

Aquila irons out deal

Investment Highlights

- AQA has completed a placement to China's largest steel mill – Baosteel – to raise \$285m (43.94m shares at \$6.50/share) which equates to a 15% holding in the expanded company. This placement is inline with AQA's market price of \$6.55/share (prior to going into trading halt) and represents the first investment in an ASX listed entity by China's largest steel mill.
- Timeline and Approvals:
 - FIRB (Australia)
 - NDRC (China)
 - Shareholders (over 15% threshold)
- The deal which sees Baosteel become AQA's second largest shareholder suggests AQA's capital intensive growth pipeline is likely to be achieved. On our estimates the company's share of capital expenditure to move Eagle Downs, Belvedere coal projects and the West Pilbara iron project into production is \$2.89bn over the coming 4.5 years.
- Baosteel and AQA have agreed to act in good faith for future financing and offtake arrangements.
- AQA will remain independent with the Board and insiders holding 44% of the expanded issued capital. Accordingly we do not see any discount for lack of a takeover premium.
- In the short term we see the looming sale of Belvedere coal project as a major positive catalyst. The Vale pre-emptive right to acquire is likely to be exercised in our view as AQA now has a partner which will provide funding for its equity share of capital expenditure if Vale elects maintain it's 75.5% share and develop the project.
- Similarly we believe the AQA/Baosteel deal provides a fall back position for developing assets coal, iron ore and manganese assets which may have otherwise been divested to solve funding hurdles.

28 August 2009

12mth Rating

BUY

Price	A\$	6.55
Target Price	A\$	9.35
12m Total Return	%	43.0

RIC: **AQA.AX**

BBG: **AQA AU**

Shares o/s	m	247.1
Free Float	%	
Market Cap.	A\$m	1618.3
Net Debt (Cash)	A\$m	-83.0
Net Debt/Equity	%	na
3m Av. D. T'over	A\$m	4.73
52wk High/Low	A\$	16.85/2.00
2yr adj. beta		1.56

Valuation:

Methodology		DCF
Value per share	A\$	9.35

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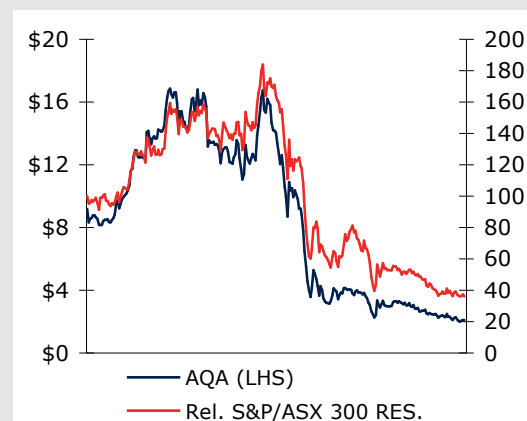
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Year End June 30	2008A	2009F	2010F	2011F	2012F
Reported NPAT (\$m)	97.3	42.5	40.2	38.0	16.2
Recurrent NPAT (\$m)	(40.6)	42.5	40.2	38.0	16.2
Recurrent EPS (cents)	(16.0)	16.7	15.8	14.9	6.4
EPS Growth (%)	na	na	(5.5)	(5.5)	(57.3)
PER (x)	(41.1)	39.2	41.5	43.9	102.8
EBITDA (\$m)	7.9	68.2	85.8	120.4	89.3
EV/EBITDA (x)	193.6	23.2	18.9	23.6	47.9
Capex (\$m)	(142.9)	36.3	55.8	1,233.3	1,410.4
Free Cashflow	118.2	(51.0)	(39.6)	(1,220.8)	(1,429.7)
FCFPS (cents)	46.4	(20.0)	(15.5)	(479.2)	(561.2)
PFCF (x)	14.1	(32.7)	(42.2)	(1.4)	(1.2)
DPS (cents)	0.0	2.3	0.5	1.6	0.8
Yield (%)	0.0	0.4	0.1	0.2	0.1
Franking (%)	0.0	100.0	100.0	100.0	100.0

12 Month Share Price Performance



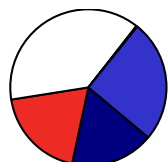
Performance %	1mth	3mth	12mth
Absolute	7.0	58.4	-59.8
Rel. S&P/ASX 300	-0.7	34.2	-54.3

Aquila Resources Ltd.

6.55

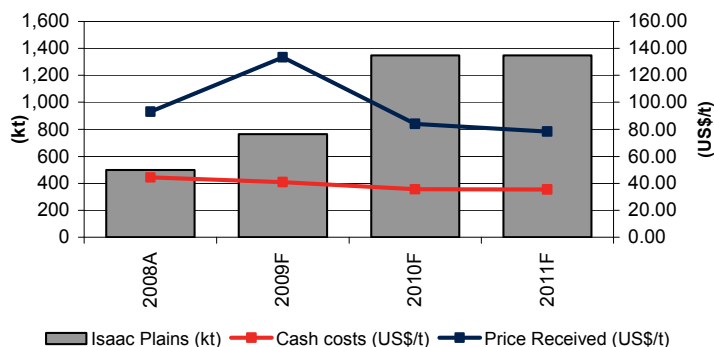
Valuation	A\$m	A\$/sh
Isaac Plains (50% AQA, 50% Vale)	389.7	1.58
Eagle Downs (50% AQA, 50% Vale)	436.6	1.77
Belvedere (24.5% AQA, 75.5% Vale)	859.4	3.48
West Pilbara Iron (AQA 50%, AMCI 50%)	10.0	0.04
Exploration & Other Projects	569.7	2.31
Equity Investments	5.4	0.02
Corporate	(38.3)	(0.16)
Unpaid Capital	0.0	0.00
Forwards	(6.3)	(0.03)
Cash	102.8	0.42
Debt	(19.8)	(0.08)
NPV	2309.2	9.35
Price Target	2309.2	9.35

Valuation Summary of Operating Assets



■ Isaac Plains (50% AQA, 50% Vale)
■ Eagle Downs (50% AQA, 50% Vale)
■ Belvedere (24.5% AQA, 75.5% Vale)
■ West Pilbara Iron (AQA 50%, AMCI 50%)
■ Exploration & Other Projects

Coal Production Summary



Resources & Reserves (Mt)

Coal Reserves	Mt
Isaac Plains (SSCC, ThC)	65.5
Coal Resources	
Isaac Plains SSCC, ThC)	
Eagle Downs (HCC)	780.0
Belvedere (HCC)	3900.0
Washpool (CC, 100% AQA)	138.1
Red Hill (CC, 100% AQA)	75.0
Iron Ore Resources	
Australian Prem Iron JV	493.0

Directors

Name	Position
Toni Poli	Chairman & MD
Charles Bass	Non-Executive Director
Derek Cowlan	Non-Executive Director
Gordon Galt	Non-Executive Director

Substantial Shareholders

	Shares (m)	%
Toni Poli	52.3	21.2
Charles Bass	24.7	10.0
Merrill Lynch Inv Mgmt	15.2	6.2
WA Resources Pty Ltd (AMCI)	14.0	5.7
Seamans Capital Mgmt	10.0	5.5

Year End June 30

Commodity Assumptions	2008A	2009F	2010F	2011F
US\$/A\$	0.90	0.75	0.81	0.84
Hard Coking Coal	147	257	124	114
Semi-soft Coking Coal	108	204	93	86
PCI	109	199	88	78
Export Thermal Coal	73	111	68	64
Domestic Thermal Coal	43	44	45	46
Hammersley Lump	127	179	108	95
Hammersley Fines	96	133	93	82

Production Summary	2008A	2009F	2010F	2011F
Attributable Saleable Coal Production				
Isaac Plains (kt)	498	765	1,349	1,349
Cash costs (US\$/t)	44.27	40.93	35.50	35.46
Price Received (US\$/t)	93.10	133.45	84.05	78.46

Eagle Downs (kt)	0	0	0	0
Cash costs (US\$/t)	11.35	18.14	9.96	9.47
Price Received (US\$/t)	130.03	232.27	112.51	103.80

Belvedere (kt)	0	0	0	0
Cash costs (US\$/t)	0.00	0.00	0.00	0.00
Price Received (US\$/t)	130.03	232.27	112.51	103.80

West Pilbara Iron (kt)	0	0	0	0
Cash costs (US\$/t)	0.00	0.00	0.00	0.00
Price Received (US\$/t)				

Profit & Loss (A\$m)	2008A	2009F	2010F	2011F
Sales Revenue	220.6	128.2	139.9	126.0
Other Income	2.2	3.7	22.7	69.4
Operating Costs	183.0	42.0	59.1	56.9
Exploration Exp.	23.1	10.1	10.3	10.5
Corporate/Admin	8.9	11.7	7.4	7.5
EBITDA	7.9	68.2	85.8	120.4
Depn & Amort	1.7	2.6	4.8	4.8
EBIT	6.2	65.6	81.1	115.7
Interest	1.8	4.8	23.7	61.4
Operating Profit	4.4	60.8	57.4	54.3
Tax expense	45.0	18.2	17.2	16.3
Abnormals & Minorities	137.9	0.0	0.0	0.0
NPAT	97.3	42.5	40.2	38.0

Normalised NPAT	4.4	60.8	57.4	54.3
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Cash Flow (A\$m)	2008A	2009F	2010F	2011F
Adjusted Net Profit	0.7	42.5	40.2	38.0
+ Interest/Tax/Expl Exp	70.4	33.1	51.2	88.2
- Interest/Tax/Expl Inc	17.9	38.7	79.9	118.5
+ Depn/Amort	1.7	2.6	4.8	4.8
+/- Other (Associates)	0.0	0.0	0.0	0.0
Operating Cashflow	54.9	39.6	16.2	12.5
- Capex (+asset sales)	(142.9)	36.3	55.8	123.3
- Working Capital Increase	79.6	54.3	0.0	0.0
Free Cashflow	118.2	(51.0)	(39.6)	(120.8)
- Dividends (ords & pref)	0.0	5.7	1.4	4.0
+ Equity raised	7.6	0.0	0.0	0.0
+ Debt drawdown (repaid)	(0.4)	0.0	2700.0	(0.2)
Net Change in Cash	125.3	(56.7)	2659.1	(1225.0)
Cash at End Period	159.5	102.8	2761.9	1536.9
Net Cash/(Debt)	139.7	83.0	1342.1	117.3

Balance Sheet (A\$m)	2008A	2009F	2010F	2011F
Cash/Bullion	159.5	102.8	2761.9	1536.9
Total Assets	292.8	295.4	3010.0	3012.7
Total Debt	15.3	15.3	2715.3	2715.2
Total Liabilities	90.1	55.9	2731.6	2700.4
Shareholders Funds	202.7	239.5	278.4	312.3

Ratios	2008A	2009F	2010F	2011F
Net Debt/Equity (%)	na	na	na	na
Interest Cover (x)	3.4	13.7	3.4	1.9
Return on Equity (%)	48.0%	17.8%	14.4%	12.2%

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