

## Equities

29 September 2011 | 8 pages

# Cockatoo Coal Limited (COK.AX)

## Pushing back project timelines

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- **Adjustments to project timing** — we have adopted a more conservative outlook on the timing of Cockatoo's growth projects in light of the delay to financial close of WICET Stage 1. We have delayed first shipments from the Bowen Basin expansion by 6 months to mid-2014 to align with the expected port timetable and similarly pushed Surat Basin production back to mid-2016.
- **Earnings revisions are positive short-term, negative long-term** — in addition to project timing changes, we have updated our forecasts for Citi's most recent A\$/US\$ assumptions. The impact is mildly positive in FY12 (NPAT +7.5% to A\$11M) and FY13 (+11% to A\$9m), which also benefit from up to A\$5m in management fees for the ex-ANG assets. For FY14, however, project delays result in a 70% reduction in profit.
- **Funding requirements** — the market is witnessing renewed focus on funding and balance sheet issues, particularly for project developers. Cockatoo has secured A\$115m in short and medium-term debt facilities and raised A\$37m from the partial sale of its Woori project to Mitsui. These funds are required to pay WICET Stage 1 commitments that we estimate could be up to A\$73m based on 1-year of take or pay at A\$10/t for the company's 3Mtpa allocation, 20% equity funding of the port minus bonds lodged as part of the WICET process. Thus we think the company is well funded for the short-term but will require further debt and/or equity to begin construction of the Bowen expansion.
- **Valuation & Recommendation** — as a result of the changes we have made to our forecasts, NPV for Cockatoo falls slightly to A\$0.67 and we therefore round our target to A\$0.65/share. Given a projected return of almost 80%, we retain a Buy/High Risk recommendation on Cockatoo. According to our estimates, Cockatoo's current share price attributes zero value to Baralaba, the Bowen expansion and Woori projects and reflects only the value of non-project coal tonnes in the ground.

<b>Buy/High Risk</b>	<b>1H</b>
Price (29 Sep 11)	A\$0.37
Target price	A\$0.65
	<i>from A\$0.70</i>
Expected share price return	78.1%
Expected dividend yield	0.0%
<b>Expected total return</b>	<b>78.1%</b>
Market Cap	A\$371M
	US\$363M

### Price Performance (RIC: COK.AX, BB: COK AU)



COK.AU revisions (Y/E Jun)	2010A	2011A	2012E	2013E	2014E
Sales (A\$m)	59.7	31.7	98.3	116.4	150.5
% revision	0.0%	2.0%	6.7%	1.7%	-41.1%
EBIT (A\$m)	3.0	-19.3	18.3	23.0	28.5
% revision	0.0%	-3.8%	41.4%	18.0%	-30.5%
Core Net Profit (A\$m)	3.8	-15.6	11.2	8.7	5.5
% revision	0.0%	-1.7%	7.5%	11.2%	-70.9%
Core EPS (A¢)	0.6	-1.7	1.0	0.6	0.4
% revision	0.0%	-14.8%	0.3%	-1.1%	-73.9%
EPS Growth (%)	126.6	-381.1	159.0	-36.4	-43.4
PE Ratio (x)	60.0	-21.4	36.2	56.9	100.6
Dividend Yield (%)	0.0	0.0	0.0	0.0	0.0

Source: Company Reports and dataCentral, CIRA.

**David Haddad**  
 +61-2-8225-3162  
 david.haddad@citi.com

**Craig Sainsbury**  
 craig.sainsbury@citi.com

**Clarke Wilkins**  
 clarke.wilkins@citi.com

**Daniel Seeney**

**Meredith Schwarz**

See Appendix A-1 for Analyst Certification, Important Disclosures and non-US research analyst disclosures.

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**Cockatoo Coal Limited (COK.AX)**

29 September 2011

COK.AX: Fiscal year end 30-Jun						Price:\$0.37; TP:\$0.65; # Shares: 1016m; Market Cap: A\$376m; Recomm: Buy/High Risk					
Profit & Loss (A\$m)	2010	2011	2012E	2013E	2014E	Per share data	2010	2011	2012E	2013E	2014E
Sales revenue	59.7	31.7	98.3	116.4	150.5	Reported EPS (¢)	0.6	-2.4	1.0	0.6	0.4
Cost of sales	-50.7	-41.8	-67.8	-80.4	-109.7	Core EPS (¢)	0.6	-1.7	1.0	0.6	0.4
Gross profit	9.1	-10.2	30.5	36.1	40.8	DPS (¢)	0	0	0	0	0
<b>EBITDA</b>	<b>3.1</b>	<b>-19.2</b>	<b>21.5</b>	<b>25.7</b>	<b>33.9</b>	CFPS (¢)	1.7	-2.4	-0.2	1.1	0.7
Depreciation	-0.1	-0.1	-3.2	-2.8	-5.4	BVPS (¢)	18.8	26.9	29.3	32.1	32.5
Amortisation	0	0	0	0	0	Wtd avg ord shares (m)	616	788	901	1,016	1,094
<b>EBIT</b>	<b>3.0</b>	<b>-19.3</b>	<b>18.3</b>	<b>23.0</b>	<b>28.5</b>	Wtd avg diluted shares (m)	617	901	1,099	1,342	1,492
Net interest	0.8	3.8	-5.0	-10.5	-20.7	<b>Valuation ratios</b>	<b>2010</b>	<b>2011</b>	<b>2012E</b>	<b>2013E</b>	<b>2014E</b>
<b>Earnings before tax</b>	<b>3.8</b>	<b>-15.6</b>	<b>13.3</b>	<b>12.5</b>	<b>7.8</b>	PE (x)	60.0	-21.4	36.2	56.9	nm
Tax Recurring	0	0	-2.1	-3.7	-2.4	EV/EBIT (x)	nm	-17.2	18.1	18.3	19.6
Non-op/Except/Extraord	-0.3	-5.8	0	0	0	EV/EBITDA (x)	nm	-17.3	15.4	16.3	16.5
Minority interests	0.0	0.0	0	0	0	FCF yield (%)	3.8	-11.4	-8.8	-55.0	-22.2
Associates	0	0	0	0	0	Dividend yield (%)	0	0	0	0	0
<b>Reported net profit</b>	<b>3.5</b>	<b>-21.4</b>	<b>11.2</b>	<b>8.7</b>	<b>5.5</b>	Payout ratio (%)	0	0	0	0	0
Core NPAT	3.8	-15.6	11.2	8.7	5.5	<b>Half year data (A\$m)</b>	<b>1H11</b>	<b>2H11</b>	<b>1H12E</b>	<b>2H12E</b>	<b>1H13E</b>
<b>Half year data (A\$m)</b>	<b>1H11</b>	<b>2H11</b>	<b>1H12E</b>	<b>2H12E</b>	<b>1H13E</b>	<b>Growth rates</b>	<b>2010</b>	<b>2011</b>	<b>2012E</b>	<b>2013E</b>	<b>2014E</b>
Sales revenue	23.2	8.0	46.3	52.1	58.7	Sales revenue (%)	nm	-47.0	nm	18.4	29.2
EBIT	-6.6	-13.3	8.2	10.1	11.7	EBIT (%)	nm	nm	nm	25.4	24.1
Core NPAT	-4.0	-12.1	6.3	4.9	5.6	Core NPAT (%)	nm	nm	nm	-22.3	-37.1
Core EPS (¢)	-0.5	-1.3	0.6	0.4	0.5	Core EPS (%)	nm	nm	nm	-36.4	-43.4
<b>Balance Sheet (A\$m)</b>	<b>2010</b>	<b>2011</b>	<b>2012E</b>	<b>2013E</b>	<b>2014E</b>	<b>Operating performance</b>	<b>2010</b>	<b>2011</b>	<b>2012E</b>	<b>2013E</b>	<b>2014E</b>
Cash & cash equiv.	32.2	17.6	46.0	41.4	167.1	Gross margin (%)	15.2	-32.1	31.0	31.0	27.1
Accounts receivables	5.8	6.3	41.1	45.9	71.0	EBITDA margin (%)	5.1	-60.7	21.9	22.1	22.5
Inventory	10.0	3.2	6.0	6.8	10.6	EBIT margin (%)	4.97	-60.98	18.63	19.74	18.95
Net fixed & other tangibles	80.9	230.0	305.4	599.3	728.4	Capex to Sales (%)	3.2	53.1	34.5	247.0	88.1
Goodwill & intangibles	0	0	0	0	0	Working capital to sales (%)	1.7	-38.3	6.2	5.7	6.4
Financial & other assets	7.1	32.4	32.4	32.4	32.4	<b>Operating ROA (%)</b>	<b>3.35</b>	<b>-7.33</b>	<b>3.12</b>	<b>1.51</b>	<b>0.63</b>
<b>Total assets</b>	<b>136.0</b>	<b>289.6</b>	<b>431.0</b>	<b>725.7</b>	<b>1009.6</b>	Operating ROE (%)	4.22	-8.07	3.64	2.12	1.14
Accounts payable	14.8	21.6	41.1	46.0	72.0	Operating ROIC (%)	4.05	-12.86	6.11	4.19	3.89
Short-term debt	5.0	0.2	0	0	0	Net debt to equity (%)	-24.0	-6.4	1.2	33.7	59.5
Long-term debt	0	0.4	50.0	200.0	450.0	Debt to total capital (%)	4.2	0.2	13.0	29.8	48.6
Provisions & other liab	2.9	3.1	5.8	9.5	11.9	Interest coverage (x)	na	na	4.3	2.4	1.6
<b>Total liabilities</b>	<b>22.7</b>	<b>25.3</b>	<b>96.9</b>	<b>255.5</b>	<b>533.9</b>	<b>Production Volumes</b>	<b>2010</b>	<b>2011</b>	<b>2012E</b>	<b>2013E</b>	<b>2014E</b>
Shareholders' equity	113.3	273.5	343.5	479.5	485.0	Coking Coal	0.00	0.00	0.00	0.00	0.00
Minority interests	0.0	-9.3	-9.3	-9.3	-9.3	Thermal Coal	0.24	0.07	0.22	0.28	0.28
<b>Total equity</b>	<b>113.3</b>	<b>264.2</b>	<b>334.1</b>	<b>470.2</b>	<b>475.7</b>	PCI	0.56	0.26	0.56	0.70	0.70
<b>Net debt</b>	<b>-27.2</b>	<b>-17.0</b>	<b>4.0</b>	<b>158.6</b>	<b>282.9</b>	<b>Operating Metrics</b>	<b>2010</b>	<b>2011</b>	<b>2012E</b>	<b>2013E</b>	<b>2014E</b>
<b>Cashflow (A\$m)</b>	<b>2010</b>	<b>2011</b>	<b>2012E</b>	<b>2013E</b>	<b>2014E</b>	Cash costs (A\$/t)	100.2	208.4	115.4	110.9	114.3
EBITDA	3.1	-19.2	21.5	25.7	33.9	Cash costs (US\$/t)	88.1	206.5	112.8	110.1	106.4
Working capital	0	0	-18.2	-0.6	-3.0	<b>Average Price Received</b>	<b>100.5</b>	<b>121.9</b>	<b>165.9</b>	<b>159.2</b>	<b>167.5</b>
Net interest paid	-1.5	-0.3	0	0	0	Average Price Received	88.4	120.8	162.2	158.0	156.1
Tax paid	0	0	0	0	0	<b>Commodity&amp;FX</b>	<b>2010</b>	<b>2011</b>	<b>2012E</b>	<b>2013E</b>	<b>2014E</b>
Other	9.1	-1.7	-5.0	-10.5	-20.7	AUDUSD (analyst)	0.88	0.99	0.98	0.99	0.93
<b>Operating cashflow</b>	<b>10.7</b>	<b>-21.2</b>	<b>-1.7</b>	<b>14.6</b>	<b>10.3</b>	Hard coking (export) (US\$/t)	146.0	247.3	290.0	260.0	242.5
Capex	-1.9	-16.8	-33.9	-287.6	-132.6	Thermal (export) (US\$/t)	77.0	106.0	132.9	143.9	150.6
Net acq/disposals	0	-100.3	-35.8	0	0	PCI (export) (US\$/t)	112.3	187.3	207.5	179.2	164.3
Exploration exp/Other	-22.0	-24.2	-9.0	-9.0	-2.0	<b>CFE ex acqisn &amp;</b>	<b>0.4</b>	<b>-147.5</b>	<b>-80.3</b>	<b>-282.0</b>	<b>-124.3</b>
<b>Investing cashflow</b>	<b>-23.8</b>	<b>-141.3</b>	<b>-78.7</b>	<b>-296.6</b>	<b>-134.6</b>						
Dividends paid	0	0	0	0	0						
<b>Financing cashflow</b>	<b>35.3</b>	<b>135.5</b>	<b>108.7</b>	<b>277.3</b>	<b>250.0</b>						
<b>Net change in cash</b>	<b>22.2</b>	<b>-27.2</b>	<b>28.4</b>	<b>-4.6</b>	<b>125.7</b>						

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## Cockatoo Coal Limited

### Company description

Cockatoo Coal owns 62.5% of the 0.8Mtpa Baralaba PCI/thermal mine in Queensland. The production target is 14Mtpa from the Bowen Basin (3Mtpa), Surat Basin (3-6Mtpa) and Anglo American assets (5-6Mtpa). Total resources are ~1Bt. Shareholders include SK Corp (9%), KORES (7%), POSCO (15%), KEPCO (8%) & Harum Energy (7%).

### Investment strategy

We rate Cockatoo Coal Buy, High Risk with a target of price of A\$0.65. Cockatoo has successfully achieved pre-selection for 3Mtpa of port capacity at WICET Stage 1, which significantly de-risks the Bowen Basin expansion to produce 3Mtpa PCI and thermal coal. We believe the company is well placed to advance this project by mid-2014. There is growth potential longer term to as much as 14Mtpa but we feel timing is presently too uncertain to include these additional tonnes in our earnings forecasts. We see the Anglo deal lending momentum to Cockatoo and strategic holders are likely to help with funding support in our view.

### Valuation

Our target price for Cockatoo is A\$0.65/share and is based on our NPV. We assume Bowen Basin expansion to 3Mtpa in 2014, development of Woori in the Surat Basin to 3.5Mtpa by 2016 and include undeveloped resources at A\$0.43/t. Our resource multiple is based on the average of coal project transactions over the last 3 years. Our long-term coal price assumptions are US\$105/t and US\$160/t for thermal and PCI and a A\$/US\$ exchange rate of 0.80.

### Risks

We rate Cockatoo High Risk because of the long development timeframe and funding requirements. Specific risks to achieving our target price are as follows:

Infrastructure: a key risk to Cockatoo's growth plans. The company is well placed with Stage 1 of WICET but longer-term conceptual plans of 9-14Mtpa need rail and port.

Funding and dilution: we estimate capex for Woori and the Bowen Basin expansion is A\$700m or ~1x the current market cap.

Coal Prices: variations to our coal price and exchange rate forecasts present a risk to forecast earnings and hence company valuation.

Product mix: the proportion of PCI sold from Baralaba is very volatile and a swing in the mix can have a large impact on earnings.

If the impact on the company from any of these factors proves to be greater than we anticipate, the stock will likely have difficulty achieving our target price. However, should they be less than anticipated, the stock could trade above our target price.

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#### Cockatoo Coal Limited (COK.AX)

##### Ratings and Target Price History Fundamental Research

Analyst: David Haddad  
Covered since September 22 2010

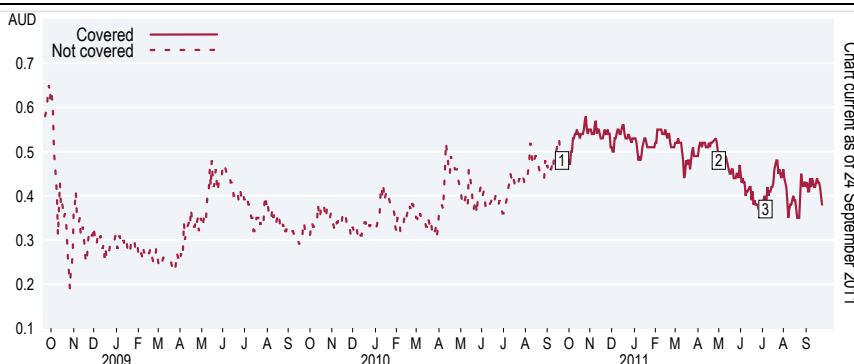


Chart current as of 24 September 2011

	Date	Rating	Target Price	Closing Price
1	22-Sep-10	*1H	*0.70	0.49

\* Indicates change

	Date	Rating	Target Price	Closing Price
2	2-May-11	1H	*0.65	0.48

	Date	Rating	Target Price	Closing Price
3	6-Jul-11	1H	*0.70	0.39

Rating/target price changes above reflect Eastern Standard Time

#### Cockatoo Coal Limited (COK.AX)

##### Ratings and Target Price History Best Ideas Research Relative Call (3 Month)

Analyst: David Haddad  
Covered since September 22 2010

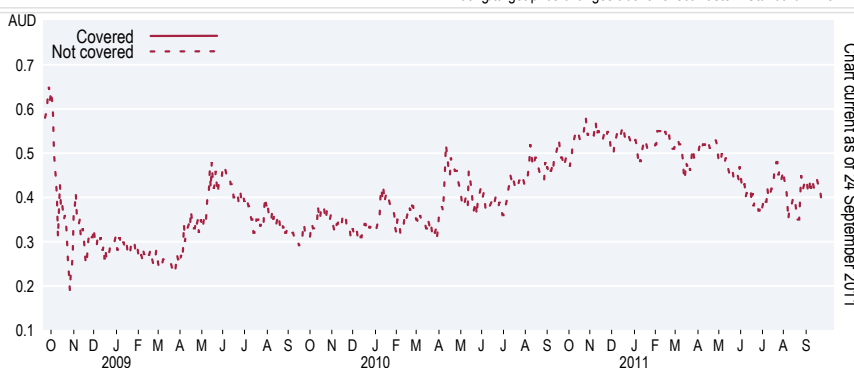


Chart current as of 24 September 2011

\* Indicates change

Rating/target price changes above reflect Eastern Standard Time

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Data current as of 30 Jun 2011

Citi Investment Research & Analysis Global Fundamental Coverage % of companies in each rating category that are investment banking clients	12 Month Rating			Relative Rating		
	Buy	Hold	Sell	Buy	Hold	Sell
	54%	36%	11%	10%	81%	10%
	45%	41%	42%	50%	42%	44%

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