

**Metals and Mining**  
 22 September 2009

Price (21 Sep 09)	A\$7.66
Shares Outstanding	249M
Free Float (%)	52
Fiscal Year End	30 Jun
Market Cap	A\$1,908M US\$1,655M

**Price Performance (RIC: AQA.AX, BB: AQA AU)**


## Aquila Resources (AQA.AX)

### Analyzed Non-Rated Snapshot

- **Company Overview** — AQP is focused on exploration, development and production of coal, iron ore and manganese assets situated in Australia and South Africa.
- **Competitive Analysis: Production, Cost and Reserve Profile** — AQA has one producing asset, the Isaac Plains coal mine situated in the Bowen Basin of Central Queensland. Isaac Plains produced ~2mt ROM coal in FY08 (50% attributable), consisting of coking, thermal and PCI coal. The capacity of the Isaac Plains operation is anticipated to increase to 3.6mtpa pending environmental approvals and additional port capacity being supplied at Dalrymple Bay Coal Terminal. Additional growth is anticipated through the development of AQA's Eagle Downs and Washpool projects. Management expect first coal from Eagle Downs (AQA 50%) in 2012 with Stage 1 capacity of 4mtpa. The Washpool project (AQA 100%) is also expected to commence production in 2012 with production capacity of 1.6mtpa expected the following year. Management estimate that AQA's coal assets have an FOB cost of US\$75-85/tonne. AQA has current coal resources of ~1600mt.
- **Business Strategy** — AQA is focused on organic growth through the development of its significant stable of projects through to producing assets. While its flagship West Pilbara Iron Ore Project is AQA's primary growth focus, the recent deal with Baosteel is expected to provide sufficient funding to facilitate continued progress at the companies coal projects.
- **Baosteel Strategic Co-operation** — In Sep-09 Baosteel invested A\$285m to acquire a 15% stake in AQA via a placement. This 'strategic alliance' is primarily aimed at obtaining off-take arrangements and securing a financing partner for the development of future projects. The capital is set to help fund the potential development of AQA's iron ore projects in West Australia.
- **Strengths and Weaknesses** — AQA has a significant pipeline of growth projects which could see the company develop in to a mid tier semi-diversified Australian mining house. The major project is the West Pilbarra iron ore project. Currently the AQA's JV partners in the project, AMCI, are looking to sell their stake, which has been slowing down any development plans. However post resolution of ownership status, and Baosteels injected capital, the project could produce c30mt of iron ore from mid next decade. The development of the project will likely remain a costly exercise as rail and port will need to be constructed. It is this access to infrastructure that will likely remain the largest hurdle for AQA on the project.
- **Recent Results** — AQA reported a net operating cashflow of -A\$92.8m for the year ended 30 June 2009. The company is yet to release its full P&L statement for the period.
- **Industry Overview** — We remain positive on the outlook for the coal suite. Growing demand from China and India is vying with traditional markets for tonnage. We believe that thermal coal prices should continue to trade around the current band of US\$70-80/t. Longer-term demand looks robust as the emerging economies look to develop power networks as quickly and cheaply as possible which continues to see the power focus on thermal coal plants. The outlook for coking coal prices is also set to remain strong as global steel production increases, new markets such as China & India import coal and production levels remain restricted.

**Figure 103. Aquila Resources Financials**

YE 31 Dec	FY05	FY06	FY07	FY08
<b>Profit &amp; Loss (A\$m)</b>				
Revenue	n/a	n/a	14.6	46.5
Operating Income	-2.6	-10.4	-21.2	-35.6
EBITDA	-2.5	-10.4	-20.0	-31.7
EBIT	-2.6	-10.4	-21.2	-35.6
Pretax Income	-3.2	6.6	-17.1	142.3
Tax	0.0	3.2	-4.6	45.0
Minority Interest	0.0	0.0	0.0	0.0
Net Profit	-3.2	3.4	-12.5	97.3
<b>Balance Sheet (A\$m)</b>				
Total Assets	6.5	98.5	113.3	292.8
Cash & Cash Equivalents	4.3	52.6	34.2	159.4
Net Fixed Assets	0.0	26.5	31.2	38.9
Total Liabilities	0.5	22.2	35.5	90.1
Total Debt	0.0	14.8	20.3	15.3
Shareholders' Funds	5.9	76.3	77.9	202.7
Minorities	0.0	0.0	0.0	0.0
<b>Cash Flow (A\$m)</b>				
Operating Cash Flow	-2.0	-1.3	-3.7	-13.9
Depreciation/Amortization	0.0	0.0	1.2	3.9
Net Working Capital	0.2	-12.0	13.3	52.4
Investing Cash Flow	0.8	-24.6	-20.3	142.9
Capital Expenditure	-0.0	-25.2	-18.2	-13.4
Acquisitions/Disposals	0.9	0.6	-2.1	156.2
Financing Cash Flow	0.2	74.2	5.5	-3.7
Borrowings	0.0	15.5	5.1	-5.1
Equity Issuance	0.2	58.7	0.3	1.5
Dividends Paid	0.0	0.0	0.0	0.0
Change in Cash	-0.9	48.2	-18.4	125.3
<b>Profitability/Solvency Ratios</b>				
EBIT Margin (%)	n/a	n/a	(145.2)	(76.6)
RoAE (%)	(43.3)	8.2	(16.3)	69.3
RoAA (%)	(40.7)	6.4	(11.8)	47.9
Net Debt to Equity (%)	(97.4)	(54.1)	(17.8)	(105.6)

Source: Bloomberg