

BBY Company Research		11 September 2013			
Cokal Limited					
CKA	A\$0.21	TARGET PRICE	A\$0.60 ▼		BUY
Cokal Limited (CKA) is an emerging coal company with a focus in building its portfolio of assets which will provide high value access to quality metallurgical coal. The company holds interests in coal exploration tenements in Indonesia, Australia and Tanzania.		Mike Harrowell +61 2 9226 0043 mrh@bby.com.au		Kurt Worden +61 2 9226 0100 kew@bby.com.au	

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Down to the wire

Cokal (CKA, Buy, target A\$0.60/sh down from A\$0.70/sh, NPV A\$0.77/sh) has issued a steady stream of announcements, indicating that the project is tracking towards a 2014 production start. It is fully funded until project commitment, but will need further funding including a likely sell down from 60% of the project at that time. We expect CKA will be re-rated on publication of the Definitive Feasibility Study in October, and the funding structure falls in place.

- Forestry Production Licence due in the December 2013 quarter, and this is the last significant permit required before project commitment.
- Definitive Feasibility is expected in October, and we do not expect significant changes from the October 2012 PFS, except that the Barge JV means that the project owners will have to supply 50% of the Barge JV equity.
- Valuation Stage 1 only A\$0.28/sh, Stage 2 A\$0.73/sh assuming current 60% is retained and fully debt funded. If 20% of the project is sold at Stage 1 NPV raising A\$46M, CKA is fully funded. In that case, the NPV for Stage 1 only is virtually unchanged, and for Stage 1 & 2 NPV drops to A\$0.50/sh. We believe the likely outcome is between these two, hence our A\$0.60/sh target.
- Funding offers a lot of permutations. The outcome we prefer is if 20% of Stage 1 is sold for Stage 1 NPV, but is converted into a 5-7% interest in Stage 1 & 2. We would expect that the project will borrow US\$30M, and CKA's share will be a reflection of its interest in the project. CKA is fully funded to January 2014, or to project commitment. Every 10% of the project requires US\$7.4M of equity contribution, and is worth A\$4.6M for Stage 1 or A\$14M for Stage 1 & 2. Convertible notes are also an option, in place of some equity.
- The emergence of Blumont on the register with 12.7% of CKA once all the tranches are completed by 15 November 2013 is interesting of itself. This group has been acquiring interests in other project developers, and could well have an additional role in the funding of Cokal's project interest.

Earnings Changes

- Pre-production earnings in FY13 and FY14 are irrelevant. FY15 NPAT -76% on start deferred from June to October 2014. NPV down -2.7% on lower consensus coal prices.

Company Data

Number of shares	441M
Market capitalisation	\$93M
Free Float	44.6%
12 month high/low	\$0.27/\$0.11
Average monthly turnover	\$3M
% S&P/ASX 200	n/a
% All Ordinaries	n/a
ESG Disclaimer Score (Ranking)	n/a
GICS Industry Group	Materials

BBY vs Consensus

	BBY FY1	Consensus FY1	% Difference
EBITDA (\$m)	(5.5)		
NPAT (\$m)	(4.6)		
EPS (c/sh)	(1.1)		

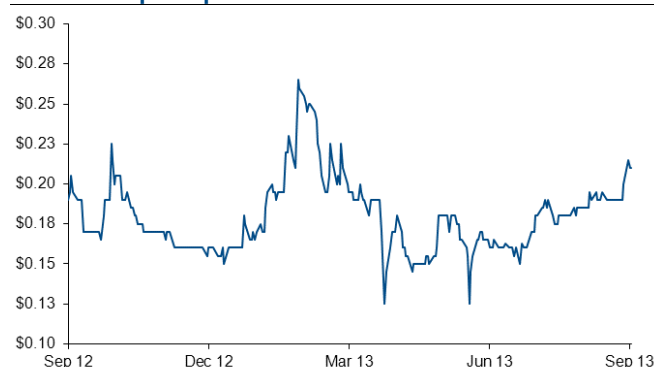
BBY Technical View – as at 10/09/2013

Exit price	\$0.215	Resistance	\$0.22
Trend	Uptrend	Support	\$0.19

Earnings summary (AUD)

Year end June	2012A	2013F	2014F	2015F
Net Attributable Profit (\$M)	(6.3)	(4.6)	(6.2)	12.9
Reported Profit (\$M)	(6.3)	(4.6)	(6.2)	12.9
EPS (¢)	(15)	(11)	(14)	27
P/E (x)	(14.7)	(19.6)	(15.4)	7.7
CFPS (¢)	(0.9)	(10)	(17)	2.4
P/CF (x)	(24.1)	(20.4)	(12.7)	8.6
DPS (¢)	0.0	0.0	0.0	0.0
EV/EBITDA (x)	(12.1)	(16.4)	(23.6)	6.5
Franking (%)	0.0	0.0	0.0	0.0

CKA share price performance



Financial Summary

Cokal Limited

Share Price (A\$) **\$0.21**

Mkt Cap (A\$M)

93

Year ending June 30

Profit & Loss (A\$M)	2012A	2013F	2014F	2015F
Total Revenue	0.0	2.1	0.0	72.3
Growth (%)	58.2	nm	(100.0)	
EBITDA	(7.3)	(5.5)	(6.3)	24.3
Growth (%)	(128.8)	24.6	(14.4)	nm
Dep'n and amort'n	(0.1)	(0.2)	0.0	(0.5)
EBIT	(7.4)	(5.7)	(6.3)	23.8
Net interest expense	1.1	1.0	0.1	(6.7)
PBT	(6.3)	(4.6)	(6.2)	17.2
Growth (%)	(138.9)	26.4	(33.9)	nm
Tax	0.0	0.0	0.0	(4.3)
NPAT Underlying attrib.	(6.3)	(4.6)	(6.2)	12.9
Growth (%)	(138.9)	26.4	(33.9)	nm
NPAT Reported	(6.3)	(4.6)	(6.2)	12.9
Normalised NPAT	(6.3)	(4.6)	(6.2)	12.9
Ord Shares	411.0	411.0	471.1	471.1
Options	29.5	1.6	1.6	1.6
Fully Diluted	440.5	412.6	472.7	472.7
FD Wgtd Av Shares	431.4	433.6	457.7	472.7

Cashflow (A\$M)	2012A	2013F	2014F	2015F
Customer receipts	0.0	2.1	0.0	68.3
Supplier Payments	(4.7)	(7.6)	(6.3)	(49.1)
Net interest paid	0.8	1.0	(1.3)	(6.7)
Taxes Paid	0.0	0.0	0.0	(0.9)
Net operating cash flow	(3.8)	(4.5)	(7.6)	11.6
Capex	(0.4)	(15.3)	(48.0)	(21.2)
Net investing cash flow	(15.0)	(22.4)	(60.3)	(21.2)
Dividends paid	0.0	0.0	0.0	0.0
Net financing cash flow	31.3	0.0	69.6	20.0
Net Change in cash	12.4	(27.0)	1.7	10.4
Net cash at end of period	37.7	(11.5)	4.8	14.9
Free cash flow	(3.8)	(4.5)	(7.6)	11.4

Balance sheet (A\$M)	2012A	2013F	2014F	2015F
Cash	29.6	2.6	4.3	14.7
Receivables	0.6	0.0	0.0	4.0
Inventories	0.0	0.0	0.0	6.5
Current assets	30.4	3.0	4.7	25.7
Tangible Assets	34.1	37.7	79.7	100.4
Investments	0.0	0.0	0.0	0.0
Goodwill	0.2	0.3	0.3	0.3
Total assets	64.7	59.3	122.7	164.3
Payables	1.4	0.0	0.0	5.4
Current Term debt	0.0	0.0	0.0	0.0
Long term debt	0.0	0.0	60.0	80.0
Total liabilities	1.7	0.2	60.2	89.0
Total Shareholder Equity	63.0	59.1	62.4	75.3

Key Assumptions	2012A	2013F	2014F	2015F	2016F
Assumptions					
US\$/A\$	1.032	1.027	0.916	0.894	0.888
Hard Coking Coal	253.8	183.0	165.9	178.8	182.6
LV PCI Coal	183.7	137.3	132.7	143.0	146.1
Sales of Produced Coal kt	0.0	0.0	0.0	450.0	1,200.0
Hard Coking Coal Kt	0	0	0	450	1,200
PCI Kt	0	0	0	0	0
Project Capex A\$m (+ive)	0	2	42	21	54
Unit Cash Costs US\$/t					
Mining	39.9	31.9	32.7	33.6	34.4
Upgrade	0.0	0.0	0.0	0.0	0.0
River Barge	29.2	29.7	30.5	31.3	32.0
Other	4.5	4.6	4.7	4.8	4.9
Profit & Loss A\$m					
Revenue	0.0	0.0	0.0	72.3	197.6
Cash Costs	0.0	0.0	0.0	(35.2)	(96.5)
Royalty	0.0	0.0	0.0	(5.1)	(13.8)
EBITDA	0.0	0.0	0.0	32.1	87.2
Depreciation	0.0	0.0	0.0	(0.5)	(1.2)
EBIT	0.0	0.0	0.0	31.6	86.0

Investment summary	2012A	2013F	2014F	2015F
NPAT reported	(6.3)	(4.6)	(6.2)	12.9
NPAT Underlying	(6.3)	(4.6)	(6.2)	12.9
EPS Reported	(1.5)	(1.1)	(1.4)	2.7
EPS Underlying	(1.5)	(1.1)	(1.4)	2.7
EPS Growth (%)	(62.8)	26.8	(26.9)	nm
P/E Underlying (x)	(14.7)	(19.6)	(15.4)	7.7
Dividend (¢/sh)	0.0	0.0	0.0	0.0
Payout Ratio (%)	0.0	0.0	0.0	0.0
Gross Yield (%)				
Net Yield (%)				
Franking (%)	0.0	0.0	0.0	0.0

Key Ratios	2012A	2013F	2014F	2015F
Profitability (%)				
EBITDA	(7.3)	(5.5)	(6.3)	24.3
EBITDA/Rev (%)	(15,845.1)	(261.4)	na	33.6
EBIT	(7.4)	(5.7)	(6.3)	23.8
EBIT/Rev (%)	(16,029.2)	(269.7)	na	33.0
NPAT	(6.3)	(4.6)	(6.2)	12.9
NPAT/Rev (%)	(13,691.5)	(220.6)	na	17.8
ROE (%)	(12.7)	(7.6)	(10.2)	18.7
ROA (%)	(13.5)	(9.2)	(6.9)	16.6
ROIC (%)	(19.8)	(8.9)	(5.1)	12.9
Financial Strength				
Debt to equity (%)	0.0	0.0	96.1	106.2
Net debt (\$M)	(29.6)	(2.6)	55.7	65.3
Net debt to equity (%)	(47.0)	(4.4)	89.2	86.7
Net Debt to EBITDA (%)	4.1	0.5	(8.8)	2.7
Interest Cover EBIT (x)	na	na	na	3.5
Current Ratio (x)	21.3	na	na	2.9
Quick Ratio (x)	21.3	na	na	2.2

Valuation	2012A	2013F	2014F	2015F
Operating cash flow	(3.8)	(4.5)	(7.6)	11.6
CFPS (¢ - FD)	(0.9)	(1.0)	(1.7)	2.4
Price/CF	(24.1)	(20.4)	(12.7)	8.6
BV per share (\$)	0.2	0.1	0.1	0.2
Price/Book Value (x)	1.4	1.5	1.6	1.3
NTA (\$)	62.8	58.8	62.2	75.1
NTA per share (\$)	0.2	0.1	0.1	0.2
Price/NTA (x)	1.4	1.5	1.6	1.3
EV/Sales (x)	1,909.6	42.8		2.2
EV/EBITDA (x)	(12.1)	(16.4)	(23.6)	6.5
EV/EBIT (x)	(11.9)	(15.9)	(23.6)	6.6

NPV Summary	A\$m	Resources		
BBM	420.1		Mt	Coal Type
BBP	0.0	Resource		
Total Operations	420.1	BBM	77.077.0	HCC/PCI
Administration	(107.0)	Mine Plan		
Exploration	50.0	BBM	120.1	HCC/PCI
Written Down Value of Assets	0.0			
Other Expenses	0.0			
Realised FX Gains	0.0			
Dividends	0.0			
Proceeds from Asset Sales	0.0			
Exercise of Options	0.0			
Net working capital	(22.4)			
Other	(2.4)			
Total	338.3			
Tax Losses	0.0			
Cash	3.1			
Debt	0.0			
NPV A\$m	341.4			
NPV A\$/sh	0.77			
WACC = 10.8%				

Source: BBY, Company Reports. BBY contributes all company estimates to Bloomberg, Thomson Reuters, FactSet and Capital IQ. The ESG (Environmental, Social, Governance) score is a measure of the sustainability and ethical impact of an investment in this company or product. ESG scores range from 0.1 (min) to 100 (max). ESG scores are provided to BBY by Bloomberg and are only available for those companies that disclose ESG data to Bloomberg.

Summary

Forestry permit and DFS due in December quarter 2013.

First production expected in H1 2014, but we expect Oct 2014

Cokal is seeking the Forestry Production Licence which should be the final approval required to enable it to commit to the development of the BBM coking coal project. It has signed a JV with a major Indonesian barging company, and engineering is advanced. The permit is expected between October and December 2013.

The Definitive Feasibility Study is under way, focussing on a 2Mtpa direct shipping start up, but seeking expansion approval to 6Mtpa. CKA expects to start production in H1 2014. We assume the October 2014. The DFS is likely to be published between October and December 2013.

The BBM Coal Project (IUP 188.45/149/2013) is situated in Central Kalimantan, Indonesia in the prospective metallurgical Upper Barito Coal Basin, Regency of Murung Raya. BBM has a JORC Resource of 77 Million tonnes (Mt) in multiple seams comprised of 70Mt Inferred and 7Mt Indicated as well as an Exploration Target1 of 200 to 350Mt in thirteen seams within the Eastern Block of the BBM IUP (approximately 40 percent of the Project area). Cokal is completing definitive studies and obtaining the necessary approvals with the aim of commencing construction in October 2013 which would see first production occur in the first half of 2014 (we assume October 2014).

The June quarterly indicated that the company is looking at the underground potential, and in particular, the use of longwall mining which can be capital intensive and long lead time. We see this as a longer term option for the company, and one which may come into play in order to get above 2Mtpa. Additional open cut coal could come from the newly acquired TBAR lease to the east.

Table 1. Funding possibilities

US\$M	100% of Project	Steel Mill 20%	Cokal 40%	Indonesian Partner 40%
Mine & River Port	50.0			
50% of Barges	25.0			
Contingency	15.0			
Working Capital	15.0			
Total	105.0	21.0	42.0	42.0
Less Debt	-31.0	-6.2	-12.4	-12.4
Project Equity Req'd	74.0	14.8	29.6	29.6
Final BBM Payment			10.0	-10.0
Net Equity	74.0	14.8	39.6	19.6
Sale of 20% Stage 1			A\$-46.5	
Sale of 20% Stage 1 & 2			A\$-140.0	

Source: CKA, BBY estimates

The only difference between the data in tables 1-3 compared to the Preliminary Feasibility numbers in October 2012 is the addition of 50% of our estimate of the barge costs, post the Meratus JV. The PFS assumed 100% of barge costs would be paid by the contractor. The Definitive Feasibility numbers could be lower than the PFS, due to a softer contractor market, and a lower Indonesian currency.

Funding could be accommodated by a sell down of the project. A 20% sell down across Stages 1 and 2 would be extreme in our view. Given the reserve base is building, but not yet able to support Stage 2, a sell down of 20% of Stage 1, converting to 7-10% of Stage 2, makes more sense.

In our valuation and earnings model, we assume CKA retains 60% of the project, and funds all its obligations from debt (A\$80M). This produces the same valuation outcome as a sell down at NPV. We do this to highlight the full fundamental value of the project. To the extent that any asset or equity sale is at a price less than our project NPV, our valuation would be reduced.

Table 2. Key project parameters

	Stage 1	Stage 2
Mine Plan Mt	18.2	120
Production Mtpa	2.0	5.6
Hard Coking %	90%	70%
Capex US\$M	100	120
Opex US\$/t FOB	63-117	

Note: Stage 2 capex is additional to Stage 1

Note: US\$10M payments to vendors still req'd.

Source: CKA, BBY estimates

Table 3. Stage 1 Capex Split

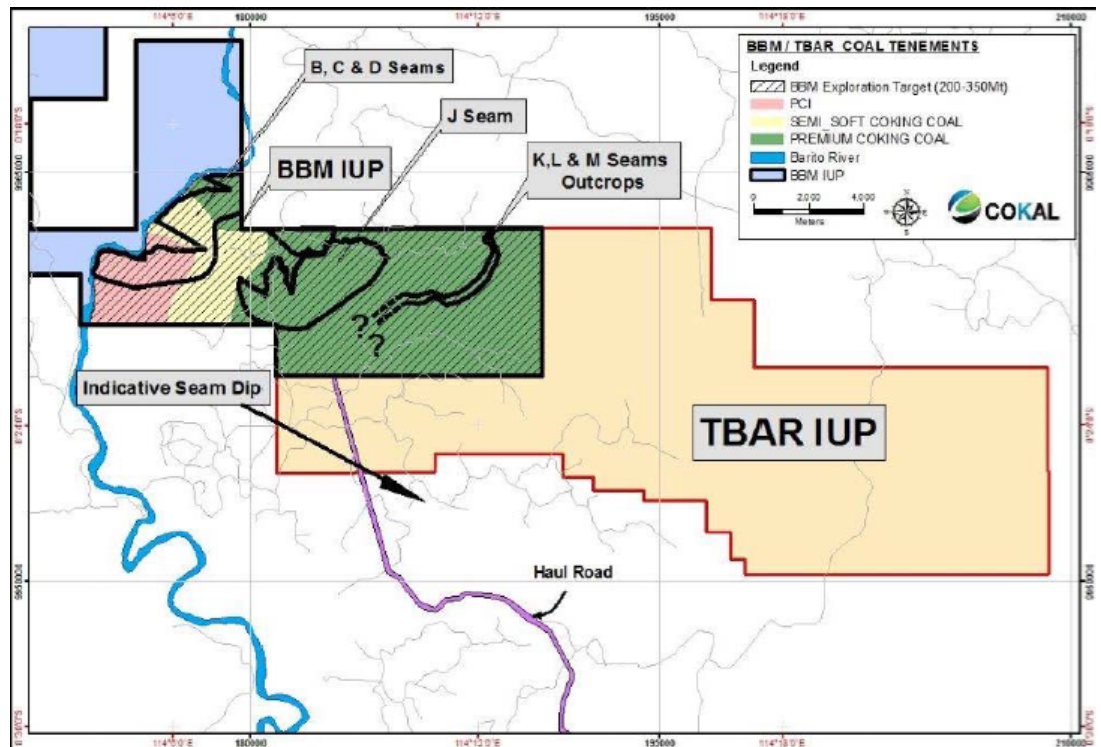
US\$M	Initial	2Mtpa	Total
Haul road	20		20
Barge loading jetty	10	4	14
ISP - (river-ocean)	2	44	46
50% of Barges	25		25
Support Buildings	8	2	10
Land Acquisition & Misc	10		10
Total	75	50	125

Source: CKA, BBY estimates

BBM project could benefit from resource extension into new ground

On 22 July 2013, Cokal announced that it has identified more than 35 coal seam outcrops after 4 weeks of surface mapping in their newly acquired Tambung Benua Alam Raya project (TBAR). Cokal owns 75 percent interest in TBAR which is adjacent to the BBM coking coal project in Central Kalimantan. Initial coal analysis results indicate that all coal seams are potentially coking coal. Although the mapping has covered only about 25 percent of the TBAR tenement area to date, the results are very encouraging with a number of outcrops measuring between 1.75m to 1.85m in thickness.

Chart 1. TBAR location adjacent to BBM



Source: CKA

Private placement to Blumont Group raising A\$9.6M

On 8 July 2013, Cokal announced a private placement to the Blumont Group Ltd. The Company will issue Blumont with 60,057,034 fully paid ordinary shares in Cokal Ltd at a price of A\$0.16 per share, raising A\$9,609,125.44, before costs. On issue, the placement shares will rank equally with all other ordinary shares then on issue, and represent 12.7% of CKA.

Tranche 1: 16.25M shares raising A\$2.6M on 18 July 2013

Tranche 2: 14.0625M shares raising A\$2.25M on 15 August 2013

Tranche 3: 14.0625M shares raising A\$2.25M on 13 September 2013

Tranche 4: 12.5M shares raising A\$2.0M on 15 October 2013

Tranche 5: 3.182M shares raising A\$0.51M on 15 November 2013

Blumont is a Singapore investment company seeking to increase its exposure to mining.

BBM project drilling finds more coking coal, but at depth

On 1 July 2013, Cokal announced that it has identified potential additional seams, the 'KLM' seams in the BBM lease and confirmed they contain high quality premium coking coal. Eighteen (18) boreholes have now been completed in the KLM area, and core samples for four of these boreholes have been analysed, with seam thicknesses of 1-1.3m and depth to seam roof of 25-59m. The PFS mine plan assumed an average strip ratio of 18BCM waste:1 tonne coal, which is close to 18 metres of cover vs 1 metre of coal, and a marginal strip ratio probably close to 30:1.

Barging agreement signed

On 22 May 2013, Cokal announced that it has entered into a 50:50 Joint Venture (JV) with Meratus Advance Maritime (MDM). The JV will own and manage the shallow river barges and tugs design specifically for PT Bumi Barito Mineral (BBM). MDM is part of the Meratus Group which has operated in Indonesian shipping since 1957 and has provided barging and shipping services to a number of the major Kalimantan coal operations. MDM have also worked on the Barito River over a number of years. The Barito is a major coal barging river on which BBM is located.

The joint venture structure required the project contribute more equity, which had previously been off balance sheet, but we see this as an excellent structure, which provided for a sharing on profit margin, but more importantly, aligns the barge provider with the projects desire for the lowest level of operating costs.

Production Mining Lease received

On 1 May 2013, Cokal received the Production / Operation Mining Lease (Izin Usaha Pertambangan or IUP) approval from the Murung Raya Regency Mines and Energy Department, Central Kalimantan, Indonesia. The Production Mining Lease covers:

- an area 15,000 hectares (ha) – maximum coal lease area allowable
- the full development of the Eastern Block of BBM 6Mtpa
- exploration is permitted on remaining area
- term: 20 years with two 10 year extensions permitted (total 40 years)
- all protected and moratorium forest areas are excluded from the Production Mining Lease area

The company is now focused on upgrading the forestry exploration permit to a production permit. This is scheduled to be completed by the end of 3rd quarter 2013 and is the final major approval required to commence construction of the project. Cokal expects to be barging coal down the Barito River and delivering a premium coking coal to the nearby Asian steel markets by the 1st half 2014.

Table 4. BBM Earnings Model: 60% of Project

BBM	2014	2015	2016	2017	2018	2019	2020
Saleable Production kt	0	450	1200	2340	3360	3360	3360
Hard Coking Coal Kt	0	450	1200	2106	3024	3024	3024
PCI Kt	0	0	0	234	336	336	336
Revenue Calculation							
HCC Discount %	-20%	-20%	-20%	-20%	-20%	-20%	-20%
Coking Coal Realized US\$/t	133	143	146	145	139	137	140
PCI Discount %	-20%	-20%	-20%	-20%	-20%	-20%	-20%
PCI Realized US\$/t	106	114	117	116	111	110	112
Sea Barge Costs US\$/t	20	21	21	21	21	22	22
Sales Volumes kt							
Hard Coking Coal Kt	0	450	1200	2106	3024	3024	3024
PCI Kt	0	0	0	234	336	336	336
Total Kt	0	450	1200	2340	3360	3360	3360
Revenues \$m							
Hard Coking Coal	0	65	175	304	420	415	425
PCI	0	0	0	27	37	37	38
Total US\$m	0	65	175	331	457	451	463
Seabarge/Transloading costs	0	0	0	-5	-7	-7	-7
Total A\$m	0	72	198	368	508	501	514
Unit Cash Costs US\$/t							
Movement US\$/t	2.98	3.05	3.13	3.20	3.28	3.37	3.45
Strip Ratio	10.0	10.0	10.0	10.0	10.6	13.1	15.6
Mining	32.7	33.6	34.4	35.3	38.2	47.6	57.4
Upgrade	0.0	0.0	0.0	0.0	0.0	0.0	0.0
River Barge	30.5	31.3	32.0	32.8	33.7	34.5	35.4
Other	4.7	4.8	4.9	5.1	5.2	5.3	5.4
Unit Cash Costs A\$/t							
Mining	35.7	37.5	38.8	39.7	43.0	53.6	64.6
Upgrade	0.0	0.0	0.0	0.0	0.0	0.0	0.0
River Barge	33.3	35.0	36.1	37.0	37.9	38.8	39.8
Other	5.1	5.4	5.6	5.7	5.8	6.0	6.1
Total Cost A\$/t fob excl Royalty	74.14	77.88	80.41	82.37	86.76	98.41	110.58
Royalty A\$/t	0.00	22.40	23.05	22.39	21.45	21.18	21.71
Hard Coking Coal Kt	7.00%	7.00%	7.00%	7.00%	7.00%	7.00%	7.00%
PCI Kt	7.00%	7.00%	7.00%	7.00%	7.00%	7.00%	7.00%
Cost to fob A\$m	0.0	35.2	96.5	193.0	291.5	330.6	371.6
Royalty	0	5	14	26	36	36	36
Hard Coking Coal Kt	0	5	14	24	33	33	33
PCI Kt	0	0	0	2	3	3	3
Cash Costs A\$m	0	40	110	219	328	366	408
Profit & Loss A\$m							
Revenue	0.0	72.3	197.6	368.1	507.6	501.0	513.6
Cash Costs	0.0	-35.2	-96.5	-193.0	-291.5	-330.6	-371.6
Royalty	0.0	-5.1	-13.8	-26.1	-36.0	-35.6	-36.5
EBITDA	0.0	32.1	87.2	149.0	180.1	134.7	105.6
Depreciation	0.0	-0.5	-1.2	-2.3	-3.4	-3.4	-3.4
EBIT	0.0	31.6	86.0	146.7	176.7	131.4	102.2
NPI	0.0	0.0	0.0	0.0	0.0	0.0	0.0
EBIT	0.0	31.6	86.0	146.7	176.7	131.4	102.2
NPV							
EBIT	0.0	31.6	86.0	146.7	176.7	131.4	102.2
Depn	0.0	0.5	1.2	2.3	3.4	3.4	3.4
Tax Paid (6mth lag)	0.0	-2.6	-16.1	-25.5	-47.0	-36.4	-29.2
Capex	-42.0	-21.2	-54.4	-18.8	-1.1	-1.1	-1.1
Free Cash Flow After Tax	-42.0	8.3	16.8	104.7	131.9	97.3	75.2

Source: BBY estimates

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