

UBS Investment Research

Guildford Coal

Guildford receives Mining Licence

Starting to tick the boxes towards first production

Guildford has announced receipt of the Mining Licence at its South Gobi project. This is an important step in its planned progression towards first production by end 1H 2012 (UBS Sep qtr). Next steps include completion of the Scoping Study (early Feb), and completion of an agreement with a mining contractor and offtake agreement(s) by end Mar qtr. Buy, trading at 0.6x our A\$1.41 NPV.

Studies and testwork reveal potential upside to UBS assumptions

Guildford is evaluating between 2Mtpa & 4Mtpa production from the North pit. Either scenario would represent upside to our 1.8Mtpa assumption from this pit. Initial testwork results support our dual-product stream assumption, comprising a raw coking coal and a raw higher ash product. The results also indicate the presence of hard coking coal towards the eastern end of strike, providing potential upside to our US\$70/t (semi-soft only) pricing assumption for the coking stream.

Exploration targets increased

The company has increased its North pit resource by 7.3Mt to 70.4Mt and provided an initial exploration target for the conceptual Central pit of 56-279Mt. The overall exploration target for the South Gobi project now stands at 70-892Mt. We assume only an additional 100Mt of resource is defined outside the North pit, leaving potential upside to both production levels and mine life.

Valuation: NPV A\$1.41; PT A\$1.40; 10% discount rate

We have not changed our assumptions, pending release of specific target production levels from the Scoping Study, expected in February 2012.

Highlights (A\$m)		06/11	06/12E	06/13E	06/14E
Revenues	-	0	0	57	126
EBIT (UBS)	-	(6)	(8)	18	49
Net Income (UBS)	-	(5)	(7)	15	41
EPS (UBS, A\$)	-	(0.01)	(0.02)	0.03	0.09
Net DPS (UBS, A\$)	-	0.00	0.00	0.00	0.00
Profitability & Valuation	5-yr hist av.	06/11	06/12E	06/13E	06/14E
EBIT margin %	-	<-500	-	31.1	38.9
ROIC (EBIT) %	-	-	(8.4)	14.3	34.7
EV/EBITDA (core) x	-	-15.3	-18.0	8.5	2.5
PE (UBS) x	-	NM	NM	25.3	9.0
Net dividend yield %	-	0.0	0.0	0.0	0.0

Source: Company accounts, Thomson Reuters, UBS estimates. (UBS) valuations are stated before goodwill, exceptional and other special items. Valuations: based on an average share price that year, (E): based on a share price of A\$0.84 on 30 Jan 2012 19:42 EST

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Global Equity Research

Australia

Mining

12-month rating **Buy**
Unchanged

12m price target **A\$1.40/US\$1.49**
Unchanged

Price **A\$0.84/US\$0.89**

RIC: GUF.AX BBG: GUF AU

30 January 2012

Trading data (local/US\$)

52-wk range	A\$1.32-0.67/US\$1.42-0.67
Market cap.	A\$0.18bn/US\$0.20bn
Shares o/s	220m (ORD)
Free float	54%
Avg. daily volume ('000)	603
Avg. daily value (m)	A\$0.5

Balance sheet data 06/12E

Shareholders' equity	A\$0.11bn
P/BV (UBS)	3.3x
Net Cash (debt)	A\$0.02bn

Forecast returns

Forecast price appreciation	+66.7%
Forecast dividend yield	0.0%
Forecast stock return	+66.7%
Market return assumption	8.7%
Forecast excess return	+58.0%

EPS (UBS, A\$)

	06/12E	06/11
	UBS	Cons. Actual
H1E	(0.01)	- (0.01)
H2E	(0.01)	- (0.01)
06/12E	(0.02)	(0.02)
06/13E	0.03	0.01

Performance (A\$)



Source: UBS

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A step towards first production

Guildford has announced receipt of the Mining Licence at its South Gobi project. This is an important step in its planned progression towards first production by end 1H 2012 (UBSe Sep qtr). Notwithstanding the company's original guidance of receipt by end 2011, we view this as a swift achievement of the Mining Licence, given the longer potential timeframes experienced in country.

Next steps for the company prior to first production at the North pit include:

- Scoping Study completion (company guidance: early February) – likely to confirm several important parameters at the North pit, including: production level; whether a dual product or single bulk product is mined; and the proportion of hard coking, semi-soft and higher ash coal produced;
- Mining contractor agreement (company guidance: end March quarter) – likely to confirm opex levels for the project; and
- Offtake agreement(s) (company guidance: end March quarter) – may provide confirmation of received pricing for the product(s) mined.

Initial results from Scoping Study and coal testwork

Guildford has released the coal quality results from 6 samples at the North pit (see Figure 1). The company's initial evaluation of coal quality supports a dual-product stream, including: a primary raw coking product; and a secondary higher ash product. This is consistent with our modelling, in which we assume a 70%/30% breakdown between the coking and higher ash products, respectively.

However, the results also indicate the presence of hard coking coal trending towards the Eastern end of strike. We note that this provides upside to our base case modelling, as we assume only a semi-soft product is mined in the coking stream. We have set out in Chart 1 below Guildford's NPV sensitivity to different proportions of hard coking coal in the coking stream. We apply a US\$90/t hard coking coal price (FY12 terms, inflated nominally at 2.5%p.a. thereafter), a discount to Mongolian Mining Corp's most recently published received price of US\$95.6/t for its raw HCC product (sold directly into China).

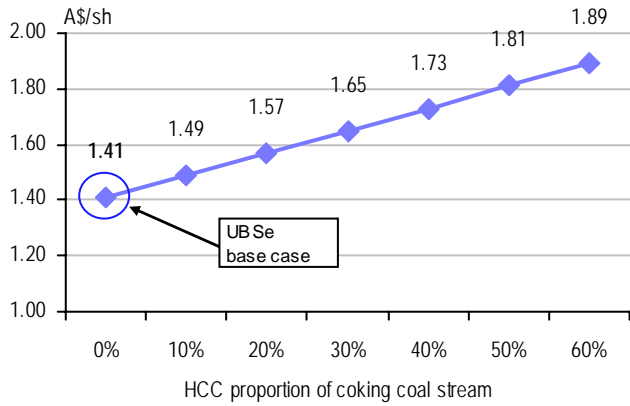
Figure 1: Initial raw coal quality sample results from North pit

North Pit Resource Raw Quality Trends (adb)							
Sample (East to West)	TM%	ASH%	VM%	FC%	KCAL	FSI	Potential Chinese Coal Classification
1	4.3	15.9	24.7	49.8	6755	4.3	Coking Coal
2	6.4	14.03	24.73	50.69	6844	5.5	Coking Coal
3	4.3	15.9	24.7	49.8	6755	4.3	Coking Coal
4	4.3	15.9	24.7	49.8	6755	4.3	Coking Coal
5	4.6	22.8	31.4	42.9	5830	3.3	1/3rd Coking Coal
6	4.6	22.8	31.4	42.9	5830	3.3	1/3rd Coking Coal

Source: Guildford Coal Ltd

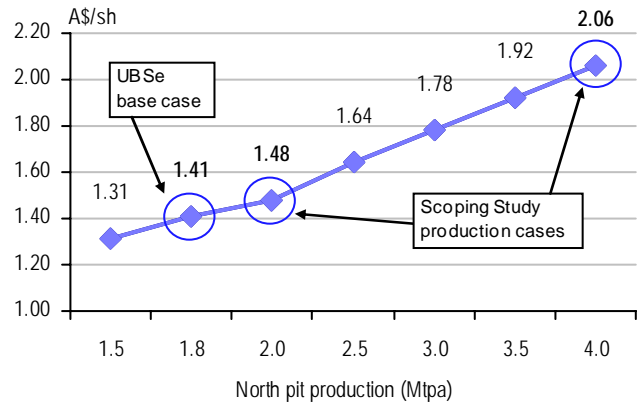
In addition, the company has announced that it is evaluating between a 2Mtpa and a 4Mtpa production case at the North pit. Either option represents upside to our current 1.8Mtpa assumption. We have set out in Chart 2 below Guildford’s NPV sensitivity to a range of production scenarios from the North pit. A 2Mtpa production rate increases our NPV by 5% from A\$1.41 to A\$1.48; a 4Mtpa rate increases NPV by 46% to A\$2.06.

Chart 1: NPV sensitivity to proportion of HCC in coking stream



Source: UBS estimates

Chart 2: NPV sensitivity to North pit production levels



Source: UBS estimates

■ Guildford Coal

Guildford Coal has near-term semi-soft coking coal production from its South Gobi project in Mongolia, supported by a 70mt resource with meaningful exploration upside. The company plans first coal by end-June quarter 2012; we estimate production of 3.6mtpa from two open pits. Guildford plans to use a simple model for the project, located only 60km from the China border, by employing contract miners and utilising mine-gate sales to offtake providers for ultimate sale in China. The company also has medium-term production options from the Middle Gobi project in Mongolia and the Hughenden project in Queensland.

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UBS 12-Month Rating	Rating Category	Coverage ¹	IB Services ²
Buy	Buy	57%	36%
Neutral	Hold/Neutral	37%	35%
Sell	Sell	7%	17%
UBS Short-Term Rating	Rating Category	Coverage ³	IB Services ⁴
Buy	Buy	less than 1%	0%
Sell	Sell	less than 1%	12%

1:Percentage of companies under coverage globally within the 12-month rating category.

2:Percentage of companies within the 12-month rating category for which investment banking (IB) services were provided within the past 12 months.

3:Percentage of companies under coverage globally within the Short-Term rating category.

4:Percentage of companies within the Short-Term rating category for which investment banking (IB) services were provided within the past 12 months.

Source: UBS. Rating allocations are as of 31 December 2011.

UBS Investment Research: Global Equity Rating Definitions

UBS 12-Month Rating	Definition
Buy	FSR is > 6% above the MRA.
Neutral	FSR is between -6% and 6% of the MRA.
Sell	FSR is > 6% below the MRA.
UBS Short-Term Rating	Definition
Buy	Buy: Stock price expected to rise within three months from the time the rating was assigned because of a specific catalyst or event.
Sell	Sell: Stock price expected to fall within three months from the time the rating was assigned because of a specific catalyst or event.

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UBS Securities Australia Ltd: Ben Wilson; Glyn Lawcock; Daniel Morgan.

Company Disclosures

Company Name	Reuters	12-mo rating	Short-term rating	Price	Price date
Guildford Coal ^{4, 5, 13}	GUF.AX	Buy	N/A	A\$0.80	27 Jan 2012

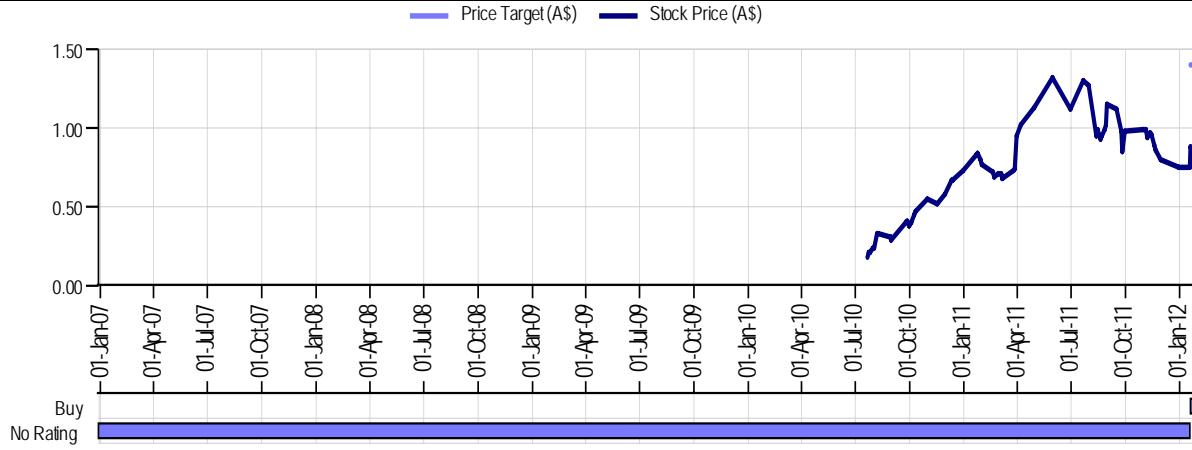
Source: UBS. All prices as of local market close.

Ratings in this table are the most current published ratings prior to this report. They may be more recent than the stock pricing date

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Guildford Coal (A\$)



Source: UBS; as of 27 Jan 2012

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