



## AUSTRALIA

AQA AU Neutral  
Price 1 Dec 10 A\$9.87

Volatility index Very High

12-month target A\$ 10.05

12-month TSR % +1.8

Valuation A\$ 10.05

- DCF (WACC 10.9%, beta 1.6, ERP 5.0%, RFR 6.0%, TGR 45.0%)

GICS sector Energy

Market cap A\$m 3,187

30-day avg turnover A\$m 5.2

Number shares on issue m 322.9

### Investment fundamentals

Year end 30 Jun		2010A	2011E	2012E	2013E
Sales revenue	m	129.8	211.2	238.8	525.1
EBIT	m	-61.3	1.0	22.0	163.4
Reported profit	m	-33.1	-7.8	90.8	-28.4
Adjusted profit	m	-35.8	-7.8	0.3	-28.4
Gross cashflow	m	31.2	59.0	67.8	28.6
CFPS	¢	9.7	17.4	19.7	8.4
CFPS growth	%	4.0	79.0	13.6	-57.6
PGCFPS	x	101.7	56.8	50.0	118.0
PGCFPS rel	x	8.27	6.07	6.26	15.88
EPS adj	¢	-10.9	-2.3	0.1	-8.3
EPS adj growth	%	22.9	78.5	nmf	nmf
PER adj	x	nmf	nmf	10,027.4	nmf
PER rel	x	nmf	nmf	902.18	nmf
Total DPS	¢	0.0	0.0	0.0	0.0
Total div yield	%	0.0	0.0	0.0	0.0
Franking	%	nmf	nmf	nmf	nmf
ROA	%	-18.6	0.2	3.2	7.9
ROE	%	-12.8	-1.9	0.1	-5.6
EV/EBITDA	x	521.4	45.6	34.6	14.1
Net debt/equity	%	-66.2	-61.7	2.9	380.3
P/BV	x	8.4	8.1	6.6	6.7

### AQA AU vs Small Ordinaries, & rec history



Note: Recommendation timeline - if not a continuous line, then there was no Macquarie coverage at the time or there was an embargo period.

Source: FactSet, Macquarie Research, November 2010  
(all figures in AUD unless noted)

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2 December 2010

# Aquila Resources

## Adding value to bulks projects

### Event

- We attended AQA's AGM. AQA announced a resource upgrade at Meletse and increased planned production for Washpool.

### Impact

- Project value add.** We update our valuation to A\$10.05ps from A\$8.97ps, incorporating recently announced iron ore resource increases at West Pilbara (~A\$0.27ps) and Meletse (~A\$0.36ps) as well as an increase in planned production of the Washpool coal project (~A\$0.40ps). The bulk of AQA's valuation, A\$8.32ps (~83%), is in greenfield projects, as AQA currently has only one operation, the Isaac Plains coal mine in Queensland.
- Portfolio geared to attractive bulk commodities.** AQA is seeking to develop coking coal projects in the Bowen basin, iron ore in the Pilbara and manganese in the Kalahari. Iron ore and coking coal currently have structural supply constraints and we believe markets will remain tight in the short to medium term, supporting commodity prices. AQA is positioning to ramp up production into these tight markets.
- Funding work remains.** To bring AQA's projects on stream, we estimate ~A\$8.3bn of capital is required (AQA attr: ~A\$4.5bn). AQA reported cash of A\$263m at the end of September, so external funding is required. AQA has identified potential sources of funding including bank debt and debt markets, as well as potential sales of asset stakes. A near term source of funds is concluding the sale of the Belvedere project. However, this has been stalled by legal process and management now projects this to go to court in late 2011. Significant further work is required to secure funding.
- Execution risks to capturing AQA's value.** The execution risk of developing an ~A\$8.3bn (~A\$4.5bn attributable) pipeline of six major projects, including an A\$5.8bn integrated port, rail and mine project in the Pilbara, is significant. Execution risk is increased by AQA not holding controlling stakes in its major projects, but rather holding them in JVs. Infrastructure access is a risk as AQA's coal projects depend on AQA securing rail and port capacity in Queensland and the manganese project in South Africa requires Transnet, a state-owned enterprise, to expand its rail and port infrastructure.

### Earnings and target price revision

- EPS forecast changed slightly due to delay in Belvedere settlement, FY11 EPS unchanged at neg. A\$0.02ps, FY12 EPS declined to A\$0.00ps from A\$0.01ps, FY13 EPS increased to neg A\$0.08ps from neg A\$0.10ps. Target Price increased to A\$10.05ps from A\$8.97ps.

### Price catalyst

- 12-month price target: A\$10.05 based on a DCF methodology.
- Catalyst: Finalisation of an infrastructure route for Eagle Downs coal project

### Action and recommendation

- We rate AQA Neutral with a price target of A\$10.05ps.

## Valuation

- **DCF getting closer to multiples.** Our updated DCF valuation of AQA is A\$10.05ps. On comparable multiples, we value AQA at A\$10.23ps.

**Fig 1 AQA valuation**

Commodity	Project	AQA stake	DCF	A\$ps	Multiples	A\$ps	Average
Iron Ore	West Pilbara	50%	1061	1.64	1,860	2.89	2.27
	Meletse	100%	337	1.05	337	1.05	1.05
	Total iron ore			2.69		3.93	3.31
Coking Coal	Isaac Plains	50%	885	1.37	454	0.70	1.04
	Eagle Downs	50%	1467	2.28	1361	2.11	2.19
	Washpool	100%	213	0.66	313	0.97	0.82
	Belvedere	25%	754	0.57	1945	1.48	1.03
	Total coking coal			4.88		5.27	5.07
Manganese	Gravenhage	100%	680	2.11	277	0.86	1.48
Corporate		100%	-151	-0.47		-0.47	-0.47
Debt		100%	268	0.83		0.83	0.83
<b>Total</b>				<b>10.05</b>		<b>10.42</b>	<b>10.23</b>

Source: Macquarie Research, December 2010

- **Project value add.** We update our valuation to A\$10.05ps from A\$8.97ps, incorporating recently announced iron ore resource increases at West Pilbara (~A\$0.27ps) and Meletse (~A\$0.36ps), as well as an increase in planned production of the Washpool coal project (~A\$0.40ps). The bulk of AQA's valuation, A\$8.32ps (~83%), is in greenfield projects, as AQA currently has only one operation, the Isaac Plains coal mine in Queensland.

**Fig 2 NPV sources of change**

Item	NPV	ΔNPV	Comment
Starting point	8.97		
West Pilbara resource		0.32	Increased stage 1 resource to 687mt
Meletse resource		0.36	Increase resource to 48mt from 22mt
Washpool scope		0.40	Increase planned production rate to 2.6mtpa from 1.6mtpa
Updated NPV	10.05		

Source: Macquarie Research, December 2010

- **Key sensitivities – long term commodity prices.** Our long term price forecast is 93 US\$/dmtu FOB Australia for iron ore and US\$130/t for premium hard coking coal. A US\$10/t change in the coking coal price assumption results in A\$0.84ps valuation movement. A US\$5/dmtu change in iron ore price forecast results in an A\$1.44ps valuation change.

**Fig 3 Commodity price sensitivity**

		Iron Ore US\$/dmtu		
		98	93	88
Coal US\$/t	140	12.33	10.89	9.45
	130	11.49	10.05	8.61
	120	10.65	9.21	7.77

Source: Macquarie Research, December 2010

- **Project upsides.** AQA's project portfolio provides opportunities for further value add as many of the projects have resource bases that could support larger than currently planned production.

**Fig 4 AQA project upsides**

Project	A\$ps	Comment
Eagle Downs Expansion	1.51	Second longwall in 2020, 4mtpa, A\$300m capex all in
Gravenhage capacity doubling	0.79	Expansion to 2mtpa starting in 2015
West Pilbara resource increase	0.63	Extend mine life by building additional rail to Eastern tenements
Meletse capacity increase	0.20	4mtpa, based on larger resource
Washpool product blending	0.33	Reduce product discount by 5% by blending
Isaac Plains expansion	0.12	Expand target production to ~3.2mtpa with minimal capex
Identified upside	3.58	

Source: Macquarie Research, December 2010

## Funding

- **Schedule – juggling many balls.** AQA’s projects, aside from the Isaac Plains operation, are in the development stage. Key changes in project milestones include that the West Pilbara project approvals and investment decision point is now 1Q11 (previously: investment decision 2010). A scoping study for the Meletse iron ore project has been initiated and a feasibility study date for Gravenhage manganese has been set as mid 2011.

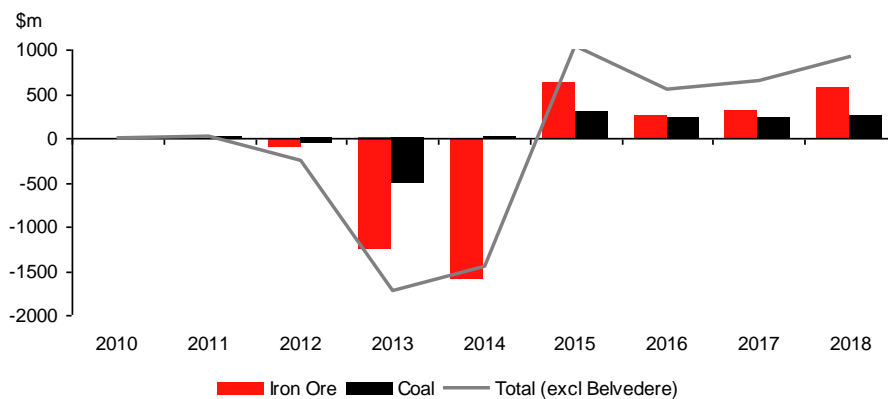
Fig 5 Key projects and milestones

Commodity	Project	Pre-feas	Feasibility	Bankable Feasibility	Investment Decision	Construct	Produce
Coal	Isaac Plains	X	X	X	X	X	X
	Eagle Downs	X	X	June 2011	2H11	2012	2014
	Washpool	X	June 2010	June 2011	2H11	2012	2013
	Belvedere	X			divest		
Iron Ore	West Pilbara	X	X	March 2011	1H11	2012	2014
	Hardey	March 2011			tbd	2015	2016
	Meletse	in progress			tbd	2013	2014
Manganese	Gravenhage		2H 2011	tbd	tbd	2012	2013

Source: AQA, Macquarie Research, December 2010

- **Large funding task ahead.** Net cashflow is forecast to be large and negative initially, with some A\$2.9bn capex (attributable) required to develop the West Pilbara project and a further ~A\$1.6bn for the coal projects, Hardey and the South African projects. Longer term, net cashflow is forecast to be ~A\$900m per annum. We estimate a peak external funding requirement of ~A\$4bn.

Fig 6 Net cashflow forecast



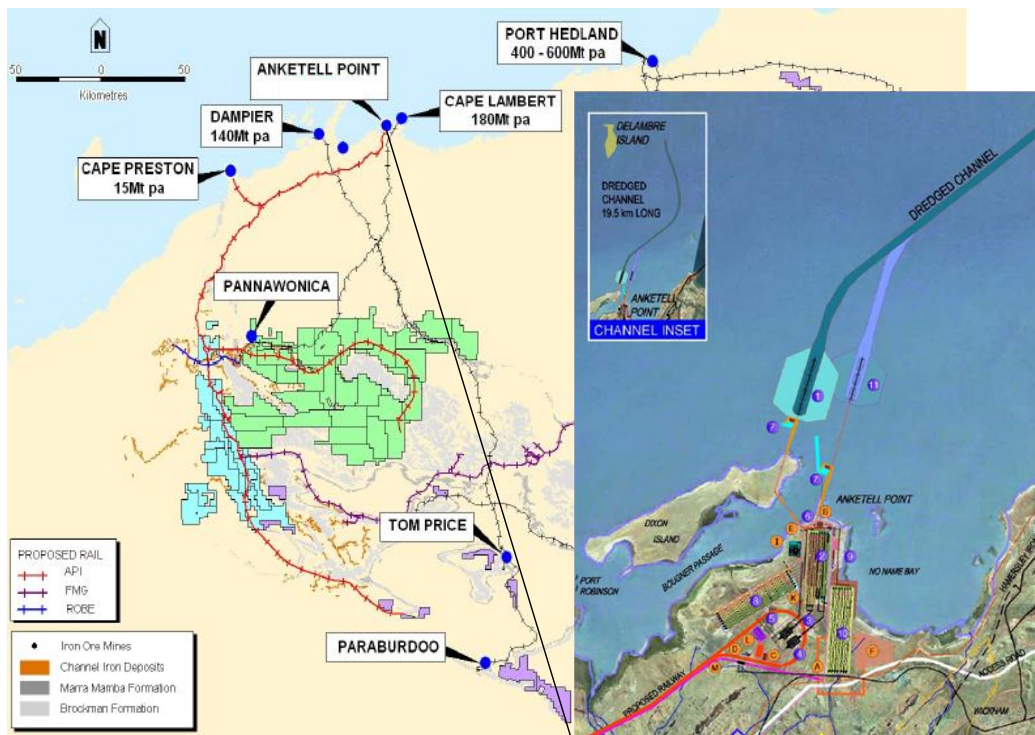
Source: Macquarie Research, December 2010

- AQA has identified potential sources of funding including bank debt and debt markets, as well as potential sales of asset stakes. A near term source of funds is concluding the sale of the Belvedere project. However, this has been stalled by legal process and management now projects this to go to court in late 2011. Significant further work is required to secure funding.

### Recap - the West Pilbara iron ore project

- **An integrated mine, rail and port project.** The project encompasses development of a 30mtpa mine, as well as rail and port infrastructure, through the proposed new port development at Anketell. The proposed rail line is 282km long. West Pilbara is held 80% by Australian Premium Iron (API) (not listed) and 20% by junior JV partners (Cullen Resources Ltd (CUL AU, A\$0.05, Not rated) and Red Hill Iron Ltd (RHI AU, A\$2.85, Not rated)). API is 50% AQA, 50% AMCI (not listed). Hardey, located ~100km from the West Pilbara project, provides an option for AQA to build incremental production (current planning is for 10mtpa) and to use the West Pilbara/Anketell infrastructure, once built, to export this. Hardey is held 100% by API.

**Fig 7 AQA's proposed West Pilbara project**



Source: AQA, Macquarie Research, December 2010

- **Resources** – AQA's Pilbara resources have recently been increased to 927mt from 742mt (100% basis), split among the West Pilbara (~771mt) and Hardey (156mt) areas. The West Pilbara resource is split into stage 1 (687mt, JVs with RHI and CUL) and stage 2 (84mt, Yalleen JV, AQA 70% attributable with Helix Resources, HLX AU, CP A\$0.16ps, not rated). We have taken these JV relationships into account when modelling cash flows attributable to AQA.

**Fig 8 AQA's Pilbara iron ore resources**

Resource	Mt	Fe	SiO2	Al2O3	P	LOI	Calc Fe	Al + Si
West Pilbara S 1	687	56.6	6.1	3.7	0.069	8.0	62.0	9.8
West Pilbara S 2	84	57.2	5.3	3.8	0.060	8.6	62.6	9.1
Hardey	156	61.5	3.7	2.5	0.134	5.4	65.0	6.1
<b>Total</b>	<b>927</b>	<b>57.5</b>	<b>5.6</b>	<b>3.5</b>	<b>0.079</b>	<b>8.1</b>	<b>62.6</b>	<b>9.1</b>

Source: AQA, Macquarie Research, December 2010

- The West Pilbara resource is relatively low in iron, 56.6% grade (62% calcined grade). The Hardey resource is higher Fe (61.5% in situ, 65% calcined) and lower alumina and silica but has high phos (0.134%), probably too high to sell in meaningful quantities without blending.

- **Infrastructure** – AQA plans to build an integrated port and rail system, including the proposed new Pilbara port of Anketell. The Western Australian state government has endorsed Anketell as the next Pilbara iron ore port, with an initial target capacity of 75mtpa and ultimate potential of 350mtpa. AQA has been the early mover in developing Anketell, having spent ~A\$145m on engineering studies on the West Pilbara project. While AQA is open to working in co-operation with Fortescue (FMG AU, CP A\$6.35, Outperform, TP \$7.60ps) and Metallurgical Corporation of China (not listed) to develop the first stage 75mtpa port capacity, no definitive agreements have been concluded and AQA plans to develop the project on a standalone basis at the current time.
- **Capex and opex.** Capex is estimated at A\$5.8bn (A\$193/t capacity), with opex A\$19.48/t. Opportunities to reduce capex and capex / t capacity may be presented by leasing equipment, as well as partnering with other port and rail proponents. Opex is relatively low, reflecting the low strip ratio and relative proximity to the coast, as well as AQA using its own infrastructure.
- **Timing and approvals** – A development decision is planned for 1Q 2011. Key approvals are yet to be secured, including environmental approvals, agreement with the Western Australian state around the proponent to build the port, as well as a WA state agreement for the rail. AQA is progressing environmental approvals, with public review of the mine and rail currently in process and shortly to commence for the port. AQA is also engaging in discussions with the WA state government around the port and the rail state agreement in parallel. AQA plans to commence construction by CY2012 and put first ore on ship by early 2014. This timeline assumes that all approvals can be achieved without significant delay.
- **Hardey Project** – AQA is progressing the pre-feasibility study for the Hardey project, which could add 10mtpa; results are planned for 1Q 2011. The PFS will provide the basis for determining the viability of developing the Hardey Deposit into a 10mtpa project as the next project to follow the initial 30mtpa Stage 1 of the West Pilbara Iron Ore Project. We model Hardey with an incremental capital of A\$850m, reflecting the incremental rail spur cost (estimated at ~A\$650m) and mine infrastructure (~A\$200m); we assume that the initial capex of A\$5.7bn for West Pilbara covers the port cost. We estimate incremental operating cost of ~A\$3.50/t, for a total opex of A\$23/t, to account for the incremental raiiling distance and incremental cost of mining. We model first production in 2016.
- **Marketing** – Sinter test work of the West Pilbara Fines product has been completed with a number of potential customers. Thirty-two MoUs have been agreed with steel mills in China, Japan and Korea. AQA intends to convert these into Letters of Intent. AQA's product is relatively high in alumina and will most likely attract a discount. We model a 57.2% Fe product with an 18% discount, similar to our modelling of Robe River product. For Hardey product, we model 61.5% Fe with a 5% discount to account for relatively high phos levels. We model only fines, no lump production for either project.
- **Valuation** – we estimate the NPV of West Pilbara and Hardey cash flows at A\$1,061bn (A\$1.64ps attr to AQA). Exploration upside in the West Pilbara is significant, with only ~30% of landholdings having been explored so far. AQA has identified five areas for further exploration, including the Weckl deposit near FMG's Solomon resource. Assuming a resource upside of ~500mt and similar capex as for Hardey to capture these, we estimate incremental NPV could be ~A\$0.63ps.

## Washpool recap

- **Project** – The Washpool coal project is a proposed open-cut coal mine that aims to produce 2.6mtpa of saleable hard coking coal from a 7mtpa ROM production (previously: 1.6mtpa from 4mtpa ROM). It is located north-west of Blackwater in the Bowen Basin. Washpool is 100% held by AQA. The coal will be mined initially using truck and shovel mining methods with a view to progressing to a dragline, with the emphasis on in pit waste dumping. The coal will be washed on site. AQA has a 1.6mtpa capacity allocation in the Wiggins Island Coal Terminal Project at Gladstone and is pursuing increasing this to 2.6mtpa. First production is scheduled to occur during calendar 2013.
- **Resource** is 186mt of HCC, of which ~72% is measured and indicated. A ROM reserve of 108mt has been reported, converting into 39mt marketable product reserve. The Washpool project aims to mine the Burngrove measure.

**Fig 9 Washpool resource and reserve**

Project	Resource		Reserve	
	Total	M&I	ROM	Marketable product
Washpool	186	133	108	39

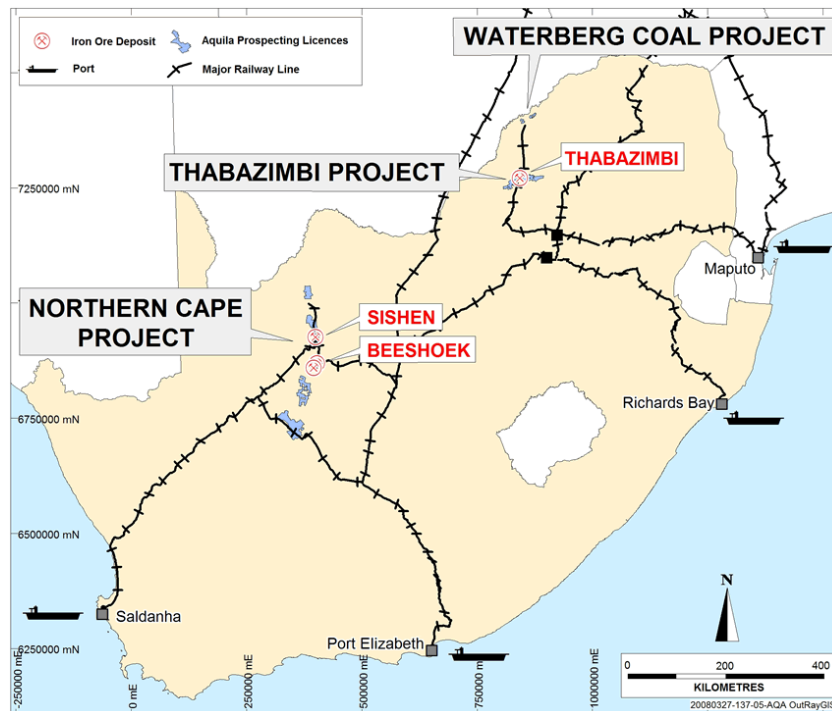
Source: AQA, Macquarie Research, December 2010

- **Infrastructure** – Transport is planned via rail along the existing Peak Downs – Emerald – Blackwater railway system, to the new Wiggins Island Coal Export Terminal (WICET) for export to overseas markets. Washpool has 1.6mt allocation on WICET, which is currently planned to come on stream from 2013. Due to its relatively small production volume, Washpool is looking to move start-up coal through other Gladstone terminals.
- **Timeline, capex and opex** – The Definitive Feasibility is planned to be completed by mid-2011. Management plans to commence construction works following grant of the mining lease in January 2012 and commence production from January 2013. As part of the feasibility study, the statutory approvals processes have formally commenced with a mining lease application, environmental impact statement application and an Environment Protection and Biodiversity Conservation Act referral submitted. Capex for the 1.6mtpa footprint was estimated at A\$320m. We estimate capex for the expanded project at A\$450m, using the two thirds engineering rule. We also factor economies of scale into the unit cost forecast which we reduce from A\$106/t previously to A\$100/t.
- **Marketing** – As per management's guidance, a HCC product with 15% ash content has been assumed in the base case, to be sold at a 10% discount to benchmark HCC FOB prices. Washpool has exceptional coking properties with CSN >9 and CSR >60; however, it has high ash of 15%. By blending with low-ash semi-soft coking coal, it could be possible to raise the price of the blend to HCC prices. This would create value for both blend ingredients as both would attract below HCC prices if sold individually.
- **Valuation** – We value Washpool's cash flows at A\$213m NPV (100% AQA attributable). Key assumptions include HCC production of 2.6mtpa, capex of A\$450m, FOB opex of A\$100/t and first production in 2013. We have assumed low resource to reserve conversion and product yield to account for Washpool producing 2.6mtpa hard coking coal from 7.0mtpa ROM, resulting in a 15 year life-of-mine. We also assume a 10% product discount, given the high ash content of Washpool product.
- **Upside** – Owing to its coking properties, Washpool coal may be blended with semi-soft coking coal, blending out the ash and achieving still acceptable coking properties. AQA management anticipates that this could remove the discount. On our numbers, a reduction of the product discount to 5% could add A\$108m or ~A\$0.33ps

### Recap iron ore in South Africa - Meletse

- Projects** – AQA has pegged tenements around Kumba’s (KIO SJ, Neutral, TP ZAR385ps, CP ZAR408ps) existing iron ore operations at Sishen, Beeshoek (Sishen South) and Thabazimbi. A JORC-compliant resource at Meletse has been increased to 47.6mt grading 62.9% Fe (30% indicated) has been announced at Meletse near Thabazimbi. Meletse’s ore is low in gangue levels and has a ~60% lump fraction. AQA holds 74% of Meletse, having identified Rakana (not listed), a BEE partner which has the right to purchase the remaining 26%, satisfying South African regulatory requirement for granting a mining lease.

**Fig 10 AQA’s South African iron ore prospects**



Source: AQA, Macquarie Research, December 2010

- Resource:** A maiden Inferred Resource of 21.9mt at 63.2% Fe was declared for the Meletse Iron Ore Deposit in April 2010 and recently increased to 47.6mt at 62.9% Fe. Kumba’s Thabazimbi resource was 15.5mt at 62.8% Fe in June 2010.

**Fig 11 Meletse inferred resource**

Mt	Fe%	SiO2%	Al2O3%	P%	LOI%	Al + Si	Calc Fe
47.6	62.9	8.00	0.91	0.040	1.1	8.91	63.5

Source: AQA, Macquarie Research, December 2010

- Infrastructure and Offtake** – Meletse is located near Kumba’s Thabazimbi operation that currently supplies ~2.5mtpa to ArcelorMittal’s (ACL SJ, Underperform, TP ZAR 69ps, CP ZAR76.25ps) African steel mills. Kumba’s operation is resource constrained and could potentially deplete within the next five years, providing a potential opportunity for AQA to replace this supply to ACL. Alternatively, export routes could be via Maputo or Richard’s Bay; however, neither port currently ships iron ore.
- Timing, capex and opex** – Meletse is in pre-feasibility, with a scoping study having been initiated recently. Capex estimate by management for mining operations and crushing and screening is ZAR700m (~A\$100m) for a 2.5mtpa operation. We estimate opex at ~A\$45/t FOB or export parity.
- Valuation** – we value Thabazimbi’s cashflows at A\$337m (AQA attr: 74%; AQA has negotiated with Rakana to purchase 26%). Key assumptions include 2.5mtpa production over a fourteen year LOM for a capital investment of A\$100m, opex of A\$45/t and commencement of shipping in 2014.

## A wide range of risks

**Project execution risk** – AQA has a large project pipeline it intends to develop over the next five years, with six major projects (West Pilbara, Eagle Downs, Washpool, Avontuur, Meletse and Hardey) at a total capex of ~A\$8.3bn (~A\$4.5bn attributable) in three geographically distinct areas. The project management of this entails risk of delay and capex overruns as evidenced by many other commodity projects. Resources such as skills and long lead items are likely to be scarce, given the amount of projects currently being planned and implemented by other resources companies in Australia. Being an emerging producer, AQA is relatively more exposed to this risk than incumbent majors.

**Counterparty risk** – AQA owns only one of its projects, the Washpool coking coal project, on a 100% basis. The Isaac Plains coal mine and the Eagle Downs coking coal project are 50/50 joint ventures with Vale (Vale US, TP US\$35.00ps, CP US\$32.26ps). As evidenced by recent disagreement between the JV partners around infrastructure access and subsequent lawsuit, this arrangement introduces execution risk. Similar risk applies to the JV developing the West Pilbara iron ore project, with AMCI (not listed) the JV partner holding 50%.

**Infrastructure access risk** – AQA's coal projects and South African iron ore and manganese projects require AQA to access third-party infrastructure in order to bring product to market. The Queensland process for adding rail and port capacity addition is complex. In South Africa, rail and port is owned and operated by Transnet, a state-owned enterprise. The expansion of infrastructure capacity and infrastructure operation in both regions is not controlled by AQA.

**Funding risk** – We estimate that AQA requires ~A\$4.5bn to develop its entire project suite; currently AQA holds ~A\$0.3bn in cash, with a potential up to ~A\$0.35bn from a sale of Belvedere. Additional funding is required in order to build the projects.

**Sovereign risk** – In South Africa, AQA is subject to BEE regulations. These may be subject to change over time, creating uncertainty. In Australia, uncertainty remains about the details, timing and implementation of the proposed mineral resources rent tax.

**Commodity price risk** – AQA's commodities are predominantly used in steelmaking. Should steel production decline, this would impact demand for AQA's commodity suite. Further, any large-scale additional supply in steelmaking raw materials such as iron ore, coking coal and manganese ore would pose a risk to AQA's ability to market its product. This risk is largest in iron ore, which has the major producers ramping up production at the same time that a number of new entrants are looking to bring projects on stream. Coking coal is more difficult to bring on stream as it is less abundant and logistics seem more constrained than for iron ore; China has recently moved from being an exporter to being a net importer of metallurgical coal, driven in part by the imposition of a 40% VAT on exports.

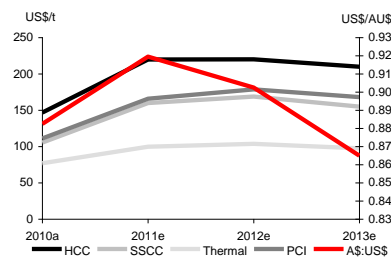
**Product quality risk** – AQA's resource base, while large and diversified, is not of the same quality as those of the majors. This is particularly the case in iron ore, where AQA's resource has relatively low Fe grade and high gangue levels compared to the majors' resources. This poses risk that AQA's products attract discounts in the market place. We have factored in an 18% discount. Mitigating this, historically, lower grade ores have found buyers even in a fully supplied market, unlike premium products such as pellets.

**Currency** – Being principally an Australian producer with US\$ denominated products, AQA has Australian currency risk; the stronger the A\$ vs the US\$, the lower AQA's margin. To a lesser degree, this applies to the South African Rand.

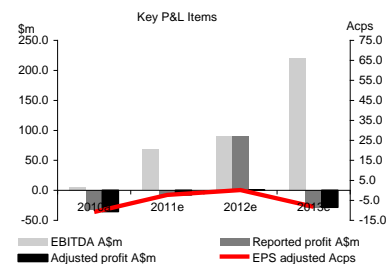
Fig 12 Financial Forecast

**Aquila (AQA.ASX)** Share price: \$9.87 ps  
 Year ending 30 June

Profit & Loss		2010a	2011e	2012e	2013e
Total revenue	A\$m	129.8	211.2	238.8	525.1
Total cash costs	A\$m	-124.3	-143.4	-149.4	-304.8
<b>EBITDA</b>	<b>A\$m</b>	<b>5.6</b>	<b>67.8</b>	<b>89.4</b>	<b>220.4</b>
Depreciation	A\$m	-6.7	-5.0	-5.6	-10.6
Exploration Expensed	A\$m	-60.2	-61.9	-61.9	-46.4
<b>Underlying EBIT</b>	<b>A\$m</b>	<b>-61.3</b>	<b>1.0</b>	<b>22.0</b>	<b>163.4</b>
Abnormal items	A\$m	2.7	0.0	129.2	0.0
<b>EBIT</b>	<b>A\$m</b>	<b>-58.7</b>	<b>1.0</b>	<b>151.2</b>	<b>163.4</b>
Net interest	A\$m	9.1	14.4	5.0	-184.1
<b>Pre-tax profit</b>	<b>A\$m</b>	<b>-49.6</b>	<b>15.4</b>	<b>156.2</b>	<b>-20.8</b>
Total tax expense	A\$m	16.5	-23.2	-65.4	-7.7
<b>Reported profit</b>	<b>A\$m</b>	<b>-33.1</b>	<b>-7.8</b>	<b>90.8</b>	<b>-28.4</b>
Abnormal items	A\$m	-2.7	0.0	-90.5	0.0
<b>Adjusted profit</b>	<b>A\$m</b>	<b>-35.8</b>	<b>-7.8</b>	<b>0.3</b>	<b>-28.4</b>
EPS adjusted	Acps	-10.9	-2.3	0.1	-8.3
EPS growth	%	-22.8%	-78.9%	-104.3%	-8530.2%
DPS (ex preference share)	Acps	0.0	0.0	0.0	0.0
Payout ratio	%	0%	0%	0%	0%
Average diluted shares	m	325	339	344	343

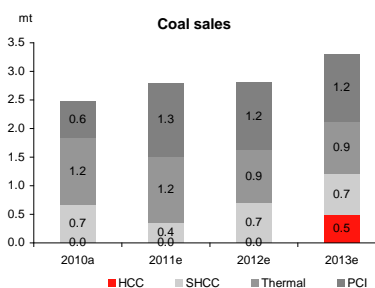


Cashflow		2010a	2011e	2012e	2013e
Net cash inflow from operating activities	A\$m	1.3	67.8	89.4	220.4
Net interest	A\$m	6.2	14.4	5.0	-184.1
Tax paid	A\$m	0.0	-22.2	-64.7	-4.5
Other	A\$m	0.0	4.3	86.2	361.6
<b>Net operating cashflow</b>	<b>A\$m</b>	<b>7.5</b>	<b>64.2</b>	<b>116.0</b>	<b>393.3</b>
Development Capex	A\$m	-5.1	-34.3	-456.9	-2269.3
SIB Capex	A\$m	0.0	-3.2	-3.3	-3.4
Exploration	A\$m	-67.5	-61.9	-61.9	-46.4
Proceeds from sale of PP&E	A\$m	-4.4	0.0	129.2	0.0
<b>Net cashflow from investing</b>	<b>A\$m</b>	<b>-77.0</b>	<b>-99.4</b>	<b>-392.8</b>	<b>-2319.0</b>
Debt drawdown/(repayment)	A\$m	-8.9	0.0	150.0	1950.0
Dividends paid (includes preference share)	A\$m	0.0	0.0	0.0	0.0
Share capital	A\$m	285.7	22.2	0.0	21.8
<b>Net financing cashflow</b>	<b>A\$m</b>	<b>276.8</b>	<b>22.2</b>	<b>150.0</b>	<b>1971.8</b>
Net cashflow	A\$m	207.3	-12.9	-126.8	46.1
Free cashflow	A\$m	-69.5	-35.1	-276.8	-1925.7
FCFPS	Acps	-21.4	-10.4	-80.6	-561.8

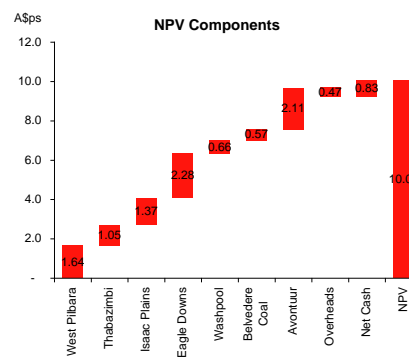


Balance sheet		2010a	2011e	2012e	2013e
Cash	A\$m	281.2	271.4	147.9	197.4
Other current assets	A\$m	35.3	74.8	74.6	172.7
P,P & E	A\$m	64.2	93.5	544.8	2803.5
Other non-current assets	A\$m	67.8	67.8	106.2	110.2
Total assets	A\$m	448.4	507.6	873.5	3283.7
Current liabilities	A\$m	30.8	74.3	199.0	658.7
Total liabilities	A\$m	43.2	88.0	363.2	2780.0
Shareholder equity	A\$m	405.1	419.5	510.3	503.7
Total debt	A\$m	12.8	12.8	162.8	2112.8
Net debt	A\$m	-268.4	-258.6	14.9	1915.4

Sales & Key Assumptions		2010a	2011e	2012e	2013e
HCC	mt	0.0	0.0	0.0	0.5
SHCC	mt	0.7	0.4	0.7	0.7
Thermal	mt	1.2	1.2	0.9	0.9
PCI	mt	0.6	1.3	1.2	1.2
<b>Total coal sales</b>	<b>mt</b>	<b>2.5</b>	<b>2.8</b>	<b>2.8</b>	<b>3.3</b>
Iron Ore Fines	mt	0.0	0.0	0.0	0.0
<b>Total iron ore sales</b>	<b>mt</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
Mn ore	mt	0.0	0.0	0.0	0.5
<b>Total mn ore sales</b>	<b>mt</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.5</b>
HCC	US\$/t	147	220	220	210
PCI	US\$/t	111	166	179	168
SSCC	US\$/t	106	160	169	155
Thermal	US\$/t	77	100	104	98
Iron Ore Fines	Ac/mtu	121.2	214.3	215.4	198.9
Mn ore	\$/mtu	5.41	7.91	8.25	7.50
A\$/US\$ exchange rate	US\$/A\$	0.88	0.92	0.90	0.87



Net Present Value		A\$	AQA Stake	AQA Attr	A\$ps
West Pilbara		1,060	50%	530	1.64
Thabazimbi		337	100%	337	1.05
<b>Total Iron Ore</b>				<b>867</b>	<b>2.69</b>
Isaac Plains		885	50%	443	1.37
Eagle Downs		1,467	50%	733	2.28
Washpool		213	100%	213	0.66
Belvedere Coal		754	25%	185	0.57
<b>Total Coal</b>				<b>1573</b>	<b>4.88</b>
Avontuur		680	100%	680	2.11
Overheads		-151	100%	-151	-0.47
Net Cash		268	100%	268	0.83
<b>NPV</b>		<b>5,512</b>		<b>3237</b>	<b>10.05</b>
Share Price Premium to NPV					-2%
TSR					2%
Key investment ratios		2010a	2011e	2012e	2013e
Adjusted PER	x	nmf	nmf	10027.4	nmf
GCFPS	c	2.3	18.9	33.8	114.7
PGCF	x	428.1	52.1	29.2	8.6
EV / EBITDA	x	526.7	45.6	38.1	24.0



Source: Company data, Macquarie Research, December 2010

## Important disclosures:

## Recommendation definitions

**Macquarie - Australia/New Zealand**

Outperform – return >3% in excess of benchmark return  
 Neutral – return within 3% of benchmark return  
 Underperform – return >3% below benchmark return

Benchmark return is determined by long term nominal GDP growth plus 12 month forward market dividend yield

**Macquarie – Asia/Europe**

Outperform – expected return >+10%  
 Neutral – expected return from -10% to +10%  
 Underperform – expected return <-10%

**Macquarie First South - South Africa**

Outperform – expected return >+10%  
 Neutral – expected return from -10% to +10%  
 Underperform – expected return <-10%

**Macquarie - Canada**

Outperform – return >5% in excess of benchmark return  
 Neutral – return within 5% of benchmark return  
 Underperform – return >5% below benchmark return

**Macquarie - USA**

Outperform (Buy) – return >5% in excess of Russell 3000 index return  
 Neutral (Hold) – return within 5% of Russell 3000 index return  
 Underperform (Sell) – return >5% below Russell 3000 index return

## Volatility index definition\*

This is calculated from the volatility of historical price movements.

**Very high-highest risk** – Stock should be expected to move up or down 60–100% in a year – investors should be aware this stock is highly speculative.

**High** – stock should be expected to move up or down at least 40–60% in a year – investors should be aware this stock could be speculative.

**Medium** – stock should be expected to move up or down at least 30–40% in a year.

**Low-medium** – stock should be expected to move up or down at least 25–30% in a year.

**Low** – stock should be expected to move up or down at least 15–25% in a year.

\* Applicable to Australian/NZ/Canada stocks only

**Recommendations** – 12 months

**Note:** Quant recommendations may differ from Fundamental Analyst recommendations

## Financial definitions

All "Adjusted" data items have had the following adjustments made:

Added back: goodwill amortisation, provision for catastrophe reserves, IFRS derivatives & hedging, IFRS impairments & IFRS interest expense  
 Excluded: non recurring items, asset revals, property revals, appraisal value uplift, preference dividends & minority interests

**EPS** = adjusted net profit / epowa\*

**ROA** = adjusted ebit / average total assets

**ROA Banks/Insurance** = adjusted net profit / average total assets

**ROE** = adjusted net profit / average shareholders funds

**Gross cashflow** = adjusted net profit + depreciation

\*equivalent fully paid ordinary weighted average number of shares

All Reported numbers for Australian/NZ listed stocks are modelled under IFRS (International Financial Reporting Standards).

## Recommendation proportions – For quarter ending 30 September 2010

	AU/NZ	Asia	RSA	USA	CA	EUR	
Outperform	51.06%	64.41%	55.07%	46.58%	66.99%	50.00%	(for US coverage by MCUSA, 13.73% of stocks covered are investment banking clients)
Neutral	34.15%	17.31%	36.23%	48.40%	28.71%	36.81%	(for US coverage by MCUSA, 11.76% of stocks covered are investment banking clients)
Underperform	14.79%	18.28%	8.70%	5.02%	4.31%	13.19%	(for US coverage by MCUSA, 0.00% of stocks covered are investment banking clients)

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