

## Mongolia - first mining license granted

### Investment highlights

- Guildford Coal (GUF)** achieved a key milestone with the granting of the first Mining Licence for the South Gobi Coal Project. Scoping studies are expected to be completed Q3FY2012 with a 2Mtpa Case and a 4Mtpa Case being developed. We believe that the 4Mtpa case is more likely as additional resources are developed and additional Mining Licenses are granted. **We retain our BUY recommendation with a revised price target of \$1.95/share.**
- More resource** - A review of the South Gobi Project North Pit data has upgraded the JORC compliant resource to 70.4Mt consisting of 39.7Mt of Indicated and 30.7Mt of Inferred Resource. The raw quality for the resource varies from east to west. Coal in the east is similar to semi soft coking coal (classified as Coking Coal under the Chinese system) in the west the coal has marginally higher ash and volatile matter, lower fixed carbon and energy (classified as 1/3 Coking Coal under the Chinese system).
- Next Steps** - It is anticipated that a mining contractor will be engaged with production expected to commence in the second half of 2012. An off-take agreement for ROM coal sold mine gate should be finalised in the same time period. Further drilling will focus on proving JORC compliant resources on the conceptual West Pit, conceptual Central Pit and conceptual East Pit Q4FY2012.
- Corporate actions** - GUF bolstered its cash position with a \$10M placement to Regal Capital and it has paid bonuses issued to management and the board in script. The resulting dilution has been the main impact on our price target revision.
- The White Mountain Project** - drilling has continued over the wet season and a second hole intersected coal seams similar to the first hole at depths of 220m. The interpreted thicknesses of the holes are 12.5m and 13.4m of net coal across 3 main seams. These are still deep and future drilling will follow these seams up-dip. If successful it is likely the White Mountain project will supply the first production from the Hughsden tenements.

### 7 February 2012

12mth Rating		BUY
Price	A\$	0.82
Target Price	A\$	1.95
12m Total Return	%	137.9

RIC: GUF.AX		BBG: GUF AU
Shares o/s	m	439.6
Free Float	%	26.0
Market Cap.	A\$m	360.5
Net Debt (Cash)	A\$m	-20.2
Net Debt/Equity	%	na
3m Av. D. T'over	A\$m	0.42
52wk High/Low	A\$	1.32/0.67
2yr adj. beta		na

### Valuation:

Methodology		DCF
Value per share	A\$	1.95

### Analyst:

**Matthew Trivett**

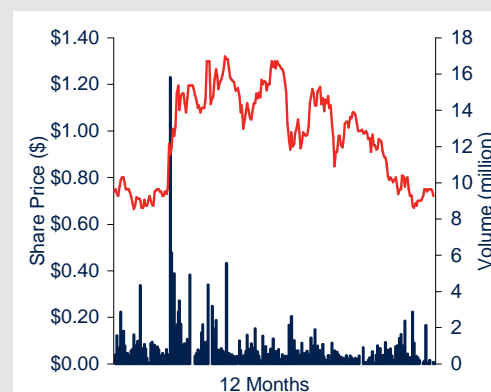
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### 12 Month Share Price Performance

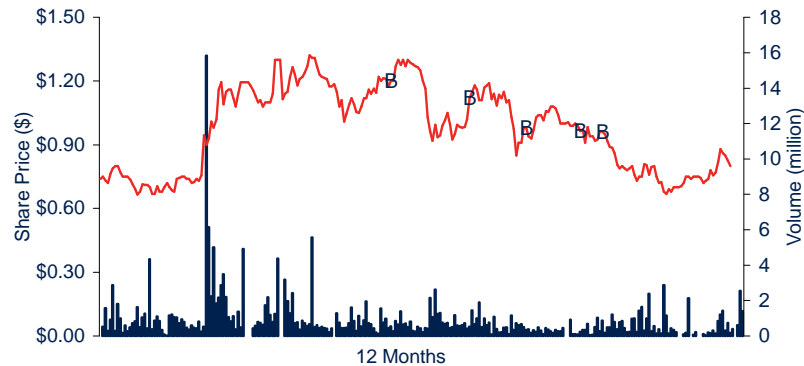


Performance %	1mth	3mth	12mth
Absolute	2.1	-31.5	-6.3
Rel. S&P/ASX 300	-1.1	-29.1	20.4

Year End June 30	2011A	2012F	2013F	2014F	2015F
Reported NPAT (\$m)	(4.8)	(5.9)	11.5	(14.3)	1.5
Recurrent NPAT (\$m)	(3.7)	(5.9)	9.1	(14.3)	1.0
Recurrent EPS (cents)	(0.9)	(1.3)	2.1	(3.3)	0.2
EPS Growth (%)	na	na	na	na	na
PER (x)	(91.2)	(61.6)	39.5	(25.2)	346.1
EBITDA (\$m)	(3.8)	(5.7)	14.2	5.9	31.7
EV/EBITDA (x)	(81.0)	(54.7)	21.8	126.3	23.2
Capex (\$m)	0.0	5.4	5.5	413.1	1.1
Free Cashflow	(74.0)	(23.1)	0.4	(429.0)	4.1
FCFPS (cents)	(17.9)	(5.3)	0.1	(97.6)	0.9
PFCF (x)	(4.6)	(15.6)	971.3	(0.8)	88.0
DPS (cents)	0.0	0.0	0.0	0.0	0.0
Yield (%)	0.0	0.0	0.0	0.0	0.0
Franking (%)	100.0	100.0	100.0	100.0	100.0



## Recommendation History



Date	Type	Target Price	Share Price	Recommendation	Return
17 May 11	Resources Review	na	1.30		
15 Jul 11	Research Note	2.25	1.21	B	
30 Aug 11	Event Impact Email	2.25	1.12	B	-7.4%
30 Sep 11	Event Impact Email	2.25	1.00	B	-10.7%
01 Nov 11	Research Note	2.10	0.97	B	-3.0%
14 Nov 11	ersons Resources Rev	2.14	0.93	B	-4.6%
	Current Share Price		0.82		-11.4%

**Stock recommendations:** Investment ratings are a function of Patersons expectation of total return (forecast price appreciation plus dividend yield) within the next 12 months. The investment ratings are Buy (expected total return of 10% or more), Hold (-10% to +10% total return) and Sell (> 10% negative total return). In addition we have a Speculative Buy rating covering higher risk stocks that may not be of investment grade due to low market capitalisation, high debt levels, or significant risks in the business model. Investment ratings are determined at the time of initiation of coverage, or a change in target price. At other times the expected total return may fall outside of these ranges because of price movements and/or volatility. Such interim deviations from specified ranges will be permitted but will become subject to review by Research Management. This Document is not to be passed on to any third party without our prior written consent.



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