Cockatoo Coal Limited

September Qtr – recovered from the wet

1 November 2011

$0.38

BUY

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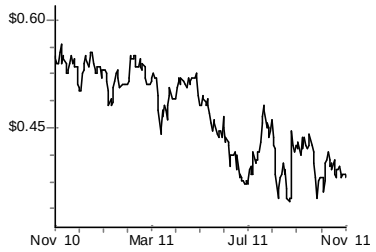
Price Performance



Security/Capital Details

ASX Code	COK
Market Cap	$394 M
Issued Shares (dil)	1,037.2 M
Avg Mth T'over	74.16 M
12 Mth High – Low	$0.57 - $0.35

Key Data/Ratios – FY 2012

EBITDA / Sales	-14.5%
EBIT / Sales	-14.7%
Debt / Equity	0.7%
Interest Cover	-18.4 x
ROE	-2.4%
EPS Growth	71.7%
DCF	$0.71
12 Mth Price Target	$0.69

Recommendation

September quarter production recovered well from the prior flood impacted quarters, increasing into the December quarter. Drilling for exploration and evaluation has recovered well, and is increasing the confidence levels and size of resources and reserves.

After updating the full year (2011) accounts and the September quarter production our DCF value increased by 9.0% to $0.71 and our risked Target price increased by 8.5% to $0.69/share, a 83% premium to the share price. We retain our BUY recommendation.

Key Points

- Operations at Baralaba have recovered from the December 2010 floods with production now back above 100,000 ROM tonnes for the September quarter. Production is continuing to improve, with about 40% of the quarter's production achieved in September. Production in October increased further.
- As previously announced during the quarter, COK has agreed to sell 49% of the Woori project in the Surat Basin to Mitsui and consolidate the Collingwood, Taroom and Woori projects as a single JV.
- After updating the full year (2011) accounts and the September quarter production our DCF value increased by 9.0% to $0.71 and our risked Target price increased by 8.5% to $0.69/share, a 83% premium to the share price.
- During the quarter, COK secured a 3.0 Mtpa capacity allocation for export coal through the 27 Mtpa WICET stage-I, scheduled for 2014. WICET stage-II is planning to add at least 55 Mtpa currently scheduled for 2016. COK has lodged an expression of interest to secure an allocation for production from its proposed Surat Basin projects.
- During the quarter total Surat Basin Resources increased 17% to 1,584 Mt, including 357.6 Mt Measured and 594.0 Mt Indicated Resources. Bowen Basin Resources now total 83 Mt, with upgrades into Measured and Indicated categories.
- Exploration and evaluation drilling activity has fully recovered from the earlier intense wet season with drilling at Collingwood, Tin Hut Ck, Taroom, and Krugers in the Surat Basin, and to increase resources along the Baralaba mine trend in the Bowen Basin.
- All of COK's exploration and evaluation projects, other than the Woori project, have not been fully explored and have further significant resource potential.

Year to June	NPAT (Rep) $M	NPAT (PSig) $M	EPS (PSig) c	EPS Growth %	PER x	CFPS c	P/CF x	DPS c	Div Yld %	Franking %
2011a	-21.9	-21.9	-2.1	-471.9	-17.9	0.8	45.8	0.0	0.0	0
2012e	-6.3	-6.3	-0.6	71.7	-63.3	-3.0	-12.7	0.0	0.0	0
2013e	2.2	2.2	0.2	133.3	190.0	1.1	33.9	0.0	0.0	0
2014e	8.1	8.1	0.7	130.0	52.1	1.7	22.5	0.0	0.0	0

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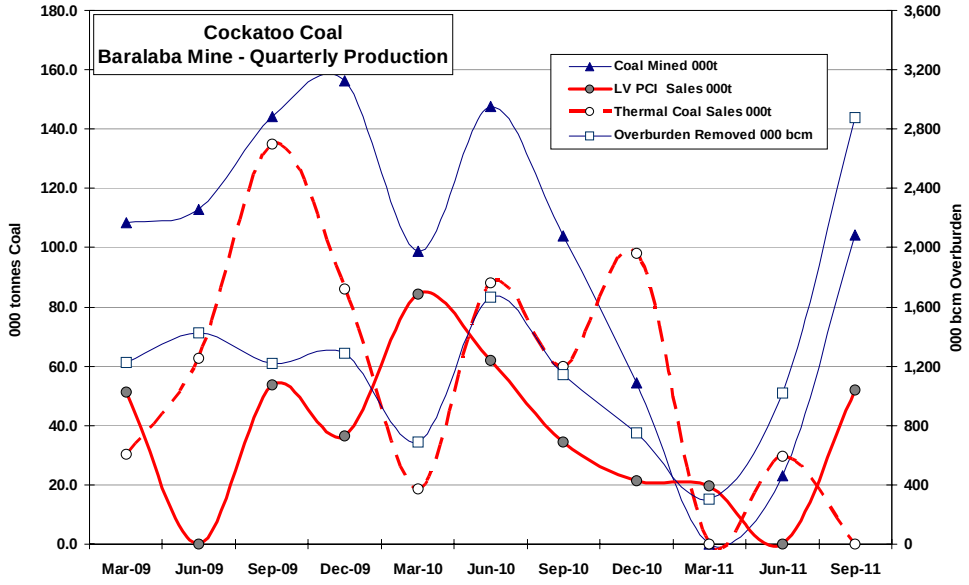
Baralaba Mine – Production



Source: Cockatoo Coal, WilsonHTM

ROM production increased to 104,296 tonnes of coal with sales of 51,870 tonnes of product (100% basis) of LVPCI coal.

Shipments of LVPCI coal were resumed to long term customers in the September quarter.

Drilling at Baralaba South has been in progress to define the eastern and southern boundaries of the deposit. At Baralaba North, drilling has been taking samples for metallurgical coal quality and washability testwork.

Cockatoo Coal Limited (COK : $0.38)

PRODUCTION

Yr Ending June	2010A	2011A	2012E	2013E	2014E
Hard Coking 000t	0.0	0.0	0.0	0.0	0.0
Semi-Hard Coking 000t	0.0	0.0	0.0	0.0	0.0
PCI 000t	147.9	53.2	209.0	372.5	1,104.0
Export Thermal Coal 000t	204.8	111.0	139.3	248.3	736.0

PRICES

Yr Ending June	2010A	2011A	2012E	2013E	2014E
A$/US$	0.88	0.99	1.00	0.96	0.93
Hard Coking (US$/t)	150.3	237.8	286.3	228.8	175.0
LV PCI (US$/t)	108.4	177.6	215.5	190.0	140.0
Semi-soft coking (US$/t)	99.3	167.9	189.1	149.8	128.0
Thermal Expt (US$/t)	76.3	102.1	123.7	122.5	110.0

INVESTMENT & VALUATION FUNDAMENTALS

Yr Ending June	2010A	2011A	2012E	2013E	2014E
EPS Before Abs (c)	0.6	-2.1	-0.6	0.2	0.7
EPS Growth (%)	N/A	-471.9%	71.7%	133.3%	130.0%
PER (x)	**66.7**	**-17.9**	**-63.3**	**190.0**	**52.1**
CFPS (c)	1.6	0.8	-3.0	1.1	1.7
P/CF (x)	**24.5**	**45.8**	**-12.7**	**33.9**	**22.5**
EV/EBITDA (x)	77.6	-14.4	-45.2	44.0	14.1
DPS (c)	0.0	0.0	0.0	0.0	0.0
Yield (%)	0.0%	0.0%	0.0%	0.0%	0.0%
Franking (%)	0%	0%	0%	0%	0%

DCF VALUATION @	DCF unrisked 10.1 %		Target risked 10.1 %	
Yr Ending June	A$m	A$ps	A$m	A$ps
Baralaba	25.3	0.02	147.6	0.12
Woori	81.0	0.07	53.5	0.04
	0.0	0.00	0.0	0.00
Interests - Investments	0.0	0.00	0.0	0.00
Expl'n & Eval'n Projects	662.2	0.54	662.2	0.54
Corporate Costs Capitalised	-25.5	-0.02	-23.7	-0.02
Hedge Book	0.0	0.00	0.0	0.00
Franking Credits (pv)	38.6	0.03	42.5	0.03
Cash	1.1	0.00	3.8	0.00
Debt + CNotes	-3.1	0.00	-89.7	-0.07
Minorities	0.0	0.00	0.0	0.00
Additional Capital – Dilution	83.0	0.07	49.4	0.04
Total Valuation – Fully Diluted	862.6	0.71	845.5	0.69

PROFITABILITY RATIOS

Yr Ending June	2010A	2011A	2012E	2013E	2014E
EBIT / Sales (%)	4.6%	-93.2%	-14.7%	12.5%	14.6%
ROA (%)	N/A	-14.0%	-3.3%	3.2%	6.4%
ROE (%)	N/A	-11.3%	-2.4%	0.8%	2.3%
ROFE (%)	N/A	-15.7%	-3.6%	3.3%	6.7%

INTERIMS ($m)

Half Yr	Dec 10	Jun 11	Dec 11	Jun 12	Dec 12
Yr Ending June	**1H A**	**2H A**	**1H E**	**2H E**	**1H E**
Sales Revenue	22.7	5.5	19.4	40.6	51.7
EBIT	-15.1	-11.2	-15.6	6.7	8.6
Net Profit	**-12.6**	**-9.4**	**-10.9**	**4.6**	**3.8**
EPS	-1.5	-0.9	-1.1	0.4	0.4

1. Gearing = (Debt + CNotes) / (Debt + Cnotes + Equity)

BALANCE SHEET ($m)

Yr Ending June	2010A	2011A	2012E	2013E	2014E
Cash	31.2	17.6	3.1	0.0	3.8
Total Assets	136.0	289.6	262.6	542.7	560.1
Debt	5.0	0.6	1.9	187.0	172.4
Total Liabilities	22.7	25.3	12.7	202.9	203.2
Total Shareholders Equity	113.3	273.5	249.9	339.8	356.9
Total Funds Employed	87.2	247.2	248.6	526.9	525.5

LIQUIDITY & LEVERAGE RATIOS

Yr Ending June	2010A	2011A	2012E	2013E	2014E
Debt / Equity (%)	4.4%	0.2%	0.7%	55.0%	48.3%
Gearing (%) [1]	4.2%	0.2%	0.7%	35.5%	32.6%
Interest Cover (x)	-3.3	6.0	-82.7	2.0	2.7
Debt / CashFlow (x)	0.5	0.1	-0.1	15.0	9.1
(Debt+CNotes)/ CashFlow	1.4	0.0	-0.2	26.8	6.8

PROFIT & LOSS ($m)

Yr Ending June	2010A	2011A	2012E	2013E	2014E
Sales Revenue	57.9	28.2	60.1	101.1	243.2
EBITDA	2.7	-26.3	-8.7	13.9	45.0
Depn and Amortisation	0.0	0.0	0.1	1.3	6.9
EBIT	**2.7**	**-26.3**	**-8.8**	**12.7**	**38.1**
Net Interest Expense	-0.8	-4.4	0.1	6.3	12.8
Pre-tax Profit	**3.5**	**-21.9**	**-9.0**	**6.4**	**22.3**
Tax	0.0	0.0	-2.7	4.1	11.2
Tax rate (%)	0.0%	0.0%	30.0%	65.3%	50.2%
Minorities / pref divs	0.0	0.0	0.0	0.0	3.0
Equity accounted NPAT	0.0	0.0	0.0	0.0	0.0
Net Profit	**3.5**	**-21.9**	**-6.3**	**2.2**	**8.1**
Abnormals	0.0	0.0	0.0	0.0	0.0
Reported Net Profit	3.5	-21.9	-6.3	2.2	8.1

CASHFLOW ($m)

Yr Ending June	2010A	2011A	2012E	2013E	2014E
Operating Cash Flow	9.6	8.6	-31.0	12.5	18.9
Capital Expenditure	-1.9	-16.8	-1.0	-280.5	-6.4
Expln, Develop, Evaln	-8.4	-13.5	-4.0	-4.0	-4.0
Asset Sales/Acquisitions	-13.6	-115.3	17.3	0.0	0.0
Other	1.0	-18.9	1.0	1.0	1.0
Investing Cash Flow	-22.8	-164.5	13.3	-283.5	-9.4
Share Issues/(Buybacks)	42.8	145.7	1.9	82.7	9.0
Debt Drawdown (Repay)	-7.5	-4.4	1.2	185.2	-14.7
Dividends Paid	0.0	0.0	0.0	0.0	0.0
Other Fin. Flows	0.0	0.0	0.0	0.0	0.0
Financing Cash Flow	35.3	141.3	3.1	267.9	-5.7
Cash Increase (Decrease)	22.1	-14.5	-14.6	-3.1	3.8

EARNINGS SENSITIVITIES - % CHANGE

Yr Ending June	2010A	2011A	2012E	2013E	2014E
+/- 1c US$/A$	-18.6%	1.6%	6.8%	14.0%	35.8%
+/- US$1/t LV PCI	3.7%	-0.2%	-3.3%	-6.8%	-19.8%
+/- US$1/t Exp Thermal	5.1%	-0.5%	-2.2%	-4.5%	-13.2%

Recommendation Structure

BUY: Total return +10% or more over a 12 month period
HOLD: Total return expected to be between +10% to -10% over a 12-month period
SELL: Total return expected to be -10% or more over a 12 month period
TOTAL RETURN OR TSR = capital growth in share price + expected dividend yield in that period

Other definitions

CS Coverage Suspended. Wilson HTM Ltd has suspended coverage of this company.
NR Not Rated. The recommendation has been suspended temporarily. Such suspension is in line with Wilson HTM Investment Group Ltd policies in circumstances where Wilson HTM Corporate Finance Ltd is acting in an advisory capacity in a merger or strategic transaction involving the company and in certain other situations.

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