

# Golden Energy and Resources Ltd

Look forward to lower costs



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## SINGAPORE | MINING | 4Q18 RESULTS

- Revenue met our expectations while PATMI missed due to higher than expected production cash cost and operating expenses.
- Total volume exceeded FY18 production target by 13%. The production target for FY19e is 25mn tonnes (+10.6% YoY).
- FY18 cash cost jumped by 18% YoY but is expected to fall in FY19e.
- Coal price headwinds to remain due to extended coal import restriction from China.
- We lower FY19e EPS to 2.2 US cents (previously 2.9 US cents) due to a weaker projected coal 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\$0.30 for FY19.

### Results at a glance

| (USD mn)     | 4Q18  | 4Q17  | YoY (%) | Comments  |
|--------------|-------|-------|---------|---|
| Revenue      | 280.2 | 301.7 | (7.1)   | Increase in revenue from Coal Mining, partially offset by a decrease in revenue from Coal Trading Division and Non-coal Businesses                              |
| Gross profit | 71.9  | 104.8 | (31.4)  | Increase in mining services costs, coal freight, mining overheads, fuel costs, and royalty expenses, offset by a decrease in amortisation expenses              |
| PBT          | (8.9) | 55.3  | (116.1) | 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        | 4.5   | 22.2  | (79.9)  | Lower taxable profit and decrease in withholding tax expense  |

Source: Company, PSR

### The Positives

+ **Total volume exceeded FY18 production target.** Full-year production from coal mining totalled 22.6mn tonnes, exceeding by 13% of FY18 target.

|                                  | 4Q18  | 4Q17  | YoY (%) | FY18  | FY17  | YoY (%) |
|----------------------------------|-------|-------|---------|-------|-------|---------|
| Production volume (tonnes)       | 6.4   | 5.5   | 15.6    | 22.6  | 10.1  | 123.8   |
| ASP (US\$/tonne)                 | 40.0  | 43.1  | -7.2    | 41.4  | 42.5  | -2.6    |
| Cash cost (US\$/tonne)           | 29.8  | 25.9  | 15.1    | 27.4  | 23.1  | 18.6    |
| Revenue from coal mining (US\$m) | 268.2 | 183.3 | 46.3    | 943.2 | 645.4 | 46.1    |

Source: Company, PSR

### The Negatives

- **Price correction protracted in 4Q18.** HBA (Indonesia Coal Price Reference) grew mildly by 3.0% YoY to US\$97.1/tonne in 4Q18 but fell by 7.1% QoQ. ICI 4 averaged at US\$30.2/tonne (down 21.3% QoQ). Meanwhile, the spread between Newcastle Coal (NeWC) and ICI 4 widened during the period. Averagely, ICI 4 is trading at a 50% discount to NeWC, but the discount increased to 70% in 4Q18.

- **Full-year cash cost jumped.** In FY18, cash cost surged by 18.6% YoY to US\$27.4/tonne. The increase in the strip ratio of BIB mine (FY18:4.8 vs FY17:4.2) accounted for US\$1.5/tonne. The increase in cost was impacted by fuel price, the distance between mining field and overburden dumping site, coal hauling, road repair and maintenance, and port/jetty cost lifted the cost by another US\$0.7/tonne, US\$0.65/tonne, US\$0.50/tonne, US\$0.8/tonne and US\$0.50/tonne respectively.

11 March 2019

### BUY (Maintained)

|                     |              |
|---------------------|--------------|
| CLOSING PRICE       | SGD 0.235    |
| FORECAST DIV        | SGD 0.010    |
| TARGET PRICE        | SGD 0.300    |
| <b>TOTAL RETURN</b> | <b>31.9%</b> |

### COMPANY DATA

|                              |             |
|------------------------------|-------------|
| BLOOMBERG CODE               | GER SP      |
| O/S SHARES (MN)              | 2,353       |
| MARKET CAP (USD mn / SGD mn) | 407 / 553   |
| 52 - WK HI/LO (SGD)          | 0.42 / 0.21 |
| 3M Average Daily T/O (mn)    | 0.14        |

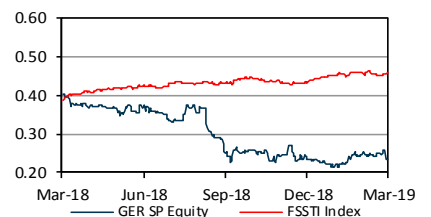
### MAJOR SHAREHOLDERS (%)

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

### PRICE PERFORMANCE (%)

|            | 1MTH  | 3MTH  | 1YR    |
|------------|-------|-------|--------|
| COMPANY    | (4.1) | (2.1) | (37.1) |
| STI RETURN | 1.6   | 2.8   | (2.5)  |

### PRICE VS. STI



Source: Bloomberg, PSR

### KEY FINANCIALS

| Y/E Dec           | FY17 | FY18  | FY19e | FY20e |
|-------------------|------|-------|-------|-------|
| Revenue (US\$ mn) | 764  | 1,048 | 1,128 | 1,239 |
| EBITDA (US\$m)    | 184  | 151   | 188   | 209   |
| PATMI (US\$ mn)   | 63   | 39    | 51    | 57    |
| P/E (x)           | 6    | 10.4  | 7.9   | 7.1   |
| P/B (x)           | 1.2  | 1.3   | 1.2   | 1.0   |
| ROE               | 18%  | 13%   | 14%   | 14%   |
| ROA               | 8%   | 4%    | 5%    | 5%    |

Source: Company, PSR

### VALUATION METHOD

P/E MULTIPLE (PER: 10.0x)

Chen Guangzhi

(+65 6212 1859)

Research Analyst

chengz@phillip.com.sg

**Outlook**

In FY19, GEAR will continue to ramp up production. According to the mining plan, the company is expected to deliver 25mn tonnes (+10.6% YoY) of output (BIB: 22mn tonnes, KIM: 2mn tonnes, and BSL: 1mn tonnes). Meanwhile, the average cash cost is expected to revert to US\$25/tonne (down 8.8 % YoY) due mainly to the normalisation of stripping ratio of BIB mine (from 4.8 in FY18 to 4.2 in FY19, the average life-of-mine stripping ratio: 4.1). With the China coal import restriction, we maintain coal price forecast at US\$40/tonne (4,200 GAR). In a nutshell, we believe the higher production and lower cash cost could offset the price headwinds, supporting a moderate growth of both top line and bottom line this year.

**Maintained BUY with a lower TP of S\$0.30(Previously S\$0.36)**

We lower FY19e EPS to 2.2 US cents (previously 2.9 US cents) due to 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\$0.30 for FY19.

## Financials

### Income Statement

| Y/E Dec, USD mn             | FY16       | FY17       | FY18         | FY19e        | FY20e        |
|-----------------------------|------------|------------|--------------|--------------|--------------|
| <b>Revenue</b>              | <b>393</b> | <b>764</b> | <b>1,048</b> | <b>1,128</b> | <b>1,239</b> |
| Gross profit                | 144        | 316        | 362          | 418          | 467          |
| <b>EBITDA</b>               | <b>89</b>  | <b>184</b> | <b>151</b>   | <b>188</b>   | <b>209</b>   |
| Depreciation & amortisation | 30         | 14         | 11           | 12           | 14           |
| <b>EBIT</b>                 | <b>59</b>  | <b>170</b> | <b>139</b>   | <b>176</b>   | <b>195</b>   |
| Net Finance (Expense)/Inc   | (11)       | (12)       | (24)         | (37)         | (41)         |
| <b>PBT</b>                  | <b>48</b>  | <b>158</b> | <b>115</b>   | <b>138</b>   | <b>154</b>   |
| Taxation                    | (14)       | (53)       | (42)         | (50)         | (56)         |
| <b>PAT</b>                  | <b>34</b>  | <b>104</b> | <b>74</b>    | <b>88</b>    | <b>99</b>    |
| Non-controlling interests   | 12         | 41         | 34           | 37           | 41           |
| <b>PATMI</b>                | <b>22</b>  | <b>63</b>  | <b>39</b>    | <b>51</b>    | <b>57</b>    |

### Per share data

| Y/E Dec, US Cents | FY16 | FY17 | FY18 | FY19e | FY20e |
|-------------------|------|------|------|-------|-------|
| EPS               | 1.0  | 2.7  | 1.7  | 2.2   | 2.4   |
| DPS               | -    | 0.8  | 0.7  | 0.7   | 0.7   |
| BVPS              | 13.6 | 14.7 | 13.3 | 15.0  | 16.9  |

### Cash Flow

| Y/E Dec, USD mn                  | FY16        | FY17        | FY18         | FY19e       | FY20e       |
|----------------------------------|-------------|-------------|--------------|-------------|-------------|
| <b>CFO</b>                       |             |             |              |             |             |
| PBT                              | 49          | 158         | 115          | 138         | 154         |
| Adjustments                      | 30          | 19          | 24           | 38          | 43          |
| WC changes                       | (17)        | 10          | (12)         | (36)        | (24)        |
| Cash generated from ops          | 62          | 186         | 127          | 141         | 173         |
| Others                           | (8)         | (17)        | (98)         | (76)        | (84)        |
| <b>Cashflow from ops</b>         | <b>54</b>   | <b>169</b>  | <b>29</b>    | <b>65</b>   | <b>89</b>   |
| <b>CFI</b>                       |             |             |              |             |             |
| CAPEX, net                       | (25)        | (53)        | (157)        | (35)        | (38)        |
| Others                           | (0)         | (4)         | (10)         | (1)         | (2)         |
| <b>Cashflow from investments</b> | <b>(26)</b> | <b>(57)</b> | <b>(167)</b> | <b>(37)</b> | <b>(40)</b> |
| <b>CFF</b>                       |             |             |              |             |             |
| Share issuance, net              | 84          | -           | 150          | -           | -           |
| Loans, net of repayments         | (74)        | 46          | (5)          | 27          | 32          |
| Dividends                        | (6)         | (49)        | (86)         | (43)        | (47)        |
| Others                           | -           | -           | -            | -           | -           |
| <b>Cashflow from financing</b>   | <b>4</b>    | <b>(4)</b>  | <b>58</b>    | <b>(16)</b> | <b>(15)</b> |
| <b>Net change in cash</b>        | <b>32</b>   | <b>109</b>  | <b>(80)</b>  | <b>13</b>   | <b>34</b>   |
| Effects of exchange rate         | 2           | 1           | 4            | -           | -           |
| <b>Ending cash</b>               | <b>79</b>   | <b>189</b>  | <b>113</b>   | <b>126</b>  | <b>160</b>  |

Source: Company, PSR

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

### Balance Sheet

| Y/E Dec, USD mn                      | FY16       | FY17       | FY18       | FY19e        | FY20e        |
|--------------------------------------|------------|------------|------------|--------------|--------------|
| <b>ASSETS</b>                        |            |            |            |              |              |
| PP&E                                 | 59         | 64         | 80         | 92           | 105          |
| Mining properties                    | 89         | 86         | 228        | 237          | 247          |
| Goodwill on consolidation            | 104        | 104        | 114        | 114          | 114          |
| Others                               | 44         | 68         | 140        | 150          | 162          |
| <b>Total Non-current Assets</b>      | <b>295</b> | <b>322</b> | <b>561</b> | <b>593</b>   | <b>627</b>   |
| Cash                                 | 79         | 189        | 113        | 126          | 160          |
| Inventories                          | 9          | 16         | 20         | 22           | 24           |
| Trade receivables                    | 79         | 134        | 125        | 154          | 173          |
| Others                               | 60         | 93         | 142        | 166          | 195          |
| <b>Total Current Assets</b>          | <b>227</b> | <b>431</b> | <b>400</b> | <b>469</b>   | <b>553</b>   |
| <b>Total Assets</b>                  | <b>522</b> | <b>753</b> | <b>961</b> | <b>1,062</b> | <b>1,180</b> |
| <b>LIABILITIES</b>                   |            |            |            |              |              |
| Borrowings                           | 47         | 70         | 223        | 245          | 272          |
| Others                               | 17         | 18         | 69         | 73           | 78           |
| <b>Total Non-current Liabilities</b> | <b>65</b>  | <b>87</b>  | <b>291</b> | <b>318</b>   | <b>350</b>   |
| Trade payables                       | 62         | 162        | 203        | 224          | 250          |
| Borrowings                           | 2          | 25         | 46         | 51           | 56           |
| Others                               | 9          | 35         | 2          | 2            | 2            |
| <b>Total Current Liabilities</b>     | <b>202</b> | <b>223</b> | <b>251</b> | <b>276</b>   | <b>308</b>   |
| <b>Total Liabilities</b>             | <b>267</b> | <b>310</b> | <b>543</b> | <b>594</b>   | <b>658</b>   |
| <b>Shareholder Equity</b>            | <b>297</b> | <b>346</b> | <b>313</b> | <b>354</b>   | <b>399</b>   |
| Non-controlling Interests            | 88         | 97         | 105        | 114          | 124          |

### Valuation Ratios

| Y/E Dec   | FY16 | FY17 | FY18 | FY19e | FY20e |
|-----------|------|------|------|-------|-------|
| P/E (x)   | 17.2 | 6.5  | 10.4 | 7.9   | 7.1   |
| P/B (x)   | 1.3  | 1.2  | 1.3  | 1.2   | 1.0   |
| EV/EBITDA | 4.2  | 1.7  | 3.7  | 3.1   | 2.7   |

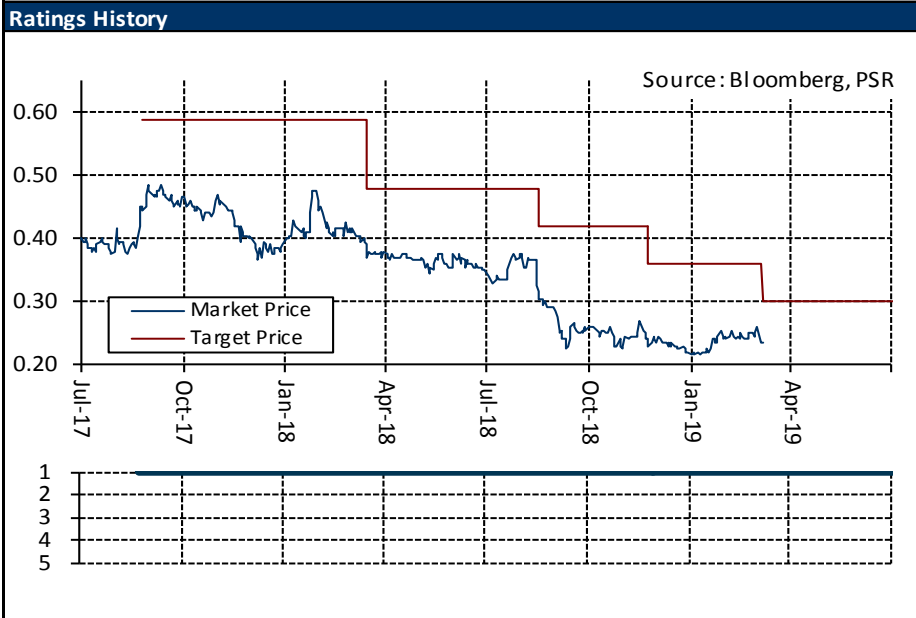
### Growth & Margins (%)

|                | FY16 | FY17 | FY18 | FY19e | FY20e |
|----------------|------|------|------|-------|-------|
| <b>Growth</b>  |      |      |      |       |       |
| Revenue        | 9%   | 94%  | 37%  | 8%    | 10%   |
| EBIT           | N.M. | 189% | -18% | 26%   | 11%   |
| PATMI          | N.M. | 186% | -38% | 30%   | 11%   |
| <b>Margins</b> |      |      |      |       |       |
| Gross margin   | 37%  | 41%  | 35%  | 37%   | 38%   |
| EBIT margin    | 15%  | 22%  | 13%  | 16%   | 16%   |
| PATMI margin   | 25%  | 34%  | 26%  | 27%   | 27%   |

### Key Ratios

|                        | FY16 | FY17 | FY18 | FY19e | FY20e |
|------------------------|------|------|------|-------|-------|
| ROE                    | 7%   | 18%  | 13%  | 14%   | 14%   |
| ROA                    | 4%   | 8%   | 4%   | 5%    | 5%    |
| Net Debt or (Net Cash) | (29) | (94) | 156  | 170   | 167   |
| Gearing                | 10%  | 13%  | 28%  | 28%   | 28%   |

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

## Contact Information (Singapore Research Team)

## Head of Research

Paul Chew – [paulchewkl@phillip.com.sg](mailto:paulchewkl@phillip.com.sg)

## Research Admin

[research@phillip.com.sg](mailto:research@phillip.com.sg)

## Banking &amp; Finance | Healthcare

Tin Min Ying – [tinmy@phillip.com.sg](mailto:tinmy@phillip.com.sg)

## Oil &amp; Gas | Energy

Chen Guangzhi - [chengz@phillip.com.sg](mailto:chengz@phillip.com.sg)

## Telco | Technology

Alvin Chia - [alvinchiawy@phillip.com.sg](mailto:alvinchiawy@phillip.com.sg)

## Property | REITs

Tara Wong - [tarawongsi@phillip.com.sg](mailto:tarawongsi@phillip.com.sg)

## REITs

Natalie Ong - [natalieongpf@phillip.com.sg](mailto:natalieongpf@phillip.com.sg)

## China/HK Equity

Zheng Jieyuan – [zhengjy@phillip.com.sg](mailto:zhengjy@phillip.com.sg)

## US Equity

Edmund Xue – [edmundxuejj@phillip.com.sg](mailto:edmundxuejj@phillip.com.sg)

## Contact Information (Regional Member Companies)

## 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](http://www.poems.com.sg)

## 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](http://www.phillip.co.jp)

## THAILAND

## Phillip Securities (Thailand) Public Co. Ltd

15th Floor, Vorawat Building,  
849 Silom Road, Silom, Bangrak,  
Bangkok 10500 Thailand  
Tel +66-2 6351700 / 22680999  
Fax +66-2 22680921  
Website [www.phillip.co.th](http://www.phillip.co.th)

## 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](http://www.phillipusa.com)

## 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](http://www.phillipcapital.in)

## 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](http://www.phillipbank.com.kh)

## 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](http://www.poems.com.my)

## 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](http://www.phillip.co.id)

## FRANCE

## King &amp; 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](http://www.kingandshaxson.com)

## AUSTRALIA

## Phillip Capital Limited

Level 10, 330 Collins Street  
Melbourne, Victoria 3000, Australia  
Tel +61-03 8633 9803  
Fax +61-03 8633 9899  
Website: [www.phillipcapital.com.au](http://www.phillipcapital.com.au)

## 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](http://www.phillipcapital.com.tr)

## 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](http://www.phillip.com.hk)

## 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](http://www.phillip.com.cn)

## UNITED KINGDOM

## King &amp; Shaxson Capital Limited

6th Floor, Candlewick House,  
120 Cannon Street,  
London, EC4N 6AS  
Tel +44-20 7426 5950  
Fax +44-20 7426 1757  
Website: [www.kingandshaxson.com](http://www.kingandshaxson.com)

## SRI LANKA

## Asha Phillip Securities Limited

No. 60, 5th Lane,  
Colombo 3, Sri Lanka  
Tel: (94) 11 2429 100  
Fax: (94) 11 2429 199  
Website: [www.ashaphillip.net](http://www.ashaphillip.net)

## DUBAI

## Phillip Futures DMCC

Member of the Dubai Gold and  
Commodities Exchange (DGCX)  
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

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