



PRICE TARGET REVISION | COMMENT

SEPTEMBER 25, 2009

**Aquila Resources Ltd. (ASX: AQA)**  
Cash Flow to Grow as IP Ramps Up

**Outperform**  
**Above Average Risk**

Price:	7.22	Price Target:	8.00 ↑ 7.40
Shares O/S (MM):	254.5	Implied All-In Return:	11%
Dividend:	0.00	Market Cap (MM):	1,837
NAVPS:	7.99	Yield:	0.0%
Float (MM):	142.0	P/NAVPS:	0.9x

Substantial shareholders: Executive Chairman, Tony Poli (~31%), Non-Executive Director, Charles Bass (~13%), AMCI (~8.5%) and two institutions (combined ~11%).  
Priced at market close as on September 25, 2009 (Australian Eastern Standard time)

**Event**

FY09 financials impacted by exploration write-downs but AQA remains our preference for hard coking coal.

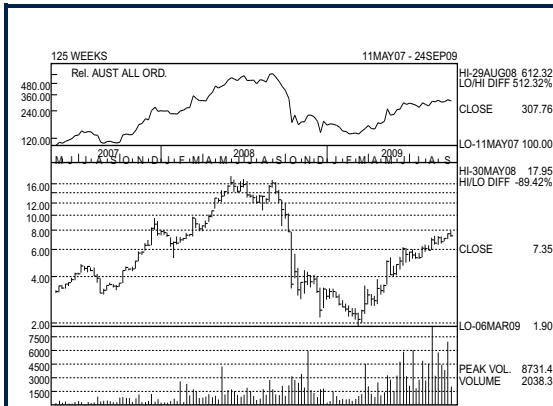
**Investment Opinion**

Aquila reported a FY09 net loss of A\$26m after A\$64m in exploration write-downs. Cash flow is building, however, as Isaac Plains continues to ramp up and the company advances a long pipeline of mine developments. There are few ways in which to gain significant HCC exposure from the ASX and we believe AQA offers relative sector value. The next six months is expected to be a period of strong project newsflow (e.g., Belvedere PFS Mar Q10). **AQA remains our preferred HCC exposure** and we raise our price target to A\$8.00ps (1.0x P/NPV).

- **Write-downs impact NPAT.** Reported loss after tax of A\$26m was largely a result of A\$64m in exploration write-downs. On an underlying basis, we estimate a loss of A\$35m after accounting for pre-tax asset sale proceeds of A\$12m. We view these results as somewhat misleading as IP continues to ramp up and operational EBITDA grows. For example, operational EBITDA increased to A\$39m (FY08: A\$4m) and is forecast to almost double by FY11 to A\$74m.
- **IP growth outlook.** We expect a gradual return to higher semi-hard coking/PCI proportions through FY10 and forecast FY10 sales of 2.4mt. The key risk to this forecast appears to be port congestion at DBCT. At mid-September, the vessel queue at DBCT was 54 ships with 25-30 days wait time, reflecting the increased demand for met coal.
- **Balance sheet.** At 30 June, Aquila had A\$73m cash plus liquid investments of A\$29m and debt of A\$12m. Expected feasibility expenditure on its major coal and iron ore projects over the coming year sees AQA's cash position moving towards ~A\$10m by end-FY10 (our forecasts). Various additional funding options are under consideration.
- **Valuation:** Our new target of A\$8.00 (from A\$7.40) is based on our higher NAV of A\$7.99 (A\$7.35). We have rolled our valuation forward and updated our forecasts for the FY09 results, which results in an 8% increase in NAV. Aquila is attractively priced relative to peers and is trading at 0.9x NAV versus the sector at ~1x and Macarthur at 1.2x. AQA is our preferred HCC play due to the fact that it is increasing met coal production and has equity in potential Tier 1 assets like Eagle Downs and Belvedere.

Priced as of prior trading day's market close, EST (unless otherwise noted).

For Required Non-U.S. Analyst and Conflicts Disclosures, see page 4.



**Royal Bank of Canada - Sydney Branch**

David Haddad (Analyst)

(+61) 2 9033-3071; david.haddad@rbccm.com

FY Jun	2008A	2009A	2010E	2011E
Adj EPS - FD	(0.12)	(0.14)	0.03	0.12
Prev.		(0.02)		
P/AEPS	NM	NM	NM	60.2x
Annual Div. - FD	0.00	0.00	0.00	0.00
EV/EBITDA	NMx	NMx	84.2x	32.1x

All values in AUD unless otherwise noted.

Exhibit 1: Aquila Resources Operating and Financial Summary

Aquila Resources									
ASX: AQA	Share Price: (A\$ps)	7.21	Year end:	Jun	Stock Rating:	Outperform	Price Target:	A\$8.00	
	Mkt Cap: (A\$MM)	1,835	Issued shares (m)	254.5	Risk Qualifier:	Above Average	NAV:	A\$7.99	

ASSUMPTIONS						ATTRIBUTABLE MINE STATS							
		FY07	FY08	FY09	FY10e	FY11e		FY07	FY08	FY09	FY10e	FY11e	
Exchange Rate	A\$/US\$	0.79	0.90	0.75	0.83	0.81	Coal Production (equity)						
Hard coking coal (FY avg)	US\$/t	110.8	148.5	257.3	134.3	150.0	Isaac Plains (50%)	mt	0.2	0.5	0.6	1.2	1.4
LV PCI coal (FY avg)	US\$/t	66.4	111.9	206.3	93.8	105.0	Eagle Downs (50%)	mt	0.0	0.0	0.0	0.0	0.0
Thermal coal (FY avg)	US\$/t	53.1	73.6	111.5	73.3	80.0	Belvedere (24.5%)	mt	0.0	0.0	0.0	0.0	0.0
Hammersley Fines (FY avg)	USc/mtu	75.2	96.5	132.7	101.9	116.4	Total coal production	mt	0.2	0.5	0.6	1.2	1.4
Hammersley Lump (FY avg)	USc/mtu	96.0	127.4	179.3	117.6	134.4							

RATIO ANALYSIS						
		FY07	FY08	FY09	FY10e	FY11e
Diluted share capital	MM	177.7	255.0	254.5	254.5	254.5
EPS (diluted and pre sig. items)	A¢	-9.6	-11.7	-14.0	3.0	11.9
P/E	x	nmf	nmf	nmf	238.3x	60.5x
CFPS	A¢	3.7	0.9	(6.4)	16.3	21.4
P/CF	x	nmf	nmf	-112.9x	44.4x	33.7x
DPS	A¢	0.0	0.0	0.0	0.0	0.0
Dividend yield	%	0.0%	0.0%	0.0%	0.0%	0.0%
Franking Level	%	0%	0%	0%	0%	0%
Book value per share		0.44	0.79	0.61	0.64	0.76
P/Book value	x	16.5x	9.1x	11.9x	11.3x	9.5x
R.O.E. (pre sig items)	%	-16%	-12%	-22%	5%	16%
R.O.A. (pre sig items)	%	-16%	-12%	-19%	5%	17%
Interest Cover	x	16.9x	8.3x	-6.3x	12.0x	31.8x
EBITDA per share	A\$ps	-0.10	-0.13	-0.14	0.08	0.22
EV/EBITDA	x	nmf	nmf	nmf	85.6x	32.7x

EARNINGS						
		FY07	FY08	FY09	FY10e	FY11e
Sales Revenue	A\$MM	15	47	92	137	190
Other Revenue	"	3	0	0	0	0
Total Revenue	"	17	47	92	137	190
Operating costs	"	(20)	(43)	(53)	(97)	(116)
Operational EBITDA	"	(3)	4	39	40	74
Exploration Expense/Write-offs	"	(11)	(23)	(64)	(10)	(10)
Corporate & Other Costs	"	(4)	(15)	(10)	(8)	(8)
EBITDA	"	(18)	(34)	(35)	22	56
D&A	"	0	(2)	(5)	(10)	(11)
EBIT	"	(18)	(36)	(41)	12	45
Net Interest	"	1	4	(6)	(1)	(1)
Profit Before Tax	"	(17)	(32)	(47)	11	43
Tax Expense	"	5	7	13	(3)	(13)
Minorities	"	0	0	0	0	0
Net Profit After Tax	"	(13)	(24)	(35)	8	30
Significant Items (post tax)	"	0	122	9	0	0
Reported NPAT	"	(13)	97	(26)	8	30

CASHFLOW						
		FY07	FY08	FY09	FY10e	FY11e
Operational Cash Flow	A\$MM	-9	-1	20	32	66
Net Interest	"	2	4	6	(1)	(1)
Tax Paid and Other	"	14	0	(42)	11	(10)
Net Operating Cashflow	"	7	2	(16)	41	54
Exploration	"	(10)	(16)	(55)	(10)	(10)
Capital Expenditure	"	(17)	(13)	(18)	(90)	(32)
Investments	"	(7)	78	(2)	0	0
Sale of PPE and Other	"	4	79	8	0	0
Net Investing Cashflow	"	(31)	127	(66)	(100)	(42)
Dividends Paid	"	0	0	0	0	0
Debt	"	5	(5)	(3)	0	0
Equity Issuance	"	0	1	2	0	0
Other	"	0	0	(1)	0	0
Net Financing Cashflow	"	5	(4)	(2)	0	0
Net change in cash	"	(18)	125	(85)	(59)	13

BALANCE SHEET						
		FY07	FY08	FY09	FY10e	FY11e
Cash & Equivalents	A\$MM	34	159	74	15	28
PP&E & Mine Development	"	31	39	63	143	163
Exploration	"	3	3	3	3	3
Total Assets	"	113	293	211	233	266
Debt	"	20	15	21	21	21
Total Liabilities	"	35	90	56	70	73
Total Net Assets / Equity	"	78	203	155	162	193
Net Debt / (Cash)	"	(14)	(144)	(52)	6	(6)
Gearing (net debt/(nd + equity))	%	(22%)	(246%)	(51%)	4%	(3%)
Gearing (net debt/equity)	%	(18%)	(71%)	(34%)	4%	(3%)

Coal Sales (equity)						
		FY07	FY08	FY09	FY10e	FY11e
Coking	mt	0.0	0.1	0.1	0.3	0.4
PCI/Semi-soft	mt	0.1	0.3	0.2	0.5	0.7
Thermal	mt	0.1	0.2	0.3	0.4	0.4
Total coal sales	mt	0.2	0.5	0.6	1.2	1.4
Avg Cash Price Realised	US\$/t	56.0	78.9	108.2	95.3	109.1
Avg Cash Cost (incl royalties)	US\$/t	72.2	80.3	75.9	67.5	66.4
Cash Margin	US\$/t	-16.2	-1.4	32.3	27.9	42.7

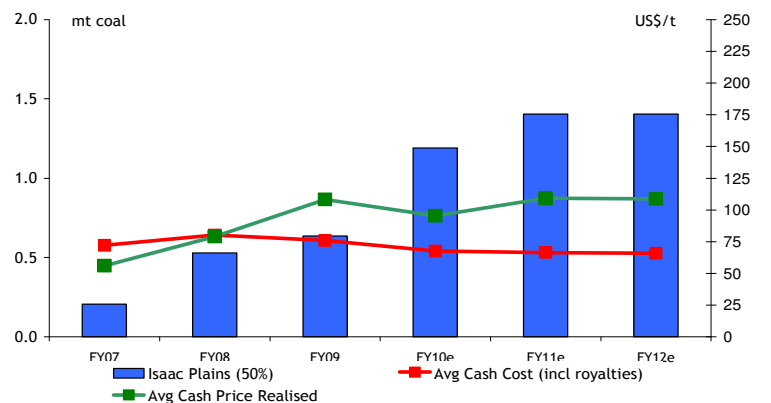
GROUP RESERVES AND RESOURCES			
Coal Reserves (ex AEL)	Proven	Probable	Total
Isaac Plains (50%)	26.0	39.5	65.5
Total reserves	26.0	39.5	65.5

Coal Resources (ex AEL)	M & I	Inferred	Total
Isaac Plains (50%)	95	46	140
Eagle Downs (50%)	450	434	884
Belvedere (24.5%)	1,526	2,340	3,866
Total resources	2,071	2,820	4,890

West Pilbara Iron Resources		
	Tonnes (mt)	Fe %
Channel iron deposits (39%)	586	56.5%
Bedded iron deposits (100%)	63	61.3%
Total iron ore resources	649	57.0%

EPS SENSITIVITIES		FY10e	FY10e
		Acps	%
Coal Prices (US\$/t)	+10%	3.4	111%
	-10%	(3.4)	-112%
A\$/US\$ (USc)	+10%	(2.2)	-72%
	-10%	2.6	87%

ATTRIBUTABLE COAL PRODUCTION AND TRUE CASH COST PROFILE



EQUITY DCF VALUATION		
Projects	A\$MM	A\$ps
Isaac Plains (50%)	311	1.25
Eagle Downs (50%)	638	2.56
Belvedere (24.5%)	370	1.49
West Pilbara Iron Ore (39%) - 50% weighted	496	1.99
Aquila Exploration Ltd assets	100	0.40
Hedging	1	0.00
Corporate	(30)	-0.12
Net Cash/(Debt) & liquids - incl option strikes	103	0.41
Net Equity Value (@ 8% real d.r.)	1,990	7.99
		P / NPV
		0.9x

Source: Company reports and RBC Capital Markets estimates



## Valuation

Our target of A\$8.00 is based on our NAV of A\$7.99. We have rolled our valuation forward and updated our forecasts for the FY09 results, which results in an 8% increase in NAV. Aquila is attractively priced relative to peers and is trading at 0.9x NAV versus the sector at ~1x and Macarthur at 1.2x. AQA is our preferred HCC play due to the fact that it is increasing met coal production and has equity in potential Tier 1 assets like Eagle Downs and Belvedere.

## Price Target Impediment

Potential impediments to our price target include: (1) coal and iron ore price risk - a weakening in contract coal or iron ore prices would adversely affect earnings forecasts; (2) currency risk - a strengthening of the A\$/US\$ rate would adversely affect earnings forecasts; (3) development and financing risk - there are risks associated with the development and ramp-up of Aquila's coal and iron ore project base; and (4) operating risks - general mining and bulk transport risks, increases in key operating inputs (energy and labour costs) would adversely affect earnings forecasts.

## Company Description

Aquila is an emerging coal and iron ore producer with a suite of large scale coal deposits in the Bowen Basin (Queensland) and channel iron deposits in the West Pilbara (Western Australia). The company also owns several earlier-stage coal, iron ore and manganese exploration assets in Australia and Africa.

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**Average Risk (Avg):** Volatility and risk expected to be comparable to sector; average revenue and earnings predictability; no significant cash flow/financing concerns over coming 12-24 months; fairly liquid.

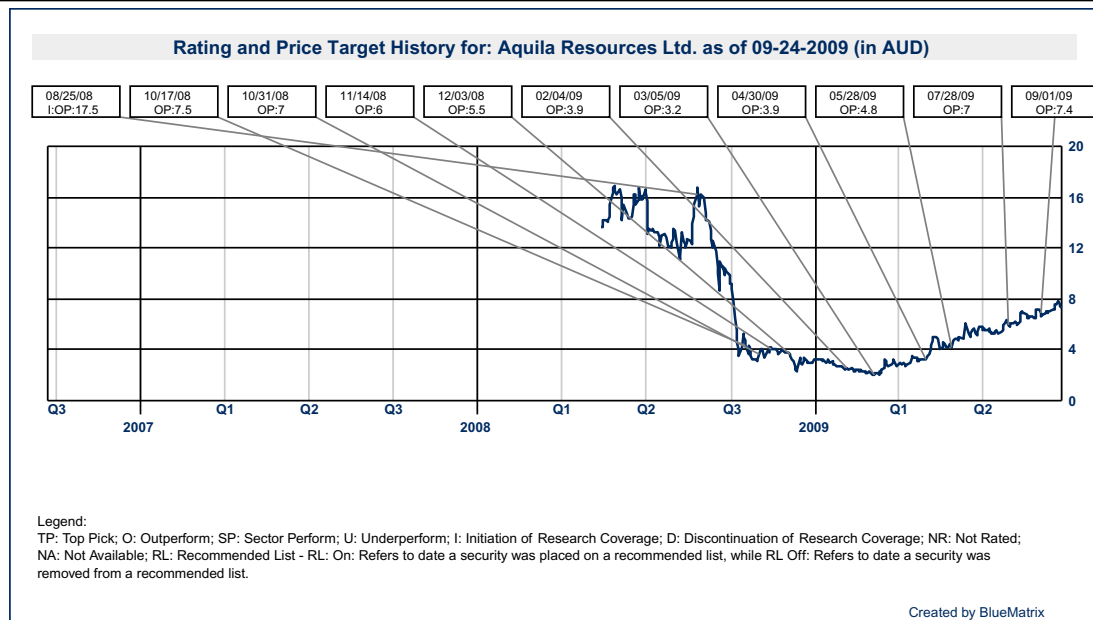
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**Speculative (Spec):** Risk consistent with venture capital; low public float; potential balance sheet concerns; risk of being delisted.

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			Count	Percent
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