

# Cockatoo Coal (COK.AX / COK AU)

Rating	<b>OUTPERFORM*</b> [V]
Price (07 Dec 11, A\$)	0.39
Target price (A\$)	0.65 <sup>†</sup>
Market cap. (A\$m)	391.24
Yr avg. mthly trading (A\$m)	35
Last month's trading (A\$m)	19
<b>Projected return:</b>	
Capital gain (%)	68.8
Dividend yield (net %)	—
Total return (%)	68.8
52-week price range	0.56 - 0.35

\* Stock ratings are relative to the relevant country benchmark.

<sup>†</sup>Target price is for 12 months.

[V] = Stock considered volatile (see Disclosure Appendix).

## Research Analysts

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**Martin Kronborg**

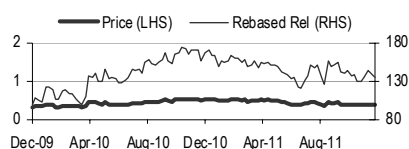
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## Australia's cheapest coal producer

- Baralaba feasibility study due mid 2012:** The Baralaba expansion feasibility study is due to be completed by mid 2012. Meanwhile, COK is targeting ROM production of 750kt in CY12 (Credit Suisse at 750kt), however, we highlight that despite construction of a 1 in 1,000 year levee, heavy rainfalls during the summer may impact COK's production. Recall the Bureau of Meteorology is forecasting a 60%–80% chance of above median rainfall during December–February in southeast Queensland.
- \$65mn KEB loan facility likely to be refinanced by 30 December:** COK has a \$65mn loan facility from KEB Australia which matures on 30 December 2011. The facility is guaranteed by SK Networks which owns 5.5% of COK and we understand that COK is currently pursuing several options to have this facility extended or refinanced. As at 30 September 11 COK had \$12.2mn in cash and is due receive \$37.2mn from Mitsui for the sale of 49% in Woori.
- Surat Basin Rail obtains key Government approval:** The Queensland Government has approved the development scheme for the Surat Basin Rail linking the Surat basin to the Port of Gladstone via the existing Moura rail line. This key approval allows the SBR joint venture to start acquiring land and commence construction late 2012 with first coal due on rail due in 2015. This is a positive for COK as it provides an export route for the company's Surat Basin resources (e.g. Collingwood, Taroom, Woori and Tin Hut).
- Lowering EPS by an average 16%, valuation unchanged:** We reduce our FY12–14 EPS by an average 16% due to lower March 11 PCI prices and higher FOB costs of \$115/t (from \$105/t) reflecting higher strip ratios at Baralaba. Our risked valuation is unchanged at \$0.65/sh based on our sum-of-the-parts DCF valuation using a WACC of 10.5%. COK is our cheapest producer trading at a price/DCF of 0.60x and on EV/Resource of \$0.26/t (sector average \$2.5/t). We leave our \$0.65/sh target price unchanged and reiterate our OUTPERFORM rating.

## Share price performance



The price relative chart measures performance against the S&P ASX 200 Index which closed at 4292.5 on 07/12/11  
On 07/12/11 the spot exchange rate was A\$97/US\$1

Performance Over	1M	3M	12M
Absolute (%)	2.7	-8.3	-27.4
Relative (%)	2.2	-10.8	-18.2

## Financial and valuation metrics

Year	06/11A	06/12E	06/13E	06/14E
Revenue (A\$m)	31.2	95.3	122.4	170.4
EBITDA (A\$m)	-25.5	21.1	30.1	56.9
EBIT (A\$m)	-25.6	19.9	28.6	54.9
Net income (A\$m)	-12.6	12.5	21.1	37.6
EPS (CS adj.) (Ac)	-1.39	1.15	1.96	3.18
Change from previous EPS (%)	n.a.	-27.6	-15.2	-3.9
Consensus EPS (Ac)	n.a.	1.20	1.40	2.40
EPS growth (%)	-1,097.7	182.8	69.5	62.8
P/E (x)	-27.6	33.4	19.7	12.1
Dividend (Ac)	—	—	—	—
Dividend yield (%)	—	—	—	—
P/B (x)	1.4	1.3	1.2	1.0
Net debt/equity (%)	net cash	net cash	net cash	10.7

Source: Company data; ASX; Credit Suisse estimates. \*Adj. for goodwill, notional interest and unusual items. Relative P/E against ASX/S&P200 based on pre GW in AUD. Company PE calculation is based on displayed EPS Currency

Figure 8: COK financial summary

Cockatoo Coal (COK)		Year ending 30 Jun					In AUDmn, unless otherwise stated																																										
Profit & Loss	06/10A	06/11A	06/12E	06/13E	06/14E	Share Price: A\$0.39 <span style="float:right">7/12/2011 17:30</span>																																											
Sales revenue	59.7	31.2	95.3	122.4	170.4	Rating	OUTPERFORM																																										
EBITDA	0.1	-25.5	21.1	30.1	56.9	Target Price	A\$ 0.65																																										
Depr. & Amort.	0.1	0.1	1.2	1.5	2.0	vs Share price	% 68.83																																										
EBIT	0.0	-25.6	19.9	28.6	54.9	DCF	A\$ 0.65																																										
Associates	0.0	0.0	0.0	0.0	0.0	<p><i>Cockatoo Coal Limited (Cockatoo) is a coal production company. The Company is engaged in the acquisition, exploration, development, production and operation of coal mining projects. Cockatoo operates in three segments; Mining, Exploration and evaluation, and Other.</i></p>																																											
Net interest	-0.8	-3.8	2.2	-1.6	1.2																																												
Reported PBT	0.8	-21.9	17.8	30.2	53.7																																												
Income tax	0.0	0.0	5.3	9.0	16.1																																												
Profit after tax	0.8	-21.9	12.5	21.1	37.6																																												
Minorities	0.0	0.0	0.0	0.0	0.0																																												
Preferred dividends	0.0	0.0	0.0	0.0	0.0																																												
Normalised NPAT	0.8	-12.6	12.5	21.1	37.6																																												
Analyst adjustments	0.0	0.0	0.0	0.0	0.0																																												
Unusual item after tax	2.7	0.0	0.0	0.0	0.0																																												
Reported NPAT	3.5	-12.6	12.5	21.1	37.6	<p><b>Earnings</b></p> <table border="1"> <thead> <tr> <th></th> <th>06/10A</th> <th>06/11A</th> <th>06/12E</th> <th>06/13E</th> <th>06/14E</th> </tr> </thead> <tbody> <tr> <td>Equiv. FPO (period avg.)</td> <td>mn 602.5</td> <td>900.9</td> <td>1,079.2</td> <td>1,079.2</td> <td>1,179.2</td> </tr> <tr> <td>EPS (Normalised)</td> <td>c 0.1</td> <td>-1.4</td> <td>1.2</td> <td>2.0</td> <td>3.2</td> </tr> <tr> <td>EPS Growth</td> <td>%</td> <td>-1,097.7</td> <td>182.8</td> <td>69.5</td> <td>62.8</td> </tr> <tr> <td>DPS</td> <td>c 0.0</td> <td>0.0</td> <td>0.0</td> <td>0.0</td> <td>0.0</td> </tr> <tr> <td>Dividend Payout</td> <td>%</td> <td>0.0</td> <td>0.0</td> <td>0.0</td> <td>0.0</td> </tr> <tr> <td>Free CFPS</td> <td>c 1.8</td> <td>-1.0</td> <td>0.3</td> <td>2.6</td> <td>2.6</td> </tr> </tbody> </table>			06/10A	06/11A	06/12E	06/13E	06/14E	Equiv. FPO (period avg.)	mn 602.5	900.9	1,079.2	1,079.2	1,179.2	EPS (Normalised)	c 0.1	-1.4	1.2	2.0	3.2	EPS Growth	%	-1,097.7	182.8	69.5	62.8	DPS	c 0.0	0.0	0.0	0.0	0.0	Dividend Payout	%	0.0	0.0	0.0	0.0	Free CFPS	c 1.8	-1.0	0.3	2.6	2.6
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Balance Sheet	06/10A	06/11A	06/12E	06/13E	06/14E	<p><b>Valuation</b></p> <table border="1"> <thead> <tr> <th></th> <th>06/10A</th> <th>06/11A</th> <th>06/12E</th> <th>06/13E</th> <th>06/14E</th> </tr> </thead> <tbody> <tr> <td>P/E</td> <td>x 275.6</td> <td>-27.6</td> <td>33.4</td> <td>19.7</td> <td>12.1</td> </tr> <tr> <td>EV/EBIT</td> <td>x 36,843.5</td> <td>-14.6</td> <td>18.8</td> <td>13.1</td> <td>6.8</td> </tr> <tr> <td>EV/EBITDA</td> <td>x 3,898.7</td> <td>-14.7</td> <td>17.7</td> <td>12.4</td> <td>6.6</td> </tr> <tr> <td>Dividend Yield</td> <td>% 0.0</td> <td>0.0</td> <td>0.0</td> <td>0.0</td> <td>0.0</td> </tr> <tr> <td>FCF Yield</td> <td>% 4.6</td> <td>-2.5</td> <td>0.8</td> <td>6.8</td> <td>6.8</td> </tr> <tr> <td>Price to Book</td> <td>x 2.0</td> <td>1.4</td> <td>1.3</td> <td>1.2</td> <td>1.0</td> </tr> </tbody> </table>			06/10A	06/11A	06/12E	06/13E	06/14E	P/E	x 275.6	-27.6	33.4	19.7	12.1	EV/EBIT	x 36,843.5	-14.6	18.8	13.1	6.8	EV/EBITDA	x 3,898.7	-14.7	17.7	12.4	6.6	Dividend Yield	% 0.0	0.0	0.0	0.0	0.0	FCF Yield	% 4.6	-2.5	0.8	6.8	6.8	Price to Book	x 2.0	1.4	1.3	1.2	1.0
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Price to Book	x 2.0	1.4	1.3	1.2	1.0																																												
Cash & equivalents	32.2	17.6	188.2	123.4	17.5	<p><b>Returns</b></p> <table border="1"> <thead> <tr> <th></th> <th>06/10A</th> <th>06/11A</th> <th>06/12E</th> <th>06/13E</th> <th>06/14E</th> </tr> </thead> <tbody> <tr> <td>Return on Equity</td> <td>% 0.7</td> <td>-4.6</td> <td>3.5</td> <td>5.7</td> <td>8.2</td> </tr> <tr> <td>Profit Margin</td> <td>% 1.4</td> <td>-40.3</td> <td>13.1</td> <td>17.2</td> <td>22.0</td> </tr> <tr> <td>Asset Turnover</td> <td>x 0.4</td> <td>0.1</td> <td>0.2</td> <td>0.3</td> <td>0.3</td> </tr> <tr> <td>Equity Multiplier</td> <td>x 1.2</td> <td>1.1</td> <td>1.2</td> <td>1.3</td> <td>1.2</td> </tr> <tr> <td>Return on Assets</td> <td>% 0.6</td> <td>-4.3</td> <td>2.8</td> <td>4.5</td> <td>6.6</td> </tr> <tr> <td>Return on Invested Cap.</td> <td>% 0.0</td> <td>-10.4</td> <td>6.4</td> <td>6.6</td> <td>7.7</td> </tr> </tbody> </table>			06/10A	06/11A	06/12E	06/13E	06/14E	Return on Equity	% 0.7	-4.6	3.5	5.7	8.2	Profit Margin	% 1.4	-40.3	13.1	17.2	22.0	Asset Turnover	x 0.4	0.1	0.2	0.3	0.3	Equity Multiplier	x 1.2	1.1	1.2	1.3	1.2	Return on Assets	% 0.6	-4.3	2.8	4.5	6.6	Return on Invested Cap.	% 0.0	-10.4	6.4	6.6	7.7
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Return on Invested Cap.	% 0.0	-10.4	6.4	6.6	7.7																																												
Inventories	10.0	3.2	8.0	8.6	14.9	<p><b>Gearing</b></p> <table border="1"> <thead> <tr> <th></th> <th>06/10A</th> <th>06/11A</th> <th>06/12E</th> <th>06/13E</th> <th>06/14E</th> </tr> </thead> <tbody> <tr> <td>Net Debt to Net debt + Equity %</td> <td>Net Cash</td> <td>Net Cash</td> <td>Net Cash</td> <td>Net Cash</td> <td>9.7</td> </tr> <tr> <td>Net Debt to EBITDA</td> <td>x Net Cash</td> <td>0.7</td> <td>Net Cash</td> <td>Net Cash</td> <td>0.8</td> </tr> <tr> <td>Int Cover (EBITDA/Net Int.)</td> <td>x -0.1</td> <td>6.8</td> <td>9.8</td> <td>-19.0</td> <td>47.3</td> </tr> <tr> <td>Int Cover (EBIT/Net Int.)</td> <td>x 0.0</td> <td>6.8</td> <td>9.3</td> <td>-18.1</td> <td>45.7</td> </tr> <tr> <td>Capex to Sales</td> <td>% 0.0</td> <td>21.6</td> <td>1.2</td> <td>77.4</td> <td>110.7</td> </tr> <tr> <td>Capex to Depreciation</td> <td>% 0.0</td> <td>7,075.7</td> <td>100.0</td> <td>6,322.2</td> <td>9,406.3</td> </tr> </tbody> </table>			06/10A	06/11A	06/12E	06/13E	06/14E	Net Debt to Net debt + Equity %	Net Cash	Net Cash	Net Cash	Net Cash	9.7	Net Debt to EBITDA	x Net Cash	0.7	Net Cash	Net Cash	0.8	Int Cover (EBITDA/Net Int.)	x -0.1	6.8	9.8	-19.0	47.3	Int Cover (EBIT/Net Int.)	x 0.0	6.8	9.3	-18.1	45.7	Capex to Sales	% 0.0	21.6	1.2	77.4	110.7	Capex to Depreciation	% 0.0	7,075.7	100.0	6,322.2	9,406.3
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Receivables	5.8	6.3	15.9	17.1	29.5	<p><b>Share Price Performance (vs S&amp;P ASX 200 Index)</b></p>																																											
Other current assets	0.1	1.2	1.2	1.2	1.2	<table border="1"> <thead> <tr> <th></th> <th>1 Month</th> <th>3 Months</th> <th>12 Months</th> </tr> </thead> <tbody> <tr> <td>Absolute</td> <td>2.7%</td> <td>-8.3%</td> <td>-27.4%</td> </tr> <tr> <td>Relative</td> <td>2.2%</td> <td>-10.8%</td> <td>-18.2%</td> </tr> </tbody> </table>			1 Month	3 Months	12 Months	Absolute	2.7%	-8.3%	-27.4%	Relative	2.2%	-10.8%	-18.2%																														
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Absolute	2.7%	-8.3%	-27.4%																																														
Relative	2.2%	-10.8%	-18.2%																																														
Current assets	48.0	28.3	213.3	150.2	63.0	<p>Source: Reuters 52 week trading range: 0.35-0.56</p>																																											
Property, plant & equip.	5.1	24.5	24.5	117.8	304.5																																												
Intangibles	0.0	0.0	0.0	0.0	0.0																																												
Other non-current assets	82.9	236.8	199.5	199.5	199.5																																												
Non-current assets	88.0	261.2	224.0	317.3	504.0																																												
Total assets	136.0	289.6	437.3	467.5	567.0																																												
Payables	14.8	21.6	24.4	30.4	37.3																																												
Interest bearing debt	5.0	0.6	65.6	65.6	65.6																																												
Other liabilities	2.9	2.8	5.4	8.5	13.4																																												
Total liabilities	22.7	25.0	95.4	104.4	116.4																																												
Net assets	113.3	264.5	341.9	363.1	450.7																																												
Ordinary equity	113.3	273.5	351.0	372.1	459.7																																												
Minority interests	0.0	-9.3	-9.3	-9.3	-9.3																																												
Preferred capital	0.0	0.0	0.0	0.0	0.0																																												
Total shareholder funds	113.3	264.2	341.7	362.8	450.4																																												
Net debt	-27.2	-17.0	-122.6	-57.8	48.1																																												
Cashflow	06/10A	06/11A	06/12E	06/13E	06/14E																																												
EBIT	0.0	-25.6	19.9	28.6	54.9																																												
Net interest	0.5	3.9	-2.2	1.6	-1.2																																												
Depr & Amort	0.1	0.1	1.2	1.5	2.0																																												
Tax paid	0.0	0.0	-2.7	-6.0	-11.1																																												
Working capital	6.8	13.7	-2.1	5.4	0.7																																												
Other	3.2	-0.7	-9.6	-1.2	-12.4																																												
Operating cashflow	10.7	-8.6	4.5	29.9	32.8																																												
Capex	0.0	-6.7	-1.2	-94.8	-188.7																																												
Capex - expansionary	0.0	-6.7	0.0	-93.3	-186.7																																												
Capex - maintenance	0.0	0.0	-1.2	-1.5	-2.0																																												
Acquisitions & Invest	-10.2	-119.5	0.0	0.0	0.0																																												
Asset sale proceeds	0.0	0.0	0.0	0.0	0.0																																												
Other	-13.6	-13.3	0.0	0.0	0.0																																												
Investing cashflow	-23.8	-139.6	-1.2	-94.8	-188.7																																												
Dividends paid	0.0	0.0	0.0	0.0	0.0																																												
Equity raised	42.8	145.7	65.0	0.0	50.0																																												
Net borrowings	-7.5	-10.2	65.0	0.0	0.0																																												
Other	0.0	0.0	0.0	0.0	0.0																																												
Financing cashflow	35.3	135.5	130.0	0.0	50.0																																												
Total cashflow	22.2	-12.7	133.4	-64.9	-105.9																																												
Adjustments	0.0	0.0	0.0	0.0	0.0																																												
Net Change in Cash	22.2	-12.7	133.4	-64.9	-105.9																																												

Source: Company data, Credit Suisse estimates