

30 January 2018

Stanmore Coal Limited (SMR)

BUY

Share Price: A\$0.64

Entering a period of strong growth

Target Price:

A\$1.00

SMR has reported a weaker DecQ result due to a planned shutdown of the dragline, difficult mining conditions & management of stockpiles. Despite this, good cost control has ensured 1H FY18 EBITDA guidance remains unchanged at A\$17-20m (Petra \$17.6m). More importantly, 2H FY18 is looking strong as excess inventory is sold into high coal prices. Further, the Isaac Plains East (IPE) development is being aggressively advanced following receipt of environmental approval paving the way for SMR to commit \$9.7m of pre-production capital to deliver first coal in Q1 FY19. This will allow 50% more coal in FY19 as Isaac Plains (IP) and IPE are mined concurrently. This increase in tonnage is not yet in our forecasts & represents significant upside to our estimates. Even without this, the stock is cheap on 3x FY18 EV/EBITDA. Maintain BUY with PT of \$1.00/sh (unchanged), with our valuation yet to include SMR's updated 'intent' in FY19 or the IP underground opportunity.

DecQ result impacted by maintenance & port delays

- 271kt ROM coal (Petra 400kt), 197kt saleable coal (Petra 300kt); 183kt sold (Petra 270kt)
- Realised price of A\$147/t, higher than our A\$141/t
- Costs A\$117/t FOB sold, slightly above our A\$114/t
- 1H FY18 EBITDA guidance retained at \$17-20m
- Production guidance of 1.2Mt (product) retained; high degree of confidence in 700kt in 2H (500kt 1H)
- FOB cost guidance lifted to A\$105/t (from A\$100/t)

Inventory sell-down well underway, strong 2H likely

- Port congestion limited sales in DecQ, resulting in product stockpiles increasing to 177kt
- Inventory expected to reduce to normal levels (c.40kt) in MarQ, leading to strong cash generation
- US\$143/t SSCC price settled for c.50% of tonnages
- Petra forecast FY18 EBITDA of A\$49m & cash of \$28m

IPE aggressively advancing, first coal in Q1 FY19

- IPE significantly de-risked, with receipt of the Environmental Authority leading to the expected grant of the Mining Lease in coming months
- Pre-production capex of \$9.7m to be organically funded
- Isaac Plains and IPE to operate concurrently for at least 6 months, with 50% increase in product tonnes in FY19
- Isaac Plains underground not yet in production plan, could add further tonnes as IP comes offline

Price target unchanged at A\$1.00/sh (1xP/NPV)

Company Data

Shares – ordinary (M)	251.8
Market capitalisation (\$M)	170
12 month low/high (\$)	\$0.74 / \$0.29
Average monthly turnover / volume	\$2.9m / 4.4M
GICS Industry	Energy / Coal & Consumable Fuels

Financial Summary (fully diluted/normalised)

Year end June	2016A	2017A	2018F	2019F	2020F
Revenue (\$M)	36	141	200	166	170
Costs (\$M)	-53	-122	-151	-114	-92
EBITDA (\$M)	-17	19	49	52	78
NPAT (\$M)	-20	12	24	27	41
EPS (¢ps)	-9	5	10	11	16
EPS growth (%)	na	>100%	103%	11%	51%
PER (x)	N.M	13.4	6.6	5.9	3.9
Cashflow (\$M)	-34	-18	40	43	69
CFPS (¢ps)	-15	-7	16	17	27
PCFPS (x)	-4	-9	4	4	2
Enterprise Value (\$M)	195	158	148	130	71
EV / EBITDA (x)	N.M	8.3	3.0	2.5	0.9
Payout ratio (%)	0	0	0	0	0
Dividends (¢ps)	0	0	0	0	0
Yield (%)	0.0	0.0	0.0	0.0	0.0
Franking (%)	0	0	0	0	0

SMR – performance over one year (A¢/sh)



Disclosure and Disclaimer

This report must be read with the disclosure and disclaimer on the final page of this document. Petra Capital Pty Ltd acted as bookrunner and Lead Manager for SMR's placement of \$15m at A\$0.55/share on 13 December 2016, for which a fee was received.

Brett McKay

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Analysis

Stanmore Coal (SMR)

P&L (A\$M)						Analyst: Brett McKay					
	FY16A	FY17A	FY18F	FY19F	FY20F						
Revenues	36	141	200	166	170	Rating	BUY				
Operating Costs	-31	-116	-151	-114	-92	Target Price (A\$)	1.00	TSR	56%		
Other	-22	-6	0	0	0	Price (A\$)	0.64	Price (US\$)	0.52		
EBITDA	-17	19	49	52	78	NPV (diluted) (A\$)	0.98	NPV (US\$)	0.79		
D&A	0	-3	-5	-4	-10	Shares - current (M)	251	EV (A\$M)	139		
EBIT	-17	16	44	48	68	Shares - diluted (M)	251	Mcap (US\$M)	137		
Net Interest	-3	-9	-9	-9	-9	Mcap (A\$M)	170	EV (US\$M)	113		
Taxes	0	6	-10	-12	-18	Year End	June	Discount Rate	10%		
Adjustments	0	0	0	0	0						
Net Profit	-20	12	24	27	41						
EPS (¢)	-8.9	4.8	9.7	10.8	16.3						
DPS (¢)	0	0	0	0	0						
Cash Flows (A\$M)						Assumptions					
	FY16A	FY17A	FY18F	FY19F	FY20F		FY16A	FY17A	FY18F	FY19F	FY20F
Receipts	11	130	200	166	170	Hard Coking Coal (US\$/t)	87	193	208	180	155
Payments	-31	-144	-151	-114	-92	Semi Soft (US\$/t)	70	132	121	109	108
Net Interest	-6	-4	-9	-9	-9	Thermal (US\$/t)	54	68	90	85	75
Taxes	0	0	0	0	0	Wt avg price received (US\$/t)	64	120	112	104	105
Other	-8	0	0	0	0	AUD/USD	0.73	0.75	0.78	0.76	0.75
Operating Cash Flows	-34	-18	40	43	69	Semi soft (A\$/t)	96	175	156	144	144
Capex	-8	-8	-20	-21	-6	Key Ratios					
Disposals	0	0	0	0	0		FY16A	FY17A	FY18F	FY19F	FY20F
Exploration & study costs	-5	-3	-8	-4	-4	PE (x)	N.M	13.4	6.6	5.9	3.9
Other	43	13	-2	0	0	EV/EBITDA (x)	N.M	8.3	3.0	2.5	0.9
Investing Cash Flows	30	3	-30	-25	-10	EPS Growth (%)	N.M	>100	>100	10.9	51.5
<i>Free cash flow</i>	<i>-3</i>	<i>-15</i>	<i>10</i>	<i>18</i>	<i>59</i>	ROE (%)	-50.6	18.0	23.4	19.1	20.1
Change in Borrowings	0	16	-9	0	0	Net Debt to Equity (%)	63.4	-17.8	-21.0	-28.0	-48.3
Dividends	0	0	0	0	0	Net Debt to EBITDA (x)	-1.5	-0.6	-0.4	-0.8	-1.3
Equity	0	15	0	0	0	Dividend Yield (%)	0.0	0.0	0.0	0.0	0.0
Financing Cash Flows	0	31	-9	0	0	FCF (A\$/M)	-46.5	-28.5	12.1	18.0	58.7
						FCF Yield (%)	-32.7	-17.7	7.5	11.2	36.4
Balance Sheet (A\$M)						Production & Costs					
	FY16A	FY17A	FY18F	FY19F	FY20F		FY16A	FY17A	FY18F	FY19F	FY20F
Cash	12	28	28	46	105	Saleable coal Production (Mt)					
Receivables	22	17	10	8	8	Metallurgical (SSCC)	0.14	0.92	0.90	0.96	1.09
Inventories	5	27	16	13	14	Thermal	0.09	0.28	0.29	0.24	0.12
Other	3	2	0	0	0	Group Total (Mt)	0.23	1.20	1.19	1.20	1.22
Current Assets	42	74	54	68	127	Coal Sales (Mt)					
Receivables	1	0	0	0	0	Metallurgical (SSCC)	0.1	0.8	1.0	1.0	1.1
Investments	0	0	0	0	0	Thermal	0.1	0.2	0.4	0.2	0.1
Property, Plant and Equipment	64	78	93	110	106	Group Coal sales (Mt)	0.2	1.02	1.40	1.20	1.22
Intangibles/capitalised expl'n	5	4	12	16	23	Average Revenue (A\$/t)	85	132	143	138	140
Other	0	7	30	30	30	AISC Cash Costs (A\$/t)	166	126	124	103	84
Non Current Assets	70	89	135	156	159	Margin (A\$/t)	-82	6	19	35	56
Total Assets	112	163	190	224	286	Margin (US\$/t)	-62	18	10	26	42
Borrowings	0	16	0	0	0	Coal Resources (Mt)	1,221				
Payables	23	22	20	17	17	Coal Reserves (Mt)	15.3				
Provisions	7	4	4	4	4	EBITDA (A\$M)					
Other	0	3	3	3	3		FY16A	FY17A	FY18F	FY19F	FY20F
Current Liabilities	29	45	27	23	24	Isaac Plains	-19	16	54	58	84
Payables						Corporate & Other	-5	-7	-5	-6	-6
Borrowings	37	0	6	6	6	NPV (+1yr)					
Provisions	7	44	44	44	44				(A\$M)		Per Share
Other	0	8	8	8	8	Isaac Plains			218		\$0.87
Non Current Liabilities	44	52	58	58	58	Exploration (incl u/g)			30		\$0.12
Total Liabilities	73	96	85	81	82	Corporate and other			-24		-\$0.09
Total Equity	39	67	105	142	204	Hedging			0		\$0.00
						Net Cash			22		\$0.09
						Total			246		\$0.98

Source: Petra Capital

Figure 1: Quarterly production summary

Quarterly		Q2 17a	Q3 17a	Q4 17a	Q1 17a	Q2 17a	QoQ	Petra	% var
ROM coal	kt	424	355	564	443	271	-39%	400	-32%
Strip ratio	bcm waste/ROM t	14.4	12.2	10.7	11.7	14.8	26%	14.5	2%
Saleable coal	kt	302	230	392	314	197	-37%	300	-34%
Coal sales	kt	264	204	265	411	183	-55%	270	-32%
SSCC sales	kt	224	97	265	173	143	-17%	210	-32%
Thermal sales	kt	40	107	0	238	40	-83%	60	-33%
Coal stockpile	kt	143	179	320	245	234	-4%	275	-15%
Costs, FOB	A\$/t sales	103	111	103	90	117	30%	114	2%

Source: Company data, Petra Capital

Figure 2: Summary of changes

		FY18e			FY19e			FY20e		
		New	Old	% var	New	Old	% var	New	Old	% var
Revenue	A\$m	200	182	10%	166	162	2%	170	170	0%
EBITDA	A\$m	49	37	33%	52	49	7%	78	78	0%
EBIT	A\$m	44	32	38%	48	45	7%	68	68	0%
NPAT	A\$m	24	16	53%	27	25	9%	41	41	0%
EPS	Ac/sh	9.7	6.4	53%	10.8	9.9	9%	16.3	16.4	0%
DPS	Ac/sh	0.0	0.0	na	0.0	0.0	na	0.0	0.0	na
NPV/sh	A\$/sh	0.98	0.95	3%						
Price target	A\$/sh	1.00	1.00	0%						
Isaac Plains										
ROM coal	Mt	1.61	1.64	-2%	1.60	1.60	0%	1.50	1.50	0%
SSCC production	Mt	0.90	0.94	-4%	0.96	0.96	0%	1.09	1.09	0%
Thermal production	Mt	0.29	0.28	5%	0.24	0.24	0%	0.12	0.12	0%
Total saleable coal	Mt	1.19	1.21	-2%	1.20	1.20	0%	1.22	1.22	0%
Total coal sold	Mt	1.40	1.36	3%	1.20	1.20	0%	1.22	1.22	0%
C1 costs	A\$/t product	105	102	2%	90	89	0%	71	71	0%
AISC*	A\$/t product	124	117	6%	103	103	0%	84	84	0%

Source: Company reports, Petra Capital

* includes opex, state & vendor royalties, sustaining capex and 50% allocation of corporate & exploration costs

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