

Golden Energy and Resources Ltd

Great quarter to end a stunning year



StocksBnB.com

SINGAPORE | MINING | 4Q17 RESULTS

19 March 2018

- Revenue beat our forecast by 23.5% due to higher than expected sales volume and average selling price (ASP). On the flip side, net profit missed by 6% due to higher cash cost and income tax expenses.
- 15.6mn tonnes of production volume in FY17 (+64.2% YoY). FY17 ASP grew a healthy 25.7% YoY.
- 4Q17 cash cost was higher than expected (+139.5% YoY).
- We lower FY18e to EPS 3.5 US cents (previous 4.3 US cents) due to the expectation of higher cash costs and interest burden. 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 lower our target price to S\$0.48 for FY18 (previous S\$0.59) and reiterate our BUY recommendation.

BUY (Maintained)

CLOSING PRICE	SGD 0.370
FORECAST DIV	SGD 0.014
TARGET PRICE	SGD 0.480
TOTAL RETURN	33.6%

COMPANY DATA

BLOOMBERG CODE	GER SP
O/S SHARES (MN)	2,353
MARKET CAP (USD mn / SGD mn)	665 / 871
52 - WK HI/LO (SGD)	0.54 / 0.37
3M Average Daily T/O (mn)	0.57

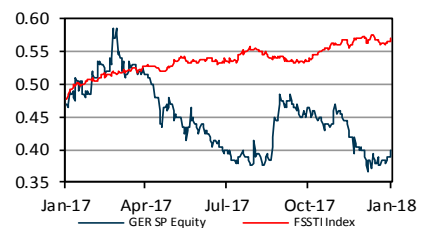
MAJOR SHAREHOLDERS (%)

PT DIAN SWASTATIKA SENTOSA	86.9%
RUSSELL INVESTMENTS IRELAND	0.05%
DIMENSIONAL FUND ADVISORS	0.05%

PRICE PERFORMANCE (%)

	1MTH	3MTH	1YR
COMPANY	(3.7)	13	N/A
STIRETURN	4.0	3.4	16.2

PRICE VS. STI



Source: Bloomberg, PSR

Results at a glance

(USD mn)	4Q17	4Q16	YoY (%)	FY17	FY16	YoY (%)	Comments
Revenue	301.7	108.7	177.6	763.8	393.3	94.2	Increase in revenue from Coal Mining and Coal Trading Divisions, partially offset by a decrease in revenue from others
Gross profit	104.8	50.6	107.0	315.9	144.1	119.2	In line with the above
PBT	55.3	25.4	117.2	157.6	47.6	231.0	Increase in operating expenses offset by a decrease in finance expenses
PATMI	22.2	14.5	52.9	63.0	22.0	186.1	Increase in deferred income tax expenses

Source: Company, PSR

Positives

+ Exceeding the annual target amid buoyant coal prices: See the table below, the stunning performance in FY17 was mainly attributed to the ramp-up of production. Especially in 4Q17, the production peaked, substantially favouring the group to overshoot the full year production target of 14.4mn tonnes. Meanwhile, ASP recorded healthy YoY growth of 25.7% in FY17, driven by the persistent shortage of thermal coal supply in China.

	4Q17	4Q16	YoY (%)	FY17	FY16	YoY (%)
Production volume (tonnes)	5.5	2.6	111.5	15.6	9.5	64.2
ASP (US\$/tonne)	43.1	38.3	12.3	42.5	33.8	25.7
Cash cost (US\$/tonne)	25.9	10.8	139.5	23.1	19.5	18.6
Revenue from coal mining (US\$m)	236.8	99.7	137.5	645.4	329.5	95.9

Source: Company, PSR

+ Securing total 15mn tonnes of order for FY18: At the beginning of FY18, GEAR signed 13 offtake agreements with clients including domestic power plants and trading houses. From this total, 9 contracts for export that locks 11.3mn tonnes of coal sales from the group and the remaining 4 domestic supply contracts will lock in another 3.8mn tonnes. To sum up, GEAR had secured 15.1mn tonnes of sales in FY18, which amounted to 75% of the annual target of 20mn tonnes.

Negatives

- Cash cost was higher than expected in 4Q17: In 4Q17, the growth of cash cost outpaced that of production volume, owing to higher coal freight, mining overhead and royalty. Moving forward, it is expected that the cash cost will be maintained at US\$23/tonne to US\$24/tonne in this and next year.

KEY FINANCIALS

Y/E Dec	FY16	FY17	FY18e	FY19e
Revenue (US\$ mn)	393	764	865	962
EBITDA (US\$m)	89	184	224	251
PATMI (US\$ mn)	22	63	82	91
P/E (x)	76	10.9	8.2	7.3
P/B (x)	2.6	2.0	15	11
ROE (%)	7%	18%	18%	15%
ROA (%)	4%	8%	8%	7%

Source: Company, PSR

VALUATION METHOD

P/E MULTIPLE (PER: 10.0x)

Chen Guangzhi (+65 6212 1859)

Investment Analyst

chengz@phillip.com.sg

Outlook

Recently, the Minister of Energy and Mineral Resources (MEMR) announced several adjustments pertaining to Domestic Market Obligation (DMO) for coal sector in Indonesia:

1. Coal miners are required to supply at least 25% of total production within 2018 to the domestic market.
2. Coal sale price for power sector for the public interest is fixed at US\$70/tonne (on FOB Vessel basis) (6,322 GAR, total moisture 8%, total Sulphur 0.8%, and ash 15%) if the prevailing price is higher than US\$70/tonne.

We believe this amended regulations will have limited impact on GEAR since it has been supplying more than 25% of annual production domestically (FY16: 58%, FY17:30%). The fixed price will be mainly applied to the portion that is supplied to PLN (the Indonesian government-owned power corporation). We think the coal price outlook for GEAR remains stable with our assumption of US\$43/tonne in FY18. The main performance driver will still be the growth of production (FY18e: +28% YoY). Moreover, the group had issued US\$150mn of senior notes. After repaying US\$50mn of facilities, GEAR has cash in hand amounted to c.US\$290mn currently. We believe it will acquire more assets or investments to enhance the yield by leveraging the war chest in the near term.

Maintained BUY with a lower TP of S\$0.48

We lower FY18e EPS 3.5 US cents (previous 4.3 US cents) due to the expectation of higher cash costs and interest burden. 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 lower our target price of S\$0.48 for FY18 (previous S\$0.59) and reiterate our BUY recommendation.

Financials

Income Statement

Y/E Dec, USD mn	FY15	FY16	FY17	FY18e	FY19e
Revenue	360	393	764	865	962
Gross profit	112	144	316	395	445
EBITDA	38	89	184	224	251
Depreciation & amortisation	35	30	14	16	17
EBIT	2	59	170	208	234
Net Finance (Expense)/Inc	(12)	(11)	(12)	(16)	(19)
PBT	(10)	48	158	192	215
Taxation	1	(14)	(53)	(65)	(73)
PAT	(9)	34	104	127	143
Non-controlling interests	1	12	41	46	51
PATMI	(9)	22	63	82	91

Per share data

Y/E Dec, US Cents	FY15	FY16	FY17	FY18e	FY19e
EPS	(0)	1.0	2.7	3.5	3.9
DPS	-	-	0.8	1.0	1.2
BVPS	4	14	15	19	25

Cash Flow

Y/E Dec, USD mn	FY15	FY16	FY17	FY18e	FY19e
CFO					
PBT	(10)	49	158	192	215
Adjustments	49	30	19	26	28
WC changes	(33)	(17)	10	(6)	(8)
Cash generated from ops	39	79	177	219	243
Others	(10)	(8)	(17)	(29)	(41)
Cashflow from ops	29	71	159	190	202
CFI					
CAPEX, net	(61)	(25)	(53)	(113)	(27)
Others	1	(0)	(4)	(1)	(1)
Cashflow from investments	(60)	(26)	(57)	(114)	(28)
CFF					
Share issuance, net	-	84	-	-	-
Loans, net of repayments	48	(74)	46	85	6
Dividends	(2)	(6)	(49)	(59)	(66)
Others	-	-	-	-	-
Cashflow from financing	46	4	(4)	26	(60)
Net change in cash	16	50	99	102	113
Effects of exchange rate	(1)	2	1	5	4
Ending cash	44	79	189	289	398

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	FY15	FY16	FY17	FY18e	FY19e
ASSETS					
PP&E	60	59	64	74	86
Mining properties	64	89	86	143	140
Goodwill on consolidation	99	104	104	104	104
Others	73	44	68	96	99
Total Non-current Assets	295	295	322	418	428
Cash	44	79	189	289	398
Inventories	17	9	16	19	23
Trade receivables	91	79	134	160	193
Others	47	60	91	128	178
Total Current Assets	198	227	430	597	792
Total Assets	493	522	752	1,014	1,221
LIABILITIES					
Borrowings	105	47	70	150	150
Others	7	17	18	18	19
Total Non-current Liabilities	112	65	87	168	169
Trade payables	87	62	162	186	214
Borrowings	21	2	25	30	36
Others	1	9	35	35	35
Total Current Liabilities	332	73	223	252	286
Total Liabilities	444	138	310	420	454
Shareholder Equity	191	297	346	458	590
Non-controlling Interests	82	88	97	137	176

Valuation Ratios

Y/E Dec	FY15	FY16	FY17	FY18e	FY19e
P/E (x)	N/A	75.60	10.9	8.2	7.3
P/B (x)	N/A	2.6	2.0	1.5	1.1
EV/EBITDA	N/A	9.4	3.8	2.5	1.8

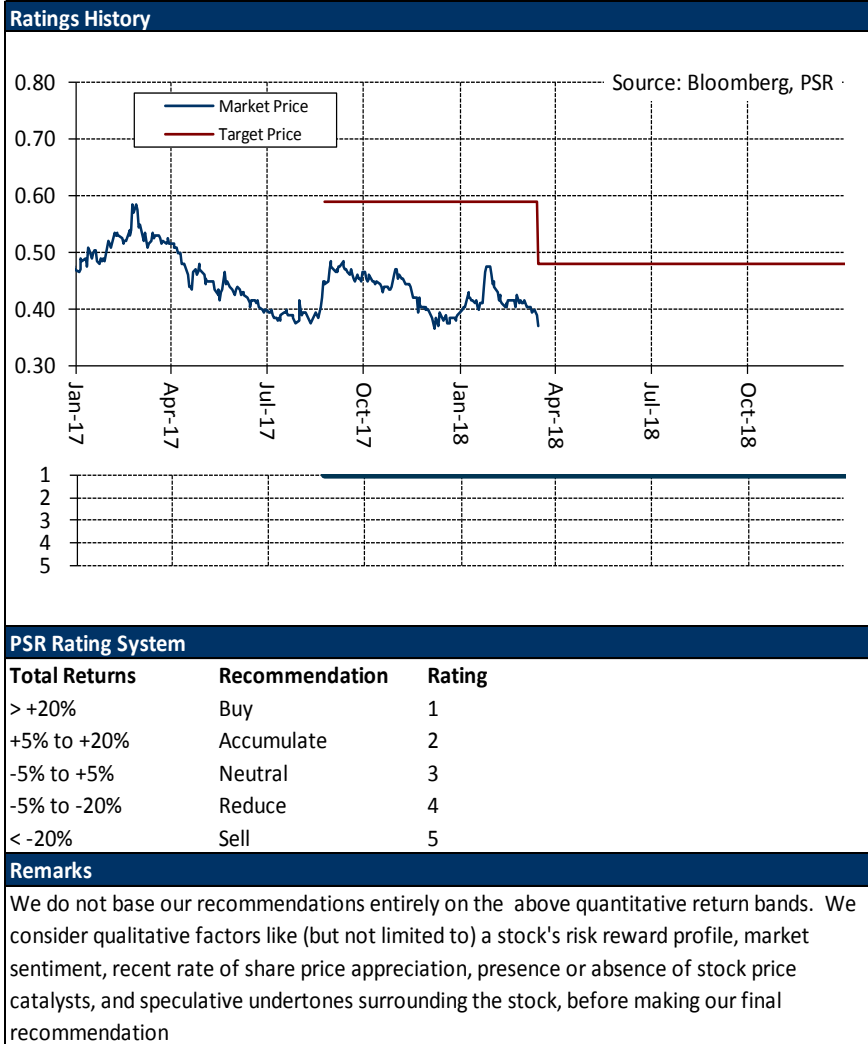
Growth & Margins (%)

	FY15	FY16	FY17	FY18e	FY19e
Growth					
Revenue	-17%	9%	94%	13%	11%
EBIT	N/A	N.M.	N.M.	23%	12%
PATMI	N/A	N.M.	N.M.	30%	12%
Margins					
Gross margin	31.1%	36.6%	41.4%	45.7%	46.2%
EBIT margin	0.6%	14.9%	22.2%	24.1%	24.3%
PATMI margin	N.M.	24.7%	34.3%	36.5%	36.4%

Key Ratios

	FY15	FY16	FY17	FY18e	FY19e
ROE (%)	-5%	7%	18%	18%	15%
ROA (%)	-2%	4%	8%	8%	7%
Net Debt or (Net Cash)	81	(29)	(94)	(109)	(212)
Gearing (%)	25%	10%	13%	18%	15%

N.M.: not meaningful



Contact Information (Singapore Research Team)		
Head of Research Paul Chew – paulchewkl@phillip.com.sg	Research Associate Alvin Chia – alvinchiawy@phillip.com.sg	Research Operations Officer Mohamed Amiruddin – amiruddin@phillip.com.sg
Consumer Healthcare Soh Lin Sin – sohls@phillip.com.sg	Oil & Gas Energy Chen Guangzhi – chengz@phillip.com.sg	Macro Pei Sai Teng – peist@phillip.com.sg
Transport REITs (Industrial) Richard Leow – richardleowwt@phillip.com.sg	REITs (Commercial, Retail, Healthcare) Property Dehong Tan – tandh@phillip.com.sg	Technical Analysis Jeremy Ng – jeremyngch@phillip.com.sg
REITs (Commercial, Retail, Healthcare) Property Tara Wong – tarawongsj@phillip.com.sg	US Equity Ho Kang Wei – hokw@phillip.com.sg	

Contact Information (Regional Member Companies)		
<p>SINGAPORE Phillip Securities Pte Ltd Raffles City Tower 250, North Bridge Road #06-00 Singapore 179101 Tel +65 6533 6001 Fax +65 6535 6631 Website: www.poems.com.sg</p>	<p>MALAYSIA Phillip Capital Management Sdn Bhd B-3-6 Block B Level 3 Megan Avenue II, No. 12, Jalan Yap Kwan Seng, 50450 Kuala Lumpur Tel +603 2162 8841 Fax +603 2166 5099 Website: www.poems.com.my</p>	<p>HONG KONG Phillip Securities (HK) Ltd 11/F United Centre 95 Queensway Hong Kong Tel +852 2277 6600 Fax +852 2868 5307 Websites: www.phillip.com.hk</p>
<p>JAPAN Phillip Securities Japan, Ltd. 4-2 Nihonbashi Kabuto-cho Chuo-ku, Tokyo 103-0026 Tel +81-3 3666 2101 Fax +81-3 3666 6090 Website: www.phillip.co.jp</p>	<p>INDONESIA PT Phillip Securities Indonesia ANZ Tower Level 23B, Jl Jend Sudirman Kav 33A Jakarta 10220 – Indonesia Tel +62-21 5790 0800 Fax +62-21 5790 0809 Website: www.phillip.co.id</p>	<p>CHINA Phillip Financial Advisory (Shanghai) Co Ltd No 550 Yan An East Road, Ocean Tower Unit 2318, Postal code 200001 Tel +86-21 5169 9200 Fax +86-21 6351 2940 Website: www.phillip.com.cn</p>
<p>THAILAND Phillip Securities (Thailand) Public Co. Ltd 15th Floor, Vorawat Building, 849 Silom Road, Silom, Bangrak, Bangkok 10500 Thailand Tel +66-2 63517000 / 22680999 Fax +66-2 22680921 Website www.phillip.co.th</p>	<p>FRANCE King & Shaxson Capital Limited 3rd Floor, 35 Rue de la Bienfaisance 75008 Paris France Tel +33-1 45633100 Fax +33-1 45636017 Website: www.kingandshaxson.com</p>	<p>UNITED KINGDOM King & Shaxson Capital Limited 6th Floor, Candlewick House, 120 Cannon Street, London, EC4N 6AS Tel +44-20 7426 5950 Fax +44-20 7626 1757 Website: www.kingandshaxson.com</p>
<p>UNITED STATES Phillip Capital Inc 141 W Jackson Blvd Ste 3050 The Chicago Board of Trade Building Chicago, IL 60604 USA Tel +1-312 356 9000 Fax +1-312 356 9005 Website: www.phillipusa.com</p>	<p>AUSTRALIA Phillip Capital Limited Level 10, 330 Collins Street Melbourne, Victoria 3000, Australia Tel +61-03 9629 8288 Fax +61-03 9629 8882 Website: www.phillipcapital.com.au</p>	<p>SRI LANKA Asha Phillip Securities Limited 2nd Floor, Lakshmans Building, No. 321, Galle Road, Colombo 03, Sri Lanka Tel: (94) 11 2429 100 Fax: (94) 11 2429 199 Website: www.ashaphillip.net</p>
<p>INDIA PhillipCapital (India) Private Limited No.1, 18th Floor, Urmi Estate 95, Ganpatrao Kadam Marg Lower Parel West, Mumbai 400-013 Maharashtra, India Tel: +91-22-2300 2999 / Fax: +91-22-2300 2969 Website: www.phillipcapital.in</p>	<p>TURKEY PhillipCapital Menkul Degerler Dr. Cemil Bengü Cad. Hak Is Merkezi No. 2 Kat. 6A Caglayan 34403 Istanbul, Turkey Tel: 0212 296 84 84 Fax: 0212 233 69 29 Website: www.phillipcapital.com.tr</p>	<p>DUBAI Phillip Futures DMCC Member of the Dubai Gold and Commodities Exchange (DGEX) Unit No 601, Plot No 58, White Crown Bldg, Sheikh Zayed Road, P.O.Box 212291 Dubai-UAE Tel: +971-4-3325052 / Fax: + 971-4-3328895</p>
<p>CAMBODIA Phillip Bank Plc Ground Floor of B-Office Centre,#61-64, Norodom Blvd Corner Street 306,Sangkat Boeung Keng Kang 1, Khan Chamkamorn, Phnom Penh, Cambodia Tel: 855 (0) 7796 6151/855 (0) 1620 0769 Website: www.phillipbank.com.kh</p>		

Important Information

This report is prepared and/or distributed by Phillip Securities Research Pte Ltd ("Phillip Securities Research"), which is a holder of a financial adviser's license under the Financial Advisers Act, Chapter 110 in Singapore.

By receiving or reading this report, you agree to be bound by the terms and limitations set out below. Any failure to comply with these terms and limitations may constitute a violation of law. This report has been provided to you for personal use only and shall not be reproduced, distributed or published by you in whole or in part, for any purpose. If you have received this report by mistake, please delete or destroy it, and notify the sender immediately.

The information and any analysis, forecasts, projections, expectations and opinions (collectively, the "Research") contained in this report has been obtained from public sources which Phillip Securities Research believes to be reliable. However, Phillip Securities Research does not make any representation or warranty, express or implied that such information or Research is accurate, complete or appropriate or should be relied upon as such. Any such information or Research contained in this report is subject to change, and Phillip Securities Research shall not have any responsibility to maintain or update the information or Research made available or to supply any corrections, updates or releases in connection therewith.

Any opinions, forecasts, assumptions, estimates, valuations and prices contained in this report are as of the date indicated and are subject to change at any time without prior notice. Past performance of any product referred to in this report is not indicative of future results.

This report does not constitute, and should not be used as a substitute for, tax, legal or investment advice. This report should not be relied upon exclusively or as authoritative, without further being subject to the recipient's own independent verification and exercise of judgment. The fact that this report has been made available constitutes neither a recommendation to enter into a particular transaction, nor a representation that any product described in this report is suitable or appropriate for the recipient. Recipients should be aware that many of the products, which may be described in this report involve significant risks and may not be suitable for all investors, and that any decision to enter into transactions involving such products should not be made, unless all such risks are understood and an independent determination has been made that such transactions would be appropriate. Any discussion of the risks contained herein with respect to any product should not be considered to be a disclosure of all risks or a complete discussion of such risks.

Nothing in this report shall be construed to be an offer or solicitation for the purchase or sale of any product. Any decision to purchase any product mentioned in this report should take into account existing public information, including any registered prospectus in respect of such product.

Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the issuance of this report, may provide an array of financial services to a large number of corporations in Singapore and worldwide, including but not limited to commercial / investment banking activities (including sponsorship, financial advisory or underwriting activities), brokerage or securities trading activities. Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the issuance of this report, may have participated in or invested in transactions with the issuer(s) of the securities mentioned in this report, and may have performed services for or solicited business from such issuers. Additionally, Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the issuance of this report, may have provided advice or investment services to such companies and investments or related investments, as may be mentioned in this report.

Phillip Securities Research or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the issuance of this report may, from time to time maintain a long or short position in securities referred to herein, or in related futures or options, purchase or sell, make a market in, or engage in any other transaction involving such securities, and earn brokerage or other compensation in respect of the foregoing. Investments will be denominated in various currencies including US dollars and Euro and thus will be subject to any fluctuation in exchange rates between US dollars and Euro or foreign currencies and the currency of your own jurisdiction. Such fluctuations may have an adverse effect on the value, price or income return of the investment.

To the extent permitted by law, Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the issuance of this report, may at any time engage in any of the above activities as set out above or otherwise hold an interest, whether material or not, in respect of companies and investments or related investments, which may be mentioned in this report. Accordingly, information may be available to Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the issuance of this report, which is not reflected in this report, and Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the issuance of this report, may, to the extent permitted by law, have acted upon or used the information prior to or immediately following its publication. Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited its officers, directors, employees or persons involved in the issuance of this report, may have issued other material that is inconsistent with, or reach different conclusions from, the contents of this report.

The information, tools and material presented herein are not directed, intended for distribution to or use by, any person or entity in any jurisdiction or country where such distribution, publication, availability or use would be contrary to the applicable law or regulation or which would subject Phillip Securities Research to any registration or licensing or other requirement, or penalty for contravention of such requirements within such jurisdiction.

This report is intended for general circulation only and does not take into account the specific investment objectives, financial situation or particular needs of any particular person. The products mentioned in this report may not be suitable for all investors and a person receiving or reading this report should seek advice from a professional and financial adviser regarding the legal, business, financial, tax and other aspects including the suitability of such products, taking into account the specific investment objectives, financial situation or particular needs of that person, before making a commitment to invest in any of such products.

This report is not intended for distribution, publication to or use by any person in any jurisdiction outside of Singapore or any other jurisdiction as Phillip Securities Research may determine in its absolute discretion.

IMPORTANT DISCLOSURES FOR INCLUDED RESEARCH ANALYSES OR REPORTS OF FOREIGN RESEARCH HOUSES

Where the report contains research analyses or reports from a foreign research house, please note:

- (i) recipients of the analyses or reports are to contact Phillip Securities Research (and not the relevant foreign research house) in Singapore at 250 North Bridge Road, #06-00 Raffles City Tower, Singapore 179101, telephone number +65 6533 6001, in respect of any matters arising from, or in connection with, the analyses or reports; and
- (ii) to the extent that the analyses or reports are delivered to and intended to be received by any person in Singapore who is not an accredited investor, expert investor or institutional investor, Phillip Securities Research accepts legal responsibility for the contents of the analyses or reports.