

## Developing a new Coking Province

### Investment highlights

- Cokal (CKA) has reported a \$3.5m loss for the first half of FY12. The company has spent \$13m in exploration and feasibility work as it progresses its Bumi Barito coking coal project and has \$25m in cash.

Below we are expanding the information provided in our recent Indonesian Coal Review. Cokal (CKA) is the majority owner of four exploration projects in Kalimantan, Indonesia and is actively looking at assets in Tanzania and Mozambique through a number of joint ventures. We rate CKA a BUY recommendation with a price target of \$1.00/share.

- Indonesian exploration projects** - CKA owns 60% of the Bumi Barito Mineral (BBM) and Borneo Bara Prima (BBP) concessions. BBM covers an area of 20,000ha in the North Barito Basin. It is immediately to the south of PT Juloi Coal (BHP 75%, Adaro Energy 25%). BHP recently announced that it will be progressing with the Juloi project which will add interest to the region as a new coking province. Scoping studies have commenced on BBM and CKA believes production will commence as early as 2013.
- Maiden inferred JORC compliant resource** of 60Mt. The resource is from 3 of the 9 seams intersected, located from surface to 300m. The coal quality is all metallurgical coal products comprising of 60% coking coal and 40% PCI with very low ash, low sulphur, low phosphorous & high energy. Drilling will continue on BBM in areas with low strip ratios and with higher percentages of coking coal.
- River to Production:** The project is located on the upper parts of the Barito River which is currently being utilised to transport coal by barge down river for trans-shipping onto Panamax vessels. Barging studies have been implemented to assess the viability of the project. Initial indications are 5kt transport barges can be loaded. The capacity of the river may vary in the drier months between July and October. However, CKA is looking at a number of ways to improve the efficiency of barge use on the Barito River.
- Strong Board and Management** – headed by Peter Lynch, previously CEO of Waratah Coal. All members of the board and management have extensive experience in growing coal companies and have deep technical and operational knowledge of coal projects.

Year End June 30	2011A	2012F	2013F	2014F	2015F
Reported NPAT (\$m)	(2.6)	(6.0)	(8.2)	6.8	25.1
Recurrent NPAT (\$m)	(2.6)	(6.0)	(8.2)	4.7	23.4
Recurrent EPS (cents)	(0.7)	(1.4)	(2.0)	1.1	5.6
EPS Growth (%)	na	na	na	na	392.8
PER (x)	(84.2)	(40.8)	(29.6)	51.4	10.4
EBITDA (\$m)	(2.6)	(5.9)	(5.1)	18.4	48.0
EV/EBITDA (x)	(77.9)	(37.8)	(56.0)	19.2	7.2
Capex (\$m)	0.0	0.0	30.6	59.8	1.3
Free Cashflow	(25.7)	(26.1)	(59.2)	(71.6)	8.3
FCFPS (cents)	(6.7)	(6.2)	(14.1)	(17.0)	2.0
PFCF (x)	(8.7)	(9.3)	(4.1)	(3.4)	29.6
DPS (cents)	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

1 March 2012		
12mth Rating		BUY
Price	A\$	0.58
Target Price	A\$	1.00
12m Total Return	%	72.4
RIC: CKA.AX		BBG: CKA AU
Shares o/s	m	410.8
Free Float	%	40.0
Market Cap.	A\$m	238.3
Net Debt (Cash)	A\$m	-25.3
Net Debt/Equity	%	na
3m Av. D. T'over	A\$m	0.22
52wk High/Low	A\$	0.82/0.39
2yr adj. beta		0.98
<b>Valuation:</b>		
Methodology		DCF
Value per share	A\$	0.98

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#### Disclosure:

#### 12 Month Share Price Performance



Performance %	1mth	3mth	12mth
Absolute	7.5	0.0	2.04
Rel. S&P/ASX 300	5.7	-7.2	23.80

## Company Background

CKA began business as Jack Doolan Capital Pty Ltd (JDC), a private company, formed primarily by the current Board. In December 2010, JDC was acquired by the ASX listed Altera Resources Limited (AEA), with the Board of JDC assuming the control of AEA. Altera Resources Limited, was renamed Cokal Limited in February 2011. CKA has built a portfolio of metallurgical coal assets in Kalimantan (Indonesia), Tanzania and in the Clarence - Moreton, Surat and Bowen basins in Australia. It has also signed a co-operation agreement with Empresa Maçambicana de Exploração Minera (EMEM or the Mozambique Government Exploration Company). It is early days for Cokal but the management team and their ability to bring into production a new supply of coking coal is particularly attractive.

## Projects Overview

### Central Kalimantan Projects

The four Kalimantan concessions are located in or around the margins of the North Barito Basin in Central Kalimantan and are prospective for coal measures of Eocene age. Most of the areas where Eocene coals outcrop have moderate to high coal ranks. Coking coal deposits are well known to occur within the Northern Barito Basin, particularly because of the long term exploration and proving studies conducted by BHP.

#### PT Bumi Barito Mineral (BBM) project

CKA recently increased its ownership of BBM by 10% to 60%. The project covers an area of approximately 20,000ha in the North Barito Basin. It is immediately to the south of PT Juloi Coal (BHP 75%, Adaro Energy 25%). The concession straddles the Barito River, with coal seam outcrops on riverbanks. 2 coal horizons with total coal thickness 3-4m each have been mapped.

**Figure 1: Channel sample**



Source: CKA

CKA defined its Maiden inferred JORC compliant resource of 60Mt last quarter. Testing in Brisbane, Australia by ALS confirmed the coal exhibits the characteristics of premium metallurgical coal. The results show the coal quality ranges from premium coking coal to ultra low volatile PCI with very low ash, low sulphur, low phosphorous & high energy. The resource is from 3 seams located from surface at the Barito River up to a depth of 300m as drilling followed the topography up a hill that rises from the river. Drilling will continue on the other side of the hill in areas of low strip ratio and with higher percentages of coking coal.

**Figure 2: Coal quality results by seam**

Seam	Product	Inherent Moisture	Ash	Volatile Matter	Fixed Carbon	Total Sulphur	Calorific Value Kcal/kg	CSN	Relative Density	Phosphorous
D	PCI	0.9	5.1	10.3	83.7	0.43	8,204	1.5	1.36	0.002
D	Coking	0.9	5.1	14.4	79.7	0.39	8,287	9.0	1.33	0.002
C	PCI	1.0	5.5	9.3	84.3	0.41	8,191	1.0	1.36	0.001
C	Coking	0.5	5.5	14.5	79.5	0.24	8,265	8.5	1.33	0.001
B	PCI	0.9	14.0	9.5	75.6	0.41	7,676	1.5	1.40	0.004
B	Coking	0.5	12.6	13.8	73.1	0.23	7,591	7.5	1.38	0.002

Source: CKA

The high vitrinite content will mean that care is required transporting the coal, however we believe that the other attributes of these coals will make them sought after in global markets. Additionally the low in-situ ash content indicates a direct shipment operation could be developed. This would reduce the amount of handling and avoid the cost of building a coal wash plant.

The project is located on the upper parts of the Barito River which is currently being utilised to transport coal by barge down river near Banjarmasin for trans-shipping into Panamax sized vessels. PT Borneo Lumbung, a public company listed on the Jakarta Stock Exchange (Bursa Efek Indonesia, or BEI) operates a mine located 80km west of BBM producing 5Mtpa of similar grade coal and uses the river to transport all of its coal. CKA have completed an initial barging study on the Barito River which indicated the river depth remains consistent from the Borneo Lumbung operation, up river towards BBM. This indicates that using the Barito River and transshipping operations at the river mouth would be a simple and efficient transport solution for the initial 2Mtpa operation planned for BBM and future expansion.

### PT Borneo Bara Prima (BBP) project

CKA recently increased its ownership of BBP to 60%. The concession is located around Baloi village, Central Kalimantan. Like the BBM concession, the nearest major town is Puruk Cahu, located on the Barito River approximately 65 km to the south. The area of the PT BBP concession is approximately 13,000Ha and it is directly adjacent to the PT Maruwai Coal concession (BHP 75%, Adaro Energy 25%). BHP has reported a JORC compliant Resource of metallurgical and thermal coal in the Lampunat deposit, within the PT Maruwai Coal concession. The coal is a low ash, mid volatile coking coal with low sulphur. The deposit is made up of a number of seams from 0.5 m to 2.5 m which are suitable for open pit mining.

Coal seams outcrop on the riverbanks of the BBP concession and 2 main coal horizons with total coal thickness 1-2m each have been mapped. However, only a small area has been properly explored to date. Initial laboratory tests of the outcrops indicate low ash, low sulphur with potential metallurgical coal properties.

The concession area is characterised by steep rugged topography, ranging in height from 150 m in low-lying central areas to 800m in the hill areas. The concession does not overlap with a Protected Forest, however the majority of the concession is covered by Production Forest.

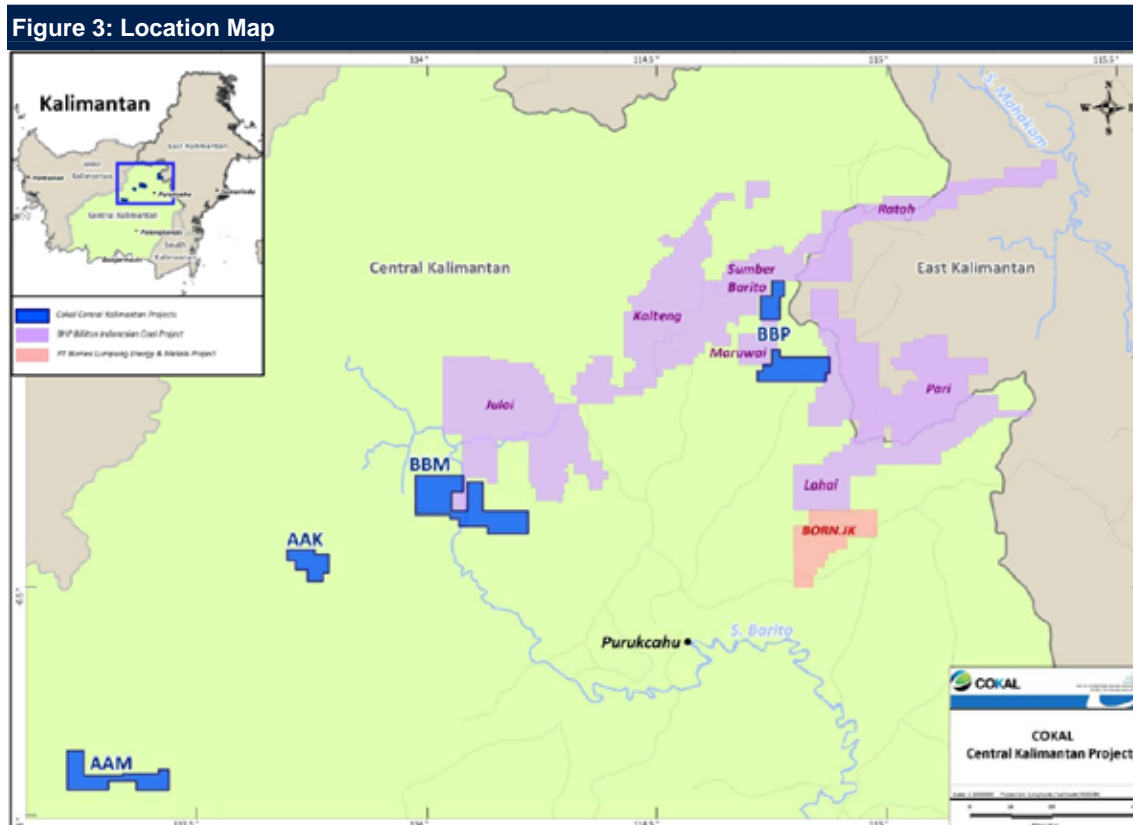
### A New Coking Coal Province

CKA is not the only company working to open the underdeveloped North Barito Basin. BHP and PT Adaro Energy are currently recruiting people to begin work on the \$US1.3B IndoMet coal project in Indonesia. Haju, at 5Mtpa, is only the first stage of the much larger IndoMet project which could be producing of coking coal by 2017. That would be followed by investments in mines and infrastructure at PT Maruwai and PT Juloi.

The nearest major town to the concession is Puruk Cahu (the capital of Murung Raya Regency), which is located on the Barito River approximately 60 km to the southeast of BBM. CKA has established an excellent relationship with the local community. It has established its Indonesian offices in town and has help organise a co-op that uses locally sourced labour to work on the exploration sites and the future mine site. CKA has an excellent opportunity to establish itself as a major producer in the basin before the BHP and Adaro operations are commissioned. We think that CKA is in an excellent position to use these relationships and the cheapest logistics solutions to increase its tenure in the North Barito Basin.

## Anugerah Alam Manuhing (AAM) & Anugerah Alam Katingan (AAK)

CKA has 75% ownership of these two concessions. An independent report by SRK has stated that they both have outcrops of bright coal however there is limited information on coal quality. The concessions are located 100km from towns located on rivers with barge loading capacity and.



Source: CKA

## Mozambique Joint Venture

CKA have signed a co-operation Agreement with Empresa Moçambicana de Exploração Mineira (EMEM – Mozambique Mining Exploration Company) to explore tenements in Mozambique for coal mining potential and jointly develop mines and associated facilities. EMEM will have 20% ownership and Cokal 80% of the JV Company.

EMEM is a state owned corporation formed by the Mozambique government in order to participate in mining projects, undertake exploration and mining development as well as promoting value addition to mineral products. The ultimate ambition is to develop further coking coal production in the country, with the success of Riversdale as the template for exploration and development.

## Tanzania Joint Venture

CKA has also signed a joint venture to explore for coal in Tanzania with Tanzoz Resources. Tanzoz currently holds interests in Tanzania for uranium, gold and coal. Drilling commenced on the Manda project in June with results due to be released shortly.

## Valuation

We have modelled a 2Mtpa operation at BBM using information from CKA and PT Borneo Lumbung, located 80km west of BBM. Borneo Lumbung has an operating mine producing 5Mtpa of similar grade coal. We have used a capital cost of \$145M and average operating cost of \$91/t over the 25 year LOM.

CKA has approximately \$25m in cash after placing 57m shares at \$0.50/share with Passport Capital and Blackrock. This should be sufficient funding for exploration and development of CKA assets over the next 18 months.

## **First Class Shareholders**

Even though Cokal is at an early stage of development it has been able to attract a pair of first class resource investors onto the registry. First, Passport Capital took two placements in 2011, one for \$12m at \$0.75 per share, which was at a 36% premium to the then 7-Day VWAP, and a second for \$8.5m at \$0.50. Passport now has a 3.5% shareholding in the company. Second, Blackrock Global funds Management also took a \$20m placement at \$0.50 per share and now holds 8% of the company.

## **Board and management**

### **Mr. Peter Lynch - Executive Chairman**

Since graduating with a Mining Engineering degree in 1988, Mr Lynch has held various positions, within the coal industry in Australia, as mining engineer, project manager, mine manager, general manager and managing director culminating most recently in the role, from January 2006 until January 2010, as the President, CEO and Director of Waratah Coal Inc., a TSX listed company which was taken over by the Mineralogy Group in December 2008.

### **Mr Pat Hanna - Executive Director**

Mr Hanna has over 30 years experience as a coal geologist in the areas of exploration and evaluation including planning, budgeting and managing drilling programmes in Australia and Indonesia, gained since graduating from the University of New South Wales in 1976. Mr Hanna has authored and co-authored numerous coal industry publications.

### **Mr. Jim Middleton - Managing Director and Chief Executive Officer**

Mr Middleton has since 1981 held various positions, technical, operational, exploration and corporate in the coal industry in Australia including time with Coal Allied, Exxon, Glencore, Xstrata culminating most recently as Vice President-Mining Operations, Illawarra Coal owned by BHP Billiton.

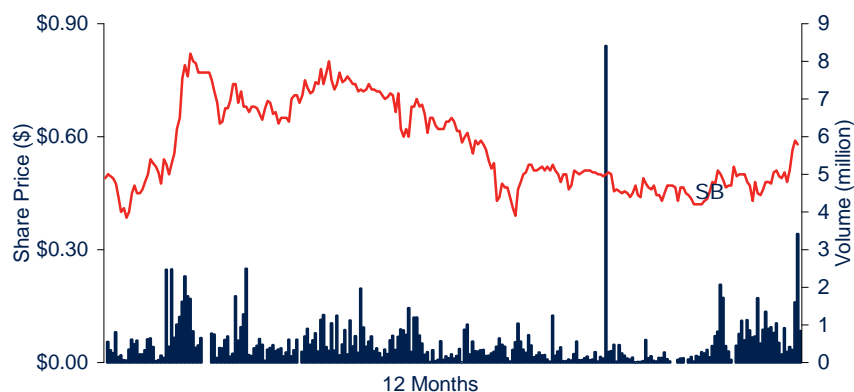
### **Mr. Domenic Martino - Non Executive Director**

Mr Martino is a Chartered Accountant and an experienced director of ASX listed companies. Previously CEO of Deloitte Touch Tohmatsu in Australia, he has significant experience in the development of "micro-cap" companies.



Cokal Limited			Year End June 30							
Valuation	A\$m	A\$/sh	Commodity Assumptions	2011A	2012F	2013F	2014F	2015F	2016F	
Bumi Barito Mineral	401.8	0.96	US\$/A\$	0.9869	1.04	1.02	0.98	0.97	0.95	
FX Hedging	0.0	0.00	Hard Coking Coal	248.75	303	211	176	155	171	
Corporate	(23.5)	(0.06)	Semi-soft Coking Coal	182.50	228	153	123	102	110	
Unpaid Capital	9.7	0.02	PCI	195.00	233	158	128	107	116	
Cash	25.3	0.06	Export Thermal Coal	106.00	123	98	88	83	92	
Debt	0.0	0.00	Domestic Thermal Coal (A\$/t)	45.39	49	50	51	53	56	
<b>NPV</b>	<b>413.3</b>	<b>0.98</b>	<b>Production Summary</b>	<b>2011A</b>	<b>2012F</b>	<b>2013F</b>	<b>2014F</b>	<b>2015F</b>	<b>2016F</b>	
<b>Price Target</b>		<b>1.00</b>	<b>Attributable Saleable Coal Production</b>							
			Bumi Barito Mineral (kt)				384	1,104	1,152	
			FOB costs (US\$/t)				87.87	86.28	86.89	
			Price Received (US\$/t)				152.88	135.94	149.00	
<b>Coal Production Summary</b>										
			All Mines (Kt)				384	1,104	1,152	
			Cash costs (US\$/t)				87.87	86.28	86.89	
			Price Received (US\$/t)				152.88	135.94	149.00	
<b>Resources 100% Basis (Mt)</b>			<b>Profit &amp; Loss (A\$m)</b>	<b>2011A</b>	<b>2012F</b>	<b>2013F</b>	<b>2014F</b>	<b>2015F</b>	<b>2016F</b>	
Mine	M & I	Inferred	Total	<b>Sales Revenue</b>	0.0	0.0	0.0	60.2	154.7	180.2
Bumi Barito Mineral		60	60	Other Income	0.6	1.0	1.4	0.5	0.3	0.8
Other Indonesian Assets		0	0	Operating Costs	0.0	0.0	0.0	34.6	98.2	105.1
Tanzania		0	0	Exploration Exp.	0.0	1.8	2.4	3.5	4.6	4.7
Mozambique		0	0	Corporate/Admin	3.2	5.1	4.1	4.1	4.2	4.3
	<b>Resources</b>		<b>60</b>	<b>EBITDA</b>	<b>(2.6)</b>	<b>(5.9)</b>	<b>(5.1)</b>	<b>18.4</b>	<b>48.0</b>	<b>66.8</b>
<b>Directors</b>				Depn & Amort	0.0	0.1	0.0	1.2	3.5	3.6
Name			Position	<b>EBIT</b>	<b>(2.6)</b>	<b>(6.0)</b>	<b>(5.1)</b>	<b>17.2</b>	<b>44.5</b>	<b>63.2</b>
Mr. Peter Lynch			Executive Chairman	Interest	0.0	0.0	3.1	10.4	11.1	10.5
Mr. Pat Hanna			Executive Director	<b>Operating Profit</b>	<b>(2.6)</b>	<b>(6.0)</b>	<b>(8.2)</b>	<b>6.8</b>	<b>33.4</b>	<b>52.7</b>
Mr. Jim Middleton			Managing Director	Tax expense	0.0	0.0	0.0	0.0	8.3	15.8
Mr. Domenic Martino			Non Executive Director	Abnormals + Minorities	0.0	0.0	0.0	0.0	0.0	0.0
Mr. Duncan Cornish			CFO & Company Secretary	<b>NPAT</b>	<b>(2.6)</b>	<b>(6.0)</b>	<b>(8.2)</b>	<b>6.8</b>	<b>25.1</b>	<b>36.9</b>
Mr. Chris Turvey			Exploration & Resource Manager	<b>Normalised NPAT</b>	<b>(2.6)</b>	<b>(6.0)</b>	<b>(8.2)</b>	<b>4.7</b>	<b>23.4</b>	<b>36.9</b>
<b>Significant Shareholders</b>				<b>Cash Flow (A\$m)</b>	<b>2011A</b>	<b>2012F</b>	<b>2013F</b>	<b>2014F</b>	<b>2015F</b>	<b>2016F</b>
	Shares (m)	%		Adjusted Net Profit	(2.6)	(6.0)	(8.2)	6.8	25.1	36.9
Peter Lynch	55.0	13.4%		+ Interest/Tax/Expl Exp	0.0	1.8	5.6	13.9	24.0	31.0
Domenic & Sandra Martino	37.0	9.0%		- Interest/Tax/Expl Inc	14.7	21.9	26.0	33.7	43.1	50.5
Blackrock Group	31.6	7.7%		+ Depn/Amort	0.0	0.1	0.0	1.2	3.5	3.6
Patrick Hanna	25.0	6.1%		+/- Other (Associates)	(8.3)	(0.1)	0.0	0.0	0.0	0.0
Norges Bank	17.8	4.3%		<b>Operating Cashflow</b>	<b>(25.7)</b>	<b>(26.1)</b>	<b>(28.6)</b>	<b>(11.7)</b>	<b>9.5</b>	<b>21.0</b>
Passport Capital	14.5	3.5%		- Capex (+asset sales)	0.0	0.0	30.6	59.8	1.3	1.3
Jim Middleton	10.0	2.4%		- Working Capital Increase	0.0	0.0	0.0	0.0	0.0	0.0
				<b>Free Cashflow</b>	<b>(25.7)</b>	<b>(26.1)</b>	<b>(59.2)</b>	<b>(71.6)</b>	<b>8.3</b>	<b>19.7</b>
				- Dividends (ords & pref)	0.0	0.0	0.0	0.0	0.0	0.0
				+ Equity raised	31.3	28.8	0.0	0.0	0.0	0.0
				+ Debt drawdown (repaid)	0.0	0.0	55.6	59.8	(1.5)	(8.4)
				<b>Net Change in Cash</b>	<b>5.6</b>	<b>2.7</b>	<b>(3.6)</b>	<b>(11.7)</b>	<b>6.7</b>	<b>11.4</b>
				Cash at End Period	17.2	19.9	16.3	4.6	11.3	22.7
				Net Cash/(Debt)	17.2	19.9	(39.3)	(110.8)	(102.6)	(82.8)
				<b>Balance Sheet (A\$m)</b>	<b>2011A</b>	<b>2012F</b>	<b>2013F</b>	<b>2014F</b>	<b>2015F</b>	<b>2016F</b>
				Cash	17.2	19.9	16.3	4.6	11.3	22.7
				Total Assets	44.8	59.3	106.6	193.2	247.7	287.6
				Total Debt	0.0	0.0	55.6	115.4	113.9	105.5
				Total Liabilities	8.6	0.2	55.8	135.6	165.0	168.0
				Shareholders Funds	36.2	59.1	50.8	57.6	82.7	119.6
				<b>Ratios</b>						
				Net Debt/Equity (%)	na	na	77.3%	192.4%	124.0%	69.3%
				Interest Cover (x)	na	na	na	1.7	4.0	6.0
				Return on Equity (%)	na	na	na	11.8%	30.4%	30.8%

## Recommendation History



Date	Type	Target Price	Share Price	Recommendation	Return
17 May 11	Resources Review	na	0.69		
14 Nov 11	ersons Resources Rev	na	0.51		
16 Jan 12	ndonesian Coal Review	1.00	0.45	SB	
	Current Share Price		0.58		28.9%

**Stock recommendations:** Investment ratings are a function of Patersons expectation of total return (forecast price appreciation plus dividend yield) within the next 12 months. The investment ratings are Buy (expected total return of 10% or more), Hold (-10% to +10% total return) and Sell (> 10% negative total return). In addition we have a Speculative Buy rating covering higher risk stocks that may not be of investment grade due to low market capitalisation, high debt levels, or significant risks in the business model. Investment ratings are determined at the time of initiation of coverage, or a change in target price. At other times the expected total return may fall outside of these ranges because of price movements and/or volatility. Such interim deviations from specified ranges will be permitted but will become subject to review by Research Management. This Document is not to be passed on to any third party without our prior written consent.



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