

Aquila Resources Limited (AQA)

Opinion Data

Recommendation	Buy
Risk Rating	High
Current share price	\$7.48
12 month target price	\$10.39
DCF Valuation	\$10.39
Market capitalisation	\$2,363m

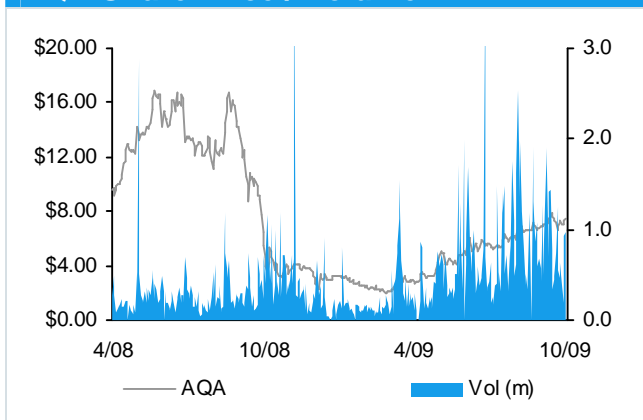
Company Background

Aquila Resources (AQA), established in 2000, is focused on bulk commodities used in the steel sector, targeting coal and iron ore in Australia and Southern Africa. At this point earnings are relatively modest. Key strategic assets comprise:

- **Isaac Plains** open cut mine (50% owned), 65.5mt ROM reserves, 75% coking coal, 25% thermal coal, located Moranbah, Bowen Basin.
- **Belvedere** underground project (24.5%), 3,860mt hard coking coal indicated & inferred resource, Moura, southern Bowen Basin.
- **Eagle Downs** underground project (50.0%), 884mt indicated & inferred hard coking coal, Central Bowen Basin.
- **Washpool and Red Hill** projects (100%), Central & Upper Bowen Basin, indicated & inferred resources of 138mt & 75mt respectively.
- AQA has a 50% interest in the Australian Iron Ore Venture (API), including **West Pilbara** resource of 586mt @ 57% Fe and **East Pilbara** resource of 63mt @ 61% Fe.

The Board owns ~50% of AQA and is comprised of Tony Poli (Executive Chairman and CEO), Charles Bass, Derek Cowlan and Gordon Galt.

AQA Share Price / Volume



Highlights

Isaac Plains: Coal production at Isaac Plains is planned to ramp up as port capacity at Dalrymple Bay is expanded and markets improve. On a 100% basis, FY'09 sales of 1.27mt were 190kt below our forecast, but largely due to congestion-related shipping delays. An EIS to expand ROM production to 3.6mt has been submitted. We expect AQA's share of Isaac Plains to contribute EBITDA of \$51m in FY'09, \$34m in FY'10 and \$78m in FY'11.

Eagle Downs: AQA released a positive Feasibility Study on the Eagle Downs (AQA 50%) hard coking coal project during the quarter. Capex is estimated at \$977m for a single longwall, 4.6mtpa product operation, with an expansion case producing 8mtpa via an additional longwall. An initial reserve of 157mt was released, with Measured resources now at 285mt (total JORC resource 884mt). Subject to approvals, construction could begin in 2011, with first coal in 2012. We value Eagle Downs at \$1,074m, which we risk-weight by 50% to \$537m.

Baosteel Agreement: AQA also announced a Strategic Co-operation agreement with China's Baosteel. Subject to approvals AQA plans to issue 43.95 million shares at \$6.50/share to Baosteel, raising \$285.6m and giving Baosteel a 15% stake in Aquila. The deal is subject to FIRB approval, but we do not envisage any major issues.

This deal is very significant as it helps to provide the financing pathway for AQA's portfolio of good quality coking coal projects in the Bowen Basin and Iron Ore in WA. It therefore reduces the funding uncertainty that has been over-hanging the stock.

Outlook / Investment View

The Strategic Co-operation agreement with Baosteel should help accelerate the development of many of AQA's projects in coking coal, iron ore and manganese.

Funding options now become available, providing a catalyst for value to be recognised. Following increases to our medium and long term coking coal price assumptions (LT to US\$120/t from US\$108/t), (and diluting for the Baosteel placement), our risked valuation for AQA has increased to \$10.39/share. Our un-risked NPV is \$16.00/share. Maintain Buy with target price in line with risked valuation.

Analyst: Tim Gerrard +612 9233 9603

Aquila Resources

NFPOS 293 m **Price** \$ 7.48
Market Cap \$2363 m

Date 16-Oct-09
Model Update 16-Oct-09

PROFIT & LOSS (A\$m)

YE 30 Jun	FY'08A	FY'09A	FY'10F	FY'11F	FY'12F
Sales Revenue	46.5	92.2	101.9	166.2	343.4
Other Revenue (incl hedge)	0.0	0.0	0.0	0.0	0.0
Operating Costs	0.0	0.0	0.0	0.0	0.0
Gross Operating Profit	13.9	51.2	46.4	96.0	218.6
Depreciation	5.0	6.4	9.7	14.0	32.9
Exploration and Royalties	32.1	73.6	88.8	56.0	45.6
Corporate and Other	13.0	13.8	12.0	14.4	20.4
EBIT	-36.2	-42.6	-64.1	11.6	119.8
Less Net Interest Expense	-4.4	-3.6	-4.9	1.8	-21.9
Pre-Tax Profits	-31.8	-39.1	-59.2	9.8	141.7
Add Associates less Dividen	0.0	0.0	0.0	0.0	0.0
Less Tax	-6.4	-10.6	-15.8	4.9	42.5
Less Minorities	0.0	0.0	0.0	0.0	0.0
NPAT (pre-Abs)	-25.4	-28.4	-43.5	4.9	99.2
Net Abnormals	122.5	2.4	0.0	0.0	0.0
Reported Profit	97.1	-26.0	-43.5	4.9	99.2

BALANCE SHEET (A\$m)

YE 30 Jun	FY'08A	FY'09A	FY'10F	FY'11F	FY'12F
Current Assets					
Cash and Liquids	159.4	73.5	274.1	547.3	467.0
Other	86.5	48.8	48.8	48.8	48.8
Non-Current Assets					
Receivables	2.2	6.3	6.3	6.3	6.3
Fixed Assets	38.9	62.8	103.7	607.4	2,038.9
Other	5.8	19.3	19.3	19.3	19.3
Current Liabilities					
Borrowings	5.9	8.7	8.7	8.7	8.7
Creditors	15.2	31.5	31.5	31.5	31.5
Other	43.8	0.5	0.5	0.5	0.5
Non-Current Liabilities					
Borrowings	9.5	12.8	12.8	812.8	2,212.8
Other	15.7	2.5	2.5	2.5	2.5
Minority Interest	0.0	0.0	0.0	0.0	0.0
SHAREHOLDERS FUNDS	202.7	154.8	396.3	373.2	324.3

CASHFLOW STATEMENT (A\$m)

YE 30 Jun	FY'08A	FY'09A	FY'10F	FY'11F	FY'12F
Cash Flows From Operating Activities					
Cash flow from operations	20.6	36.6	45.7	96.0	218.6
Net Interest	3.7	3.6	4.9	-31.8	-128.1
Tax and Other	-22.0	-56.1	-7.7	-34.9	-97.2
Cash Flows From Investing Activities					
Acq.of Property, Plant and E	-13.8	-28.0	-60.7	-527.6	-1,469.4
Exploration Expenditure	-16.2	-63.9	-77.4	-40.4	-11.2
Other/Acquisition controlled I	156.0	5.0	10.0	10.0	5.0
Cash Flows From Financing Activities					
Net Change in Borrowings	-5.1	0.0	0.0	800.0	1,400.0
Dividends Paid	0.0	0.0	0.0	0.0	0.0
Other	1.9	2.0	285.7	2.0	2.0
Net Increase In Cash Held	125.1	-100.8	200.6	273.2	-80.3
Cash At End of Year	159.2	58.3	258.9	532.1	451.8

PRICE ASSUMPTIONS

YE 30 Jun		FY'09A	FY'10F	FY'11F	FY'12F
Iron Ore Lump	US\$/Tonne	116.63	77.05	92.47	107.00
Iron Ore Fine	US\$/Tonne	82.27	62.55	72.61	80.49
Coal (Coking)	US\$/Tonne	261	136	161	180
Coal (Thermal)	US\$/Tonne	111	73	83	90
Coal (PCI)	US\$/Tonne	205.9	95.8	121.9	135.0

KEY RATIOS

YE 30 Jun		FY'08A	FY'09A	FY'10F	FY'11F	FY'12F
EBITDA	\$m	-27.2	-31.7	-49.9	30.2	152.6
EBITDA Margin	%	-58%	-34%	-49%	18%	44%
EBIT Margin	%	-78%	-46%	-63%	7%	35%
NPAT Margin	%	-55%	-31%	-43%	3%	29%
ROE	%	-13%	-18%	-11%	1%	31%
ROA	%	-12%	-20%	-14%	1%	5%
NTA per share	\$	1.04	0.62	1.35	1.27	1.03
Eff Tax Rate	%	20%	27%	27%	50%	30%
Interest Cover	x			>50	6.4	>50
Net Gearing	%	-71%	-34%	-64%	73%	541%
Net Debt /Net Debt plus Equity		-246%	-51%	-176%	42%	84%
NFPOS		194.0	249.0	293.0	293.0	315.9

YE 30 Jun		FY'08A	FY'09A	FY'10F	FY'11F	FY'12F
EPS	c	(9.9)	(8.8)	(12.3)	3.0	31.4
P/E	x	->50.0	->50.0	->50.0	+>50.0	23.8
Enterprise Value	\$m	1,307	1,811	1,939	2,466	4,117
EV / Sales	x	63.4	49.5	42.5	25.7	18.8
EV / EBITDA	x	(48.1)	(57.2)	(38.8)	81.8	27.0
EV / EBIT	x	(36.1)	(42.5)	(30.2)	212.1	34.4
Price / NTA	x	7.2	12.0	5.5	5.9	7.3
DPS	c	-	-	-	-	-
Dividend Yield	%	-	-	-	-	-
Franking	%	-	-	-	-	-
CFPS	\$	0.0	(0.1)	0.1	0.1	(0.0)
P / CFPS	x	952.6	(137.5)	51.1	74.9	(324.9)

DCF VALUATION & SENSITIVITY

	A\$m		
AQA ISAAC PLAINS	344	OTHER EXPLORATION	633
AQA BELVEDERE	554	INVESTMENTS	32
AQA EAGLE DOWNS	537	EXERCISE OPTIONS	92
AQA WASHPOOL SCORPIO	266	NET CASH (DEBT) & O'	338
AQA - BOTSWANA	62	TOTAL NPV (A\$m)	3282
AQA - WEST PILBARA	449	NPV per Share -risky	10.39
AQA - EAST PILBARA	55		
AQUILA CORPORATE (All)	-79	Long Term A\$/US\$	0.80

ATTRIBUTABLE PRODUCTION PROFILE

YE 30 Jun		FY'09A	FY'10F	FY'11F	FY'12F
Coal					
AQA ISAAC PLAINS	50%	0.6	1.0	1.3	1.4
AQA BELVEDERE	25%	0.0	0.0	0.0	0.0
AQA EAGLE DOWNS	50%	0.0	0.0	0.0	0.8
AQA WASHPOOL SCORPIO	100%	0.0	0.0	0.0	0.0
AQA - BOTSWANA	100%	0.0	0.0	0.0	0.0
Total Coal Production	Mt	0.6	1.0	1.3	2.2
Iron Ore Production					
AQA - WEST PILBARA	50%	0.0	0.0	0.0	0.0
AQA - EAST PILBARA	50%	0.0	0.0	0.0	0.0
Share Iron Ore Production	Mt	0.0	0.0	0.0	0.0

RESERVES & RESOURCES

	Marketable (Mt)	Life (Years)
Coal		
Total Reserves	25	6
Total Resources	1621	360
Austock Estimate	742	165
Iron Ore		
Total Reserves	0	0
Total Resources	194	20
Austock Estimate	275	28

BOARD

Anthony Poli (Exec Chairman)	Derek Cowlan (non-Exec Director)
Charles Bass (non-Exec Director)	Gordon Galt (non-Exec Director)

Directory

Equities Research Team

Melbourne

Craig Stranger	613 8601 2010	Head of Research, Emerging Companies
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Sydney

Tim Gerrard	612 9233 9603	Resources Analyst
Hunter Hillcoat	612 9233 9604	Resources Analyst
Colin McLelland	612 9233 9635	Assistant Resources Analyst
Rohan Sundram	612 9233 9638	Analyst

Institutional Sales

Melbourne

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Stuart Low	613 8601 2022	Institutional Research Sales
Wayne Shand	613 8601 2642	Institutional Research Sales
Chris Walker	613 8601 2038	Institutional Research Sales
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Robert Wood	613 8601 2031	Institutional Sales Trading

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Gavin Todd	612 9233 9639	Institutional Research Sales
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Desiree Hemberger	612 9233 9652	UK Research Sales
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Nick Fitzsimmons	613 8601 2029	Client Adviser
Kate Hanrahan	613 8601 2058	Client Adviser
Michael Heffernan	613 8601 2053	Senior Client Adviser
Xiaoming Huang	613 8601 2088	Client Adviser
Peter King	613 8601 2002	Client Adviser
Peter Mason	613 8601 2015	Client Adviser
Daniel McFarlane	613 8601 2639	Client Adviser
Paul Shen	613 8601 2677	Client Adviser
Patrick Trindade	613 8601 2669	Client Adviser

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Justin Raisin	612 9233 9621	Client Adviser
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Peter Semaan	612 9233 9649	Client Adviser

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Jonathan Tooth	613 8601 2006	Director
Harry Kingsley	613 8601 2089	Associate Director
Richard Fox	613 8601 2030	Associate
Terence Wong	613 8601 2651	Associate
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John So	613 8601 2033	Analyst

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Recommendation Criteria

Investment View

Austock Securities Investment View is based on an absolute 1-year total return equal to capital appreciation plus yield.

Buy	Hold	Sell
> 20%	20% - 5%	< 5%

A Speculative recommendation is when a company has limited experience from which to derive a fundamental investment view.

Risk Rating

Austock Securities Limited has a four tier Risk Rating System consisting of: Very High, High, Medium and Low. The Risk Rating is a subjective rating based on: Management Track Record, Forecasting Risk, Industry Risk and Financial Risk including cash flow analysis.

Disclosure of Economic Interests

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