

Sector Report

Singapore Coal

Initiation

Golden Energy & Resources
Blackgold Natural Resources

Results Updates

Geo Energy Resources
800 Super

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Singapore Coal Sector

The fastest growing coal producers

Chen Guangzhi
Phillip Securities Research Pte Ltd
28 August 2017

- **Indonesia is the sweet spot for coal production**
 - **Indonesia fulfils 40% of China's imported coal requirements**
 - **Indonesia will provide the spurt in demand domestically**
 - **Short-term catalyst: 35GW programme**

- **China will provide stability to coal prices**
 - **China dictates global thermal coal prices**
 - **China's policy is to stabilise coal prices and even out demand-supply**
 - **Short-term catalyst: 13th Five-Year Plan for Coal Industry**

- **Singapore listed coal producers enjoying stellar growth**
 - **Expected to grow production by 60% in FY17**
 - **Valuations in Singapore are cheaper on the P/E and EV/reserve basis**

- **Golden Energy and Resources (GEAR)**
 - The largest Singapore listed coal producer
 - Four producing coal concession and coal reserves of 778mn tonnes
 - GEAR is ramping up its production by 90% over two years to 18mn in FY18e
 - We initiate coverage with a BUY rating with a target price of S\$0.59 for FY18e

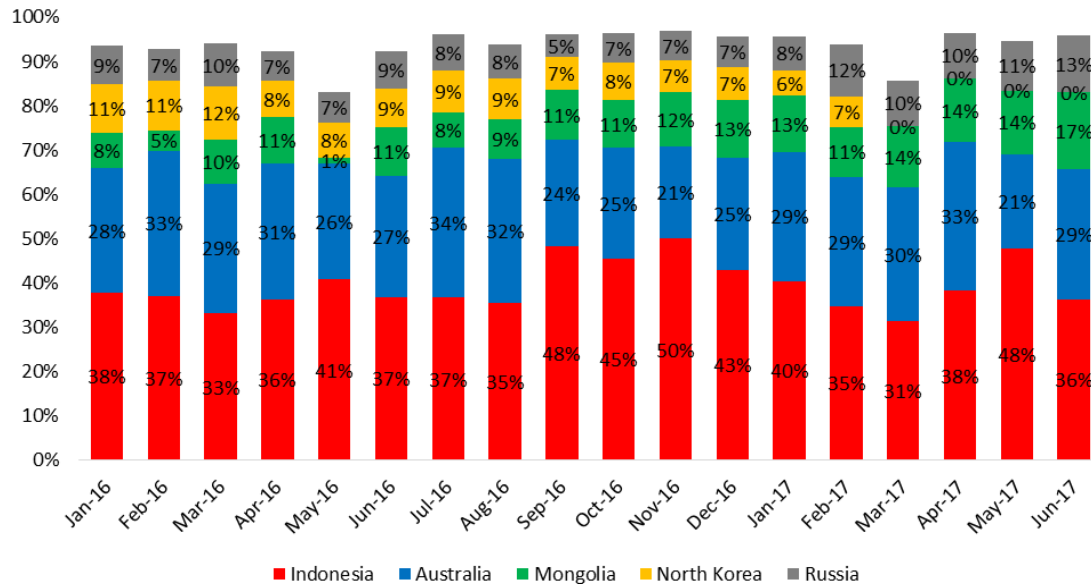
- **Blackgold Natural Resources (BNR)**
 - Sizeable coal reserves of 147mn tonnes
 - Production will spike up to 1.3mn in tonnes in FY18e (FY16: 0.3mn tonnes)
 - Riau 1 mine mouth power plant project could further triple production by 3.5mn tonnes
 - We initiate BNR with a Trading BUY with a target price of S\$0.16 for FY18e

- **Geo Energy Resources (GEO)**
 - The current reserves are over 90mn tonnes
 - GEO targets to sell 10mn tonnes of coal in FY17 (82% jump over FY16)
 - We maintain our BUY rating with a target price of S\$0.44.

China coal market overview

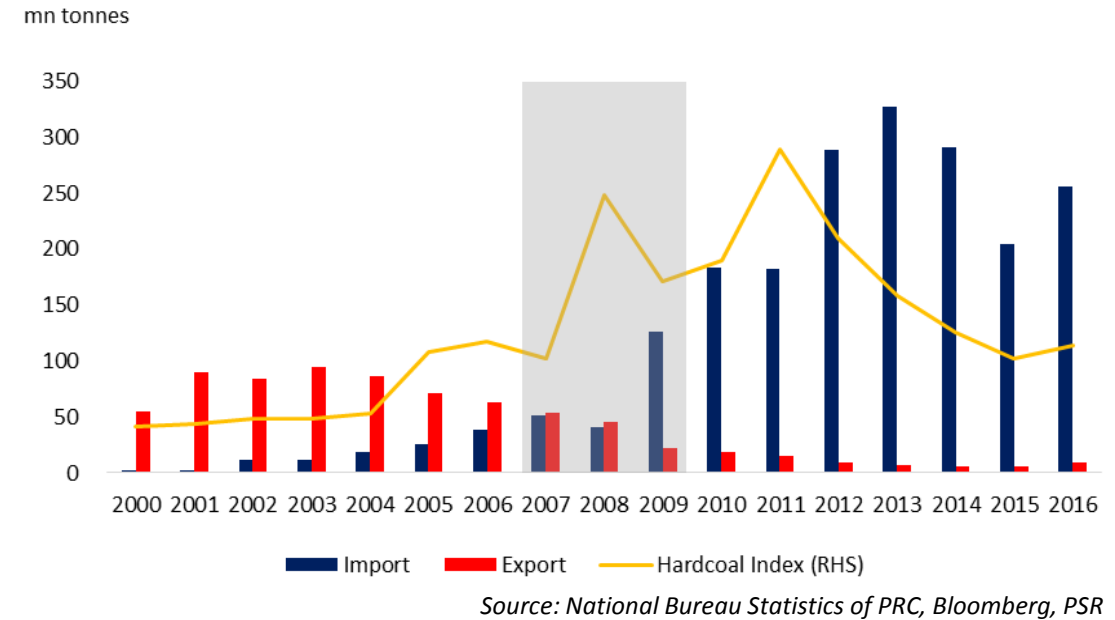
- **China is the price setter for coal**
 - Production and consumption: 3.5bn tonnes and 3.8bn tonnes, 46% and 51% of the total world volume
 - China had not looked back since 2009 and is consistently a major importer of coal

Figure 2: Indonesia is the key source of coal imports into China



Source: General Administration of Customers of PRC, PSR

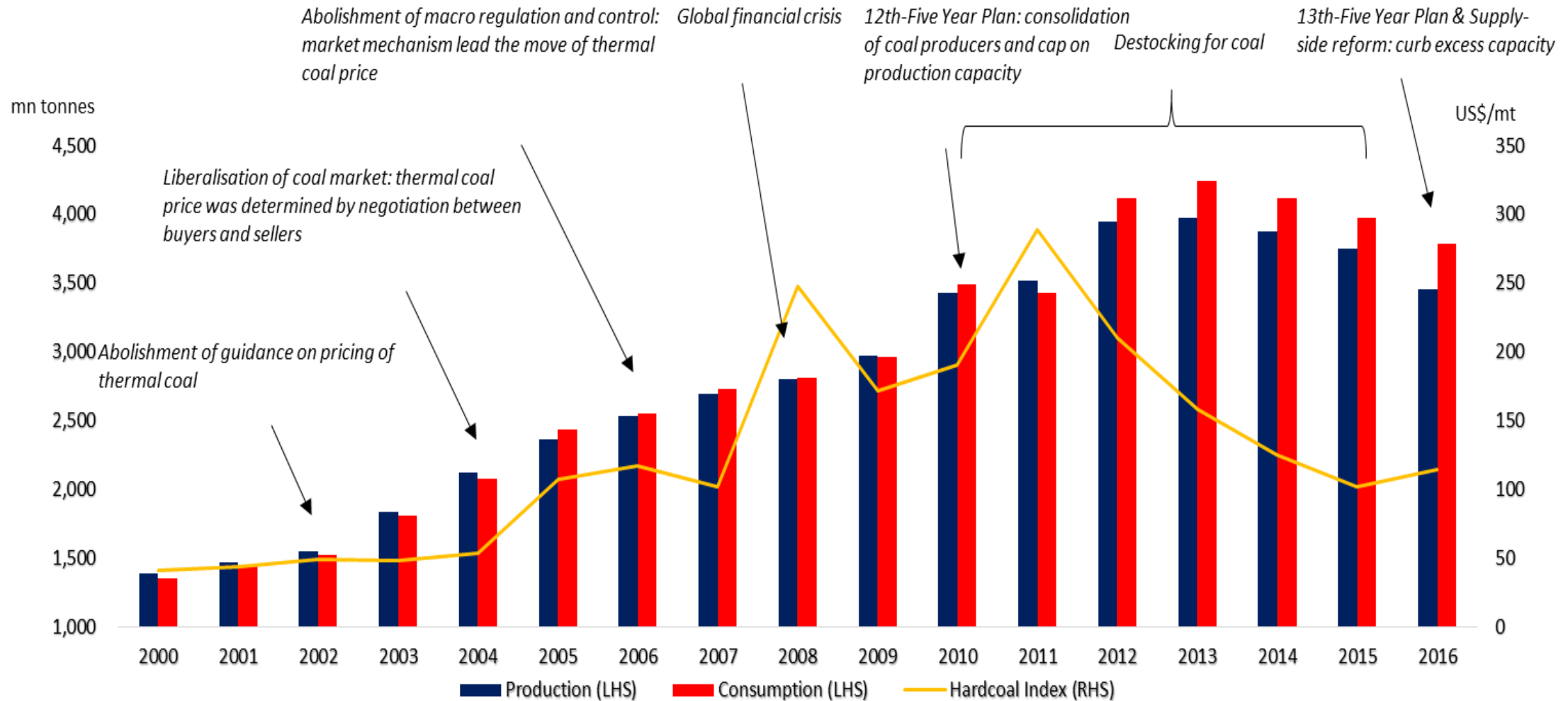
Figure 1: Watershed period of 2007-09 when China turned from net exporter to importer



- Indonesia the largest coal exporter to China
- China started to ban imported coal from North Korea in Mar-17

Government policies play an important role

Figure 3: Major policies and events impact on coal price in China



Source: National Bureau Statistics of PRC, China Coal Industry Yearbook, Bloomberg, PSR

Short-term catalyst: 13th Five-Year Plan for Coal Industry

Figure 4: Summary of main guidelines for China's coal market in 1H17

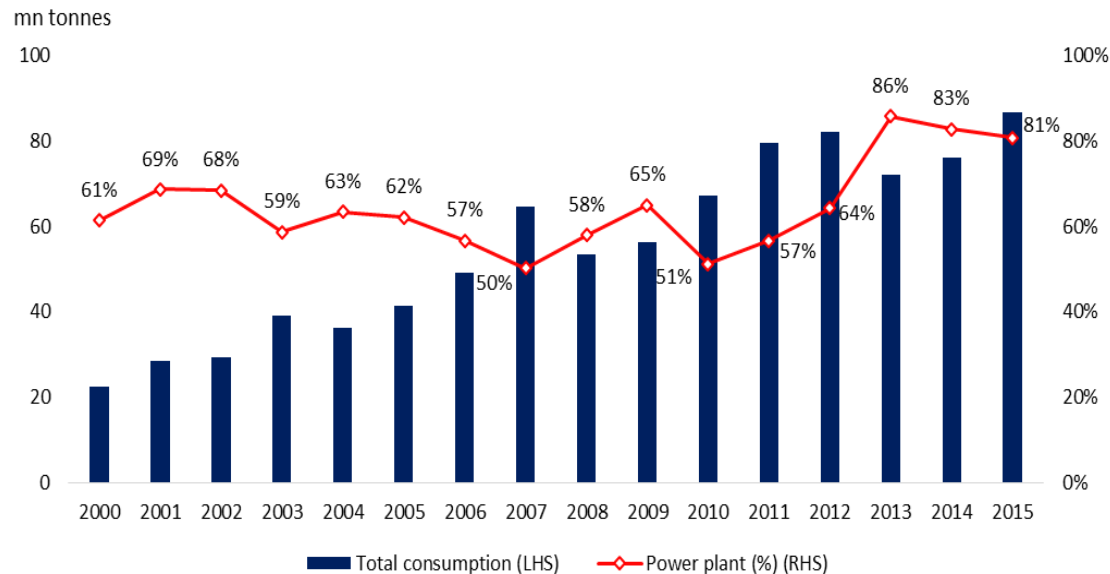
Time	Department	Policy	Remark
Dec-16	National Energy Administration	13th Five-Year Plan for Coal Industry	800mn tonnes of obsolete coal production capacity is expected to be eliminated each year during 2016-20; 500mn tonnes of advanced capacity will be added each year; Total coal production is estimated to be 3.9bn tonnes by 2020 (2015: 3.75bn tonnes) Total coal consumption will be capped at 4.1bn tonnes by 2020 (2015: 3.96bn tonnes) Total coal mines drop to 6,000 by 2020 (2015: 9,700) Coal producers drop to <3,000 (2015: 6,000) Percentage of large-cap enterprises with annual capacity of >50 mn tonnes increases to 60% (2015: 55%)
Jan-17	State Council	Plan on energy conservation and emission reductions for the 2016-2020	Energy consumption per unit of GDP reduces by more than 15% China's total energy consumption will be capped at 5bn tonnes of coal equivalent by 2020
May-17	National Development and Reform Commission	Guidelines on resolving steel and coal overcapacity in 2017	Phase out about 50mn tonnes of crude steel capacity and over 150mn tonnes of coal capacity

Source: NEA, State Council, NDRC, PSR

Indonesia coal market overview

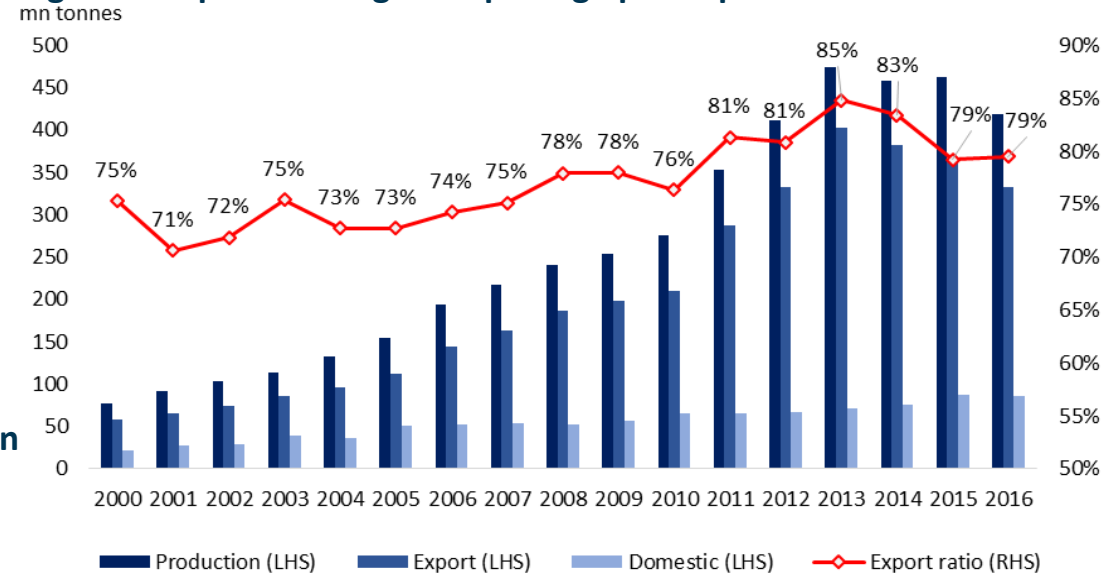
- **Promising domestic demand for Indonesian coal**
 - As of 2015, the coal reserves arrived at 32.3bn tonnes
 - 64% of the total reserve was within the range between 4,700 GAR to 5,700 GAR, and 28% of that was below 4,700 GAR

Figure 6: Uptrend of domestic coal consumption is driven by power generation



Source: Handbook of energy economy statistics of Indonesia 2016, PSR

Figure 5: Exports having been pulling up coal production



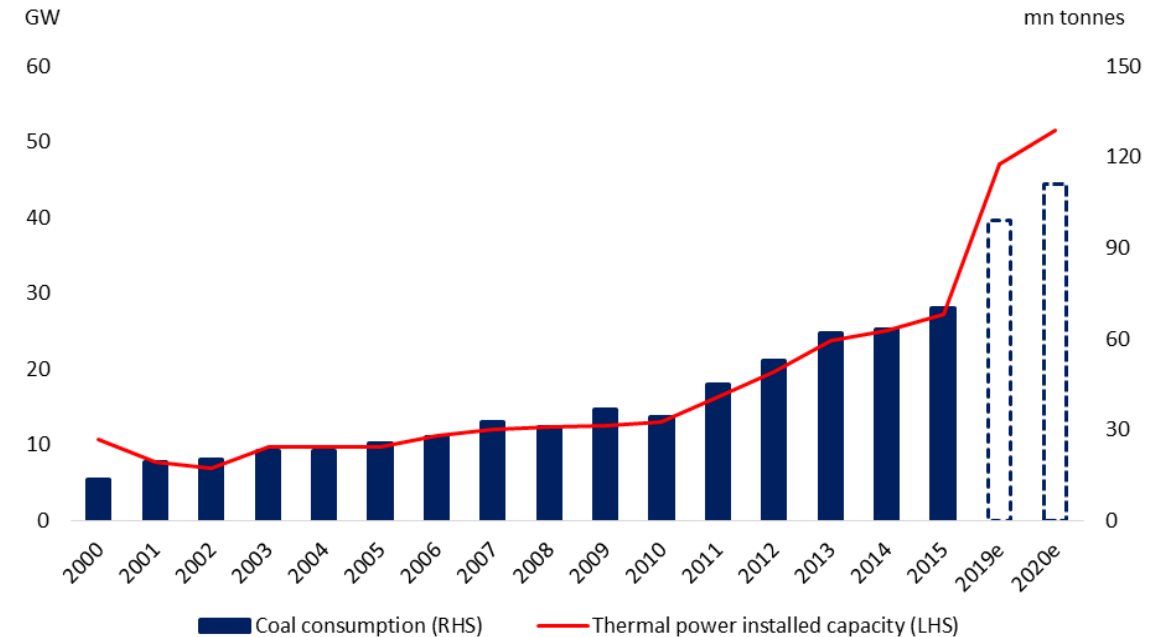
Source: Handbook of energy economy statistics of Indonesia 2016, PSR

- In the next decade, coal consumption structure is expected to lean on the power sector

Short-term catalyst: 35GW programme

- From 2015 to 2019, increase 35 GW of installed power capacity, 56% of which (20 GW) was from coal-fired power
- Thermal power installed capacity: 27GW in 2015 vs 47GW by 2019e
- Coal demand for power generation: 71mn tonnes in 2015 vs 99mn tonnes by 2019e and 111mn tonnes by 2020e

Figure 7: The upcoming spike in coal consumption in Indonesia



Source: Ministry of Energy and Mineral Resources, PSR

PLN's Electricity Supply Business Plan (RUPTL) (2017 to 2026):

- 31.9 GW of thermal power will be added
- Coal demand: 85mn tonnes in 2017 to 155mn tonnes by 2026e

Sectoral overview

Figure 8: Peer comparison

Company	Bloomberg Ticker	Mkt Cap (SGD mn)	EV (SGD mn)	EV/EBITDA TTM	RESERVE (mn tonnes)	EV/RESERVE (SGD/tonnes)	PRODUCTION (mn tonnes) FY16	PRODUCTION (mn tonnes) FY17e	FY17e P/E	FY16 P/E	FY16 P/B	Net D/E (%)	ROA (%)	ROE (%)
Singapore														
Golden Energy & Resources	GER SP	1,047	1,139	5.3	780	1.5	9.5	14.0	9.9	26.0	2.3	Net Cash	9.4	20.0
Geo Energy Resources	GERL SP	359	323	2.4	100	3.2	5.5	10.0	6.6	5.2	1.7	0.8	17.9	37.1
BlackGold Natural Resources	BHR SP	110	115	N/A	147	0.8	0.3	0.5	N/A	N/A	6.9	39.1	-20.5	-29.7
Indoneisa														
Adaro Energy	ADRO IJ	6,340	7,548	5.1	1,200	6.3	52.5	52.0-54.0	11.2	12.5	1.4	9.4	6.0	12.1
Bukit Asam Persero	PTBA IJ	3,076	2,854	5.0	3,300	0.9	19.6	24.0	8.8	8.9	2.3	Net Cash	17.1	28.9
Indo Tambangraya Megah	ITMG IJ	2,306	1,797	2.6	198	9.1	25.6	25.5	7.7	8.3	1.8	Net Cash	16.9	22.7
Harum Energy*	HRUM IJ	661	428	3.1	113	3.8	7.9	10.0	12.8	15.0	1.6	Net Cash	7.7	10.9
Baramulti Suksessarana**	BSSR IJ	624	586	5.2	114	5.1	6.4	8.4	9.7	11.2	4.2	9.2	21.6	37.9
Market-cap Weighted Average				4.5		5.3			10.0	11.2	2.3	9.3	13.8	22.5

Coal reserve estimate was as of 2016

*Harum Energy: coal reserve estimate was as of 2009

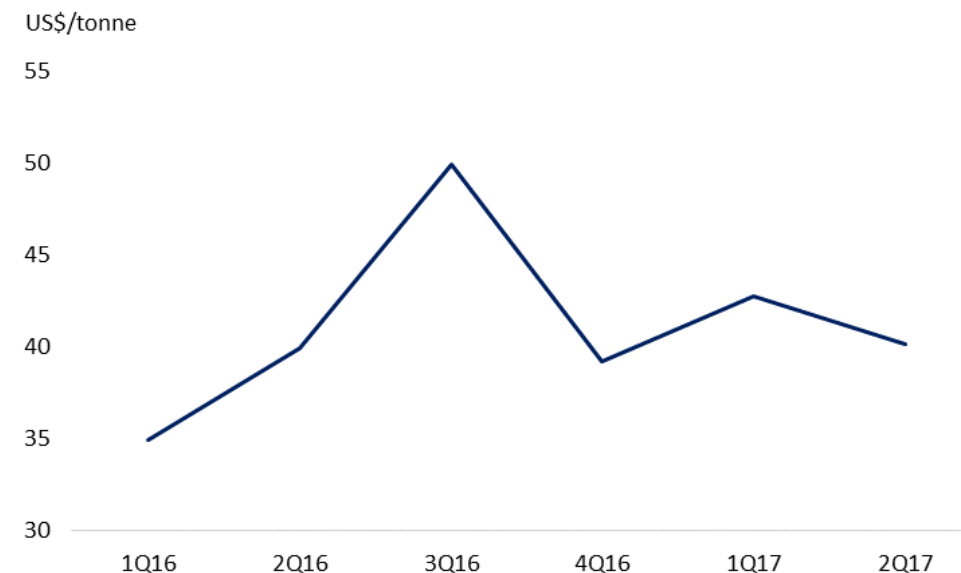
**Baramulti Suksessarana: coal reserve estimate was as of 2012

Source: Bloomberg, Company, PSR

Coal price outlook

- Mid- to long-term coal sales and purchase agreement on the basis of a price level of Rmb535/tonne (US\$80/tonne)
- Thermal coal price alert mechanism against abnormal fluctuation
- Average coal price (4,200 GAR) to be within US\$37/tonne to US\$38/tonne in FY17e and FY18e

Figure 10: Average quarterly ICI 4,200 GAR price



Source: Argus, PSR

Figure 9. Thermal coal price alert mechanism

	Indentification	Fluctuation interval	Price interval (Rmb/tonne)	
			Lower bound	Upper bound
Green zone	Normal	Within 6%	>500	<570
Blue zone	Moderate	6% to 12%	470 - 500	570 - 600
Red zone	Abnormal	Above 12%	<470	>600

Price base is Rmb535/tonne

Sources: NDRC, PSR

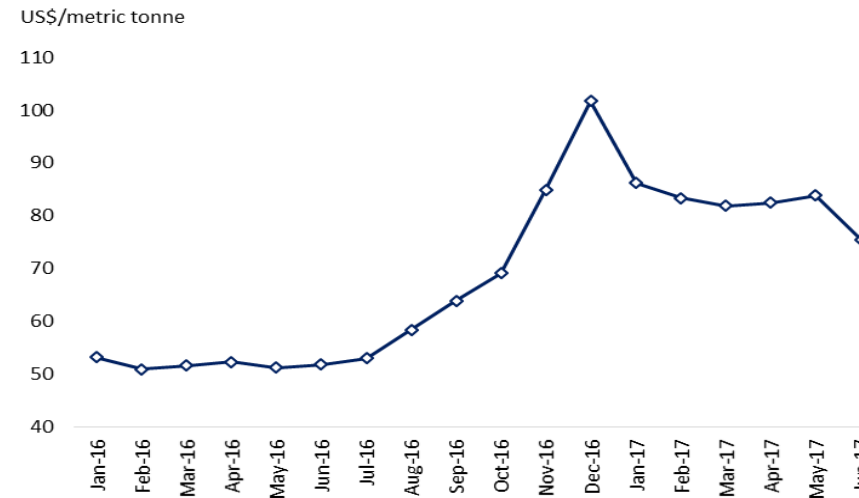
Phillip Coal Tracker: Our snapshot of coal markets

Figure 11: Coal import from Indonesia to China



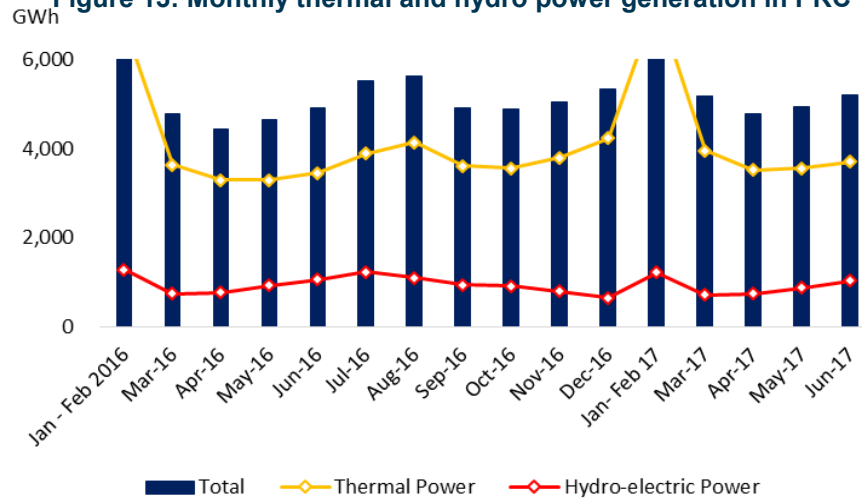
Source: General Administration of Customs of PRC, PSR

Figure 12: Indonesia coal price reference (HBA)



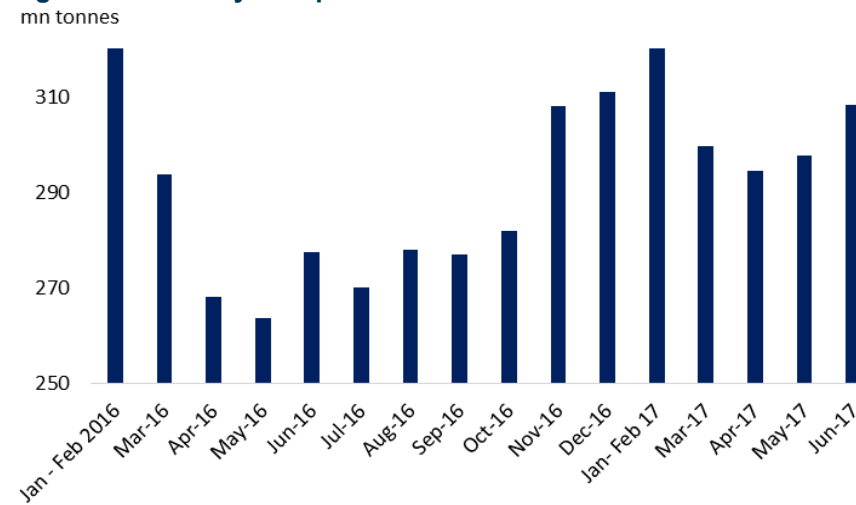
Source: Coalspot.com, PSR

Figure 13: Monthly thermal and hydro power generation in PRC



Source: National Bureau Statistics of PRC, Bloomberg, PSR

Figure 14: Monthly coal production in PRC



Source: National Bureau Statistics of PRC, Bloomberg, PSR

Phillip Coal Tracker: Our snapshot of coal markets

- China continues to expand the coverage of urbanisation, and more new coal plants are to be deployed
- Southeast Asia will be the fastest growing region

Figure 15: Proposed coal plants by region as of Jul-17

	East Asia		South Asia		Southeast Asia	
	Units	Capacity (MW)	Units	Capacity (MW)	Units	Capacity (MW)
Announced	126	73,612	53	36,530	113	41,260
Pre-permit	150	72,467	79	58,125	86	33,800
Permitted	79	37,585	56	33,265	34	15,645
Subtotal	355	183,664	188	127,920	233	90,705
Construction	311	162,501	88	48,643	76	26,977
Shelved	660	423,899	150	92,398	67	36,517
Operating	3,119	1,021,375	913	220,991	274	68,319
Total	4,800	1,975,103	1,527	617,872	883	313,223

Source: Global Coal Plant Tracker, PSR

Golden Energy and Resources

An upcoming giant

Chen Guangzhi

Phillip Securities Research Pte Ltd

28 August 2017

Investment Merits

- **Looking for a 50% ramp-up in production volumes**
 - Total production: 9.5mn tonnes in FY16 (BIB: 7.5mn, KIM: 2mn)
 - Production target: 14 mn tonnes in FY17e (BIB:12.5mn, KIM: 2mn)
 - As of 1H17, GEAR completed 43% of the target

- **Low cash cost and strip ratio**
 - The average life-of-mine strip ratio of BIB mine (key mine) is estimated at 4.1
 - Cash cost: US\$19.5/tonne in FY16, estimated US\$21.2/tonne and US\$20.1/tonne for FY17e and FY18e
 - Industry cash cost is around US\$40-50/tonne

- **Abundant reserves for long-term development**
 - Total reserves of 778mn tonnes as of FY16
 - Upon the completion of the acquisition of BSL, the total reserves are estimated to be 993mn tonnes

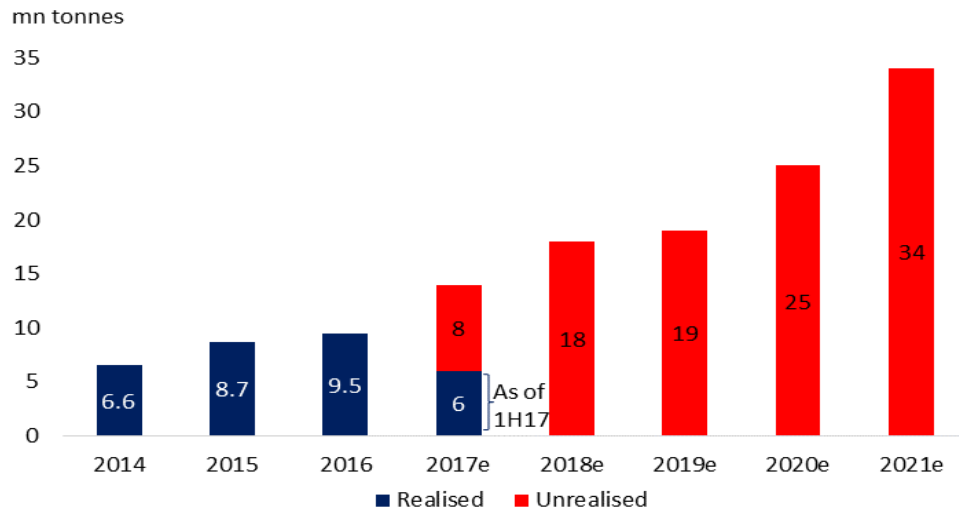
- **Diversified sales channels lower geopolitical risks**
 - The domestic market: more 50% of the coal sales in FY15 and FY16 respectively, China: >20%, India: >10%

Abundant reserves & Ramp-up of production

- **Wide range of calorific value (CV)**
 - Cater to both power generation (low CV coal demanded) and metallurgy (high CV coal demanded)

- **Broad field of forestry resources**
 - Pulp log sales
 - Land rent-use right

Figure 17: Production visibility till 2021



Source: Company, PSR

Figure 16: Coal and forestry reserves

Coal mine	Area (hectares)	Reserves (mn tonnes)	Average calorific value (GAR)	Production (mn tonnes)	
				FY16	FY17e
BIB	24,100	652	3,864 - 6,528	7.5	12
TKS	9,707	N/A	5,352	-	-
WRL	4,739	70	2,865	-	-
KIM	2,610	56	4,835- 4,961	2	2
	41,156	778		9.5	14
BSL*	24,385	195			
	65,541	973			

Forestry	Area (hectares)	Plantation
HRB	265,095	Acacia Mangium Jabon Sengon Rubber

*BSL: Proposed acquisition in May-17, 195mn coal reserves are from South Block, one of the two sub-blocks

Source: Company, PSR

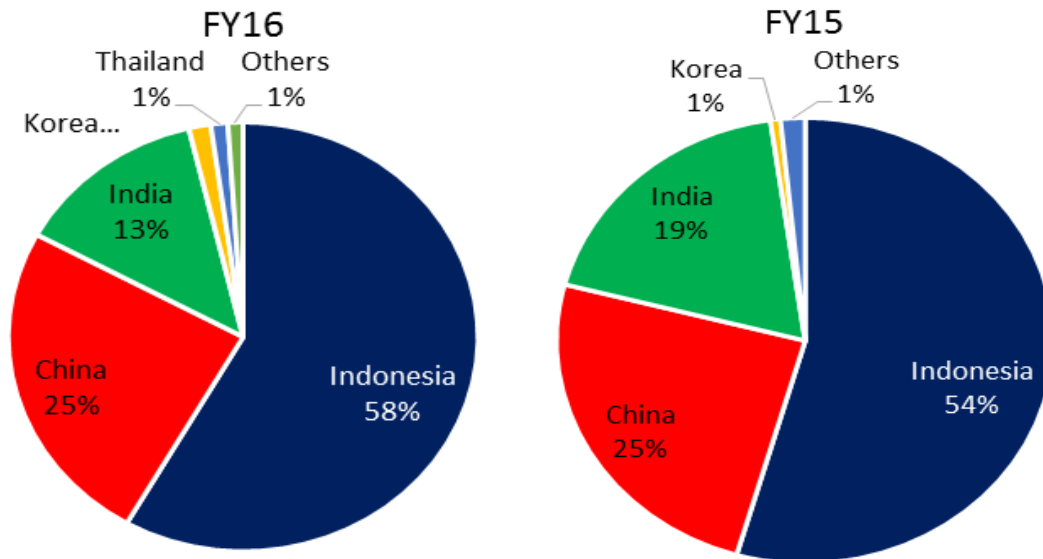
- **Fast growth of production**
 - Longer-term target: more than triple production in five years to 34m tonnes in 2021.

Low cash cost & Diversified sales channels

Low cash cost benefits operations

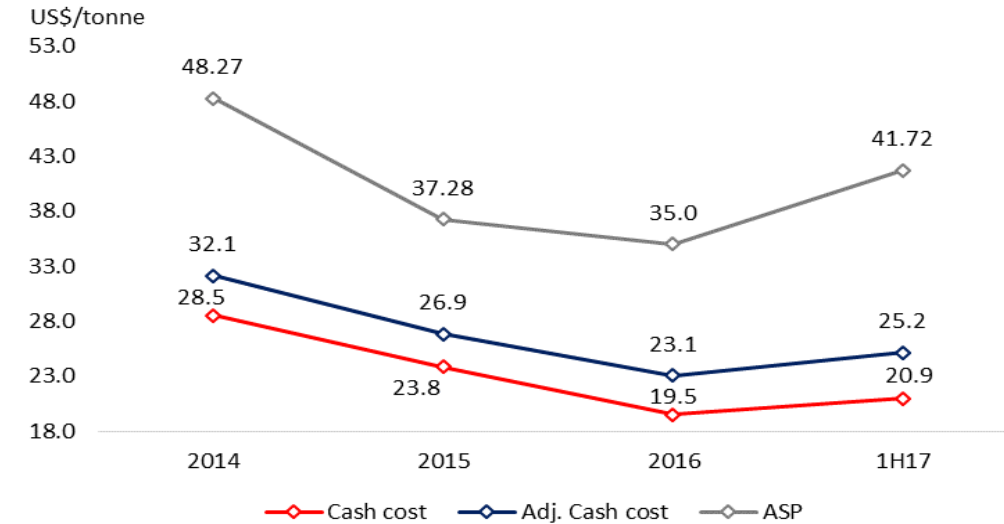
- Enhance profit margin when ASP soars
- Buffer the downturn when ASP collapses

Figure 25: Revenue breakdown by geographic locations



Source: Company, PSR

Figure 27: Low cash cost on a downtrend



*Cash cost: including COGS & selling expenses; excluding royalty fees

**Adj. Cash cost: cash cost including royalty fees

Source: Company, PSR

Diversified coal sales

- Align the production with rising domestic coal demand
- Complying with policies that prioritise coal for domestic needs
- Buffers the group when other countries' policies turn

Key assumptions & Valuation

(US\$ mn)	2014	2015	2016	2017e	2018e
Production volume (mn tonnes)	6.6	8.7	9.5	13.5	17.0
ASP (US\$/tonne)	48.4	37.3	35.0	39.5	40.0
Revenue	435,953	359,771	393,272	540,994	688,689
Cash cost (US\$/tonne)	28.5	23.8	19.5	21.2	20.1
Adj. cash cost (US\$/tonne)	32.1	26.9	23.1	25.2	23.9
EBIT	21,108	2,163	58,742	147,697	204,256
EBIT margin (%)	5%	1%	15%	27%	30%
PATMI	10,791	(9,395)	22,006	72,874	102,101
Net margin (%)	2%	-3%	6%	13%	15%

- FY18e EPS: 4.34 US cents
- Average 12-month forward PER:10.0x
- USD/SGD:1.36x
- Target price of S\$0.59 for FY18, implying an upside of 32.6% from the last closing price

Blackgold Natural Resources

Spike in coal sales

Paul Chew

Phillip Securities Research Pte Ltd

28 August 2017

Blackgold Natural Resources

(Trading BUY, TP:S\$0.16, Last: S\$0.118)

- Initiate Blackgold Natural Resources as Trading BUY
- Background
 - Owns three coal concessions in Sumatra Indonesia; producing concession is Samantaka Batubara
 - Huge reserves of 147mn tonnes; more than 30 years reserve
- Share price drivers
 - Spike in coal sales from 30k in FY16 to 1.3mn tonnes in FY18e
 - More new customers as Sumatra power consumption expected to grow 11% p.a. till 2026
 - Award of Riau 1 mine mouth project will triple sales and additional power income stream Risk: 1) Needs US\$60mn capex for coal production to support Riau 1; 2) US\$54mn for 20% stake in Riau 1.
- Valuation
 - S\$0.16 target price is based on 10x PE FY18e



Geo Energy Resources

Poor weather in 2Q17

Chen Guangzhi

Phillip Securities Research Pte Ltd

28 August 2017

Geo Energy Resources

(Maintain BUY, TP: S\$0.44, Last: S\$0.265)

Results at a glance

(US\$ mn)	1H17	1H16	YoY (%)	Comments
Revenue	158.2	33.3	375.4	Substantial increase in coal sales volume (3.7mn tonnes in 1H17 vs 1.3mn tonnes in 1H16) and average selling price (US\$39.7/tonne in 1H17 vs US\$31.4/tonne in 1H16)
Gross profit	44.5	1.5	N.M	In line with the above
EBIT	37.7	4.5	N.M	One-off gain on disposal of subsidiaries and late payment interest charged to certain debtors in 2Q16
PAT	24.6	1.4	N.M	Increase in income tax expenses
PATMI	24.6	0.1	N.M	In line with the above

Source: Company, PSR

N.M: Not Meaningful

Slippage in sales of coal QoQ (2Q17:1.45 mntonnes vs 1Q17:2.21 mn tonnes)

- Prolonged monsoon season as well public holidays
- Expect a higher volume of coal sales in 2H17 given better weather conditions

Capital restructuring halted amid cash burning

- Not to proceed the refinancing plan of issuance of a USD-denominated fixed rate senior note
- Capex in 1H17: US\$31.1mn for acquisition of TBR mine, US\$23.1mn for jetty expansion, and US\$8.7mn for dividend
- Cash in hand: US\$20mn as of Jun-17

Outlook: need extra funding to repay MTN worth of S\$100mn (US\$71mn)

800 Super Holdings Ltd

Stable operating cash flow and dividends ahead

Richard Leow

Phillip Securities Research Pte Ltd

28 August 2017

800 Super Holdings Ltd

(Buy, TP: \$1.53, DPS: 4.0 cents (3.4%) , Last: \$1.175)

Results at a glance

(SGD mn)	FY17	FY16	YoY	Comments
Revenue	157	156	0.3%	Completion of certain cleaning contracts, offset by new projects being awarded during FY17
EBIT	21.6	19.7	9.4%	1% lower OpEx resulted in margin expansion to 13.8% from 12.6%
PATMI	17.1	16.7	2.3%	S\$1.79 mn higher income tax expense

Source: Company, PSR

Higher revenue and profit, in contrast to listed-competitor

- Colex: 12M-revenue -0.8% YoY, 12M-NPAT -17% YoY

Positive surprise of 3.0 cents final dividend, higher than expected

- FY16 final dividend: 2.5 cents
- Expecting only 2.5 cents final, in view of capital commitments for ongoing projects
- Full year 4.0 cents (FY16: 2.5 cents)

Projects on track for completion

- WTE plant end-2017; sludge treatment facility 2Q 2018

Stable outlook

- Near-term weakness in PATMI over the following two years, because of higher depreciation & under-utilisation during ramp-up period
- Operating cash flow remains stable; 4.0 cents dividend sustainable
- Negative free cash flow in FY18e, due to capex for sludge treatment facility

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