

Bathurst Resources Limited (ASX:BTU)

BUY
VALUATION: A\$1.14
SHARE PRICE: A\$0.59

COMPANY DATA

ASX Code	BTU
Market Cap (fully diluted, A\$m)	448.6
Shares on Issue (m)	695.7
Options on Issue (m)	64.7
52 Week Hi Lo (A\$)	0.58-1.26
Cash at Bank (A\$m)	59.6

VALUATION

	A\$m	A\$/Share
Valuation at Forecast Coal/FX		
South Buller	768.7	1.10
Resources	29.4	0.04
Cash (31 Mar)	59.6	0.09
Debt/Contingency (est)	(80.0)	(0.11)
Exploration	11.3	0.02
Investments/Other	5.0	0.01
Total Valuation	794.0	1.14
Share Prem/(Disc) to valuation		(48.3%)

SHARE PRICE PERFORMANCE



BOARD

Craig Munro	Non-Exec Chairman
Hamish Bohannon	Managing Director
Gerald Cooper	Executive Director
Rob Lord	Non-Executive Director
Malcolm McPherson	Non-Executive Director

MAJOR SHAREHOLDER

Mathews Capital	16%
L1 Capital	9%
JP Morgan Chase	6%

Local residents withdraw appeal to Environment Court. Infrastructure changes to reduce environmental effects. Court not to have any regard to the effects of climate change.

RECOMMENDATION: BUY

The company's excellent suite of assets, its rail and port infrastructure and the fact that the South Buller Project is fully funded make it an attractive proposition. This is in spite of delays that have caused time-based erosion of value and an appeals process that is likely to result in some operational compromises. We retain our BUY recommendation.

KEY POINTS

- The Fairdown Whareatea Residents Association Inc (FWRA) has withdrawn its appeal to the Environment Court against the resource consents for the Escarpment Mine Project. This follows a comprehensive review and resultant changes to mine scheduling and infrastructure, as well as a successful mediation process with the FWRA.
- The revised Buller Project Plan envisages the production of low ash coal for the first 2-3 years, negating the immediate need for a wash-plant. Coal will be transported off the plateau via truck to either the Port of Westport or a rail load out facility for transportation to Lyttelton. Trucking will be at a 500,000tpa rate until the new permanent transport system is built.
- Concurrently, a shorter, more acceptable transport route by an aerial system (likely to be a covered conveyor system) will be finalised. Coal will be transported to an identified site on the coastal plain north of Fairdown which is acceptable to local residents. This will also become the new site for the wash plant.
- Separately, the Environment Court has ruled that against the relevance of the effects of climate change on consents for the Escarpment mine.

SUMMARY OPINION

- Despite the FWRA appeal withdrawal and the Court ruling on climate change, the company still has appeals pending from the Royal Forest & Bird Protection Society and the West Coast ENT relating to local environmental issues.
- The revised plan, particularly the relocation of the wash plant to the coastal plain, will considerably reduce environmental effects and defer capital costs. Little change is expected on operating costs, elimination of wash plant costs are largely offset by higher road transportation costs. Production for the first 2 years is now expected to be approximately 500,000tpa, which is lower than initial expectations.
- Based on current consensus price for coking coal (US\$226/t falling to US\$193/t by 2016, we value BTU at \$1.14 per share. This would fall to \$0.96 per share at a long term price of approximately US\$180/t.

THE APPEALS PROCESS

- Following a comprehensive review and resultant changes to mine scheduling and infrastructure, as well as a successful mediation process, the Fairdown Whareatea Residents Association (FWRA) has withdrawn its appeal to the Environment Court against the resource consents for the Escarpment Project.
- In a separate release, Bathurst announced that it had received a positive decision from the Acting Principal Environment Judge on the relevance of effects on climate change of mining coal in New Zealand. The Court has granted the declaration that in considering the applications for consents for the Escarpment Mine, the Court cannot have any regard to the effects on climate change of discharges into the air of greenhouse gases or the combustion of coal.
- Following the declaration, the company expects that the Judge will shortly put in place a timetable for the hearing of the appeals by West Coast ENT Inc and Royal Forest & Bird Protection Society against the Escarpment mine.
- The decision can be appealed within 15 days. We understand that the process could by-pass the High Court, moving straight to the Court of Appeal. Should the appeal be rejected at this level, there is recourse to the Supreme Court, the highest court of the land.
- As the climate change issue has been separately dealt with, these appeals would run in parallel with the current Environment Court appeals.
- Infrastructure and mining scheduling changes mean that the appeals to the Environmental Court by the Royal Forest & Bird and the West Coast ENT now largely revolve around environmental issues surrounding the mining sites, as the wash plant will be located off the escarpment.
- The change in mine scheduling and infrastructure will necessitate new resource consents for the conveyor system. As the changes have been through the mediation process, no significant delays are expected.
- In parallel to achieving approvals for a 1Mtpa mining operation at the Escarpment Block, the company will seek resource consents for some of the other mining areas. An alternate approvals route, through the EPA which is available to projects considered to be of national significance, is being considered. Approvals would be guaranteed in 9 months and are not appealable except for matters of law. This is part of the reason why the company remains confident of achieving 2Mtpa production targets by FY15.
- Bathurst believes that final approvals for Escarpment should be achieved before the end of calendar 2012. This will largely depend on when the court hearings are set. If later than July/August, the approvals may only be achieved early in calendar 2013.

THE AERIAL SOLUTION AND THE WASH PLANT

- The company is currently assessing both an aerial ropeway (similar to that operated by Solid Energy) and a covered conveyor system to replace the pipeline. The latter is the likely choice, despite a slightly higher capital cost.
- The aerial system is likely to have design capacity of up to 4Mtpa to allow for further expansions. Construction is expected to be completed in approximately two years, provided there are no further abnormal delays.
- Replacement of the pipeline reduces both technical risk and the amount of fines created.
- The biggest advantage, however, is the fact that the wash plant will now be built off the escarpment on private land (agreed to by the FWRA) rather than on Department of Conservation (DOC) land, which significantly reduced water control and environmental issues.

THE MINING SCHEDULE

- Bathurst is confident that it can produce 200,000-300,000 tonnes from the Escarpment Block in the first half of calendar 2013 if the appeals are resolved in late 2012. We have assumed production of 150,000t in FY13.
- The company is expecting production of 500,000t in FY14 and between 750,000t and 1 Mt in FY15 before achieving full production of 1Mt in FY16. The build-up is slower than the initial 650,000t before reaching full production. Our valuation assumes a slightly slower build up to full production in FY16.
- In addition, the Cascade open pit is expected to produce ~150,000tpa of coal, of which ~100,000tpa is expected to be exported as semi-soft coal.
- Subject to final feasibility and Board approvals, Coalbrookdale underground is expected to produce between 100,000tpa and 200,000tpa of semi-soft or hard coking coal from FY14.
- Management is still working through the details of how it expects to reach the 2Mtpa production level. Whareatea West is currently the frontrunner to be developed next.

- Preliminary analysis of the North Buller scoping study, due for completion by the end of May, indicates that North Buller coal could be blended with Escarpment and other South Buller coals which could defer the construction of the wash plant beyond two years. North Buller has very low ash coal but elevated sulphur levels while the South Buller coals are generally medium-ash, low sulphur coals. North Buller had always been considered as part of a possible expansion from 2Mtpa to 4Mtpa but may feature earlier in the company's revised planning schedules.

THE COSTS

- There is little change to operating cost expectations. Deferral of the washing plant will obviously reduce costs, but in the short term, this will be offset by higher road transportation costs and the spread of fixed costs over a smaller tonnage.
- Replacing the pipeline with a covered conveyor system will reduce operating costs, although the pipeline costs are not a significant proportion of total operating costs.
- Cash costs are expected to be in the US\$100-US\$110/t range for Escarpment and Cascade. Coalbrookdale costs are expected to be ~US\$135/t. At the 2Mtpa production level, depending on the mining sequence (particularly waste:ore ratios), operating costs in the US\$85-US\$90/t range are expected.
- The aerial system is expected to add an additional US\$15-US\$20m to the US\$64 capital cost previously stated by the company. However, the system will cater for considerably more than 2Mtpa.
- The cost of the wash plant will be deferred. Any increase to the current cost is likely to be related to an increase in scoping/size. Depending on the outcome of the North Buller study, the company may look at a larger wash plant rather than duplication at a later date.
- The only other additional capex is a NZ\$5-NZ\$6m upgrade of the port facilities (storage capacity).
- The most immediate capital costs – storage capacity, rail load out and mine water in-rush treatment - are expected to total approximately NZ\$20m.

BATHURST RESOURCES LTD (BTU)
Recommendation:
Buy
Issued Capital: 695.7m Share price: \$0.590 Market Cap: \$410m Y/E June, A\$m

Assumptions	FY10A	FY11F	FY12F	FY13F	FY14F	FY15F	FY16F	LT	Spot
Hard Coking Coal Price (US\$/t)		239	261	224	221	211	200	193	219
A\$/US\$ Exchange Rate	0.883	0.989	1.017	0.988	0.963	0.925	0.900	0.900	1.035
Hard Coking Coal Price (A\$/t)		241	256	226	230	229	222	215	212

Physicals	FY10A	FY11F	FY12F	FY13F	FY14F	FY15F	FY16F	FY17F	LOM*
Waste/Ore Ratio			12.0	9.0	7.9	8.0	8.4	8.4	8.4
Raw Coal (Mt)		-	0.050	0.350	0.800	1.133	2.648	3.115	34.648
Saleable Coal (Mt)		-	0.050	0.350	0.800	1.050	1.950	2.300	26.800
Cash Cost (incl royalties, NZ\$/t)		-	151.30	159.20	158.83	153.55	147.88	145.32	138.95
Cash Cost (incl royalties, US\$/t)		-	105.91	111.44	111.18	107.49	103.52	101.72	97.27
Cash Cost (incl royalties, A\$/t)		-	104.19	112.85	115.51	116.20	115.02	113.03	107.39

Financials (A\$m)	FY10A	FY11F	FY12F	FY13F	FY14F	FY15F	FY16F	FY17F	LOM*
Sales Revenue		-	5.5	66.0	165.8	221.1	412.0	470.6	4,307
Operating Costs		-	(5.2)	(39.5)	(92.4)	(122.0)	(224.3)	(260.0)	(2,234)
Operational Cash Flow		-	0.3	26.5	73.4	99.1	187.7	210.6	2,073
Capital/Development		-	(19.7)	(15.2)	(62.3)	(10.8)	(5.6)	(5.6)	(158)
Pre-tax Cash Flow		-	(19.4)	11.3	11.0	88.3	182.1	205.0	1,915

Resources (Mt)	Measured	Indicated	Inferred	Total	Reserves (Mt)	Proven	Probable	Total
Escarpment	4.4	0.2	1.9	6.5		4.1	0.3	4.4
Deep Creek	6.2	3.1	1.6	10.9		5.8	2.7	8.5
Coalbrookdale	-	4.0	5.7	9.7				
North Buller	-	4.8	9.0	13.8				
Blackburn	-	10.8	-	10.8				
Millerton North	-	4.3	-	4.3				
Whareatea West	18.0	7.7	-	25.7		3.9	0.5	4.4
Takitimu	0.6	2.4	0.1	3.1				
Total	29.2	37.3	18.3	84.8		13.8	3.5	17.3

EV/t Reserve	A\$24.91/t	Reserve/Resource (%)	20%
EV/t Resource	A\$5.08/t		

Valuation	\$m	\$/share	Discount Rate Assumptions	
South Buller	768.7	1.10	Risk Free Rate	5.5%
Resources	29.4	0.04	Market Risk Premium	6.0%
Cash (31 Mar)	59.6	0.09	Beta	1.10
Debt/Contingency (est)	(80.0)	(0.11)	Cost of Equity (after tax)	12.1%
Hedging			Cost of Equity (pre tax)	16.8%
Exploration	11.3	0.02	Cost of Debt	8.5%
Investments/Other	5.0	0.01	Debt	40.0%
Total	794.0	1.14	Equity	60.0%
Premium/(Discount)		-48.3%	WACC (pre-tax)	13.5%
			Tax Rate	28.0%

Valuation Sensitivities		\$m	\$/share	% change		\$m	\$/share
Coal Price	+/-10%	186.9	0.27	21.0	per 1%	18.7	0.027
Exchange Rate	+/- 5c	104.8	0.15	13.2	per 1c	21.0	0.030

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