

Tension with Vale raises question about the future of coal projects

- We initiate coverage of Aquila Resources (AQA) with a Hold recommendation and a \$9.40 price target. AQA is a carbon steel materials focused miner operating the Isaac Plains coal mine in Queensland and developing a portfolio of assets in Australia and South Africa. Key development assets include the Eagle Downs hard coking coal and West Pilbara iron ore projects.
- AQA has an interesting mix of carbon steel material projects. Development of this portfolio could generate considerable value to shareholders and transform the company into a diversified mid-tier resources player. However, the company faces some challenges in the near term with various legal disputes with key joint venture partner Vale.
- AQA has three coal joint ventures with Brazilian resources giant Vale in Queensland namely Isaac Plain, Eagle Downs and Belvedere. Eagle Downs and Belvedere are the subject of two separate legal disputes.
- In our view, AQA and Vale's increasingly strained relationship is likely to slow project development, become a distraction for management and raises questions about the future of their coal projects in Queensland.
- Key catalysts for the stock are the resolution of legal proceedings with Vale and the investment decision for the West Pilbara project.

Focus on the West Pilbara Iron Ore project

- With the dispute over the Eagle Downs and Belvedere hard coking coal projects, attention has shifted to the development of the West Pilbara Iron Ore project (AQA 50%).
- The West Pilbara project comprises a 30Mtpa iron ore fines operation for 12 years for stage 1.
- Capital costs for the project are large at \$5.8b and require the development of approximately 282km of new rail and a new deep port facility at Anketell Point in WA. AQA's share of the project is a significant \$2.9b and funding risks for the project remain.
- Our analysis suggests that stage 1 returns are unimpressive with an IRR of 10.4%, just over the company's weighted average cost of capital. Capital costs are just too large for the size of current mineable resources.
- We believe development of the nearby Hardey deposit is required to improve the economics of the project. Hardey is a higher grade deposit and will use existing infrastructure from stage 1 of the project.
- The Hardey project increases our NPV to \$797m and IRR to 14.4%

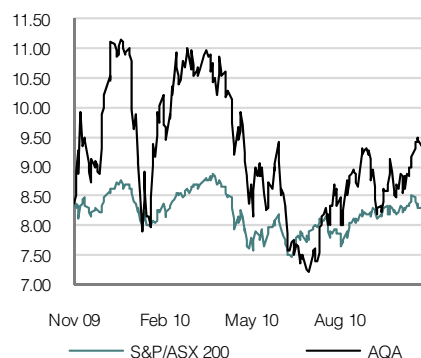
Hold

Price target	\$9.40
Share price	\$9.53
52-week range	\$7.20 - \$11.15
Forecast price return	-1.4%
Forecast dividend return	0.0%
Forecast total return	-1.4%
Market cap	\$3077m

Forecasts and ratios

Year end Jun	09	10	11f	12f	13f
NPAT \$m	-26	-33	19	59	57
EPS c	-10.5	-12.1	6.2	18.2	17.6
EPS growth %		-14.9	151.5	191.6	-3.4
P/E x	-49.7	-64.9	152.7	52.4	54.2
EV/EBITDA x	-53.7	-43.6	84.1	31.9	33.2
DPS c	0.0	0.0	0.0	0.0	0.0
Yield %	0.0%	0.0%	0.0%	0.0%	0.0%

Price relatives (\$)



The S&P/ASX200 has been re-based to the stock's starting share price.

Tomas Vasquez, CFA T. +613 9675 6059
E. tomas.vasquez@cba.com.au

Andrew Hines T. +613 9675 7443
E. andrew.hines@cba.com.au

Andrew Knuckey T. +613 9675 6791
E. andrew.knuckey@cba.com.au

Paul Hodsman, CFA T. +613 9675 853f2



Financials

Profit & Loss	FY09	FY10	FY11f	FY12f	FY13f
Revenue	91.8	129.8	210.3	270.6	244.3
Expenses	-115.2	-181.8	-176.5	-178.8	-155.2
EBITDA	-23.3	-51.9	33.8	91.8	89.2
Depreciation & Amort	-5.5	-6.7	-6.3	-7.5	-7.5
EBIT	-28.8	-58.7	27.5	84.3	81.7
Net Interest	-6.5	9.1	-0.4	-0.6	-0.8
Profit Before Tax	-35.3	-49.6	27.1	83.8	80.9
Tax	9.1	16.5	-8.1	-25.1	-24.3
Minorities	0.0	0.0	0.0	0.0	0.0
NPAT (Underlying)	-26.2	-33.1	18.9	58.6	56.6
Exceptional items	0.0	0.0	0.0	0.0	0.0
NPAT (Reported)	-26.2	-33.1	18.9	58.6	56.6

Balance Sheet	FY09	FY10	FY11f	FY12f	FY13f
Liquid Assets	74	281	240	153	124
Net Receivables	4	16	26	34	31
Other	15	19	24	28	26
Current Assets	93	316	291	215	180
Property, Plant & Equipment	63	64	107	246	338
Other	55	68	68	68	68
Non Current Assets	118	132	175	314	405
Trade Creditors	32	24	23	27	28
Borrowings	9	6	6	6	6
Other	0	0	0	0	0
Current Liabilities	41	31	29	34	34
Borrowings	13	7	7	7	7
Other	2	6	6	6	6
Non Current Liabilities	15	12	12	12	12
Shareholder Capital	76	362	362	362	362
Retained earnings	55	22	41	99	156
Minorities/others	24	22	22	22	22
Total Equity	155	405	424	483	539

Cash Flow	FY09	FY10	FY11f	FY12f	FY13f
Receipts	94.0	119.1	210.3	270.6	244.3
Payments	-73.9	-117.8	-176.5	-178.8	-155.2
Other Operating Cash Flow	-91.4	-60.6	-25.2	-32.5	-19.8
Operating Cash Flow	-71.3	-59.3	8.6	59.3	69.4
Capex	-17.3	-5.0	-49.3	-146.8	-98.8
Other Investing Cash Flow	5.9	-5.2	0.0	0.0	0.0
Investing Cash Flow	-11.4	-10.2	-49.3	-146.8	-98.8
Capital Raisings	2.0	285.7	0.0	0.0	0.0
Dividends Paid	0.0	0.0	0.0	0.0	0.0
Net Borrowings	-3.0	-8.9	0.0	0.0	0.0
Other	-1.2	0.0	0.0	0.0	0.0
Financing Cash flow	-2.2	276.8	0.0	0.0	0.0
FX effect	-1.0	0.3	0.0	0.0	0.0
Total Cash Change	-85.9	207.7	-40.7	-87.5	-29.4

Company Information	
Financial Year End Date	30 June
Share Price	9.53
Price Target	9.40
Valuation	9.40
Recommendation	Hold

Per Share Data (c)	FY09	FY10	FY11f	FY12f	FY13f
EPS Shares (m)	248.3	273.1	303.5	322.3	322.3
Normalised EPS	-10.5	-12.1	6.2	18.2	17.6
Dividends	-	-	-	-	-
Dividend Yield (%)	0%	0%	0%	0%	0%
Book Value	0.8	1.4	1.4	1.6	1.8
Normalised P/E	N/A	N/A	152.7	52.4	54.2

Valuation	A\$m	A\$ps
Isaac Plains	470	1.50
Eagle Downs	400	1.20
Washpool	280	0.90
West Pilbara	797	2.50
Belvedere	537	1.70
Thabazimbi	133	0.40
Avontour	252	0.80
Total Operations	2,870	9.00
Cash/(Net Debt)	268	0.80
Corporate	-	131 - 0.40
Total Valuation	3,008	9.40

Operational Assumptions	FY09	FY10	FY11f	FY12f	FY13f
Prices					
A\$/US\$	0.75	0.88	0.96	0.92	0.85
Coking Coal (US\$/t)	257	147	238	255	226
PCI Coal (US\$/t)	206	110	181	191	158
Thermal Coal (US\$/t)	111	77	115	107	95
Iron Ore Fines (US\$/t)	84	76	140	139	133
Australian CPI	1.5%	2.9%	3.1%	2.5%	2.5%
US CPI	-1.3%	2.1%	2.0%	2.3%	2.3%
Production (Mt)					
Met coal	0.3	0.6	0.9	1.0	1.0
Thermal	0.3	0.6	0.3	0.3	0.3
Iron ore	-	-	-	-	-

Operating Metrics (%)	FY09	FY10	FY11f	FY12f	FY13f
EBITDA margin	-25.4%	-40.0%	16.1%	33.9%	36.5%
EBIT margin	-31.4%	-45.2%	13.1%	31.2%	33.4%
ROIC (NOPLAT)	-20.8%	-30.0%	9.8%	17.2%	13.3%
Return on Assets	-10.4%	-10.0%	4.1%	11.8%	10.2%
Return on Equity	-14.6%	-11.8%	4.6%	12.9%	11.1%
Net Debt (m)	- 52.0	- 268.4	- 227.7	- 140.2	- 110.8
ND / ND+E	-51%	-196%	-116%	-41%	-26%

Source: Company data, CBA



Vale dispute

AQA has three coal joint ventures with Brazilian resources giant Vale in Queensland namely Isaac Plain, Eagle Downs and Belvedere. Eagle Downs and Belvedere are the subject of two separate legal disputes. In our view, AQA and Vale's increasingly strained relationship is likely to slow project development, become a distraction for management and raises questions about the future of their coal projects in Queensland.

Eagle Downs legal action

The Eagle Downs project battle started in February 2010 when Vale pulled out of JV arrangements with AQA to secure port capacity for the project at Abbot Point.

Eagle Downs, a 50/50 JV between AQA and Vale, had been offered 4Mtpa of the expanded export capacity at the Abbot Point coal terminal. The project had also been selected as a foundation customer for Queensland Rail's Goonyella Abbot Point expansion project, known as the Northern Missing Link, to connect the Bowen Basin rail infrastructure through to the Abbot Point Coal Terminal.

Vale's preference is to pursue new capacity at Dalrymple Bay Coal Terminal (DBCT) at Mackay. Selecting DBCT as the preferred terminal would result in port capacity for the project not being available until 2016-17, while the Abbot Point capacity was available from 2012-13.

AQA is seeking compensation from Vale for the expected income loss from 2013 as Vale would not agree to the planned port capacity at Abbot Point.

This disagreement between AQA and Vale has left the project without port access and has effectively put the project on hold until a new infrastructure solution is found. We have emphasised throughout this initiation that infrastructure is a scarce asset and the main constraint for the coal industry globally.

Belvedere legal proceedings

The Belvedere dispute is over the price Vale should pay AQA for its 24.5% interest in the project.

Vale recently acquired an additional 24.5% in the Belvedere Hard Coking Coal project from private company AMCI for USD92m increasing Vale's total interest to 75.5%. AQA's 24.5% stake owned by the AQA subsidiary BD Coal, is subject to a first option in favour of Vale Belvedere, which Vale Belvedere has exercised.

Under the terms of the JV, Vale Belvedere should pay BD Coal (AQA subsidiary) the fair market value for its interest. The JV Agreement provides that two valuers are to be appointed to determine the fair market value. In the event the two valuations are within 10% of each other, then the price payable for the interest is the average of those valuations. If the valuations are not within 10% of each other, a third valuer is to be appointed to determine the fair market value, which will then be the price payable for the interest.

Both companies have commissioned separate valuations for the project. However, the valuations diverged by more than 10% and consensus on value could not be agreed. AQA have tried without success to appoint a determining valuer to settle the differences.

Vale has since gone to the court claiming the report from AQA's nominated valuer did not comply with the terms of the JV and therefore could not be considered a fair valuation. We understand the AQA valuer is an international investment bank.

It appears Vale is only prepared to pay the same amount (USD92m) it paid for the 24.5% it acquired from AMCI which implies an EV/t of resource of 0.17 (\$/t) compared to the industry average of \$1.78/t.



West Pilbara Iron Ore Project – Hardey required for improving economics

Given the disputes over the Eagle Downs and Belvedere hard coking coal projects, management attention has shifted to development of the West Pilbara Iron Ore project (AQA 50%). Stage 1 of the project comprises the development of the Channel Iron Deposits (CID) for a 30Mtpa operation over 12 years. The capital costs of this project are significant at \$5.8b and include the development of 282km of new rail (~\$1.8b) and a new deep water port facility at Anketell Point (~\$1.8b). AQA's share of the project is approximately \$2.9b.

As shown in the table below, our analysis shows that stage 1 of the project is not particularly attractive with an IRR of 10.4%. Capital costs are just too large for the size of current mineable resources.

We believe development of the nearby Hardey deposit is required for improving the economics of the project. AQA is currently conducting a pre-feasibility study for a 10Mtpa operation. The project will use the existing rail and port infrastructure from the West Pilbara stage 1 project.

We have estimated that development of Hardey will increase the NPV of the project by approximately \$534m and IRR to 14.4%.

Table 1: West Pilbara iron ore project

	NPV (\$m)	NPV (\$/share)	IRR (%)
West Pilbara – stage 1	263	0.82	10.4%
Hardey	534	1.66	32.6%
Total	797	2.47	14.4%

Source: CBA

That said, AQA has a significant tenement area in the region and exploration so far has been focused on a fraction of its land holdings (approximately 2,570km²). There remains an additional 6,800km² of highly prospective deposits with potential to discover significant resources. AQA has a \$15m exploration programme in FY11.

There are also opportunities to reduce the capital cost bill by developing port infrastructure in conjunction with other parties in the region such as Fortescue Metals (FMG). Our analysis shows a significant increase in both NPV and IRR for stage 1 of the project to \$990m and 15.6% respectively. We estimate the capital cost for the project could be reduced by \$800m to \$5.0b.

Table 2: West Pilbara reduced capex case

	NPV (\$m)	NPV (\$/share)	IRR (%)
West Pilbara - stage 1	992	3.08	15.6%
Hardey	534	1.66	32.6%
Total	1,526	4.74	18.7%

Source: CBA



Valuation

Our valuation is derived using the discounted cash flow (DCF) methodology. Our DCF valuation is based on the following assumptions: WACC of 10%, risk-free-rate of 5.50%, equity risk premium of 6.0% and beta of 1.1.

Isaac Plains, Belvedere and West Pilbara currently represent the most significant contribution to our DCF-based net asset valuation. Eagle Downs has the potential to provide valuation upside if infrastructure becomes available in the short-term.

We have modelled AQA's producing assets out to the end of the reserve life.

Table 3: DCF valuation

Aquila Valuation	A\$m	A\$ps
Operations		
Isaac Plains	470	1.50
Eagle Downs	400	1.20
Washpool	280	0.90
West Pilbara	797	2.50
Belvedere	537	1.70
Thabazimbi	133	0.40
Avontour	252	0.80
Total Operations	2,870	9.00
Cash/(Net Debt)	268	0.80
Corporate	-131	-0.40
Total Valuation	3,008	9.40

Source: CBA

Table 4: WACC assumptions

WACC Calculation	
Risk Free Rate	5.5%
Equity Risk Premium	6.0%
Beta	1.1
Cost of Equity	12.10%
Target Gearing	30%
Cost of Debt	7.5%
Tax Rate	30%
WACC	10.0%

Source: CBA

Sensitivities

The main drivers of valuation uncertainty are coal prices and exchange rates. A move of +/- 10% in long term coking coal prices impacts our valuation by 9.7%. For every 10% movement in our long term AUD/USD assumptions our NVP varies by 9.7%.

Table 5: Sensitivities

Variable	Change (%)	Valuation Chg (%)
Thermal Coal	+/- 10%	0.4%
Coking Coal	+/- 10%	9.7%
AUD/USD	+/- 10%	-9.7%

Source: CBA



Risks to our investment case

Key risks to our investment scenario and target price include:

- *Commodity prices and FX:* Unexpected changes in coal prices and AUD/USD exchange rates are a key risk for AQA. The company valuation is highly leveraged to changes in coking coal prices and exchange rates.
- *Rising capital costs:* We expect capital costs to increase as a result of continuing strong demand for raw materials from developing economies. There is a risk that competing projects could crowd each other out resulting in higher capital costs as new developments around Australia compete for resources. The cost and availability of equipment could rise above our expectations.
- *Rising operating costs:* Cost pressures have been reported in recent months across the resources industry. The main drivers of cost inflation are labour costs and input costs (i.e. petrol). As more projects are developed we could see competition for skilled labour increasing over our expectations. A high AUD may offset rising input costs.
- *Project development:* We have attempted to construct a realistic schedule of new project development but market conditions or unforeseen delays with issues such as regulatory or environmental concerns could delay project development.
- *Infrastructure access:* Port and rail access is a major issue not only in Australia but also around the world. Failing to secure additional capacity will constrain volume growth in the years ahead. Delays on third party infrastructure development will also impact the economics of future development projects.
- *Regulatory changes:* Changes to tax regulation such as the recent mining tax and the potential introduction of a carbon tax create uncertainty for investors. There is a risk that further regulatory changes could penalise the coal industry and reduce returns in the sector.

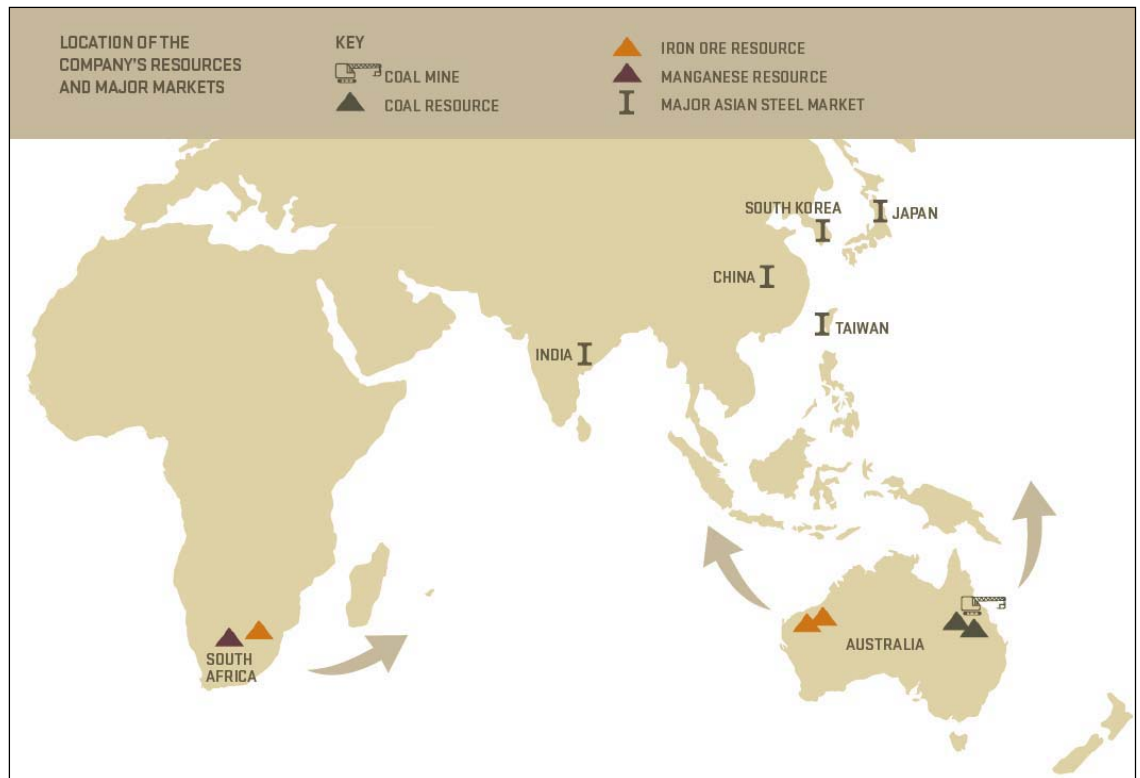


Asset Review

AQA is a carbon steel materials focused miner operating the Isaac Plains coal mine in Queensland and developing a portfolio of assets in Australia and South Africa. Key development assets include the West Pilbara iron ore and Eagle Downs projects. Development of this portfolio could generate considerable value to shareholders and transform the company into a diversified mid-tier resources player.

AQA operates in three major segments commodities coal, iron ore and manganese.

Figure 1: AQA - Operations



Source: AQA

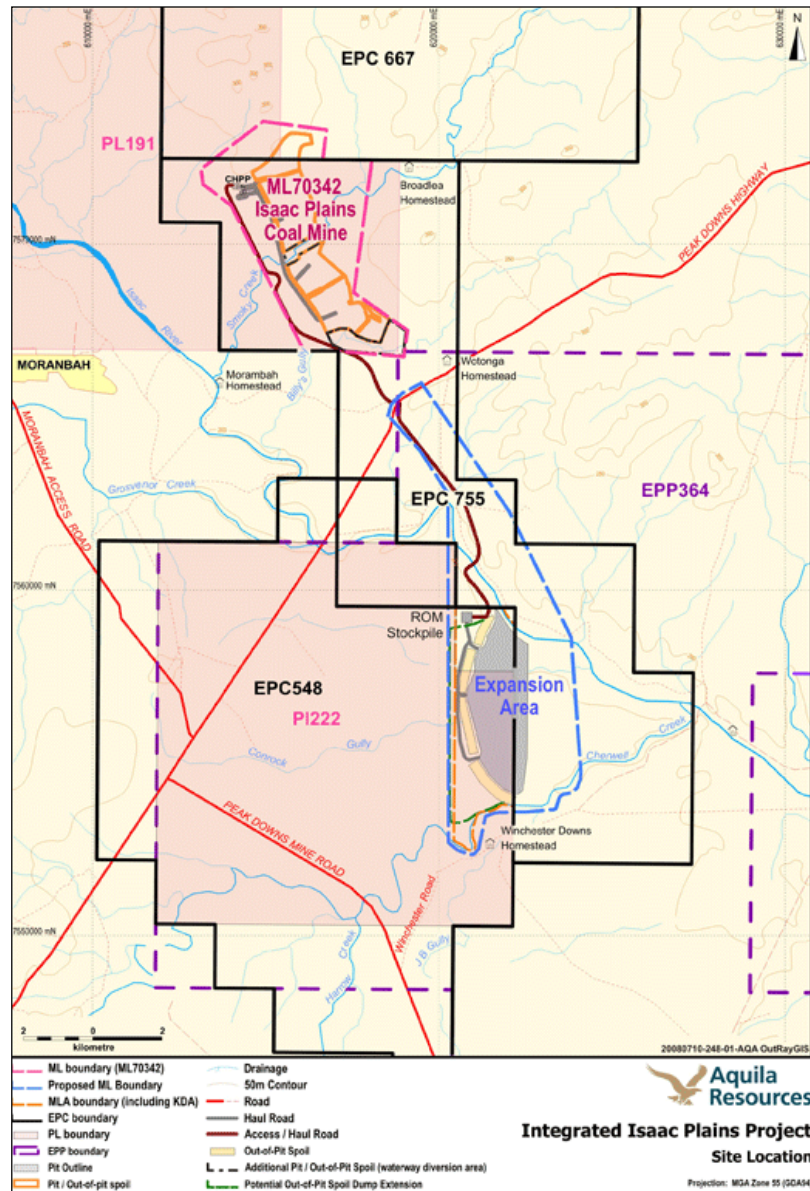


Coal

Isaac Plains (50%)

The Isaac Plains coal mine is a 50:50 JV between AQA and Brazilian resource giant Vale. The mine is situated south east of the town of Moranbah in the Bowen Basin region of central Queensland. The mine is divided into the Isaac Plains North and Isaac Plains South coal deposits, separated by a distance of around 15km.

Figure 2: Isaac Plains coal mine



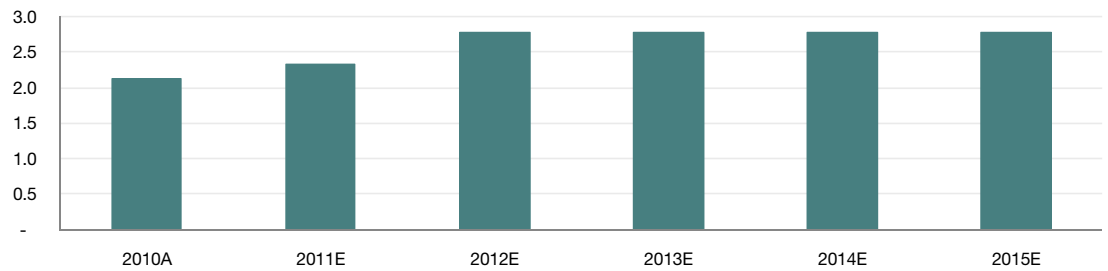
Source: AQA

Production from the mine is a combination of semi-hard coking coal, PCI and thermal coal. Current production is about 50% thermal, 25% semi hard coking coal and 25% PCI. Production is expected to increase to 2.8Mtpa in FY11 with product mix changing to 75% metallurgical coal and 25% thermal. Coal is exported through Dalrymple Bay Coal Terminal (DBCT). AQA uses Queensland Rail and Pacific National for transporting the coal to port.

The following chart highlights our production estimates for the mine. We forecast production to reach 2.8Mtpa in FY12 and remain at this level. Further production increases at this operation are constrained by plant capacity and future expansions will require additional plant, rail and port capacity.



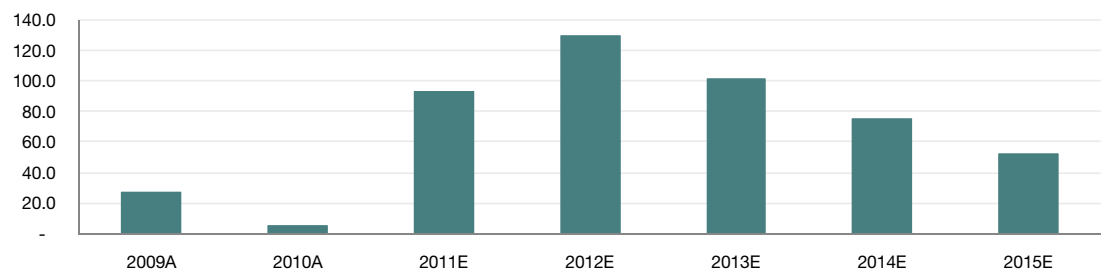
Figure 3: Isaac Plains - production forecast



Source: CBA, company reports

■ EBIT will peak in FY12 as a result of higher production levels and strong coal prices.

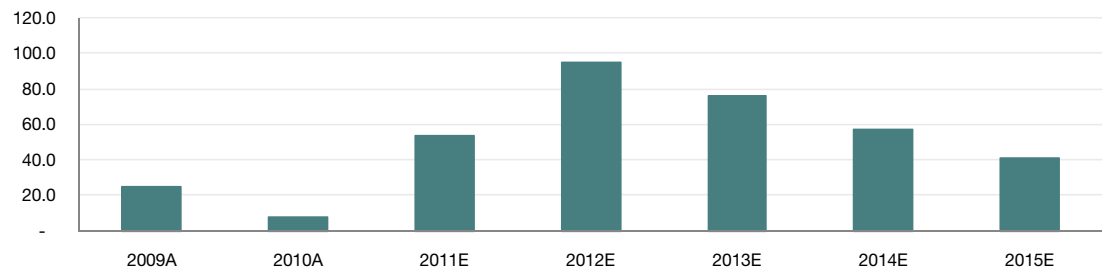
Figure 4: Isaac Plains - EBIT (\$m)



Source: CBA, Company reports

■ Cash flows will improve as growth capex finalizes in FY11.

Figure 5: Isaac Plains - Cash flow (\$m)



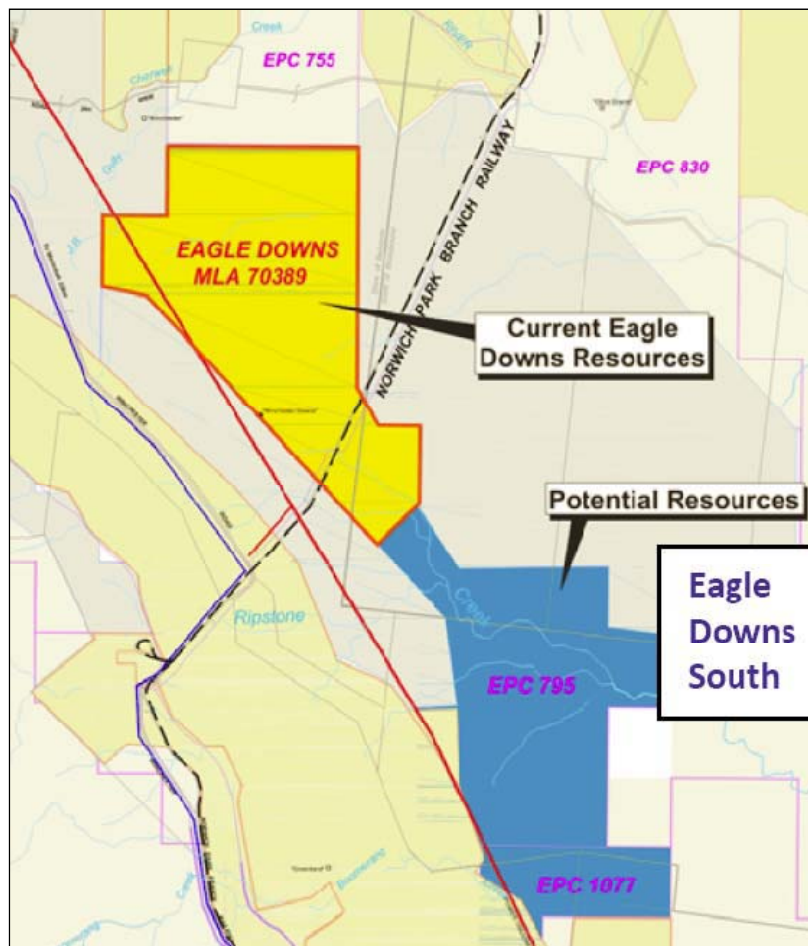
Source: CBA, Company reports



Eagle Downs (50%)

Eagle Downs is a joint venture between AQA (50%) and Vale (50%). The project is adjacent to BMA's Peak Down mine in Queensland and 7km south of the Isaac Plains coal mine.

Figure 6: Eagle Downs project



Source: AQA

Eagle Downs is a proposed underground longwall coal mine producing initially up to 4.6Mtpa of hard coking coal from one longwall, and up to 8Mtpa of hard coking coal when the second wall is installed. Initial plans were for construction starting in 2011 with coal production commencing in 2014. As discussed however, a dispute with Vale regarding infrastructure arrangements for the project is likely to delay development of the project.

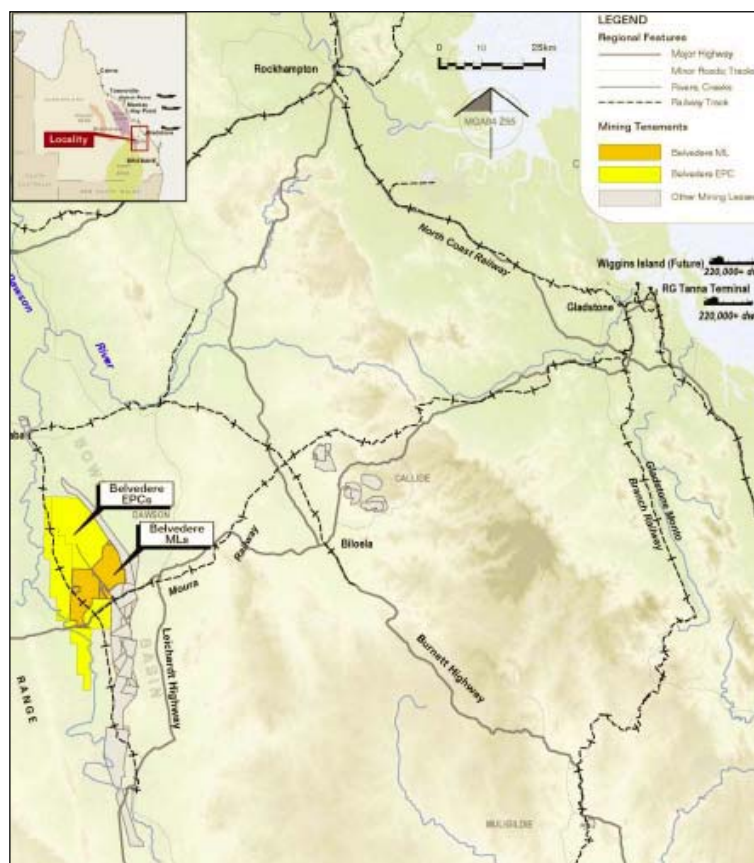
This disagreement between AQA and Vale has left the project without port access and has effectively put the project on hold until a new infrastructure solution is found. The company is now targeting port access at BDCT with new capacity expected in 2016-2017.



Belvedere (24.5%)

The Belvedere coal project is a JV between AQA (24.5%) and Vale (75.5%) and is located 180km west of the port of Gladstone in the Southern part of Queensland's Bowen Basin. The project is prospective for hard coking coal and has approximately 2.5 billion tonnes of coal resources.

Figure 7: Belvedere Project



Source: AQA

Belvedere is also the subject of a dispute with JV partner Vale. As previously discussed, the legal battle is over the price Vale Belvedere (Vale) should pay BD Coal (AQA) for its 24.5% interest in the project.

It appears Vale Belvedere is only prepared to pay the same amount (USD92m) it paid for the 24.5% it acquired from AMCI, which implies an EV/t of resource of 0.17 (\$/t) compared to the industry average of \$1.78/t.

We estimate AQA's share of the project is worth approximately \$540m. We value this project using the discounted cash flow methodology. The key assumptions supporting this valuation are outlined below.

Table 6: Belvedere – Key assumptions

Key assumptions	
Start up date	2016
Capex (\$m)	2.8 b
Opex \$/t	70
Discount rate	10.0%

Source: CBA



Washpool (100%)

The Project is situated in the Bowen Basin in Central Queensland, approximately 260km West of Rockhampton and adjacent to the Curragh mining operation. The Feasibility Study proposes an open cut operation mining 4Mtpa of ROM coal, to produce 1.6Mtpa of hard coking coal over a mine life of 25 years, with the coal to be exported through the proposed Wiggins Island Coal Terminal in Gladstone (stage 1).

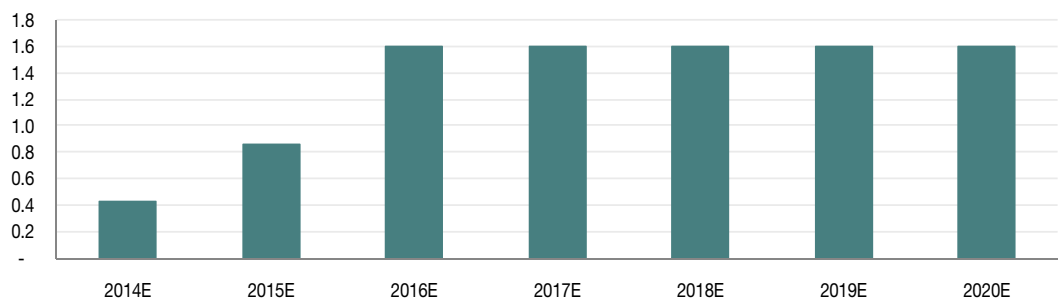
Figure 8: Washpool project



Source: AQA

Washpool will be a high cost operating mine with low yields. We forecast first production in FY14, as shown in the chart below.

Table 7: Washpool - Production

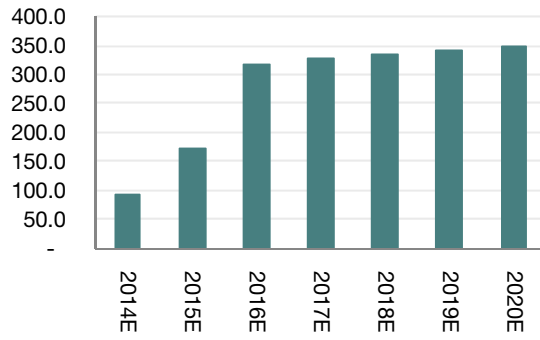


Source: CBA

We expect strong EBIT and cash flow contribution from FY16 as the project reaches full production.

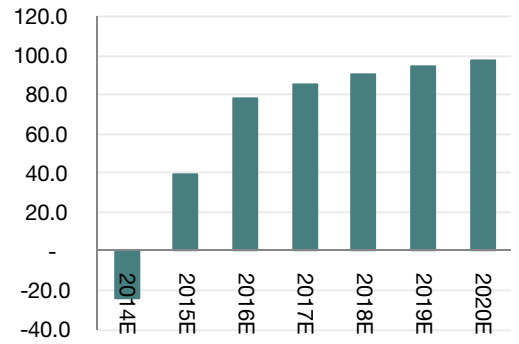


Figure 9: Washpool - EBIT(\$m)



Source: CBA

Figure 10: Washpool - Cash flow (\$m)



Source: CBA

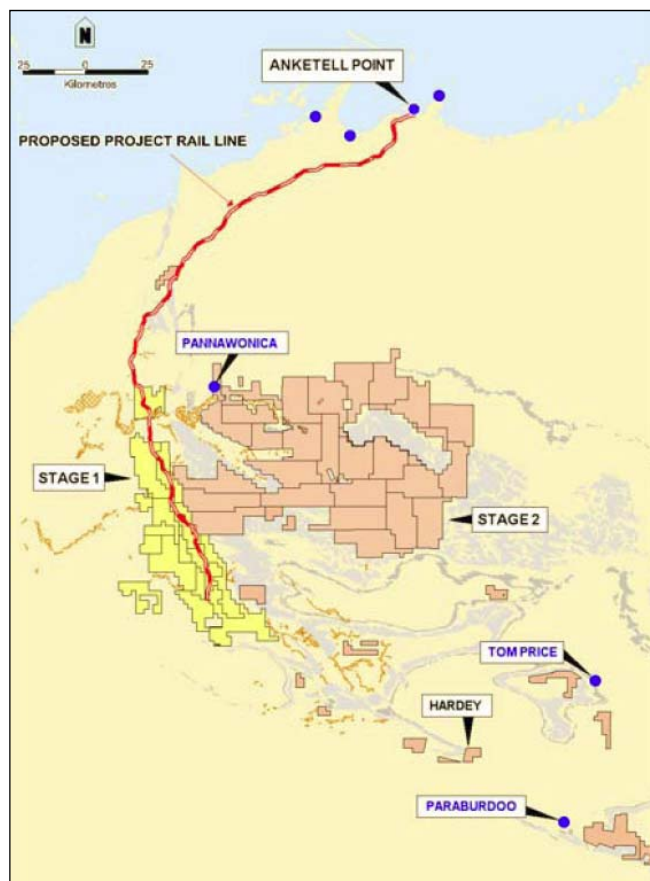


Iron Ore

West Pilbara (50%)

The project is located 70km south of Pannawonica in the Pilbara region of Western Australia. Stage 1 of the project comprises the development of the Channel Iron Deposits (CID) for a 30Mtpa operation over 12 years. The capital costs of this project are significant at \$5.8b and include the development of 282km of new rail (~\$1.8b) and a new deep water port facility at Anketell Point (~\$1.8b). AQA's share of the project is approximately \$2.9b.

Figure 11: West Pilbara Iron Ore project



Source: AQA

As discussed previously in this report, our analysis shows that stage 1 of the project is not particularly attractive with an IRR of 10.4%. Capital costs are just too large for the size of current mineable resources.

We believe development of the nearby Hardey deposit is required for improving the economics of the project. AQA is currently conducting a pre-feasibility study for a 10Mtpa operation. The project will use the existing rail and port infrastructure from the West Pilbara project.

We have estimated that development of Hardey will increase the NPV of the project by approximately \$535m and IRR to 14.4% (refer to our base case scenario in the following page).

AQA has a significant tenement area in the region and exploration so far has been focused on a fraction of its land holdings (approximately 2,570km²). There remains an additional 6,800km² of highly prospective deposits with potential to discover significant resources. AQA has a \$15m exploration programme in FY11.

There are also opportunities to reduce the capital cost bill by developing port and rail infrastructure in conjunction with other parties in the region such as Fortescue Metals (FMG). Our scenario analysis shows an improvement in both NPV and IRR from sharing infrastructure. Results of our analysis are outlined below.



West Pilbara base case

Table 8: Base case assumptions

Key assumptions	
Stage 1 Start up date	2014
Hardey Start up date	2016
Fe price discount	15%
Capex (A\$m)	
- Stage 1	5.8 b
-Hardey	0.7 b
Opex A\$/t	28

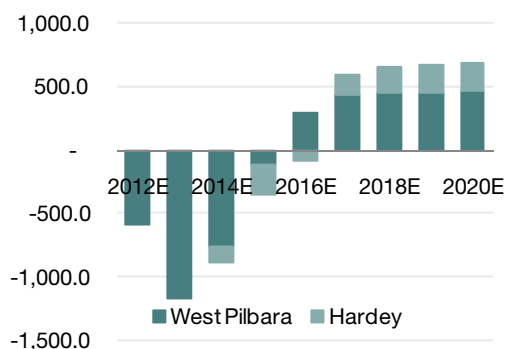
Source: CBA, Company reports

Table 9: Base case NPV and IRR

West Pilbara economics	NPV \$m	NPV \$/share	IRR %
West Pilbara	263	0.82	10.4%
Hardey	534	1.66	32.6%
Total	797	2.47	14.4%

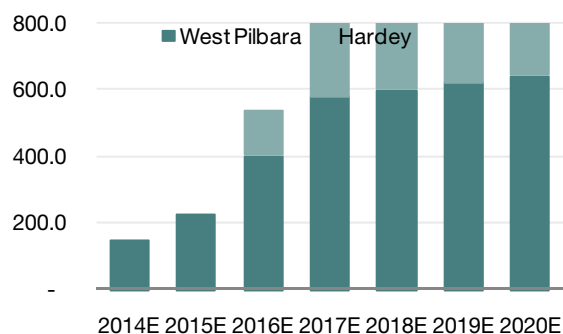
Source: CBA, Company reports

Figure 12: West Pilbara cash flow (\$m)



Source: CBA

Figure 13: West Pilbara EBIT (\$m)



Source: CBA

Table 10: West Pilbara financial summary

West Pilbara Iron Ore	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E
Fe Production (Mt)	-	-	2.5	5.0	12.5	20.0	20.0	20.0	20.0
Revenue (\$m)	-	-	249.6	418.2	1,012.7	1,606.4	1,644.5	1,681.2	1,718.1
Opex (\$m)	-	-	89.0	168.5	412.0	654.6	662.3	670.1	677.9
EBITDA(\$m)	-	-	160.5	249.7	600.8	951.8	982.2	1,011.1	1,040.2
D & A	-	-	12.5	25.0	62.5	100.0	100.0	100.0	100.0
EBIT (\$m)	-	-	148.0	224.7	538.3	851.8	882.2	911.1	940.2
Tax	-	-	44.4	67.4	161.5	255.5	264.7	273.3	282.1
NPAT (\$m)	-	-	103.6	157.3	376.8	596.3	617.5	637.8	658.1
Capex (\$m)	580.0	1,160.0	990.0	530.0	210.0	105.0	60.0	60.0	60.0
Cash flow (\$m)	-580.0	-1,160.0	-873.9	-347.7	229.3	591.3	657.5	677.8	698.1
EBITDA margin			64%	60%	59%	59%	60%	60%	61%
EBIT margin			59%	54%	53%	53%	54%	54%	55%
Fe fines (US\$/t)			106.1	88.9	82.5	80.2	80.4	80.2	79.9
Revenue/t (\$/t)			99.8	83.6	81.0	80.3	82.2	84.1	85.9
Opex/t (\$/t)			35.6	33.7	33.0	32.7	33.1	33.5	33.9
EBITDA/t (\$/t)			64.2	49.9	48.1	47.6	49.1	50.6	52.0
EBIT/t (\$/t)			59.2	44.9	43.1	42.6	44.1	45.6	47.0

Source: CBA



West Pilbara reduced capex case

Table 11: Reduced capex assumptions

Key assumptions	
Stage 1 Start up date	2014
Hardey Start up date	2016
Fe price discount	15%
Capex (A\$m)	
- Stage 1	5.0 b
-Hardey	1.2 b
Opex A\$/t	28

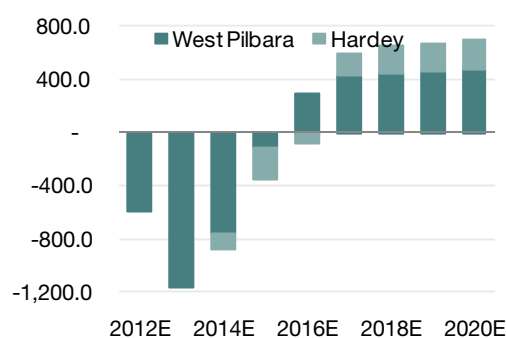
Source: CBA

Table 12: Reduced capex NPV and IRR

West Pilbara	NPV	NPV	IRR
economics	\$m	\$/share	%
West Pilbara	1,238	3.84	17.1%
Hardey	534	1.66	32.6%
Total	1,772	5.50	19.8%

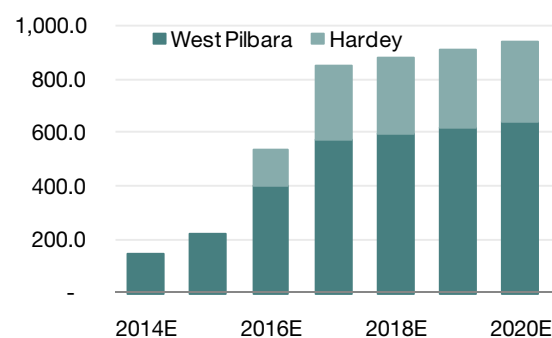
Source: CBA

Figure 14: West Pilbara cash flow (\$m)



Source: CBA

Figure 15: West Pilbara EBIT (\$m)



Source: CBA

Table 13: West Pilbara financial summary

West Pilbara Iron Ore	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E
Fe Production (Mt)	-	-	2.5	5.0	12.5	20.0	20.0	20.0	20.0
Revenue (\$m)	-	-	249.6	418.2	1,012.7	1,606.4	1,644.5	1,681.2	1,718.1
Opex/t	-	-	81.5	148.5	362.0	530.4	533.9	537.4	540.9
EBITDA(\$m)	-	-	168.0	269.7	650.8	1,076.0	1,110.6	1,143.8	1,177.2
D&A	-	-	12.5	25.0	62.5	100.0	100.0	100.0	100.0
EBIT (\$m)	-	-	155.5	244.7	588.3	976.0	1,010.6	1,043.8	1,077.2
Tax	-	-	46.7	73.4	176.5	292.8	303.2	313.1	323.2
NPAT (\$m)	-	-	108.9	171.3	411.8	683.2	707.4	730.7	754.1
Capex (\$m)	500.0	1,000.0	870.0	490.0	210.0	105.0	60.0	60.0	60.0
Cash flow (\$m)	-500.0	-1,000.0	-748.6	-293.7	264.3	678.2	747.4	770.7	794.1
EBITDA margin			67%	64%	64%	67%	68%	68%	69%
EBIT margin			62%	59%	58%	61%	61%	62%	63%
Fe fines (US\$/t)			106.1	88.9	82.5	80.2	80.4	80.2	79.9
Revenue/t (\$/t)			99.8	83.6	81.0	80.3	82.2	84.1	85.9
Opex/t (\$/t)			32.6	29.7	29.0	26.5	26.7	26.9	27.0
EBITDA/t (\$/t)			67.2	53.9	52.1	53.8	55.5	57.2	58.9
EBIT/t (\$/t)			62.2	48.9	47.1	48.8	50.5	52.2	53.9

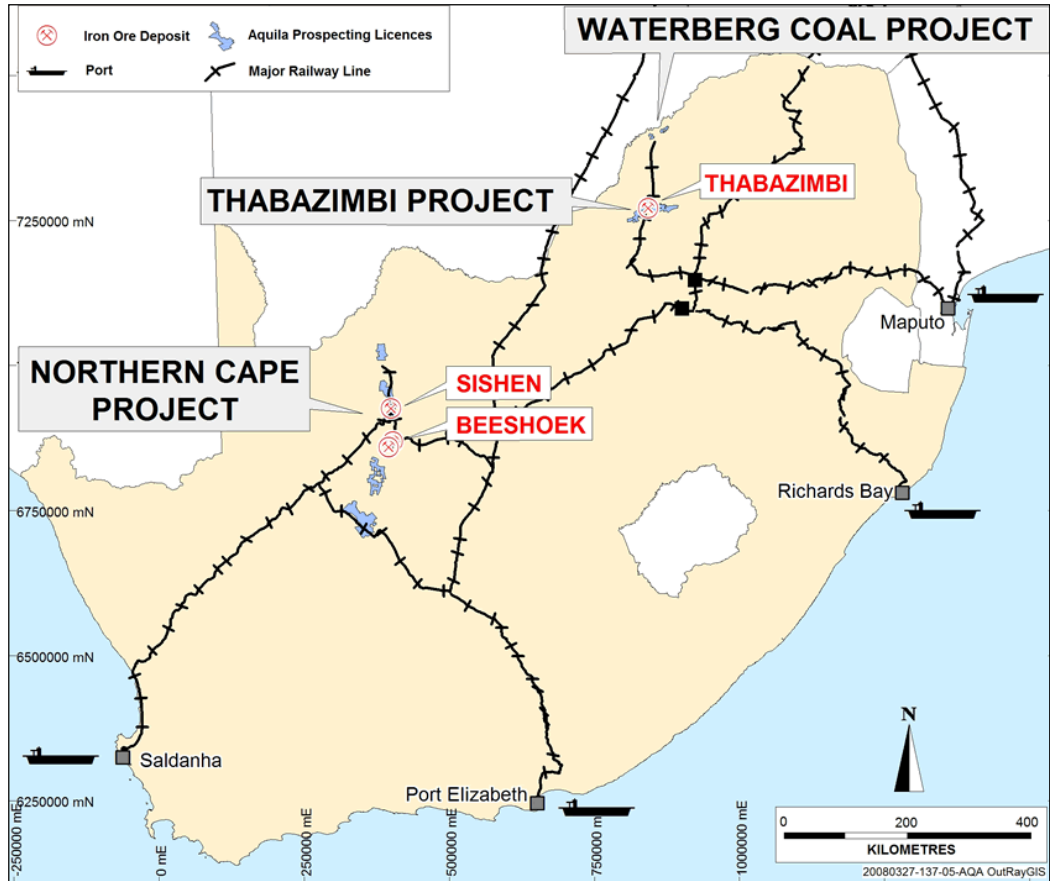
Source: CBA



Thabazimbi (74%)

AQA holds 74% of the Thabazimbi project in South Africa while the company’s Black Economic Empowerment (BEE) partner has an option to purchase 26% of the project. The project is located in the Limpopo Province of South Africa, some 200km north-west of Pretoria.

Figure 16: Thabazimbi project



Source: AQA

This is a small project with total resources currently at 21.9Mt (inferred). Despite the size there are some encouraging characteristics including a high Fe grade (63.2%) and low levels of alumina and phosphorus.

Work on the project will be concentrated around exploration and targeting an increase in resources and resource conversion.

A scoping study is underway for a 2-3Mtpa operation with the company targeting domestic sales within South Africa and exports to Asian steel mills.

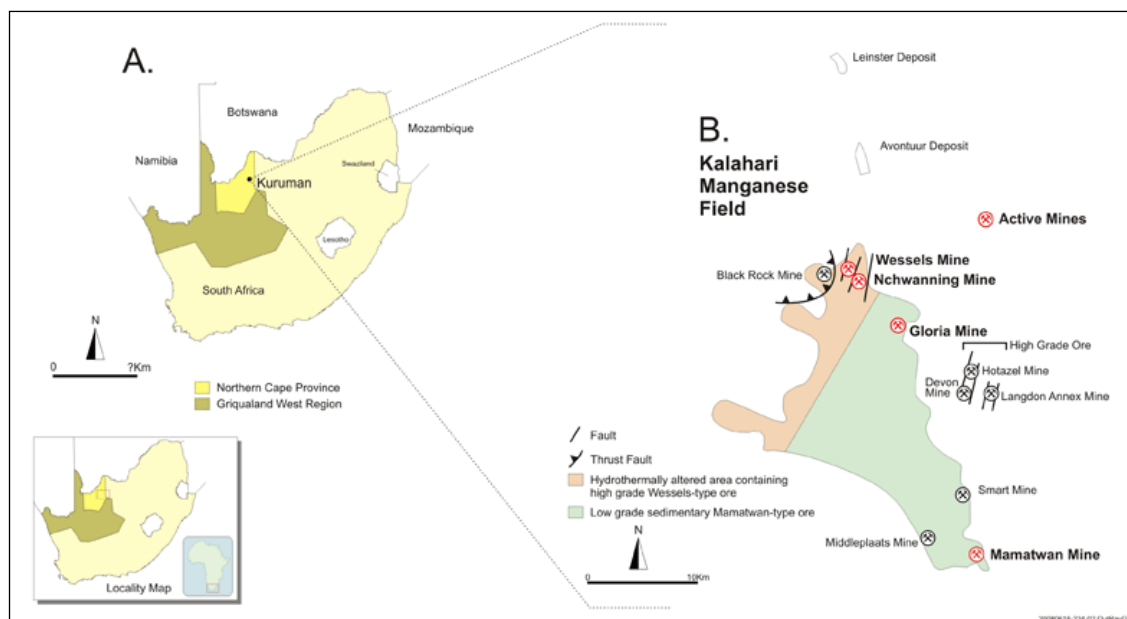


Manganese

Avontuur (74%)

The Avontuur Manganese Project area is located in the Northern Cape Province of South Africa, some 25km north-west of Hotazel. Similarly to Thabazimbi the company's BEE has an option to purchase 26% of the project.

Figure 17: Avontuur project



Source: AQA

A recent drilling campaign has resulted in a resource upgrade. Resources at the project now stand at 66.7Mt at 39.3% Mn. In FY11, the focus will be on exploration with the deposit open at depth and along strike.

A feasibility study is in progress for a 1Mtpa+ manganese operation. However, the main challenge for the project is infrastructure.

The Avontuur project is dependant in new infrastructure capacity. Transnet Freight, the South African state owned logistics provider, is currently exploring expansion of Saldanha Bay export corridor or a new port in Coega (near Port Elizabeth).



Current recommendation definitions

CBA Institutional Equities Investment recommendations are determined by the covering analyst and reflect the analyst's assessment of a stock's expected total shareholder return (TSR). TSR is calculated as the difference between the analyst's 12-month price target and the current share price plus the forecast dividend yield.

Buy: Stocks with a Buy recommendation represent the most attractive stocks under the analyst's coverage. They are forecast to generate significantly positive expected total shareholder returns.

Hold: Stocks with a Hold recommendation are less attractive than stocks with a Buy recommendation. They are forecast to generate flat to slightly positive expected total shareholder returns.

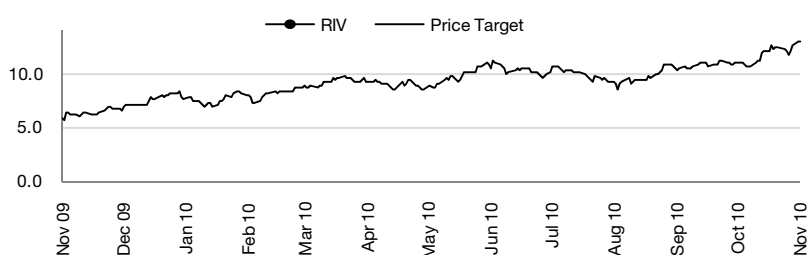
Sell: Stocks with a Sell recommendation are the least attractive stocks. They are forecast to generate flat or negative expected total shareholder returns.

Note: CBA's previous recommendations prior to 25 January 2010 were:

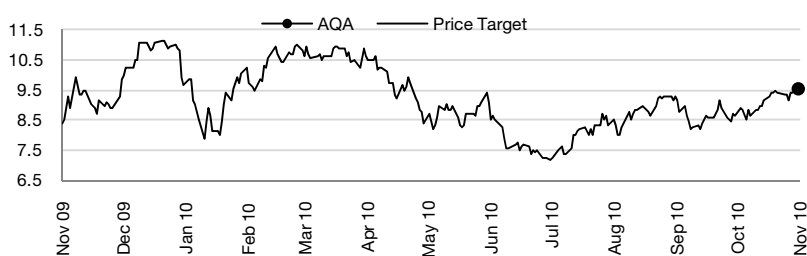
Short term (over 6 months): Buy – appreciate by >10%, Accumulate – increase between 2% and 10%, Reduce – increase by less than 2% or fall by up to 5%, Sell – fall by >5%.

Long term (24 months) Outperform (O / P) – exceed market return by >5%, Market Perform (M / P) – be in line with market return, +/-5%, Under Perform (U / P) – be less than market return by >5%.

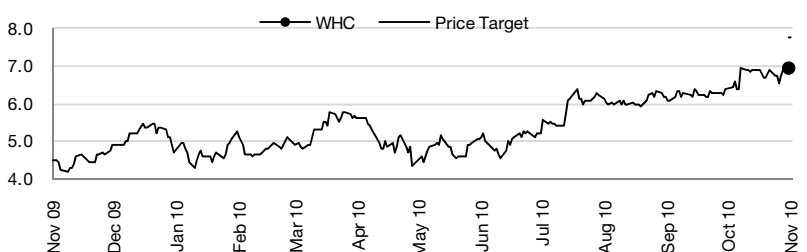
One year history of price target and recommendation changes



Date	Price Target (\$)	Recommendation
22/11/2010	Error 2015	



Date	Price Target (\$)	Recommendation
22/11/2010	9.40	HOLD



Date	Price Target (\$)	Recommendation
22/11/2010	7.75	BUY

Source: CBA, IRESS



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Equities Research

Head of Research Product

Mark Storey +612 9118 1198

Banks/Insurance

Ben Zucker (Banks) +612 9118 1185

Jeff Cai (Banks) +612 9118 1186

Cindy Dowling (Banks) +612 9118 7582

Naveen Patney (Insurance) +612 9118 6391

Basic Materials

Michael Ward* +612 9118 1139

Athlene Piech +612 9118 1195

Ryan Gerhardy +612 9118 1197

Economics

Michael Blythe +612 9118 1101

James McIntyre +612 9118 1100

Healthcare

Natalie Kelly +613 9675 7107

Bruce Du +613 9675 6244

Media & Telecommunications

Alice Bennett +613 9675 7118

Dominique d'Avrincourt* +613 9675 6933

Nathan Burley +613 9675 7029

Property

David Lloyd +612 9118 1192

James Druce +612 9118 1193

Resources

Andrew Hines +613 9675 7443

Lachlan Shaw +613 9675 8618

Andrew Knuckey +613 9675 6791

Luke Smith +613 9675 7117

Paul Hodsman +613 9675 8532

Tomas Vasquez +613 9675 6059

Retail, Food & Beverage

Andrew McLennan +612 9118 1199

Jordan Rogers +612 9118 1177

Amy Toepfer +612 9118 1182

Small Companies

Nick Maclean +613 9675 7972

Wassim Kisirwani +612 9118 1187

Transport / Developers & Contractors

Matt Crowe (Transport) +612 9118 1189

Andre Fromyhr (Transport) +612 9118 1188

Ben Brownette (D&C) +612 9118 1190

Amy Toepfer (D&C) +612 9118 1182

Utilities & Toll Roads

Paul Johnston* +613 9675 7101

Paul Mason +613 9675 7275

Quantitative Research & Database

Nizar Torlakovic +612 9118 1178

Hendrik Botha +612 9118 1200

Luke Hartigan +612 9118 6393

Administration

Louisa Raven +612 9118 1176

Kelly McGregor +612 9118 1174

Silvana Palmieri +613 9675 7106

Publishing

Daisy Ng +612 9118 1138

Elise Aaternir +612 9118 6396

Eloise Lindsay +612 9118 1191

Natasha Meuli +612 9118 1183

Fax (Sydney) +612 9118 1000

Fax (Melbourne) +613 9675 7622

CommSec Retail

Craig James +612 9312 0265

Savanth Sebastian +612 8223 7130

Delivery Channels & Publications (Global Markets)

Monica Eley +612 9118 1097

Ai-Quynh Mac* +612 9118 1104

To contact any of our staff via email, type: first.name.surname@cba.com.au

*Except: Dominique d'Avrincourt – dominique.davrincourt@cba.com.au

Luke Hartigan – lhartigan@cba.com.au

Michael Ward – michael.ward1@cba.com.au

Paul Johnston – paul.a.johnston@cba.com.au

Ai-Quynh Mac – maca@cba.com.au

Executive General Manager Institutional Equities & Debt Capital Markets

David Hancock +612 9118 1441

Co-head Cash Equities

Peter Wade +612 9118 1448

Lance Jenkins +612 9118 1447

Equity Distribution

Equity Research Sales – Sydney

Amanda Chamberlin +612 9118 1443

Chris Mears +612 9118 1445

Christine Leonard +612 9118 1442

Rod Hardwick +612 9118 1444

Sarah Beeby +612 9118 1018

Will Corkill +612 9118 1461

Melissa George (Desk Manager) +612 9118 1446

Equity Research Sales – Melbourne

Boyd Carter +613 9675 6815

Wayne Murray +613 9675 7495

Nicolas Thompson +613 9675 6618

Sales Trading

Andrew Tyrrell +612 9118 1451

Jarred Rubin +612 9117 7887

Justin Rooney +612 9118 1453

Paul Welsh +612 9118 1450

Rod Ellis +612 9118 1452

Equity Trading

Alex Stanford +612 9118 1456

Andrew Millward (Electronic) +612 9118 1457

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Mark Ashton +612 9118 1405

Matt Bromfield +612 9118 1455

Hybrid Sales

Damien Berlioz +612 9118 1460

Asian Sales

Toll Free (HK) +800 901 636

Toll Free (Sing) +800 616 1949

Fax (Melbourne) +613 9675 7622

Global Markets Research

Commodities

Luke Mathews +612 9118 1098

Lachlan Shaw +613 9675 8618

Foreign Exchange

Richard Grace +612 9117 0080

Joseph Capurso +612 9118 1106

Peter Dragicevich +612 9118 1107

Andy Ji +65 6349 7056

Fixed Income

Adam Donaldson +612 9118 1095

Philip Brown +612 9118 1090

Michael Bors +612 9118 1108

Steve Shoobert +612 9118 1096

Winnie Chee +612 9118 1104

Tally Dewan +612 9118 1105

Kevin Ward +612 9118 1960

Alex Stanley +612 9118 1125

Economics

Michael Blythe +612 9118 1101

Michael Workman +612 9118 1019

John Peters +612 9117 0112

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Chris Tennent-Brown +64 9374 8819

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Fax (Sydney) +612 9118 1010