

Golden Energy and Resources Ltd

Coal price and sales are trending up



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SINGAPORE | MINING | 3Q17 RESULTS

- Revenue exceeded our expectation by 10% due to higher average selling price (ASP), but net profit missed our expectation by 20% due to higher operating costs and income taxes.
- Coal price was buoyant in 3Q17 and hit YTD high in Oct-17. Production volume is on track for 14mn tonnes in FY17 (+47.4% YoY).
- Operating costs were higher than expected due to higher sales volume and marketing expenses.
- We lower FY17e EPS from 3.1 US cents to 2.8 US cents due to higher than expected operating costs. We maintain our FY18e EPS unchanged at 4.3 US cents. Based on unchanged average 12-month forward PER of 10x and the FX rate (USD/SGD) of 1.36x, we maintain a target price of S\$0.59 for FY18 and reiterate our BUY recommendation.

Results at a glance

(USD mn)	3Q17	3Q16	YoY (%)	Comments
Revenue	179.3	97.6	83.7	Increase in revenue from Coal Mining and Coal Trading Divisions, partially offset by a decrease in revenue from others
Gross profit	73.8	39.4	87.0	In line with the above
PBT	35.6	16.7	113.4	Increase in operating expenses offset by a decrease in finance expenses
PATMI	9.9	6.8	46.6	Increase in deferred income tax expenses

Source: Company, PSR

Positives

+ Dual bonanzas propelled the performance: See the table below, top line's growth was mainly contributed by coal mining which experienced a surge in both production volume and ASP. The sales target for FY17 remains at 14mn tonnes which we think GEAR will manage to achieve since it delivered 4.1mn tonnes in 3Q17 when the monsoon season extended to Jul-17. As of Oct-17, the coal price (ICI 4,200 GAR) arrived at YTD high of US\$49.9/tonne with an increase for consecutive 4 months from the dip in Jun-17.

	3Q17	3Q16	YoY (%)	9M17	9M16	YoY (%)
Production volume (tonnes)	4.1	2.6	57.7	10.1	6.9	46.4
ASP (US\$/tonne)	41.4	33.1	25.2	41.6	32.1	29.4
Cash cost (US\$/tonne)	22.6	25.9	(12.7)	21.6	22.8	(5.1)
Revenue from coal mining (US\$mn)	154.8	87.1	77.7	408.6	229.8	77.8

Source: Company, PSR

Negatives

- The growth of overhead costs outpaced than expected: In 3Q17, the selling and distribution, and administrative expenses, major components of operating expenditures, grew by 76% YoY and 75.3% YoY respectively, due mainly to the rise of freight expenses resulting from 57.7% growth of sales volumes. During the period, GEAR actively expanded the coal sales beyond the domestic market, resulting in higher marketing costs. As a result, the YTD revenue contribution from Korea and China recorded growths of 5 ppt and 15 ppt.

21 November 2017

BUY (Maintained)

CLOSING PRICE	SGD 0.420
FORECAST DIV	SGD 0.015
TARGET PRICE	SGD 0.590
TOTAL RETURN	44.0%

COMPANY DATA

BLOOMBERG CODE	GER SP
O/S SHARES (MN):	2,353
MARKET CAP (USD mn / SGD mn):	720 / 977
52 - WK HI/LO (SGD):	0.71 / 0.37
3M Average Daily T/O (mn):	1.15

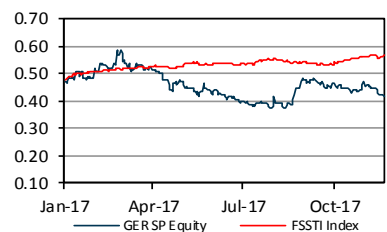
MAJOR SHAREHOLDERS (%)

PT DIAN SWASTATIKA SENTOSA	86.9%
RUSSELL INVESTMENTS IRELAND	0.04%
DIMENSIONAL FUND ADVISORS	0.02%

PRICE PERFORMANCE (%)

	1MTH	3MTH	1YR
COMPANY	(4.1)	9.6	N/A
STIRETURN	15	4.4	23.3

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Dec	FY15	FY16	FY17e	FY18e
Revenue (US\$ mn)	360	393	618	815
EBITDA (US\$mn)	38	89	194	281
PATMI (US\$ mn)	(9)	22	67	102
P/E (x)	N/A	N/A	10.8	7.0
P/B (x)	7.7	5.7	2.0	1.3
ROE (%)	N.M.	7%	18%	19%
ROA (%)	N.M.	4%	10%	11%

Source: Company, PSR

VALUATION METHOD

P/E MULTIPLE (PER: 10.0x)

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Outlook

The coal price remains buoyant as of now. We think the price level of US\$40/tonne (4,200 GAR) is favourable for GEAR given its relatively low cash costs. The forward-looking catalyst is still the ramp-up of production in FY18, which is expected to be more than 18mn tonnes (BIB mine + KIM mine) with the kick-starting of operations at the BSL mine. Furthermore, it has been actively seeking inorganic growth, which is not limited to coal business but would include precious metal businesses.

Investment action

We lower FY17e EPS from 3.1 US cents to 2.8 US cents due to expected higher operating costs while maintaining our FY18e EPS at 4.3 US cents. Based on unchanged average 12-month forward PER of 10x (the average of regional peers) and the FX rate (USD/SGD) of 1.36x, we maintain a target price of S\$0.59 for FY18 and reiterate our BUY recommendation.

Financials

Income Statement

Y/E Dec, USD mn	FY14	FY15	FY16	FY17e	FY18e
Revenue	436	360	393	618	815
Gross profit	147	112	144	292	417
EBITDA	44	38	89	194	281
Depreciation & amortisation	23	35	30	37	41
EBIT	21	2	59	157	240
Net Finance (Expense)/Inc	(6)	(12)	(11)	(11)	(12)
PBT	15	(10)	48	146	228
Taxation	(4)	1	(14)	(47)	(73)
PAT	11	(9)	34	99	155
Non-controlling interests	0	1	12	33	53
PATMI	11	(9)	22	67	102

Per share data

Y/E Dec, US Cents	FY14	FY15	FY16	FY17e	FY18e
EPS	0	(0)	0	2.8	4.3
DPS	-	-	-	0.7	1.1
BVPS	8	4	6	16	23

FX is based on the rate on the report published date

Cash Flow

Y/E Dec, USD mn	FY14	FY15	FY16	FY17e	FY18e
CFO					
PBT	15	(10)	48	146	228
Adjustments	23	49	31	44	46
WC changes	(8)	(33)	(16)	(50)	(15)
Cash generated from ops	38	39	78	190	274
Others	(3)	(10)	(8)	(18)	(24)
Cashflow from ops	36	29	70	173	250
CFI					
CAPEX, net	(33)	(61)	(26)	(27)	(73)
Others	(1)	1	(0)	(3)	(1)
Cashflow from investments	(33)	(60)	(26)	(30)	(74)
CFF					
Share issuance, net	-	-	84	-	-
Loans, net of repayments	0	48	(74)	6	8
Dividends	-	(2)	(6)	(25)	(43)
Others	-	-	-	-	-
Cashflow from financing	0	46	4	(19)	(35)
Net change in cash	2	16	48	124	141
Effects of exchange rate	5	(1)	2	4	3
Ending cash	63	44	79	157	286

Source: Company, Phillip Securities Research (Singapore) Estimates

*Forward multiples & yields based on current market price; historical multiples & yields based on historical market price.

Balance Sheet

Y/E Dec, USD mn	FY14	FY15	FY16	FY17e	FY18e
ASSETS					
PP&E	55	60	59	63	70
Mining properties	87	64	84	62	96
Goodwill on consolidation	1	99	106	104	104
Others	32	73	44	44	43
Total Non-current Assets	174	295	292	272	313
Cash	63	44	79	157	286
Inventories	10	17	9	11	15
Trade receivables	68	91	79	106	130
Others	-	47	60	101	151
Total Current Assets	141	198	227	375	582
Total Assets	316	493	519	647	894
LIABILITIES					
Borrowings	-	105	47	44	50
Others	4	7	14	14	15
Total Non-current Liabilities	4	112	61	58	65
Trade payables	58	87	62	82	94
Borrowings	5	21	2	12	14
Others	1	1	9	17	17
Total Current Liabilities	71	109	73	111	125
Total Liabilities	75	220	134	169	190
Shareholder Equity	247	191	297	368	542
Non-controlling Interests	1	82	88	110	162

Valuation Ratios

Y/E Dec	FY14	FY15	FY16	FY17e	FY18e
P/E (x)	N/A	N/A	N/A	10.8	7.0
P/B (x)	4.0	7.7	5.7	2.0	1.3
EV/EBITDA	16.3	22.7	8.3	3.2	1.8

Growth & Margins (%)

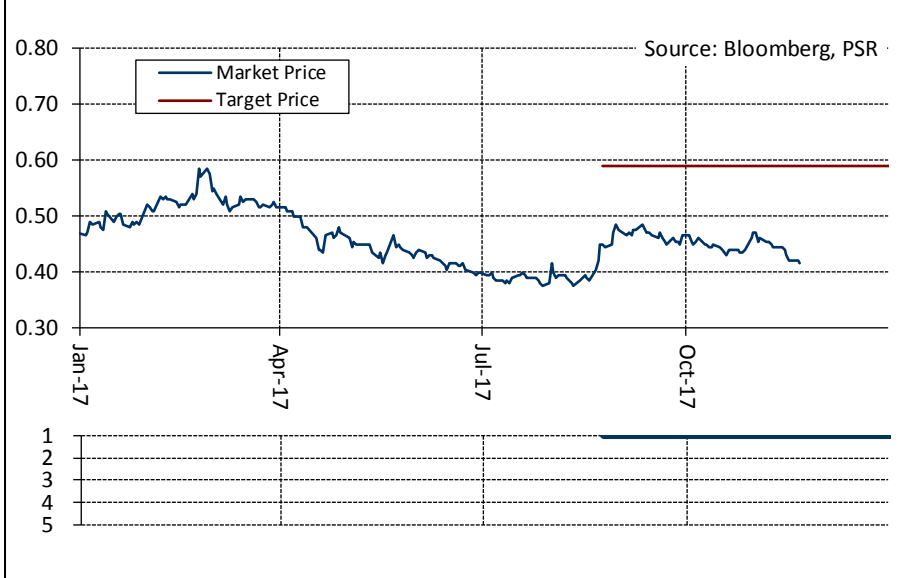
	FY14	FY15	FY16	FY17e	FY18e
Growth					
Revenue	N/A	-17%	9%	57%	32%
EBIT	N/A	N.M.	N.M.	167%	53%
PATMI	N/A	N.M.	N.M.	202%	54%
Margins					
Gross margin	33.7%	31.1%	36.6%	47.3%	51.1%
EBIT margin	4.8%	0.6%	14.9%	25.4%	29.4%
PATMI margin	2.5%	N.M.	24.7%	34.3%	36.4%

Key Ratios

	FY14	FY15	FY16	FY17e	FY18e
ROE (%)	4%	N.M.	7%	18%	19%
ROA (%)	3%	N.M.	4%	10%	11%
Net Debt or (Net Cash)	(58)	81	(29)	(101)	(222)
Gearing (%)	2%	25%	10%	9%	7%

N.M.: not meaningful

Ratings History



PSR Rating System

Total Returns	Recommendation	Rating
> +20%	Buy	1
+5% to +20%	Accumulate	2
-5% to +5%	Neutral	3
-5% to -20%	Reduce	4
< -20%	Sell	5

Remarks

We do not base our recommendations entirely on the above quantitative return bands. We consider qualitative factors like (but not limited to) a stock's risk reward profile, market sentiment, recent rate of share price appreciation, presence or absence of stock price catalysts, and speculative undertones surrounding the stock, before making our final recommendation

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