

Golden Energy and Resources Ltd

Production on track but some price headwinds



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SINGAPORE | MINING | 3Q18 RESULTS

- Revenue and net profit missed our expectations due to higher operating expenses and correction in coal prices.
- Production surged 66% while coal prices slightly dropped.
- Multiple upward pressures on cash cost. We lower FY18e EPS to 2.7 US cents (previously 3.1 US cents) due to a higher than expected cash cost and a lower projected ASP. 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\$0.36 for FY18.

Results at a glance

(USD mn)	3Q18	3Q17	YoY (%)	Comments
Revenue	286.7	179.3	59.9	Increase in revenue from Coal Mining and Coal Trading Divisions
Gross profit	96.1	73.8	30.3	Increase in mining services, coal freight, mining overhead and royalty as a result of an 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	34.9	36.6	(4.8)	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	14.9	9.9	50.2	Decrease in withholding tax expense (3Q18:US\$124k vs 3Q17:US\$8.9mn) partially offset by an increase in income tax due to higher taxable profits

Source: Company, PSR

The Positives

+ Growth in production amid a slight drop in coal prices: Production from coal for 9M18 totalled 15.9mn tonnes (79.5% of 20mn tonnes of FY18 sales target).

	3Q18	3Q17	YoY (%)	9M18	9M17	YoY (%)
Production volume (tonnes)	6.8	4.1	65.9	15.9	10.1	57.4
ASP (US\$/tonne)	40.8	42.6	-4.2	41.4	41.6	-0.6
Cash cost (US\$/tonne)	27.0	22.6	19.4	26.4	21.6	22.2
Revenue from coal mining (US\$mn)	248.9	124.4	100.1	481.6	282.8	70.3

Source: Company, PSR

HBA (Indonesia Coal Price Reference) had risen by 24.4% YoY to US\$105.7/tonne in 3Q18. However, ASP for GEAR dipped YoY slightly due to the price cap on the coal supply to PLN. During the quarter, 1.2mn tonnes was supplied to PLN.

The Negatives

- Several factors led to a higher cash cost: In 9M18, cash cost jumped 22.2% YoY to US\$26.4/tonne. The increase in the strip ratio of BIB mine (9M18:4.8 vs 9M17:3.7) accounted for US\$1.6/tonne out of US\$5 of increment in cash cost. The increase in fuel price, the distance between mining field and overburden dumping site, coal hauling, and port/jetty cost lifted the cost by another US\$0.5/tonne, US\$0.75/tonne, US\$0.65/tonne, and US\$0.6/tonne respectively. Full-year cash cost is expected to be c.US\$26/tonne.

26 November 2018

BUY (Maintained)

CLOSING PRICE	SGD 0.230
FORECAST DIV	SGD 0.011
TARGET PRICE	SGD 0.360
TOTAL RETURN	61.4%

COMPANY DATA

BLOOMBERG CODE	GER SP
O/S SHARES (MN)	2,353
MARKET CAP (USD mn / SGD mn)	394 / 541
52 - WK HI/LO (SGD)	0.48 / 0.23
3M Average Daily T/O (mn)	0.30

MAJOR SHAREHOLDERS (%)

PT DIAN SWASTATIKA SENTOSA	86.9%
DIMENSIONAL FUND ADVISORS	0.06%
Frank Russell Co	0.05%

PRICE PERFORMANCE (%)

	1MTH	3MTH	1YR
COMPANY	1.2	(14.2)	(38.0)
STI RETURN	(1.1)	(4.7)	(8.1)

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Dec	FY16	FY17	FY18e	FY19e
Revenue (US\$ mn)	393	764	1,026	1,212
EBITDA (US\$mn)	89	184	195	234
PATMI (US\$ mn)	22	63	63	69
P/E (x)	76	10.9	8.3	7.7
P/B (x)	2.6	2.0	1.3	1.5
ROE (%)	7%	18%	16%	19%
ROA (%)	4%	8%	6%	6%

Source: Company, PSR

VALUATION METHOD

P/E MULTIPLE (PER: 10.0x)

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Outlook

During 3Q18, GEAR completed the acquisition of BSL mine which has been producing coal. The production contribution of BSL is expected to be 1k tonnes in 4Q18 and 1mn tonnes in FY19. Together with expected 24mn tonnes from BIB mine and 2mn tonnes from KIM mine, the FY19 output target is 27mn tonnes. However, the average life of mine stripping ratio of BSL mine is 6. The overall cash cost will be higher next year.

The outlook for coal prices in the near term is bearish. At present, the domestic spot coal price in Indonesia is about US\$35/tonne (4,200 GAR) as compared to US\$40.8/tonne in 3Q18. The output volume from BSL is small. Hence it will be sold at the spot market. We believe that GEAR is capable of achieving its annual target of 20mn tonnes of coal sales. However, we lower our average coal price forecast (4,200GAR) in FY18 to US\$38.5/tonne (previously US\$40/tonne) while maintaining the forecast in FY19 at US\$40/tonne.

GEAR acquired 19.9% of Stanmore Coal, a listed coal miner in ASX, for A\$47.4mn in Nov-18. The company's product mix is 30% of thermal coal and 70% of coking coal. The investment is considered to diversify GEAR's current portfolio.

Maintained BUY with a lower TP of S\$0.36 (previously S\$0.42)

We lower FY18e EPS to 2.7 US cents (previously 3.1 US cents) due to a higher than expected cash cost and lower projected ASP. 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\$0.36 for FY18.

Financials

Income Statement

Y/E Dec, USD mn	FY15	FY16	FY17	FY18e	FY19e
Revenue	360	393	764	1,026	1,212
Gross profit	112	144	316	387	464
EBITDA	38	89	184	195	234
Depreciation & amortisation	35	30	14	14	22
EBIT	2	59	170	180	213
Net Finance (Expense)/Inc	(12)	(11)	(12)	(25)	(45)
PBT	(10)	48	158	155	168
Taxation	1	(14)	(53)	(50)	(54)
PAT	(9)	34	104	106	114
Non-controlling interests	1	12	41	42	46
PATMI	(9)	22	63	63	69

Per share data

Y/E Dec, US Cents	FY15	FY16	FY17	FY18e	FY19e
EPS	(0)	1.0	2.7	2.7	2.9
DPS	-	-	0.8	0.8	0.9
BVPS	4	14	15	17	15

Cash Flow

Y/E Dec, USD mn	FY15	FY16	FY17	FY18e	FY19e
CFO					
PBT	(10)	49	158	155	168
Adjustments	49	30	19	29	56
WC changes	(33)	(17)	10	36	(8)
Cash generated from ops	39	79	177	185	224
Others	(10)	(8)	(17)	(115)	(142)
Cashflow from ops	29	71	159	70	81
CFI					
CAPEX, net	(61)	(25)	(53)	(267)	(84)
Others	1	(0)	(4)	(9)	(3)
Cashflow from investments	(60)	(26)	(57)	(276)	(86)
CFF					
Share issuance, net	-	84	-	-	-
Loans, net of repayments	48	(74)	46	163	79
Dividends	(2)	(6)	(49)	(52)	(56)
Others	-	-	-	-	-
Cashflow from financing	46	4	(4)	111	24
Net change in cash	16	50	99	(95)	19
Effects of exchange rate	(1)	2	1	(2)	1
Ending cash	44	79	189	128	140

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	248	239
Goodwill on consolidation	99	104	104	120	120
Others	73	44	68	159	198
Total Non-current Assets	295	295	322	601	641
Cash	44	79	189	128	140
Inventories	17	9	16	31	35
Trade receivables	91	79	134	140	152
Others	47	60	93	164	194
Total Current Assets	198	227	431	463	520
Total Assets	493	522	753	1,064	1,162
LIABILITIES					
Borrowings	105	47	70	226	231
Others	7	17	18	39	40
Total Non-current Liabilities	112	65	87	265	271
Trade payables	87	62	162	252	290
Borrowings	21	2	25	32	106
Others	1	9	35	15	15
Total Current Liabilities	332	73	223	299	411
Total Liabilities	444	138	310	564	682
Shareholder Equity	191	297	346	392	361
Non-controlling Interests	82	88	97	107	118

Valuation Ratios

Y/E Dec	FY15	FY16	FY17	FY18e	FY19e
P/E (x)	N/A	75.60	10.9	8.3	7.7
P/B (x)	N/A	2.6	2.0	1.3	1.5
EV/EBITDA	N/A	9.4	3.8	3.4	3.1

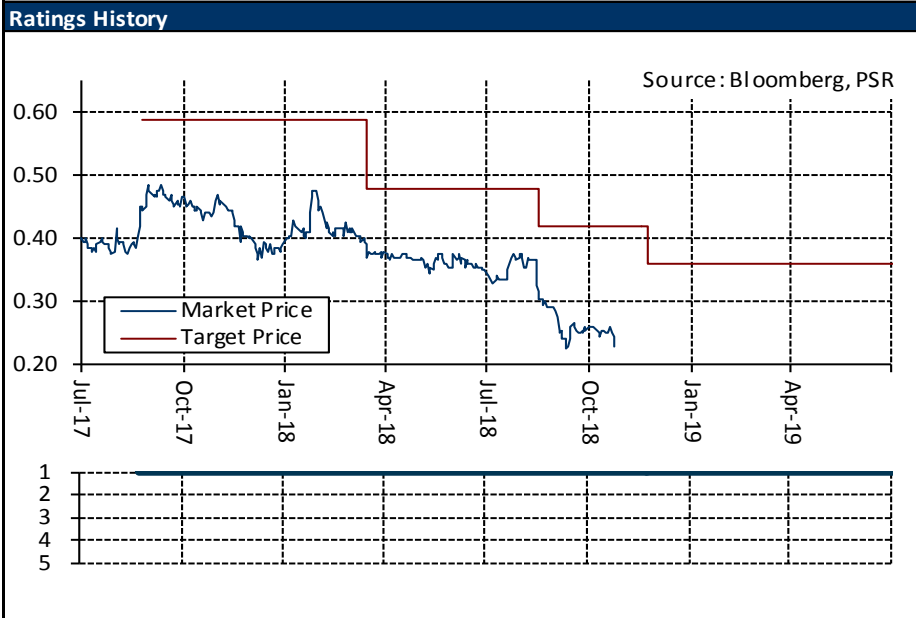
Growth & Margins (%)

	FY15	FY16	FY17	FY18e	FY19e
Growth					
Revenue	-17%	9%	94%	34%	18%
EBIT	N/A	N.M.	N.M.	6%	18%
PATMI	N/A	N.M.	N.M.	1%	8%
Margins					
Gross margin	31.1%	36.6%	41.4%	37.7%	38.3%
EBIT margin	0.6%	14.9%	22.2%	17.6%	17.5%
PATMI margin	N.M.	24.7%	34.3%	32.6%	29.2%

Key Ratios

ROE (%)	-5%	7%	18%	16%	19%
ROA (%)	-2%	4%	8%	6%	6%
Net Debt or (Net Cash)	81	(29)	(94)	130	197
Gearing (%)	25%	10%	13%	24%	29%

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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