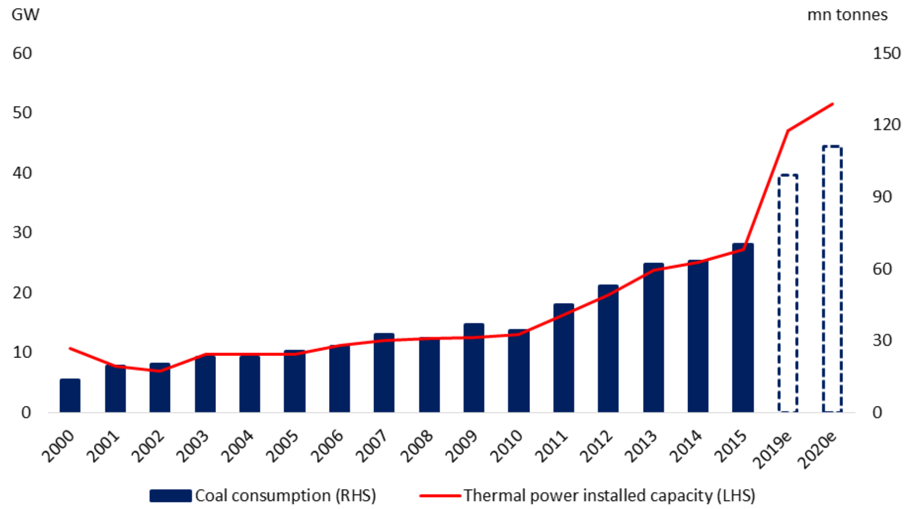
Source: Handbook of energy economy statistics of Indonesia 2016, PSR

Robust outlook for the Indonesia coal market

As of 1H2017, the electrification ratio (the percentage of Indonesian households connecting to the nation's electricity grid) rose to 92.8%. It is estimated to reach 100% in 2023 to 2024, according to the PLN's Electricity Supply Business Plan (RUPTL) 2017-2026. To achieve the target, Indonesia government initiated 35 GW programme starting from 2015 to 2019, which aimed to increase 35 GW of installed power capacity, and 56% of which (20 GW) was from coal-fired power. Shown in Figure 9, as of 2015, the thermal power installed capacity reached 27GW, and the corresponding coal demand for power generation reached 71mn tonnes. Upon the completion of the programme, the coal demand is expected to be 99mn tonnes by 2019 and 111mn tonnes by 2020.

In the medium term (2017 to 2026), RUPTL projects 77.9 GW of new capacity to be added, of which 31.9 GW will come from the thermal power plant (PLTU). Accordingly, coal demand is expected to level up gradually from 85mn tonnes in 2017 to 155mn tonnes in 2026, equivalent to a CAGR of 7%.

Figure 9: The upcoming spike in coal consumption in Indonesia



Source: Ministry of Energy and Mineral Resources, PSR

Indonesia government had prioritised domestic demand for coal since 2009 (Figure 10). The regulations are thought to be long lasting since they are in line with the ambitious ongoing electrification programme.

Figure 10: Policies and guidance for Indonesia's coal market

Time	Department	Policy	Remark
2009	Ministry of Energy and Mineral Resources	Mining Law No.4	Mandate the government should manage the resources through conserving and increasing value added of minerals and coal for the purpose of creating sustainable economic development
2009	Ministry of Energy and Mineral Resources	Domestic Market Obligation	Obligate coal mining company to sell and prioritise the coal to domestic market Export would be the second priority

Policy direction
Implement fulfilment priority of coal for domestic needs
Provide certainty and transparency in the activities of mining
To implement supervision and guidance
To encourage the increase of investment and revenue
To encourage the development of value added products of mining commodity
To maintain environmental sustainability through environmental management and monitoring

Source: Ministry of Energy and Mineral Resources, PSR

THE REST OF ASIA

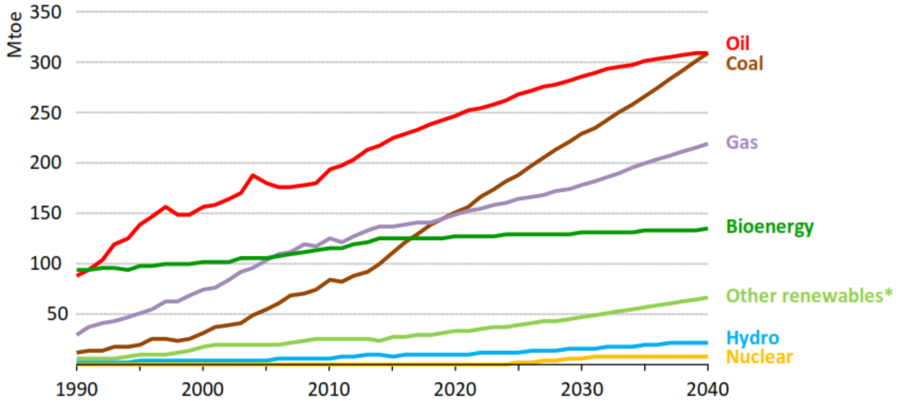
Electrification in Southeast Asia drives demand for coal in the long run

A population of 640mn resides in the SEA region as of Dec-16, and most countries located in the region are underdeveloped or developing. Electrification, a necessity for sustainable future economic growth, is far from full coverage across all population. Therefore, the progress of electrification has been developing but still unable to catch up with fast growing electricity demand. According to International Energy Agency (IEA), Southeast Asia Energy Outlook 2015, power demand generation by coal will grow phenomenally from 28 TWh in 1990 to estimated 482 TWh in 2020. Looking ahead, the demand will reach 1097 TWh by 2040. Correspondingly, the coal-fired capacity will grow at a CAGR of 5.4% from 51 GW in 2014 to 200 GW by 2040. Shown in Figure 11, coal demand, mainly driven by power generation, is expected to overtake oil as the largest consumption energy by 2040. The demand for coal will be more than double from 150 Mtoe 2020 to 310 Mtoe in 2040. However, the estimation was conservative and revised upward in 2017. Some research stated that the coal-fired capacity will reach 400 GW by 2040 in the region. Accordingly, we believe the demand for coal in the region could be far more than previous IEA's forecast if electrification penetrates as planned.

TWh: terawatt hours

Mtoe: million tonnes oil equivalent

Figure 11: Primary energy demand by fuel in Southeast Asia, 1990-2040



*Includes solar PV, wind, and geothermal.

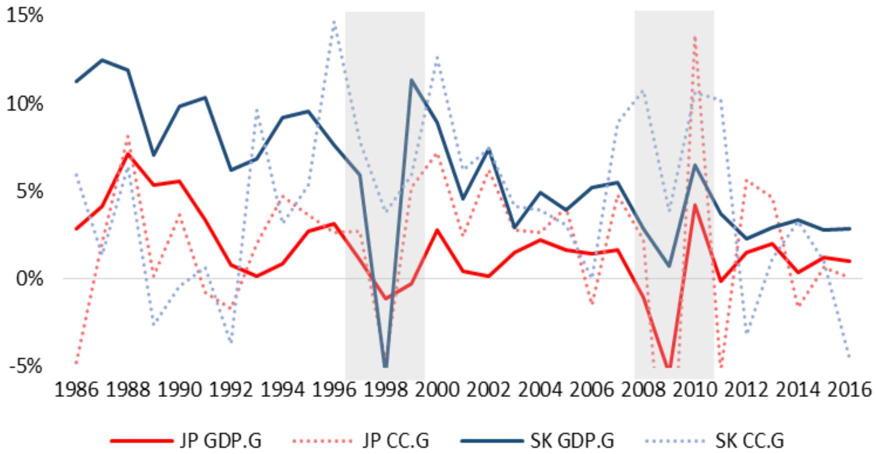
Source: IEA Southeast Asia Energy Outlook 2015, PSR

- **Focus on developing economies where see a coal demand growth**

Over the period from 1986 to 2016, according to BP World Energy outlook 2017, the consumption of coal, one of the three major fossil fuels, has been shrinking but in a very slow pace, falling from 39% to 33% of total consumption. Although the developed economies have been pushing to substitute fossil fuels consumption, especially coal, and even populous countries like China and India are catching up with the tide of green energy development, coal consumption still prevails amid the migration from west to east. For more details, please refer to the investment thesis session in our initiation report of Geo Energy.

Energy's affordability is a key pillar for either long-term sustainable or short-term stimulating economic growth. As of 2016, coal consumption accounted in Asia Pacific for 74% of total volume, out of which 51% and 11% were from China and India respectively. We believe that coal remains the major energy source in the region in the near term since it is one of the cheapest energy to propel a speedy economic growth. Japan and South Korea, the two leading economies in Asia, had gone through the high growth of the economy and stepped into the club of developed countries successfully. In the 1990s, Japan (JP) had entered the era of low economic growth, while South Korea (SK) followed the path after 20 years, starting from 2010. As shown in Figure 12, the coal consumption growth (CC.G) keeps pace with GDP growth (GDP.G) in both countries. Over the period of financial crisis and post-crisis, a V-shape pattern that exhibited the dive and rebound of economy applied in coal consumption perfectly, because low-cost energy consumption was the considerably efficient and effective way for a prompt recovery.

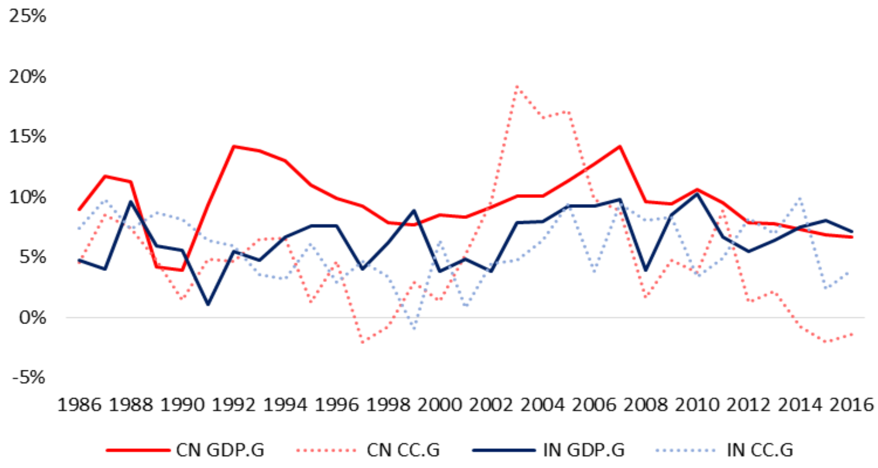
Figure 12: Slowdown of Japan and South Korea in GPD and coal consumption growth



Source: BP Statistical Review of World Energy 2017, World Bank, PSR

China (CN) and India (IN), the two fastest growing developing economies, displayed the similar pattern, shown in Figure 13. However, the rise of these two countries started to show diversity. In recent years, China's economic growth has relatively moderated and coal consumption dropped year by year accordingly. However, India, favoured by Modi's administration, was accelerating the domestic growth, which drove up coal consumption that is expected to surge in the near future.

Figure 13: GDP and coal consumption growth: Slowdown in China but speedup in India



Source: BP Statistical Review of World Energy 2017, World Bank, PSR

Moreover, ASEAN region which is undeveloped has huge potential demand for coal. Indonesia, Philippines and Vietnam maintained an annual c.5% to c.7% GDP growth over the past five years. Both these three countries' coal demand growth averaged at c.10% per annum during the same period, according to the latest BP Statistical Review. In a nutshell, the take-off of an economy in developing countries necessitates coal to be the propellant, so we see a promising future of coal demand in such developing economies.

Refer to Figure 22 under Phillip Coal Tracker, we see that there will be 971 coal plants established (construction and shelved) in East Asia, followed by 238 in South Asia and 143 in Southeast. China continues to expand the coverage of urbanisation, and more new coal plants are to be deployed, so proposed units (announced, pre-permit, and permitted) in East Asia still outnumber those in the rest regions. However, in terms of growth of proposed plants, Southeast Asia will be the fastest growing region where the proposed units will be almost double the current operating of 274.

Sectoral overview

Below we list the Indonesian coal producers listed both in Indonesia and Singapore. Most of the coal producers plan to raise the production target in FY17. However, the Singapore listed coal producers are growing production multiple times faster than their Indonesian peers. Valuations are also more attractive in Singapore on a PE and EV/reserve basis.

Figure 14: Peer comparison

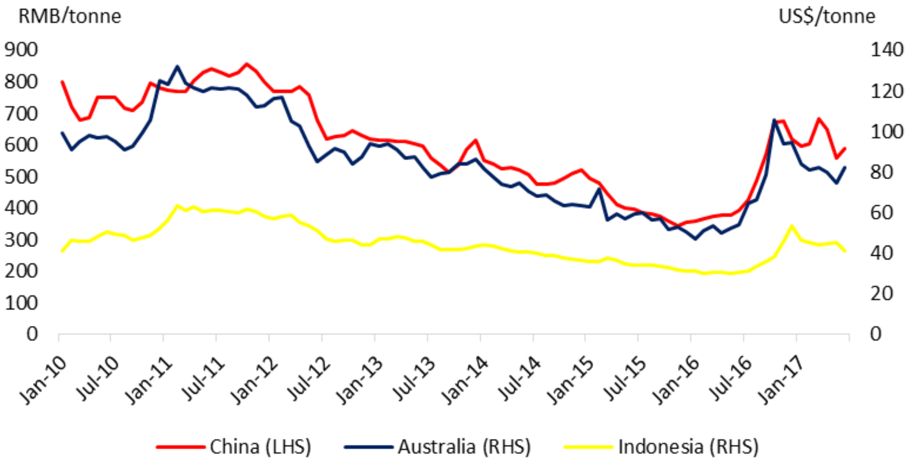
Company	Bloomberg Ticker	Mkt Cap (SGD mn)	EV (SGD mn)	EV/EBITDA TTM	RESERVE (mn tonnes)	EV/RESERVE (SGD/tonnes)	PRODUCTION (mn tonnes) FY16	PRODUCTION (mn tonnes) FY17e	FY17e P/E	FY16 P/E	FY16 P/B	Net D/E (%)	ROA (%)	ROE (%)
Singapore														
Golden Energy & Resources	GER SP	1,047	1,139	5.3	780	1.5	9.5	14.0	9.9	26.0	2.3	Net Cash	9.4	20.0
Geo Energy Resources	GERL SP	359	323	2.4	100	3.2	5.5	10.0	6.6	5.2	1.7	0.8	17.9	37.1
BlackGold Natural Resources	BHR SP	110	115	N/A	147	0.8	0.3	0.5	N/A	N/A	6.9	39.1	-20.5	-29.7
Indoneisa														
Adaro Energy	ADRO IJ	6,340	7,548	5.1	1,200	6.3	52.5	52.0-54.0	11.2	12.5	1.4	9.4	6.0	12.1
Bukit Asam Persero	PTBA IJ	3,076	2,854	5.0	3,300	0.9	19.6	24.0	8.8	8.9	2.3	Net Cash	17.1	28.9
Indo Tambangraya Megah	ITMG IJ	2,306	1,797	2.6	198	9.1	25.6	25.5	7.7	8.3	1.8	Net Cash	16.9	22.7
Harum Energy*	HRUM IJ	661	428	3.1	113	3.8	7.9	10.0	12.8	15.0	1.6	Net Cash	7.7	10.9
Baramulti Suksessarana**	BSSR IJ	624	586	5.2	114	5.1	6.4	8.4	9.7	11.2	4.2	9.2	21.6	37.9
Market-cap Weighted Average				**4.5**		**5.3**			**10.0**	**11.2**	**2.3**	**9.3**	**13.8**	**22.5**

Coal reserve estimate was as of 2016
**Harum Energy: coal reserve estimate was as of 2009*
***Baramulti Suksessaran: coal reserve estimate was as of 2012*
Source: Bloomberg, Company, PSR

Coal price outlook

As Figure 15 shown, coal prices in China (Qinhuangdao Port Thermal Coal 5500 kcal FOB Spot Price Weekly), Australia (Newcastle Port Thermal Coal 6000 kcal FOB Spot Price Weekly), and Indonesia (Indonesian Coal Reference Price Ecocoal 4200 kcal) have been sharing the similar trend and movement from 2010 to current, implying that coal exporters such as Australia and Indonesia are more price takers while China is a price maker.

Figure 15: Synchronized price movement in China, Australia, and Indonesia



Source: Bloomberg, PSR

Was the price rally sustainable in the near term future? We think the government intends to maintain coal prices at a level that profits both power plant operators and coal producers in China. The rationale behind the regulations is to reduce price volatility and balance interests shared by market participants. In 3Q16, National Development and Reform Commission (NDRC) encouraged power and coal companies to be bonded by mid- to long-term coal sales and purchase agreement on the basis of a price level of Rmb535/tonne (US$80/tonne). NDRC, China National Coal Association, China Electricity Council, and China Iron and Steel Association jointly announced a thermal coal price alert mechanism against abnormal fluctuation. The announcement classified three ranges of price levels as references for the government to regulate coal market supply and demand to stabilise thermal coal price.

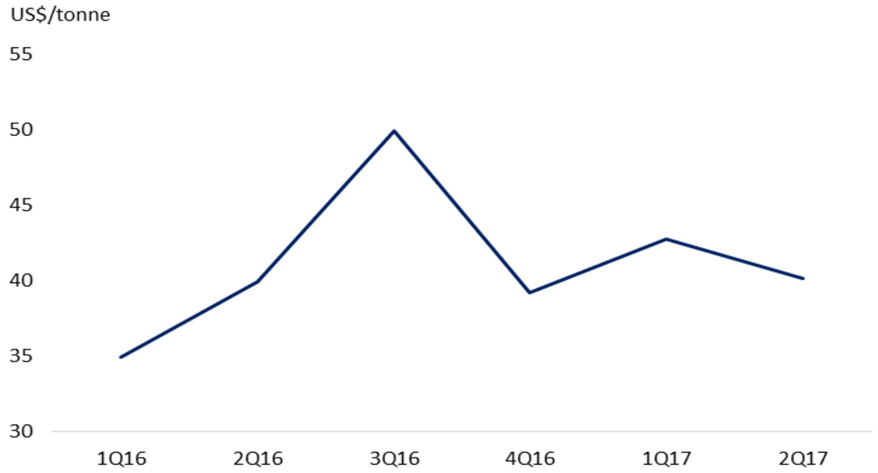
We see it a stabiliser of coal price moving forward. Therefore, we expect average coal price (4,200 GAR) to be within US$37/tonne to US$38/tonne in FY17e and FY18e.

Figure 16: Thermal coal price alert mechanism

	Indentification	Fluctuation interval	Price interval (Rmb/tonne)	
			Lower bound	Upper bound
Green zone	Normal	Within 6%	>500	<570
Blue zone	Moderate	6% to 12%	470 - 500	570 - 600
Red zone	Abnormal	Above 12%	<470	>600

Price base is Rmb535/tonne
Sources: NDRC, PSR

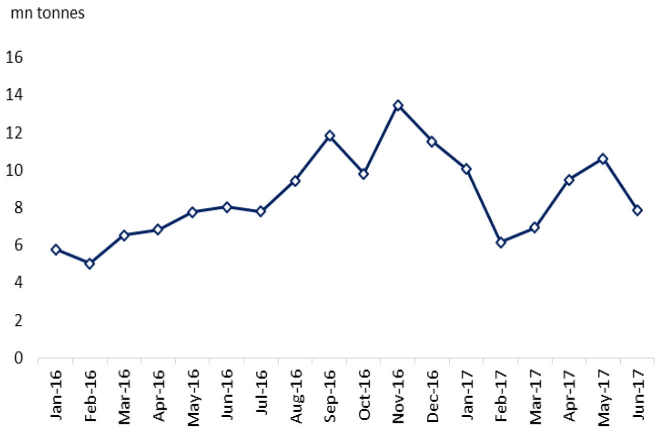
Figure 17: Average quarterly ICI 4,200 GAR price



Source: Argus, PSR

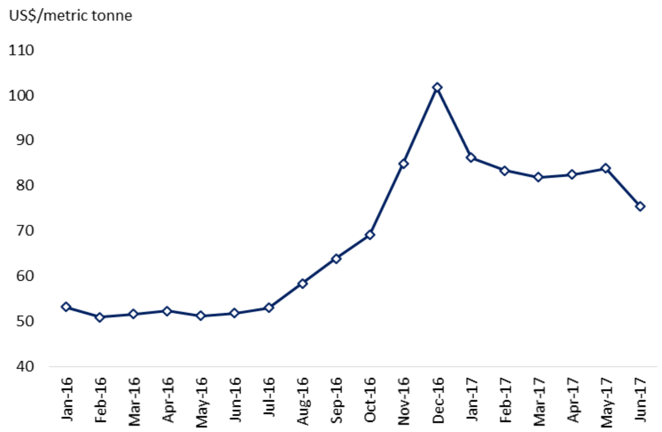
Phillip Coal Tracker: Our snapshot of coal markets

Figure 18: Coal import from Indonesia to China



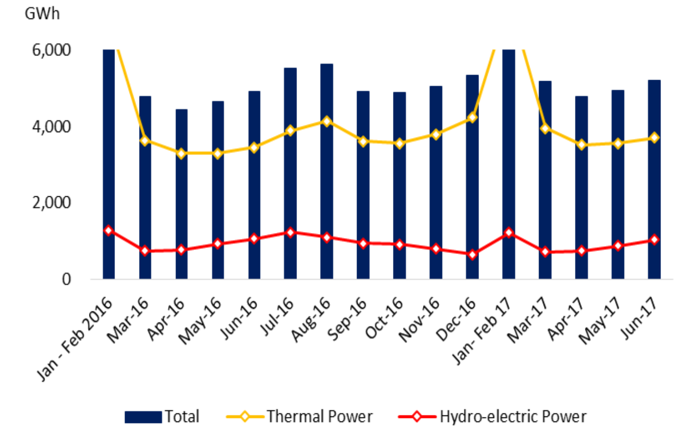
Source: General Administration of Customers of PRC, PSR

Figure 19: Indonesia coal price reference (HBA)



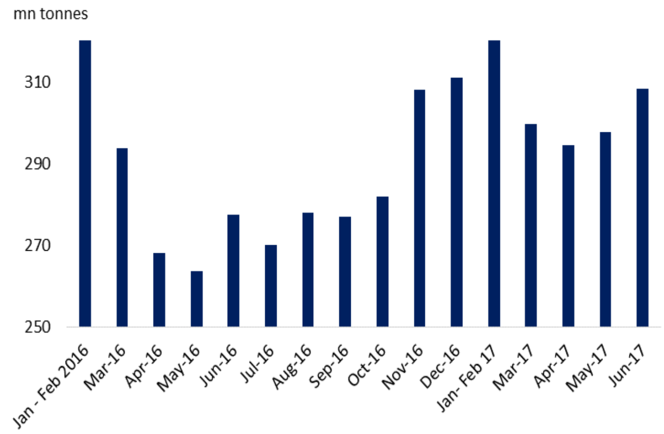
Source: Coalspot.com, PSR

Figure 20: Monthly thermal and hydro power generation in PRC



Source: National Bureau Statistics of PRC, Bloomberg, PSR

Figure 21: Monthly coal production in PRC



Source: National Bureau Statistics of PRC, Bloomberg, PSR

Figure 22: Proposed coal plants by region as of Jul-17

	East Asia		South Asia		Southeast Asia	
	Units	Capacity (MW)	Units	Capacity (MW)	Units	Capacity (MW)
Announced	126	73,612	53	36,530	113	41,260
Pre-permit	150	72,467	79	58,125	86	33,800
Permitted	79	37,585	56	33,265	34	15,645
Subtotal	355	183,664	188	127,920	233	90,705
Construction	311	162,501	88	48,643	76	26,977
Shelved	660	423,899	150	92,398	67	36,517
Opearting	3,119	1,021,375	913	220,991	274	68,319
Total	4,800	1,975,103	1,527	617,872	883	313,223

Source: Global Coal Plant Tracker, PSR

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Golden Energy and Resources

An upcoming giant

SINGAPORE | MINING| INITIATION

- **Looking for a 50% ramp-up in production volumes**
  In FY16, GEAR produced 9.5mn tonnes of coal, out of which 7.5mn tonnes and 2 mn tonnes were from BIB mine and KIM mine respectively. As of 1H17, the group completed 43% of the FY17 target production of 14mn tonnes (BIB: 12mn tonnes, KIM: 2 mn tonnes). GEAR longer-term target is to more than triple production in five years to 34m tonnes in 2021.

- **Low cash cost and strip ratio**
  The average life-of-mine strip ratio of BIB mine (key mine) is estimated at 4.1. In FY16, the average cash cost and ASP were reported at US$19.5/tonne and US$35.0/tonne respectively. As of 1H17, the cash profit (ASP minus cash cost) was reported at US$20.8/tonne. The average cash cost for FY17e and FY18e is estimated to be US$21.2/tonne and US$20.1/tonne. Industry cash cost is around US$40-50/tonne.

- **Abundant reserves for long-term development**
  Currently, GEAR owns four key coal mining concessions and large total reserves of 778mn tonnes. In May-17, the group proposed to acquire a mine, BSL. Upon the completion of the acquisition, the total reserves are estimated to be 993mn tonnes.

- **Diversified sales channels lower geopolitical risks**
  The domestic market took up more 50% of the coal sales in FY15 and FY16 respectively, followed by China (>20%) and India (>10%). The group is aligning the production with the rising domestic coal demand as well as complying with policies that prioritise coal for domestic needs.

Background

Golden Energy and Resources Limited is the largest coal producer listed in Singapore. The Company sources thermal coal from its coal mining concession areas, covering an aggregate of approximately 42,904 hectares in South and Central Kalimantan, Jambi (a province in Sumatra), and South Sumatra Basin Indonesia.

Investment action

Based on FY18e EPS of 4.34 US cents and a forward PER of 10x (USD/SGD 1.36) we derive our target price of S$0.59. This implies an upside of 32.6% from the last closing price.

28 August 2017

BUY (INITIATION)

CLOSING PRICE	SGD 0.445
FORECAST DIV	SGD 0.000
TARGET PRICE	SGD 0.590
TOTAL RETURN	32.6%

COMPANY DATA

BLOOMBERG CODE	GER SP
O/S SHARES (MN) :	2,353
MARKET CAP (USD mn / SGD mn) :	770 / 1047
52 - WK HI/LO (SGD) :	0.71/ 0.37
3M Average Daily T/O (mn) :	0.83

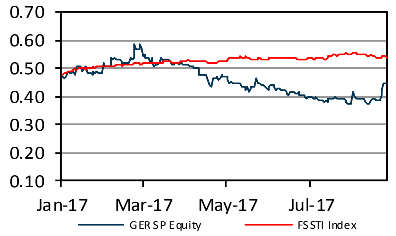
MAJOR SHAREHOLDERS (%)

PT DIAN SWASTATIKA SENTOSA	86.9%
RUSSELL INVESTMENTS IRELAND LTD	0.03%
YU NENG LIM	0.01%

PRICE PERFORMANCE (%)

	1MTH	3MTH	1YR
COMPANY	17.8	2.1	N/A
STI RETURN	0.1	2.6	17.9

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Dec	FY15	FY16	FY17e	FY18e
Revenue (US$ mn)	360	393	541	689
EBITDA (US$mn)	38	89	185	245
PATMI (US$ mn)	(9)	22	73	102
P/E (x)	N/A	N/A	10.6	7.5
P/B (x)	7.74	5.7	2.0	1.3
Dividend Yield (%)	N/A	N/A	1.8%	N/A
ROE (%)	N.M	7%	19%	18%
ROA (%)	N.M	4%	10%	10%

Source: Company, PSR

VALUATION METHOD

P/E MULTIPLE (PER: 10.0x)

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Investment Merits

1. Abundant reserves for long-term development

Currently, GEAR owns four key coal mining concessions, namely PT Borneo Indobara (BIB), PT Trisula Kencana Sakti (TSK), PT Wahana Rimba Lestari (WRL), and PT Kuansing Inti Makmur (KIM), shown in Figure 23. As of Dec-16, reserves excluding TKS's arrived at 778mn tonnes. Together with PT Barasentosa Lestari (BSL) which the Group proposed to acquire in May-17, total reserves under GEAR reach 973mn tonnes. It is able to support GEAR's development for more than 40 years provided the production will be maintained at 20mn tonne per annum. Coal produced in the BIB mine has a wide range of calorific value (CV), meaning that coal supply from the mine caters to both power generation (low CV coal demanded) and metallurgy (high CV coal demanded). Diversity in coal grades enables the group to buffer the impacts from the cyclical fluctuation of coal demand since electrification is not necessarily correlated with a metallurgical boom.

Furthermore, GEAR owns a broad field of forestry resources, and the concession of which is held by PT Hutan Rindang Banua (HRB). The listed plantations as consumer products will cater to demand from growing domestic middle class. Though pulp log sales are trivial in terms of revenue contribution as of now, there are a lot of untapped resources awaited to be utilised. For instance, 13,523 ha of land have land rent-use right, representing areas of overlapping mining permits with third parties who have encroached onto the group's forestry concession land to carry out mining activities. In other words, GEAR will receive compensation from these third parties as an extra income.

Figure 23: Coal and forestry reserves

Coal mine	Area (hectares)	Reserves (mn tonnes)	Average calorific value (GAR)	Production (mn tonnes)	
				FY16	FY17e
BIB	24,100	652	3,864 - 6,528	7.5	12
TKS	9,707	N/A	5,352	-	-
WRL	4,739	70	2,865	-	-
KIM	2,610	56	4,835- 4,961	2	2
	41,156	**778**		**9.5**	**14**
BSL*	24,385	195			
	65,541	**973**			

Forestry	Area (hectares)	Plantation
HRB	265,095	Acacia Mangium
		Jabon
		Sengon
		Rubber

**BSL: Proposed acquisition in May-17, 195mn coal reserves are from South Block, one of the two sub-blocks*

Source: Company, PSR

Figure 24: Locations of the existing mines

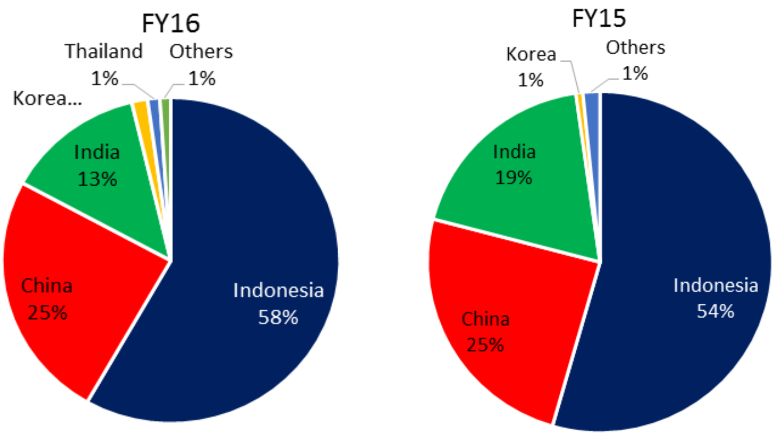
Source: Company, PSR

2. Diversified sales channels lower geopolitical risks

GEAR sells coal to multiple countries across Asia. Amongst all, shown in Figure 25, China is the biggest coal export market, followed by India. Korea, Thailand, Malaysia, Singapore, UK, and Philippines purchased coal from GEAR though revenue from them accounts for less than 5%. Domestic coal sales increased by 4ppt to 58% in FY16 in Indonesia which remains a major market for GEAR's coal.

Diversified sales channels are an important stabiliser to the group. As we mentioned above, coal trading is substantially sensitive to government policy changes wherever it occurs in the domestic or overseas market. For GEAR, shifting it target market is critical as it captures this next wave of coal consumption. In other words, the group is aligning the production with rising domestic coal demand as well as complying with policies that prioritise coal for domestic needs. Therefore, more than close to 60% of the turnover is sheltered with a promising demand. Indonesia coal is still in demand in both China and India for a relatively long period in the future. However, both governments, who mediate between internal supply and external import, prioritise interests of domestic coal producers undoubtedly. Hence, geopolitical risks such as banning coal import and levying higher customs exist constantly. Maintaining respective China and India a relatively small portion of coal sales buffers the group when policies turn.

Figure 25: Revenue breakdown by geographic locations

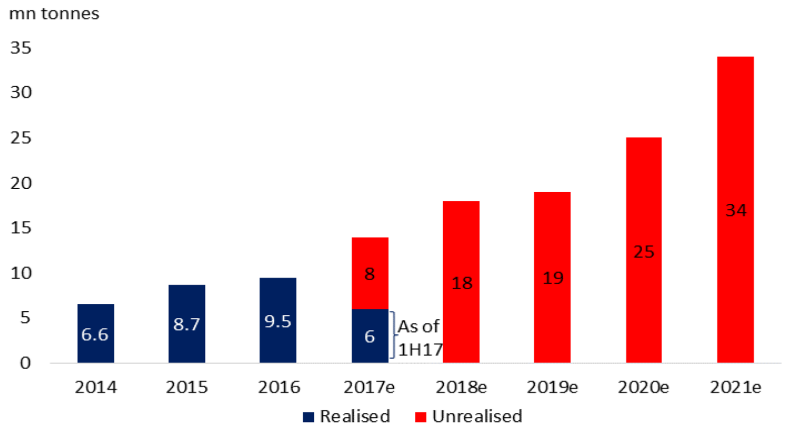


Source: Company, PSR

3. Significant ramp-up of production volumes

Shown in Figure 26, in FY16, GEAR produced 9.5mn tonnes of coal, out of which 7.5mn tonnes and 2 mn tonnes were from BIB mine and KIM mine respectively. As of 1H17, the group completed 43% of the FY17 target production of 14mn tonnes (BIB: 12mn tonnes, KIM: 2 mn tonnes). Moving forward, GEAR aims to achieve 34mn tonnes of production by 2021, and more importantly, the plan only takes BIB mind and KIM mine into account. Outputs from the rest mines, especially the recent being acquired (BSL), will be icing on the cake. Therefore, it is expected to realise production expansion in the near term.

Figure 26: Production visibility till 2021

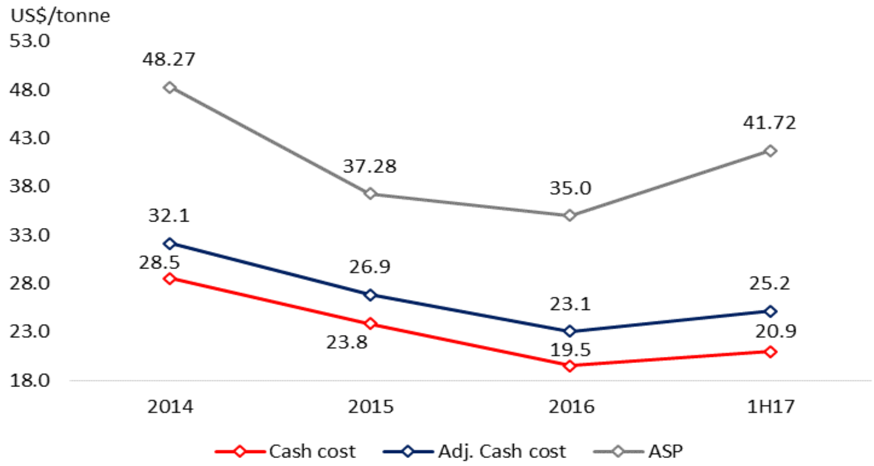


Source: Company, PSR

4. Low mining cost and strip ratio

As of 1H17, GEAR's coal production was mainly from BIB mine where average life-of-mine strip ratio is estimated at 4.1 (4.1 tonnes of overburden are removed to extract 1 tonne of coal). The low rate level results in low production cost, shown in Figure 27. The gap between cash cost (Adj: adjusted) and average selling price (ASP) has been widening, because coal price bottomed out in 2016 while operating expenditures only grew mildly. ASP tracks the volatile International coal price which is beyond company's control, but mining costs are comparatively stable. Low cash cost benefits GEAR in two ways, enhancing profit margin when ASP soars and buffering the downturn when ASP collapses, and the latter merit is important for sustainable growth in the long term.

Figure 27: Low cash cost on a downtrend



**Cash cost: including COGS & selling expenses; excluding royalty fees*
***Adj. Cash cost: cash cost including royalty fees*
Source: Company, PSR

How do we view GEAR

The outlook for GEAR is bright. In the short-term, it will ramp up production capacity to take advantage of favourable macro conditions, including a boom in domestic electrification as well as coal price recovery. Within the next couple of years, we are positive that the group is able to deliver stable growth. In addition, GEAR also benefits from diversification of end-customers as well as trading partners, which lower the geopolitical risks and trading risks. In a long-term view, the mining operation is backed by abundant coal reserves that reach approximate billion tonnes once the acquisition of BSL mine is completed. The total reserves are expected to support the ongoing production for several decades if GEAR produces 20mn tonnes per annum. Moreover, the average life-of-mine strip ratio for BIB mine, the key mine as of now, is low, resulting in low mining costs that provide more room for the profit margin.

Key assumptions

Figure 28: Key variables assumption

(US$ mn)	2014	2015	2016	2017e	2018e
Production volume (mn tonnes)	6.6	8.7	9.5	13.5	17.0
ASP (US$/tonne)	48.4	37.3	35.0	39.5	40.0
Revenue	435,953	359,771	393,272	540,994	688,689
Cash cost (US$/tonne)	28.5	23.8	19.5	21.2	20.1
Adj. cash cost (US$/tonne)	32.1	26.9	23.1	25.2	23.9
EBIT	21,108	2,163	58,742	147,697	204,256
EBIT margin (%)	5%	1%	15%	27%	30%
PATMI	10,791	(9,395)	22,006	72,874	102,101
Net margin (%)	2%	-3%	6%	13%	15%

Source: Company, PSR

Valuation Methodology

Based on FY18e EPS of 4.34 US cents and average 12-month forward PER of 10.0x, as well as USD/SGD exchange rate of 1.36x as the FX rate, eventually, we derive our target price of S$0.59 for FY18, which implies an upside of 32.6% from the last closing price.

Financials

Income Statement

Y/E Dec, USD mn	FY14	FY15	FY16	FY17e	FY18e
Revenue	**436**	**360**	**393**	**541**	**689**
Gross profit	147	112	144	253	319
EBITDA	**44**	**38**	**89**	**185**	**245**
Depreciation & amortisation	23	35	30	37	41
EBIT	**21**	**2**	**59**	**148**	**204**
Net Finance (Expense)/Inc	(6)	(12)	(11)	(9)	(10)
PBT	**15**	**(10)**	**48**	**139**	**194**
Taxation	(4)	1	(14)	(35)	(49)
PAT	**11**	**(9)**	**34**	**104**	**146**
Non-controlling interests	0	1	12	31	44
PATMI	**11**	**(9)**	**22**	**73**	**102**

Per share data

Y/E Dec, US Cents	FY14	FY15	FY16	FY17e	FY18e
EPS	0	(0)	0	3	4
DPS	-	-	-	0.6	0.8
BVPS	8	4	6	17	24

Cash Flow

Y/E Dec, USD mn	FY14	FY15	FY16	FY17e	FY18e
CFO					
PBT	15	(10)	48	139	194
Adjustments	23	49	31	42	44
WC changes	(8)	(33)	(16)	(68)	(7)
Cash generated from ops	38	39	78	181	238
Others	(3)	(10)	(8)	(16)	(22)
Cashflow from ops	**36**	**29**	**70**	**165**	**216**
CFI					
CAPEX, net	(33)	(61)	(26)	(71)	(15)
Others	(1)	1	(0)	(1)	(0)
Cashflow from investments	**(33)**	**(60)**	**(26)**	**(71)**	**(16)**
CFF					
Share issuance, net	-	-	84	-	-
Loans, net of repayments	0	48	(74)	54	10
Dividends	-	(2)	(6)	(5)	(1)
Others	-	-	-	-	-
Cashflow from financing	**0**	**46**	**4**	**49**	**9**
Net change in cash	**2**	**16**	**48**	**143**	**210**
Effects of exchange rate	5	(1)	2	4	3
Ending cash	**63**	**44**	**79**	**158**	**363**

Source: Company, Phillip Securities Research (Singapore) Estimates

Balance Sheet

Y/E Dec, USD mn	FY14	FY15	FY16	FY17e	FY18e
ASSETS					
PP&E	55	60	59	63	70
Mining properties	87	64	84	121	94
Goodwill on consolidation	1	99	106	106	106
Others	32	73	44	42	41
Total Non-current Assets	**174**	**295**	**292**	**332**	**311**
Cash	63	44	79	158	363
Inventories	10	17	9	11	15
Trade receivables	68	91	79	106	130
Others	-	47	60	118	177
Total Current Assets	**141**	**198**	**227**	**394**	**685**
Total Assets	**316**	**493**	**519**	**725**	**996**
LIABILITIES					
Borrowings	-	105	47	53	53
Others	4	7	14	14	15
Total Non-current Liabilities	**4**	**112**	**61**	**67**	**68**
Trade payables	58	87	62	82	102
Borrowings	5	21	2	51	61
Others	1	1	9	17	17
Total Current Liabilities	**71**	**109**	**73**	**150**	**180**
Total Liabilities	**74.6**	**220.3**	**134.4**	**217.1**	**247.8**
Shareholder Equity	247	191	297	391	576
Non-controlling Interests	1	82	88	117	172

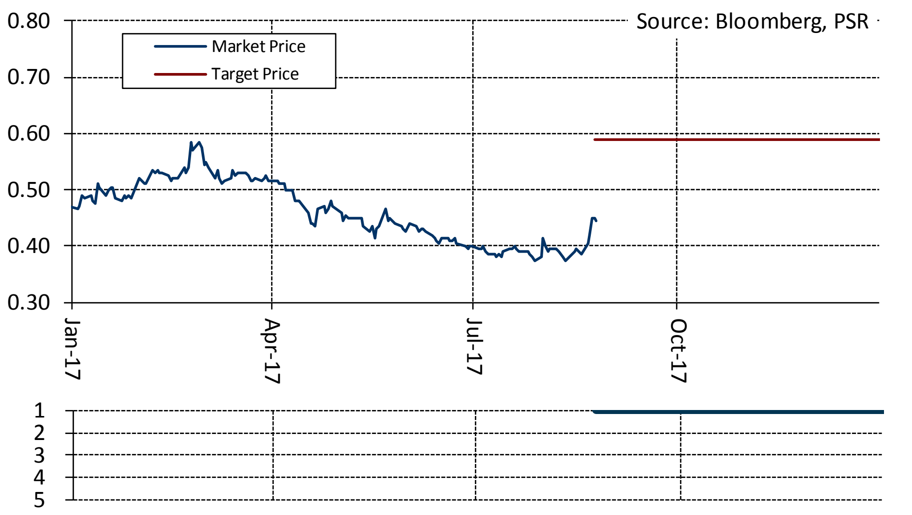
Valuation Ratios

Y/E Dec	FY14	FY15	FY16	FY17e	FY18e
P/E (x)	N/A	N/A	75.6	10.8	10.8
P/B (x)	N/A	N/A	2.6	2.0	1.9
EV/EBITDA	N/A	N/A	9.4	4.0	3.5
Growth & Margins (%)					
Growth					
Revenue	N.A.	-17%	9%	38%	27%
EBIT	N.A.	N.M	N.M	151%	38%
PATMI	N.A.	N.M	N.M	231%	40%
Margins					
Gross margin	33.7%	31.1%	36.6%	46.7%	46.3%
EBIT margin	4.8%	0.6%	14.9%	27.3%	29.7%
PATMI margin	2.5%	N.M.	66.0%	79.8%	83.3%
Key Ratios					
ROE (%)	4%	N.M	7%	19%	18%
ROA (%)	3%	N.M	4%	10%	10%
Net Debt or (Net Cash)	(58)	81	(29)	(54)	(249)
Gearing (%)	2%	25%	10%	14%	11%

N.M: not meaningful

*Forward multiples & yields based on current market price; historical multiples & yields based on historical market price.

Ratings History



PSR Rating System

Total Returns	Recommendation	Rating
> +20%	Buy	1
+5% to +20%	Accumulate	2
-5% to +5%	Neutral	3
-5% to -20%	Reduce	4
< -20%	Sell	5

Remarks

We do not base our recommendations entirely on the above quantitative return bands. We consider qualitative factors like (but not limited to) a stock's risk reward profile, market sentiment, recent rate of share price appreciation, presence or absence of stock price catalysts, and speculative undertones surrounding the stock, before making our final recommendation

Blackgold Natural Resources

Spike in coal sales

SINGAPORE | MINING | TRADING BUY

- Expect a spike in coal production to 1.3mn tonnes in FY18e.
- Award of Riau 1 mine-mouth power plant project will triple coal sales. But funding will need to be addressed.
- Initiate with Trading BUY and a target price of S$0.16.

Background

Blackgold Natural Resources (BNR) was formerly known as NH Ceramics. On Mar15, it acquired three coal concessions for US$150mn through the issuance of 635.6mn shares at S$0.295 each. The most valuable concession is Samantaka Batubara (SB), its only coal producing mine, has reserves of 147mn tonnes. The other two concessions are at the exploratory stage.

Share price drivers

1. **Jump in production:** Production of SB only started in FY16 with 30,000 tonnes of thermal coal. In 1H17, production touched 57,000 tonnes. We expect production to spike up to 1.3mn tonnes for FY18.

2. **New offtake customers:** BNR has secured four large customers for SB, with the rise in power consumption in Sumatra, we do not rule out the company securing even more customer or increased demand from existing customers. Power consumption in Sumatra has been growing 9% p.a. the past five years. This is expected to rise even faster to 11% p.a. from 2017-2026 or double in six years, according to PLN (RUPTL).

3. **Riau 1 will triple coal sales:** SB will be the exclusive supplier of coal to Riau 1 power project (2x300MW). This project requires 3.5mn tonnes of coal per annum and can triple FY18e production. In addition to the large volume, another advantage of being a mine-mouth power plant coal supplier is the selling price of coal is benchmarked at production cost plus a margin. This provides income stability and bankability for the project.

Risk

Financing of Riau 1 opportunity is large: To capitalize on Riau 1 opportunity, BNR will need to fund the expansion of coal production by 3.5mn. BNR will require US$60mn in capital expenditure. Another financing need will be if BNR takes a stake in the Riau 1 power plant itself. While details are limited, we estimate BNR will require another US$54mn for a 20% stake in Riau 1.

Investment action

We initiate with Trading BUY and target price of S$0.16. Positive news-flow from the surge in coal sales and award of Riau 1 project will be the major share price drivers for BNR. At our target price, BNR will be trading at 10x PE FY18e. This will be in line with regional peers.

28 August 2017

TRADING BUY

LAST TRADED PRICE	SGD 0.118
FORECAST DIV	SGD0.0
TARGET PRICE	SGD0.160
TOTAL RETURN	35.6%

COMPANY DATA

BLOOMBERG	BHR SP
O/S UNITS (MN) :	931
MARKET CAP (USD mn / SGD mn) :	81/ 110
52 - WK HI/LO (SGD) :	0.2 / 0.03
3M Average Daily T/O (mn) :	13.77

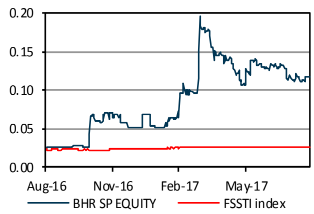
MAJOR SHAREHOLDERS

Twin Gold Ventures S.A.	21.93%
Rockfield Lake Ltd	16.16%
Novel Creation Holdings Ltd	8.83%

PRICE PERFORMANCE (%)

	1MTH	3MTH	1YR
COMPANY	(7.1)	4.4	413.0
STI RETURN	(0.87)	2.08	17.12

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS (BHR SP) *

USD 000	FY14	FY15	FY16
Revenue	-	-	320
EBITDA	(29,189)	(29,189)	(3,634)
NPAT	(29,189)	(29,189)	(3,634)
EPS (SGD)	n.m.	n.m.	n.m.
PER, x	n.m.	n.m.	n.m.
P/BV, x	229.0	5.8	7.7
DPU (SGD)	-	-	-
ROE, %	n.m.	n.m.	n.m.

Source: Bloomberg, PSR

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* Our trading recommendations are valid for six months and do not incorporate comprehensive forecast.

Background

Blackgold Natural Resources (BNR) was formerly known as NH Ceramics. On Mar15, it acquired three coal concessions (Figure 29) for US$150mn through the issuance of 635.6mn shares at S$0.295 each.

The most valuable concession is Samantaka Batubara (SB), which is its only coal producing mine and has reserves of 147mn tonnes. The other two concessions are at the exploratory stage.

Figure 29: Of the three concession, only SB has reserves and production

Coal assets	License	Location	Reserves (m MT)	Concession Area (ha)	Comment	kcal/kg
Samantaka Batubara	IUP	Riau, Sumatra	147	15000	Production stage	3400
Asuindo Andalas Mandiri	IUP	Riau, Sumatra	n.a.	19840	Exploration stage	n.a.
Ausindo Prima Andalas	IUP	Riau, Sumatra	n.a.	10710	Exploration stage	n.a.

Source: Company, PSR

Figure 30: The 3 mining concessions

Source: Company

Figure 31: Vendor/places during RTO

Vendor	mn shares	Comment
Twin Gold Ventures	301.2	Major shareholder Sujono Hadi Sudarno
Rockfield Lake	150.4	Major shareholder Lerman Ambarita
Novel Creation	82.2	Major shareholder Sudiarso Prasetio
UOBKH	50.8	
Others	51.0	
	635.6	

Source: Company

Investment Thesis

1) Share price driver 1: Coal production and sales ramp

SB only started production in FY16 with 30,000 tonnes. We expect this to spike to 1.3mn tonnes in FY18e. A risk to production will be further delays by customer Santosa and Soma. Both are earmarked for power plants.

Figure 32: Breakdown of our FY18e coal sales estimate

Customers	Announce/MOU	MT p.a.	Duration	Timeline
PLN Tenayan	Dec-16	500,000	5 years	1st delivery Feb17
PT Santosa Makmur Sejahtera Energy*	Nov-14	250,000	10 years	2H17
PT Soma DayaUtama*	Nov-14	250,000	10 years	1H18
Semen Padang	Feb-17	300,000	11months	1st delivery Mar17
		1,300,000		

Source: Company, PSR

* Original volume from both customers were 360k MT p.a.

2) Share price driver 2: More new customers

Over the last 12 months, SB has secured two major customers – PLN Tenayan and Semen Padang (Figure 32). We do not rule out the company securing even more customer or increased demand from existing customers, in view of the increasing demand for power in Sumatra. Power consumption in Sumatra has been growing 9% p.a. the past five years. This is expected to rise even faster to 11% p.a. from 2017-2026 or double in six years, according to PLN (RUPTL).

3) Share price driver 3: Award of Riau 1 power plant project

The big opportunity will be the award of Riau 1 power project. BNR will enjoy two sources of profits from Riau 1 mine-mouth. The first profit will be supplying on an exclusive basis, 3.5mn tonnes coal per annum to the power plant, for 30 years. This will triple 2018e production*. Secondly, BNR is able to enjoy profits generated by the Riau 1 power project itself.

* Based on the Independent Qualified Person's Report ("IQPR"), SB can report US$30m PATMI with Riau 1 coal supply (but this excludes financing cost).

Figure 33: Some Details of Riau 1

Name	Riau 1 Mine-Mouth Power Plant
Coal required	3.5mn MT per year for 30 years
Capacity	2 x 300MW BOOT
Coal supply commence	2021
Status	Tender has been submitted to PLN
Capital Expenditure	US$60m on coal infrastructure
	Capex include land compensation,
	coal handling processing, roads, permits, etc
Coal Source	Pit North M5 and Pit South
20% equity stake in Riau 1 power plant	~US$70m
Project partner	China Huadian Engineering Co Ltd

Investment risk

The largest risk to our investment thesis is funding of Riau 1 opportunity. There will be two areas of funding required. Firstly, to expand coal capacity by 3.5mn tonnes, BNR will require capital expenditure of around US$60mn. This was highlighted in the IQPR (10 Aug17); Secondly, BNR intends to take a stake in the Riau 1 power plant project. There have been no details of the cost of the project. Our estimates are based on other power plant projects is a capital expenditure of around US$900mn. Assuming 30% equity funding for Riau 1 and BNR takes a 20% stake, it will cost BNR US$54mn.

Figure 34: Our estimate of Riau 1 project cost is US$900mn

Company	Location	Power (MW)	Location	Capex (US$m)	Capex per MW (US$m)	Coal (m MT p.a.)	Coal per GW (m MT p.a.)
Adaro	Bhimasena	2x1000	Central java	4200	2.1	7.0	3.5
Adaro	Tj Power	2x100	South Kalimantan	545	2.7	1.0	5.0
Bukit Asam	Banjarsari	2x110	Sumatra	350	1.6	1.4	6.4
Bukit Asam	Banko Tengah	2x620	Sumatra	1600	1.3	5.4	4.4
BlackGold	Riau	2x300	Sumatra	900	1.5	3.5	5.8

Source: Adaro, PTBA, Company, PSR

Figure 35: Balance sheet still reliant on placements to fund growth

Date	Placement	Share px S$	No of shares (m shares)	S$m	Shares Outstanding (m)
Jul-17	New shares	0.123	66.7	8.2	930.9
May-17	New shares	0.0901	39.5	3.6	864.2
Apr-17	New shares	0.09	35.9	3.2	824.6
				15.0	

Source: SGX, Company

Valuation

We are assuming BNR earns US$10.9m PATMI in FY18e. This is on the back of 1.3mn tonnes coal sales and ASP of US$40/tonne with a cash cost of US$25/tonne.

We are pegging BNR valuations to regional peers. This gives us a valuation of around 10x PE. This gives us a target price of S$0.16 (assuming US$1 = S$1.36). We think BNR should trade in line with industry due to its high growth in production.

Worth noting that our PATMI is sensitive to our assumptions. Every 1% change in ASP is 4% impact to PATMI. And every 1% change in cash cost has similar 1% impact to PATMI.

Figure 36: We estimate FY18e PATMI of S$10.9m

FY18e	Assumption	US$m	IQPR assumptions
Revenue	US$40 per MT	52.0	1.22m MT sales at US$46/MT
Cash cost	US$25 per MT	32.5	US$19/MT
Gross profit		19.5	
Admin cost	Annualised 1H17	(5.0)	
Finance cost		0.0	
PBT		14.5	
Tax	25% corporate tax	(3.6)	25% of PBT
PATMI		10.9	Net margin 23% (PSR 21%)

Source: IQPR, PSR

PhillipCapital

Geo Energy Resources Ltd

Poor weather in 2Q17

BULL AND BEAR™ StocksBnB.com

SINGAPORE | MINING | 2Q17 RESULTS

- Revenue and PATMI exceeded our expectation
- We maintain the unchanged forecast of coal sales volume of 8.5mn tonnes with ASP of US$37/tonne in FY17.We lower our TP from S$0.45 to S$0.44 and maintain a BUY call

Results at a glance

(US$ mn)	1H17	1H16	YoY (%)	Comments
Revenue	158.2	33.3	375.4	Substantial increase in coal sales volume (3.7mn tonnes in 1H17 vs 1.3mn tonnes in 1H16) and average selling price (US$39.7/tonne in 1H17 vs US$31.4/tonne in 1H16)
Gross profit	44.5	1.5	N.M	In line with the above
EBIT	37.7	4.5	N.M	One-off gain on disposal of subsidiaries and late payment interest charged to certain debtors in 2Q16
PAT	24.6	1.4	N.M	Increase in income tax expenses
PATMI	24.6	0.1	N.M	In line with the above

Source: Company , PSR

N.M: Not Meaningful

Positives

+ Production plan is still on track: The slippage in sales of coal QoQ (2Q17:1.45 mn tonnes vs 1Q17:2.21 mn tonnes) was due to interruption of mining work, which stemmed from prolonged monsoon season as well public holidays. The duration of rainfall was reported at 321 hours (1Q17: 158 hours). The weather condition in 2Q17 was thought to be an anomaly. The group set the coal sales target of 10mn tonnes earlier on this year, out of which 7mn tonnes were secured. Management expects a higher volume of coal sales in 2H17 given better weather conditions.

Negatives

- Capital restructuring halted amid cash burning: In 1Q17, GEO proposed an early redemption of MTN with a par value of S$100mn (US$71mn) that is due in Jan-18, followed by a refinancing plan of issuance of a USD-denominated fixed rate senior note announced in Jun-17. However, the group decided not to proceed the new note offering in Jul-17. Hence, the early redemption is still pending. Apart from the capex of US$31.1mn upon the completion of the acquisition of TBR mine, other substantial cash outflows include deposits and prepayments of US$23.1mn for jetty expansion as well as dividend pay-out of US$8.7mn. As a result, cash in hand arrived at US$20mn as of Jun-17.

Outlook

Production target is on track with stable coal price in 2H17, and the free cash flows are expected to be US$15mn to US$20mn each quarter for 2H17. This appears to be insufficient to cover the full repayment of US$71mn MTN by Jan-18 without extra funding. Management reiterated that alternative sources of funding are available, including but not limited to bank loans, bonds, public/private placement, joint ventures, and new offtake agreements.

Investment Action

We maintain the unchanged forecast of coal sales volume of 8.5mn tonnes with ASP of US$37/tonne in FY17. We raise the forecast of PATMI to US$43mn (previous US$42mn) due to some costs adjustments. Based on a lower average forward 12-month PER of 10.0x (previous: 11.0x) and a high FX of 1.36 (previous 1.30), we derive our TP of S$0.44 for FY17 and maintain a BUY rating.

28 August 2017

BUY (MAINTAIN)

CLOSING PRICE	SGD 0.265
FORECAST DIV	SGD 0.000
TARGET PRICE	SGD 0.440
TOTAL RETURN	66.0%

COMPANY DATA

Bloomberg Code	GERL SP
O/S SHARES (MN) :	1,329
MARKET CAP (USD mn / SGD mn) :	264 / 359
52 - WK HI/LO (SGD) :	0.36 / 0.11
3M Average Daily T/O (mn) :	5.605

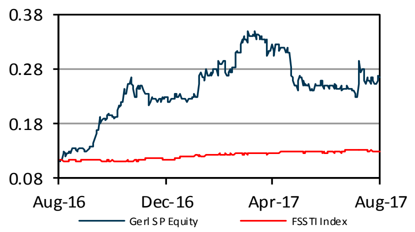
MAJOR SHAREHOLDERS (%)

MASTER RESOURCES	28.3%
MELATI CHARLES ANTONN	16.0%
SURYA DHAMMA	8.4%
HEAH THEARE HAW	6.0%
THONG HUANG SHE	2.5%

PRICE PERFORMANCE (%)

	1MTH	3MTH	1YR
COMPANY	8.2	19	150.7
STI RETURN	0.1	2.6	17.9

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Dec	FY15	FY16	FY17e	FY18e
Revenue (US$ mn)	22	182	315	383
EBITDA (US$ mn)	(6)	53	91	104
PATMI (US$ mn)	(16)	22	43	55
P/E (x)	N.M	10.6	6.0	4.7
P/B (x)	2.4	19	2.4	11
Dividend Yield (%)	N/A	4.4%	N/A	N/A
ROE (%)	N.M	18%	33%	22%
ROA (%)	N.M	7%	15%	16%

Source: Company, PSR

VALUATION METHOD

P/E Multiple (PER:10.0x)

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Financials

Income Statement

Y/E Dec, US mn	FY14	FY15	FY16	FY17e	FY18e
Revenue	**53**	**22**	**182**	**315**	**383**
Gross profit	(2)	0	42	85	101
EBITDA	**(4)**	**(6)**	**53**	**91**	**104**
Depreciation & amortisation	7	5	13	17	17
EBIT	**(11)**	**(10)**	**40**	**74**	**87**
Net Finance (Expense)/Inc	(5)	(8)	(6)	(6)	(1)
PBT	**(16)**	**(18)**	**34**	**67**	**86**
Taxation	3	(10)	(10)	(24)	(30)
PAT	**(13)**	**(28)**	**24**	**44**	**56**
Loss from discotinued operation	0	0	(1)	0	0
Non-controlling interests	(0)	(12)	(0)	1	1
PATMI	**(13)**	**(16)**	**22**	**43**	**55**

Per share data

Y/E Dec	FY14	FY15	FY16	FY17e	FY18e
EPS, basic (Cents)	(1)	(1)	2	3	4
EPS, diluted (Cebts)	(1)	(1)	2	3	4
DPS (SG cents)	0	0	1	0	0
BVPS, basic (Cents)	9	8	10	8	18
BCPS, diluted (Cents)	9	8	10	8	18

Cash Flow

Y/E Dec, US mn	FY14	FY15	FY16	FY17e	FY18e
CFO					
PBT	(16)	(18)	32	67	86
Adjustments	10	16	18	26	20
WC changes	(8)	23	20	(46)	12
Cash generated from ops	(14)	21	70	47	118
Others	(3)	2	(0)	0	0
Cashflow from ops	**(17)**	**23**	**70**	**47**	**118**
CFI					
CAPEX, net	(49)	(17)	2	(31)	(30)
Others	0	(0)	(9)	(6)	(5)
Cashflow from investments	**(49)**	**(17)**	**(6)**	**(37)**	**(35)**
CFF					
Loans, net of repayments	68	(6)	(2)	(52)	(20)
Others	(9)	(2)	(6)	(15)	(1)
Cashflow from financing	**59**	**(8)**	**(8)**	**(66)**	**(21)**
Net change in cash	**(7)**	**(3)**	**55**	**(56)**	**62**
Effects of exchange rate	(1)	(1)	0	0	0
Ending cash	**11**	**7**	**63**	**7**	**69**

Source: Company, Phillip Securities Research (Singapore) Estimates

Balance Sheet

Y/E Dec, US mn	FY14	FY15	FY16	FY17e	FY18e
ASSETS					
PP&E	115	132	103	176	159
Deferred stripping costs	0	1	10	16	21
Others	17	13	9	11	11
Total non-current assets	**132**	**146**	**122**	**203**	**191**
Cash	13	12	68	7	69
Trade receivables	32	33	103	50	62
Others	35	24	16	34	27
Total current assets	**80**	**69**	**188**	**91**	**158**
Total Assets	**212**	**215**	**309**	**293**	**349**
LIABILITIES					
Borrowings	75	72	69	0	0
Others	5	3	1	2	2
Total non-current liabilities	**80**	**75**	**70**	**2**	**2**
Trade payables	13	40	107	75	86
Borrowings	10	7	0	72	0
Others	0	0	7	15	15
Total current liabilities	**23**	**46**	**114**	**161**	**101**
Total Liabilities	**104**	**121**	**184**	**163**	**103**
Shareholder Equity	**108**	**94**	**124**	**130**	**246**
Non-controlling interests	0.4	0.2	0.2	0.2	0.2

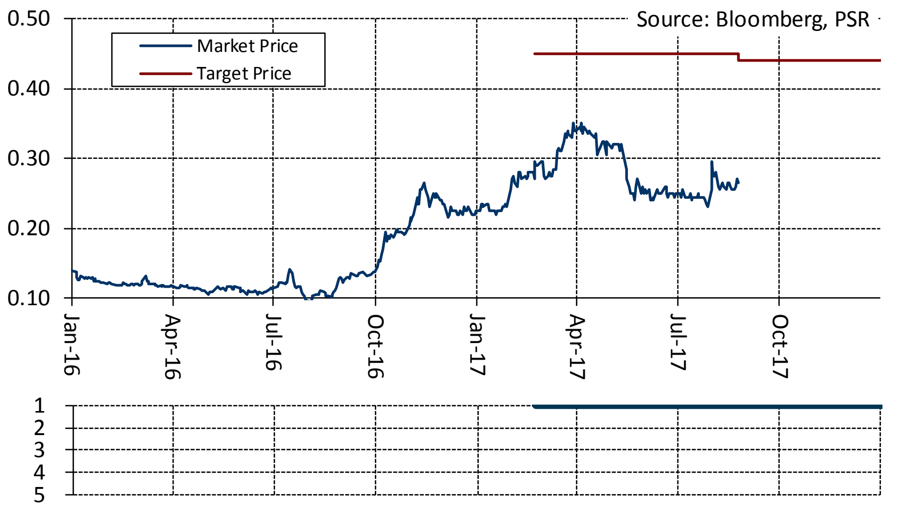
Valuation Ratios

Y/E Dec	FY14	FY15	FY16	FY17e	FY18e
P/E (x)	N.M.	N.M.	9	11	11
P/B (x)	2.3	1.8	2.2	4.2	2.4
EV/EBITDA	N.M.	N.M.	4	6	3
Growth & Margins (%)					
Growth					
Revenue	-51%	-58%	715%	73%	22%
EBITDA	N.M	40%	N.M	73%	15%
EBIT	N.M	-4%	N.M	85%	18%
PATMI	N.M	51%	N.M	93%	27%
Margins					
EBITDA margin	N.M	-26%	29%	29%	27%
EBIT margin	N.M	-46%	22%	23%	23%
PATMI margin	N.M	-73%	12%	14%	14%
Key Ratios					
ROE (%)	N.M	N.M	18%	33%	22%
ROA (%)	N.M	N.M	7%	15%	16%
Net Debt or (Net Cash)	72	66	1	65	(69)
Gearing (%)	40%	37%	22%	24%	0%

N.M: not meaningful

*Forward multiples & yields based on current market price; historical multiples & yields based on historical market price.

Ratings History



PSR Rating System

Total Returns	Recommendation	Rating
> +20%	Buy	1
+5% to +20%	Accumulate	2
-5% to +5%	Neutral	3
-5% to -20%	Reduce	4
< -20%	Sell	5

Remarks

We do not base our recommendations entirely on the above quantitative return bands. We consider qualitative factors like (but not limited to) a stock's risk reward profile, market sentiment, recent rate of share price appreciation, presence or absence of stock price catalysts, and speculative undertones surrounding the stock, before making our final recommendation

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