

Golden Energy and Resources Ltd

Production on track but higher costs



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SINGAPORE | MINING | 2Q18 RESULTS

20 August 2018

- Revenue and net profit met our expectations
- Production surged 47% while coal prices were flat. Multiple upward pressures on cash cost.
- We lower FY18e EPS to 3.1 US cents (previously 3.5 US cents) due to a higher expected cash cost. Based on unchanged peer average forward PER of 10x and the FX rate (USD/SGD) of 1.36x, we reiterate our BUY recommendation with a lower target price of S\$0.42 (previously S\$0.48) for FY18.

BUY (Maintained)

CLOSING PRICE	SGD 0.305
FORECAST DIV	SGD 0.013
TARGET PRICE	SGD 0.420
TOTAL RETURN	41.9%

COMPANY DATA

BLOOMBERG CODE	GER SP
O/S SHARES (MN)	2,353
MARKET CAP (USD mn / SGD mn)	522 / 718
52 - WK HI/LO (SGD)	0.49 / 0.31
3M Average Daily T/O (mn)	0.27

MAJOR SHAREHOLDERS (%)

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

PRICE PERFORMANCE (%)

	1MTH	3MTH	1YR
COMPANY	(6.0)	(14.9)	(15.9)
STIRETURN	0.8	(7.5)	17

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Dec	FY16	FY17	FY18e	FY19e
Revenue (US\$ mn)	393	764	1014	1218
EBITDA (US\$mn)	89	184	213	260
PATMI (US\$ mn)	22	63	74	90
P/E (x)	76	10.9	7.1	5.8
P/B (x)	2.6	2.0	13	11
ROE (%)	7%	18%	18%	18%
ROA (%)	4%	8%	8%	8%

Source: Company, PSR

VALUATION METHOD

P/E MULTIPLE (PER: 10.0x)

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Results at a glance

(USD mn)	2Q18	2Q17	YoY (%)	Comments
Revenue	208.6	139.6	49.4	Increase in revenue from Coal Mining and Coal Trading Divisions, partially offset by a decrease in revenue from others
Gross profit	77.9	65.2	19.4	Increase in mining services, coal freight, mining overhead and royalty as a result of a higher coal production and sales activities from Coal Mining Division; Increase coal purchases from Coal Trading Division in line with the higher sales volume
PBT	26.8	28.0	(4.1)	Increase in operating expenses in line with higher sales activities, and higher interest expenses as a result of the issuance of the Company's bond in February
PATMI	8.0	11.8	(31.6)	In line with the above

Source: Company, PSR

The Positives

+ Growth in production amid flat coal prices: Revenue from coal mining segment accounted for 90.5% of total revenue in 2Q18. Coal sales volume in 1H18 totalled at 9.1mn tonnes (45.5% of 20mn tonnes of FY18 sales target).

	2Q18	2Q17	YoY (%)	1H18	1H17	YoY (%)
Production volume (tonnes)	4.4	3.0	46.7	9.1	6.0	51.7
ASP (US\$/tonne)	42.2	42.6	-1.0	44.9	41.7	7.7
Cash cost (US\$/tonne)	26.4	21	25.8	26.0	20.9	24.1
Revenue from coal mining (US\$mn)	188.8	124.4	51.8	481.6	282.8	70.3

Source: Company, PSR

HBA (Indonesia Coal Price Reference) had in fact risen by 22.1% YoY to US\$96.9/tonne in 2Q18. However, ASP for GEAR dipped YoY slightly due to the price cap on the coal supply to PLN.

According to the new Domestic Market Obligation, the coal sale price is fixed at US\$70/tonne with standard specification of 6,322 GAR, total moisture 8%, total sulphur 0.8%, and ash 15%, and it was c.30% discount to the average market price in 2Q18. In 1H18, the total volume of coal supplied to PLN amounted to 1.5mn tonnes (16% of 1H18 production).

The Negatives

- **Multiple factors led to a higher cash cost:** In 1H18, cash cost jumped 24% YoY to US\$26/tonne. The increase in the strip ratio of BIB mine (1H18:4.4 vs 1H17:3.8) accounted for US\$1.5/tonne out of US\$5 of increment in cash cost. The increase in fuel price, the distance between mining field and overburden dumping site, and coal hauling lifted the cost by US\$0.8/tonne, US\$0.9/tonne, and US\$1.2/tonne respectively. There is little room to lower the cash cost since GEAR started to extract coal from the north and northwest part of BIB mine, which is relatively further away from the Bunati port located at the south region. It is expected that full-year cash cost to be US\$26/tonne.

Outlook

The primary driver of performance is the growth of production volume, which remain on track. Our expectations are for production to expand 28.2% this year to 20mn tonnes. We kept our FY18 forecast for coal price range (4,200 GAR) unchanged at around US\$40/tonne. The acquisition of BSL mine is expected to be completed by 3Q18. We are positive on FY18 performance given the healthy spread between ASP and cash cost and the expanding growth of sales volume moving forward.

Maintained BUY with a lower TP of S\$0.42 (previously S\$0.48)

We lower FY18e EPS to 3.1 US cents (previously 3.5 US cents) due to a higher than expected cash cost. Based on unchanged peer average forward PER of 10x and the FX rate (USD/SGD) of 1.36x, we reiterate our BUY recommendation with a lower target price of S\$0.42 for FY18.

Financials

Income Statement

Y/E Dec, USD mn	FY15	FY16	FY17	FY18e	FY19e
Revenue	360	393	764	1,014	1,218
Gross profit	112	144	316	397	469
EBITDA	38	89	184	213	260
Depreciation & amortisation	35	30	14	14	16
EBIT	2	59	170	199	243
Net Finance (Expense)/Inc	(12)	(11)	(12)	(17)	(22)
PBT	(10)	48	158	182	222
Taxation	1	(14)	(53)	(58)	(71)
PAT	(9)	34	104	123	151
Non-controlling interests	1	12	41	49	60
PATMI	(9)	22	63	74	90

Per share data

Y/E Dec, US Cents	FY15	FY16	FY17	FY18e	FY19e
EPS	(0)	1.0	2.7	3.1	3.8
DPS	-	-	0.8	1.0	1.1
BVPS	4	14	15	17	21

Cash Flow

Y/E Dec, USD mn	FY15	FY16	FY17	FY18e	FY19e
CFO					
PBT	(10)	49	158	182	222
Adjustments	49	30	19	22	27
WC changes	(33)	(17)	10	(103)	(75)
Cash generated from ops	39	79	177	204	249
Others	(10)	(8)	(17)	(72)	(30)
Cashflow from ops	29	71	159	132	219
CFI					
CAPEX, net	(61)	(25)	(53)	(119)	(26)
Others	1	(0)	(4)	(5)	(2)
Cashflow from investments	(60)	(26)	(57)	(124)	(28)
CFF					
Share issuance, net	-	84	-	-	-
Loans, net of repayments	48	(74)	46	119	7
Dividends	(2)	(6)	(49)	(60)	(73)
Others	-	-	-	-	-
Cashflow from financing	46	4	(4)	59	(66)
Net change in cash	16	50	99	67	125
Effects of exchange rate	(1)	2	1	(2)	1
Ending cash	44	79	189	150	201

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	85
Mining properties	64	89	86	143	140
Goodwill on consolidation	99	104	104	104	104
Others	73	44	68	111	118
Total Non-current Assets	295	295	322	432	446
Cash	44	79	189	150	201
Inventories	17	9	16	19	23
Trade receivables	91	79	134	160	193
Others	47	60	93	189	256
Total Current Assets	198	227	431	519	673
Total Assets	493	522	753	951	1,120
LIABILITIES					
Borrowings	105	47	70	186	187
Others	7	17	18	18	19
Total Non-current Liabilities	112	65	87	204	206
Trade payables	87	62	162	186	214
Borrowings	21	2	25	28	33
Others	1	9	35	15	15
Total Current Liabilities	332	73	223	229	263
Total Liabilities	444	138	310	433	468
Shareholder Equity	191	297	346	404	502
Non-controlling Interests	82	88	97	114	150

Valuation Ratios

Y/E Dec	FY15	FY16	FY17	FY18e	FY19e
P/E (x)	N/A	75.60	10.9	7.1	5.8
P/B (x)	N/A	2.6	2.0	1.3	1.1
EV/EBITDA	N/A	9.4	3.8	2.8	2.1

Growth & Margins (%)

	FY15	FY16	FY17	FY18e	FY19e
Growth					
Revenue	-17%	9%	94%	33%	20%
EBIT	N/A	N.M.	N.M.	17%	22%
PATMI	N/A	N.M.	N.M.	18%	22%
Margins					
Gross margin	31.1%	36.6%	41.4%	39.1%	38.5%
EBIT margin	0.6%	14.9%	22.2%	19.6%	20.0%
PATMI margin	N.M.	24.7%	34.3%	34.7%	34.9%

Key Ratios

ROE (%)	-5%	7%	18%	18%	18%
ROA (%)	-2%	4%	8%	8%	8%
Net Debt or (Net Cash)	81	(29)	(94)	63	19
Gearing (%)	25%	10%	13%	22%	20%

N.M.: not meaningful



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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