

1 May 2018

Stanmore Coal Limited (SMR)

BUY

Share Price: A\$0.69

An improved MarQ but a cautious outlook

Target Price:

A\$1.15

As expected, SMR has delivered a strong QoQ performance at Isaac Plains following the dip experienced in DecQ. Despite delays due to poor weather, unplanned downtime and geotechnical challenges, saleable coal production lifted 53% QoQ, whilst coal sales surged 121% as excess inventory was sold down. Net cash improved by \$9m. However, the Isaac Plains open pit is becoming more challenging as it nears completion and, combined with uncertainty on rail allocation, cost pressures and a moderating coal price outlook, has seen management adopt a cautious outlook. Whilst FY18 guidance is unchanged, cost and production profiles for Isaac Plains East (IPE) are being reviewed; first coal remains on-track for SepQ, although the composition and quantum of increased sales in FY19 is now uncertain. Despite this, SMR retains all options and has the time and flexibility to decide how it progresses over coming months. IPE remains a quality asset with low cost, high quality tonnes to be delivered over a 7 year mine life. The stock remains cheap at 3.3x FY18 EV/EBITDA. Maintain BUY with A\$1.15/sh price target (unchanged).

MarQ production and sales lift significantly

- ROM production 382kt (Petra: 450kt)
- Product coal 302kt (Petra: 340kt)
- Strip ratio 14.6:1 (Petra: 14.5:1)
- Sales 404kt, 73% SSCC (Petra: 430kt, 84% SSCC)
- Cost data has not been provided, although we believe the A\$105/t guidance for FY18 is unchanged
- Realised price A\$151/t (Petra: A\$164/t) due to lower priced carry-over tonnes and more thermal sales
- JunQ pricing to remain robust with carry-over tonnes at US\$143/t and JunQ benchmark set at US\$136/t

FY18 guidance unchanged, FY19 is being reviewed

- No change to 1.2Mt product coal in FY18, subject to rail logistics performance, stockpile management & geotech issues at Isaac Plains; 387kt needed in JunQ
- Ability to forecast near- and medium-term sales is being impacted by uncertain rail capacity & performance
- Previous FY19 'intent' to lift sales to 1.8Mt is subject to rail allocation, formal FY19 guidance in Jul/Aug

PT (1xP/NPV₁₀) of A\$1.15/sh (unchanged)

- IP underground yet to be included in our forecasts
- Our FY19 forecasts remain unchanged (1.8Mt at A\$101/t FOB) and will be updated once logistics capacity issues are resolved in coming months

Company Data

Shares – ordinary (M)	251.8
Market capitalisation (\$M)	174
12 month low/high (\$)	\$0.78 / \$0.29
Average monthly turnover (\$M)	\$1.5m / 2.1M
GICS Industry	Energy/Coal & Consumable Fuels

Financial Summary (fully diluted/normalised)

Year end June	2016A	2017A	2018F	2019F	2020F
Revenue (\$M)	36	141	202	249	286
Costs (\$M)	-53	-122	-154	-185	-177
EBITDA (\$M)	-17	19	48	64	109
NPAT (\$M)	-20	12	22	33	62
EPS (¢ps)	-9	5	9	13	24
EPS growth (%)	na	>100%	82%	51%	87%
PER (x)	N.M	14.2	7.8	5.2	2.8
Cashflow (\$M)	-34	-18	31	53	85
CFPS (¢ps)	-15	-7	12	21	34
PCFPS (x)	-5	-10	6	3	2
Enterprise Value (\$M)	201	164	158	120	44
EV / EBITDA (x)	N.M	8.6	3.3	1.9	0.4
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



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Brett McKay

+61 2 9239 9605

Analysis

Stanmore Coal (SMR)

P&L (A\$M)						Analyst: Brett McKay					
	FY16A	FY17A	FY18F	FY19F	FY20F						
Revenues	36	141	202	249	286	Rating	BUY				
Operating Costs	-31	-116	-147	-185	-177	Target Price (A\$)	1.16	TSR	68%		
Other	-22	-6	-7	0	0	Price (A\$)	0.69	Price (US\$)	0.52		
EBITDA	-17	19	48	64	109	NPV (diluted) (A\$)	1.16	NPV (US\$)	0.87		
D&A	0	-3	-4	-6	-10	Shares - current (M)	251	EV (A\$M)	143		
EBIT	-17	16	44	57	98	Shares - diluted (M)	251	Mcap (US\$M)	131		
Net Interest	-3	-9	-10	-10	-10	Mcap (A\$M)	174	EV (US\$M)	108		
Taxes	0	6	-12	-14	-26	Year End	June	Discount Rate	10%		
Adjustments	0	0	0	0	0						
Net Profit	-20	12	22	33	62						
EPS (¢)	-8.9	4.8	8.7	13.1	24.5						
DPS (¢)	0	0	0	0	0						
Cash Flows (A\$M)						Assumptions					
	FY16A	FY17A	FY18F	FY19F	FY20F		FY16A	FY17A	FY18F	FY19F	FY20F
Receipts	11	130	213	249	286	Hard Coking Coal (US\$/t)	87	193	203	170	155
Payments	-31	-144	-173	-185	-177	Semi Soft (US\$/t)	70	132	126	109	108
Net Interest	-6	-4	-9	-10	-10	Thermal (US\$/t)	54	68	92	85	75
Taxes	0	0	0	0	-13	Wt avg price received (US\$/t)	64	120	114	105	103
Other	-8	0	0	0	0	AUD/USD	0.73	0.75	0.78	0.76	0.75
Operating Cash Flows	-34	-18	31	53	85	Semi soft (A\$/t)	96	175	161	144	144
Capex	-8	-8	-18	-11	-5	Key Ratios					
Disposals	0	0	0	0	0		FY16A	FY17A	FY18F	FY19F	FY20F
Exploration & study costs	-5	-3	-6	-4	-4	PE (x)	N.M	14.4	7.9	5.3	2.8
Other	43	13	-1	0	0	EV/EBITDA (x)	N.M	8.5	3.2	1.8	0.4
Investing Cash Flows	30	3	-25	-15	-9	EPS Growth (%)	N.M	>100	>100	50.7	86.8
<i>Free cash flow</i>	<i>-3</i>	<i>-15</i>	<i>6</i>	<i>38</i>	<i>76</i>	ROE (%)	-50.6	18.0	21.3	21.8	28.4
Change in Borrowings	0	16	-13	0	0	Net Debt to Equity (%)	63.4	-17.8	-17.9	-37.3	-61.0
Dividends	0	0	0	0	0	Net Debt to EBITDA (x)	-1.5	-0.6	-0.4	-0.9	-1.2
Equity	0	15	0	0	0	Dividend Yield (%)	0.0	0.0	0.0	0.0	0.0
Financing Cash Flows	0	31	-13	0	0	FCF (A\$M)	-46.5	-28.5	7.1	38.1	76.2
						FCF Yield (%)	-30.3	-16.4	4.1	21.9	43.8
Balance Sheet (A\$M)						Production & Costs					
	FY16A	FY17A	FY18F	FY19F	FY20F		FY16A	FY17A	FY18F	FY19F	FY20F
Cash	12	28	21	59	135	Saleable coal Production (Mt)					
Receivables	22	17	10	12	14	Metallurgical (SSCC)	0.14	0.92	0.86	1.49	1.75
Inventories	5	27	15	20	23	Thermal	0.09	0.28	0.32	0.30	0.34
Other	3	2	0	0	0	Group Total (Mt)	0.23	1.20	1.19	1.79	2.09
Current Assets	42	74	46	92	172	Coal Sales (Mt)					
Receivables	1	0	0	0	0	Metallurgical (SSCC)	0.1	0.8	0.9	1.5	1.8
Investments	0	0	0	0	0	Thermal	0.1	0.2	0.5	0.3	0.3
Property, Plant and Equipment	64	78	93	99	93	Group Coal sales (Mt)	0.2	1.02	1.37	1.79	2.09
Intangibles/capitalised expl'n	5	4	8	12	19	Average Revenue (A\$/t)	85	132	141	139	137
Other	0	7	30	30	17	AISC Cash Costs (A\$/t)	166	126	125	109	89
Non Current Assets	70	89	132	141	129	Margin (A\$/t)	-82	6	16	30	48
						Margin (US\$/t)	-62	18	8	23	36
Total Assets	112	163	178	232	302	Coal Resources (Mt)	1,221				
Borrowings	0	16	0	0	0	Coal Reserves (Mt)	15.3				
Payables	23	22	19	25	29	EBITDA (A\$M)					
Provisions	7	4	4	4	4		FY16A	FY17A	FY18F	FY19F	FY20F
Other	0	3	5	5	5	Isaac Plains	-19	16	50	69	114
Current Liabilities	29	45	28	34	37	Corporate & Other	-5	-7	-5	-5	-5
Payables						NPV (+1yr)					
Borrowings	37	0	3	3	3				(A\$M)		Per Share
Provisions	7	44	40	40	40	Isaac Plains			262		\$1.05
Other	0	8	4	4	4	Exploration (incl IP underground)			30		\$0.12
Non Current Liabilities	44	52	47	47	47	Corporate and other			-20		-\$0.08
						Hedging			0		\$0.00
Total Liabilities	73	96	75	80	84	Net Cash			18		\$0.07
Total Equity	39	67	103	152	218	Total			291		\$1.16

Source: Petra Capital

Figure 1: Quarterly production summary

Quarterly		Q3 17a	Q4 17a	Q1 18a	Q2 18a	Q3 18a	QoQ	Petra	% var
ROM coal	kt	355	564	443	271	382	41%	450	-15%
Strip ratio	bcm waste/ROM t	12.2	10.7	11.7	14.8	14.6	-1%	14.5	1%
Saleable coal	kt	230	392	314	197	302	53%	338	-11%
Coal sales	kt	204	265	411	183	404	121%	428	-5%
SSCC sales	kt	97	265	173	143	293	105%	360	-19%
Thermal sales	kt	107	0	238	40	111	178%	68	64%
Coal stockpile	kt	179	320	245	234	94	-60%	169	-44%
Costs, FOB	A\$/t sales	111	103	90	117	na	na	105	na

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	202	209	-3%	249	249	0%	286	286	0%
EBITDA	A\$m	48	52	-8%	64	64	0%	109	109	0%
EBIT	A\$m	44	48	-8%	57	57	0%	98	98	0%
NPAT	A\$m	22	25	-11%	33	33	0%	62	62	0%
EPS	Ac/sh	8.7	9.8	-11%	13.1	13.1	0%	24.5	24.5	0%
DPS	Ac/sh	0.0	0.0	na	0.0	0.0	na	0.0	0.0	na
NPV/sh	A\$/sh	1.16	1.15	0%						
Price target	A\$/sh	1.15	1.15	0%						
Isaac Plains										
ROM coal	Mt	1.60	1.61	-1%	2.30	2.30	0%	2.60	2.60	0%
SSCC production	Mt	0.86	0.90	-4%	1.49	1.49	0%	1.75	1.75	0%
Thermal production	Mt	0.32	0.29	12%	0.30	0.30	0%	0.34	0.34	0%
Total saleable coal	Mt	1.19	1.19	0%	1.79	1.79	0%	2.09	2.09	0%
Total coal sold	Mt	1.37	1.40	-2%	1.79	1.79	0%	2.09	2.09	0%
C1 costs	A\$/t product	105	105	0%	101	101	0%	82	82	0%
AISC*	A\$/t product	125	124	1%	109	109	0%	89	89	0%

Source: Company reports, Petra Capital

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

Petra Capital
Level 17, 14 Martin Place, Sydney NSW 2000

ABN 95 110 952 782
ACN 110 952 782
AFSL 317 944

Director:	George Marias	+61 (0)2 9239 9601	gmarias@petracapital.com.au
Research (Resources):	Brett McKay	+61 (0)2 9239 9605	brmckay@petracapital.com.au
Research (Resources):	Matthew Schembri	+61 (0)2 9239 9630	mschembri@petracapital.com.au
Research (Resources):	Craig Brown	+61 (0)2 9239 9629	cbrown@petracapital.com.au
Research (Resources):	Peter Chilton	+61 (0)2 9239 9634	pchilton@petracapital.com.au
Research (Industrials):	Killian Murphy	+61 (0)2 9239 9607	kmurphy@petracapital.com.au
Research (Industrials):	James Lennon	+61 (0)2 9239 9618	jlennon@petracapital.com.au
Research (Industrials):	Mark Tomlins	+61 (0)2 9239 9625	mtomlins@petracapital.com.au
Research (Property):	Jonathan Kriska	+61 (0)2 9239 9633	jkriska@petracapital.com.au
Sales:	Frank Barila	+61 (0)2 9239 9603	fbarila@petracapital.com.au
Sales:	Neil Watson	+61 (0)2 9239 9602	nwatson@petracapital.com.au
Sales:	Vincent Pisani	+61 (0)2 9239 9617	vpisani@petracapital.com.au
Sales:	Jamie Campbell	+61 (0)2 9239 9620	jcampbell@petracapital.com.au
Sales:	Peter Veldhuizen	+61 (0)2 9239 9609	pveldhuizen@petracapital.com.au
Sales:	Colin Redmond	+61 (0)2 9239 9613	credmond@petracapital.com.au
Sales:	Vince Barila	+61 (0)2 9239 9627	vbarila@petracapital.com.au
Sales:	Michael Casey	+61 (0)2 9239 9608	mcasey@petracapital.com.au
Sales:	Richard Macphillamy	+61 (0)2 9239 9604	rmacphillamy@petracapital.com.au
Corporate (ECM):	Conrad Anderson	+61 (0)2 9239 9610	canderson@petracapital.com.au
Administration:	Krystle Garven	+61 (0)2 9239 9635	kgarven@petracapital.com.au
Administration:	Samantha Tingley	+61 (0)2 9239 9636	stingley@petracapital.com.au
Administration:	Silvia Fratta Pasini	+61 (0)2 9239 9621	spasini@petracapital.com.au
Administration:	Larissa Falvo	+61 (0)2 9239 9611	lfalvo@petracapital.com.au
Legal & Compliance:	Stephen Newton	+61 (0)2 9239 9612	snewton@petracapital.com.au
Financials:	Tony Christelis	+61 (0)2 9239 9615	tchristelis@petracapital.com.au

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