



CHINA
DEVELOPMENT
FINANCIAL

Golden Energy and Resources

(GER SP/GOLD.SI)

BUY - INITIATION

Price as of 11 Jan 2017	0.48
12M target price (\$\$)	0.95
Previous target price (\$\$)	na
Upside (%)	101

Trading data

Market Cap (\$\$m)	1,117.7
Issued Shares (m)	2,353.1
Ave Daily Traded (3-Month) Vol / Val	1.1m / \$0.6m
52 week lo / hi	\$0.40 / \$0.71
Free Float	12.6%

Major Shareholders

PT Dian Swastika	87.9%
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GER SP (1yr) VS STI



Source: Bloomberg

Golden opportunity

We initiate Golden Energy and Resources (GEAR) with a BUY recommendation and a target price of \$0.95 based on our DCF valuation (WACC 12.5%, Long Term Growth 0%). We expect improving operational performance and plans to raise coal production to 14m tonnes in FY17F (+40% YoY) to help lift FY17 earnings growth significantly.

Increasing coal production backed by large reserves. GEAR has rights to mine more than 2bn tonnes of coal and is backed by its 780m of coal reserves as at 31 Oct 2016. GEAR owns 67% of PT Golden Energy Mines Tbk (GEMS IJ) whose coal assets are valued at US\$3.1bn, according to the Independent Qualified Person Report (IQPR) by Salva Mining. GEAR's crown jewel is its BIB mine in South Kalimantan, Indonesia that makes up 95% of our total valuation of the group. Its BIB mine enjoys close proximity to the coast and a low stripping ratio, enabling it to achieve similar margins to peers with higher quality coal. Furthermore, its large reserves enable it to tender to supply coal to domestic power plant projects which require 20-25 years of coal supply.

GEARing up on higher coal prices and improved operational performance. GEAR's ASP typically lags coal benchmark prices by around three months due to the nature of its contracts. Ecocoal, the closest benchmark in Indonesia to GEAR's coal, has risen by 70% YoY in Dec-16. We can expect this to filter down to GEAR's ASP starting 1Q17. More importantly, it has continued to improve operational performance, bringing down cash cost to US\$19.7/tonne for its 9M16 period from US\$28.5/tonne and US\$23.8/tonne in FY14 and FY15, respectively. GEAR reported its highest quarterly profit since its reverse takeover in April 2015 and we expect the positive earnings growth momentum to continue this year.

Asia's emerging countries still need coal to fuel their growing electricity needs. Although share of coal in world power generation is expected to drop to 36% by 2021, down from 41% in 2014, according to estimates by the International Energy Agency (IEA), absolute coal demand is still expected to be high. Demand shift to Asia from the U.S. and Europe is accelerating, thus benefiting strategically located Indonesian coal miners such as GEAR. The IEA forecasts solid coal demand to continue in Asia, where coal-based electricity is one of the preferred options to increase power generation to meet electricity shortage.

Key Risks: Decline in coal prices due to weaker demand/increased production from China. Regulatory risks in Indonesia.

Financials & Key Operating Statistics

YE Dec (US\$m)	2014	2015	2016F	2017F	2018F
Revenue	436.0	359.8	413.2	588.0	630.0
PATMI	10.8	-8.9	16.9	95.8	103.9
Core PATMI	10.8	-6.2	16.9	95.8	103.9
Core EPS	0.4	-0.1	0.7	4.1	4.4
Core EPS grth (%)	na	na	na	465.6	8.5
Core P/E (x)	95.9	-237.2	47.1	8.3	7.7
DPS (SGCents)	0.0	0.0	0.0	0.0	0.0
Div Yield (%)	0.0	0.0	0.0	0.0	0.0
Net Margin (%)	2.5	-2.5	4.1	16.3	16.5
Gearing (%)	NC	29.7	5.4	NC	NC
Price / Book (x)	4.2	7.6	2.8	2.1	1.7
ROE (%)	4.4	-3.2	4.5	18.5	15.5

Source: Company Data, KGI Securities *Net Cash (NC)

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See the last page for important disclosures.

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Valuation - Base case

We estimate a fair value of S\$0.95 based on our DCF valuation (WACC 12.5%, Long Term Growth 0%) for the base case scenario. We utilised the following assumptions for our DCF model:

- WACC of 12.5% based on 14% cost of equity and 8% cost of debt. Our WACC is higher than the 10.5% WACC utilised in the IQPR by Salva Mining for the BIB concession.
- Life of mine until 2035 based mainly on BIB concession of up to 30 years.
- Long term average selling price of US\$42/tonne. This price is a 10% discount to the current price of Ecocoal (4200 kcal/kg), the closest comparable coal price index in Indonesia, and a 48% discount to the current Newcastle price (6000 kcal/kg, US\$/tonne, FOB).
- We assumed cash costs (production and operating cost excluding royalty and D&A) of US\$20.0/tonne. This assumption is higher than GEAR's current cash costs, which it has been able to bring down to US\$19.7/tonne for its 9M16 period. Our assumption is also higher than the IQPR's average US\$17.3/tonne cash cost over the life of the mine.
- We utilised a 13.5% royalty rate that is levied as a percentage of sale proceeds and a tax rate of 25%, as per Indonesian regulations for BIB.
- Production is contributed mainly from its BIB mine (653m tonnes) and a minor contribution from the other mines (38m tonnes). This assumption is conservatively below GEAR's latest reserves of 780m tonnes.
- Mining schedule mainly follows the production schedule as set out in the IQPR for the BIB mine – 7.1m tonnes/yr in 2016, 12m tonnes/yr in 2017, 13m tonnes/yr in 2018 and increasing to 23m tonnes/yr by year 4 with a peak production of 40m tonnes/yr forecast by year 7 onwards. We estimate a 2m tonnes/yr production from its other mines, which we believe is conservative given that one of the other three mines already produced 2.4m tonnes in FY15.

Our fair value is at the lower end of the valuation range for its BIB mining concession. Our DCF derived fair value of US\$2.4bn is at the lower end of the US\$2.3bn to US\$3.5bn valuation range for its BIB concession alone (not including the value of its three other mines and forestry business), as per the valuations indicated in the IQPR.

Figure 1: DCF Valuation - Base case

US\$ million	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035
BIB Mine Production (Mt)	12	13	15	23	32	36	40	40	40	40	40	40	40	40	40	40	40	40	38
Other mines (Mt)	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2
Total Coal mined (Mt)	14	15	17	25	34	38	42	42	42	42	42	42	42	42	42	42	42	42	40
Average Selling Price (US\$/t)	42	42	42	42	42	42	42	42	42	42	42	42	42	42	42	42	42	42	42
Revenue	588	630	714	1050	1428	1596	1764	1764	1764	1764	1764	1764	1764	1764	1764	1764	1764	1764	1680
Operating costs	-280	-300	-340	-500	-680	-760	-840	-840	-840	-840	-840	-840	-840	-840	-840	-840	-840	-840	-800
Royalty (13.5% of Revenue)	-79	-85	-96	-142	-193	-215	-238	-238	-238	-238	-238	-238	-238	-238	-238	-238	-238	-238	-227
EBITDA	229	245	278	408	555	621	686	686	686	686	686	686	686	686	686	686	686	686	653
Depreciation	-37	-37	-35	-33	-31	-30	-28	-27	-26	-24	-23	-22	-21	-20	-19	-18	-17	-16	-15
EBIT	192	208	243	375	524	591	657	659	660	662	663	664	665	666	667	668	669	670	638
EBIT (1-25% tax rate)	144	156	182	281	393	443	493	494	495	496	497	498	499	500	500	501	502	502	478
Capex	-47	-71	-76	-75	-51	-15	-10	-10	-10	-10	-10	-10	-10	-10	-10	-10	-10	-10	-10
Working capital adj	-6	-6	-7	-11	-14	-16	-18	-18	-18	-18	-18	-18	-18	-18	-18	-18	-18	-18	272
FCF	128	116	134	229	359	442	494	493	493	493	493	492	492	492	491	491	491	491	755
PV (FCF)	114	91	94	143	199	218	217	192	171	152	135	120	106	95	84	75	66	59	81
Less Net Debt (US\$m)	2410																		
FCF to equity (US\$m)	20																		
FCF to equity (S\$m)	2390																		
Equity/share (S\$)	3346																		
GEAR share - 67%, (S\$)	1.42																		
WACC	0.95																		
	12.5%																		

Source: KGI Securities

Valuation – Bull case

Our bull case scenario derives a fair value of **S\$1.32** based on our DCF valuation (WACC 12.5%, Long Term Growth 0%). We utilised the following assumptions for our DCF model:

- WACC of 12.5% based on 14% cost of equity and 8% cost of debt. Similar to our base case.
- Life of mine until 2035 based mainly on BIB concession of up to 30 years.
- Long term average selling price of US\$47/tonne, +US\$5/tonne above our base case scenario. This price is in line with current Ecocoal prices and a 42% discount to Newcastle prices.
- We assumed cash costs (production and operating cost excluding royalty and D&A) of US\$19.0/tonne, US\$1/tonne below our base case. Our cash cost assumption is still higher than the IQPR's average US\$17.3/tonne cash cost over the life of the mine.
- We utilised a 13.5% royalty rate that is levied as a percentage of sale proceeds and a tax rate of 25%, as per Indonesian regulations for BIB concession.
- Production is contributed mainly from its BIB mine (653m tonnes) and a minor contribution from the other mines (38m tonnes). This assumption is conservatively below GEAR's latest reserves of 780m tonnes, as per the IQPR.
- Production schedule follows our base case scenario.

Our bull case DCF derived fair value of US\$3.3bn is still below the higher end of the US\$2.3bn to US\$3.5bn valuation range for its BIB concession alone (not including the value of its three other mines and forestry business), as per the valuations indicated in the IQPR.

Figure 2: DCF Valuation - Bull case

US\$ million	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	
BIB Mine Production (Mt)	12	13	15	23	32	36	40	40	40	40	40	40	40	40	40	40	40	40	38	
Other mines (Mt)	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	
Total Coal mined (Mt)	14	15	17	25	34	38	42	42	42	42	42	42	42	42	42	42	42	42	40	
Average Selling Price (US\$/t)	47	47	47	47	47	47	47	47	47	47	47	47	47	47	47	47	47	47	47	
Revenue	658	705	799	1175	1598	1786	1974	1974	1974	1974	1974	1974	1974	1974	1974	1974	1974	1974	1880	
Operating costs	-266	-285	-323	-475	-646	-722	-798	-798	-798	-798	-798	-798	-798	-798	-798	-798	-798	-798	-760	
Royalty (13.5%)	-89	-95	-108	-159	-216	-241	-266	-266	-266	-266	-266	-266	-266	-266	-266	-266	-266	-266	-254	
EBITDA	303	325	368	541	736	823	910	910	910	910	910	910	910	910	910	910	910	910	866	
Depreciation	-37	-37	-35	-33	-31	-30	-28	-27	-26	-24	-23	-22	-21	-20	-19	-18	-17	-16	-15	
EBIT	266	288	333	508	705	793	881	883	884	885	886	888	889	890	891	892	893	893	851	
EBIT (1-25% tax rate)	200	216	250	381	529	595	661	662	663	664	665	666	666	667	668	669	669	670	638	
Capex	-47	-71	-76	-75	-51	-15	-10	-10	-10	-10	-10	-10	-10	-10	-10	-10	-10	-10	-10	
Working capital adj	-7	-7	-8	-12	-16	-18	-20	-20	-20	-20	-20	-20	-20	-20	-20	-20	-20	-20	304	
FCF	183	175	201	328	493	592	659	659	659	658	658	658	658	657	657	657	657	656	948	
PV (FCF)	163	138	141	204	274	292	289	257	228	203	180	160	142	126	112	100	89	79	101	
PV (FCF)	3278																			
Less Net Debt (US\$m)	20																			
FCF to equity (US\$m)	3258																			
FCF to equity (S\$m)	4561																			
Equity/share (S\$)	1.94																			
GEAR share - 67%, (S\$)	1.30																			
WACC	12.5%																			

Source: KGI Securities

Valuation – Bear case

Our bear case scenario derives a fair value of S\$0.61 based on our DCF valuation (WACC 12.5%, Long Term Growth 0%). We utilised the following assumptions for our DCF model:

- WACC of 12.5% based on 14% cost of equity and 8% cost of debt. Similar to our base case.
- Life of mine until 2035 based mainly on BIB concession of up to 30 years.
- Long term average selling price of US\$37/tonne, US\$5/tonne below our base case scenario. This price is a 20% discount to current Ecocoal prices and 54% discount to current Newcastle prices.
- We assumed cash costs (production and operating cost excluding royalty and D&A) of US\$21.0/tonne, US\$1/tonne above our base case.
- We utilised a 13.5% royalty rate that is levied as a percentage of sale proceeds and a tax rate of 25%, as per Indonesian regulations for the BIB concession.
- Production schedule follows our base case scenario.

Our bear case DCF derived fair value of US\$1.5bn is a 30% discount to the lower end of the valuation range of US\$2.3bn to US\$3.5bn for its BIB concession alone (not including the value of its three other mines and forestry business), as per the valuations indicated in the IQPR.

Figure 3: DCF Valuation - Bear case

US\$ million	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035
BIB Mine Production (Mt)	12	13	15	23	32	36	40	40	40	40	40	40	40	40	40	40	40	40	38
Other mines (Mt)	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2
Total Coal mined (Mt)	14	15	17	25	34	38	42	42	42	42	42	42	42	42	42	42	42	42	40
Average Selling Price (US\$/t)	37	37	37	37	37	37	37	37	37	37	37	37	37	37	37	37	37	37	37
Revenue	518	555	629	925	1258	1406	1554	1554	1554	1554	1554	1554	1554	1554	1554	1554	1554	1554	1480
Operating costs	-294	-315	-357	-525	-714	-798	-882	-882	-882	-882	-882	-882	-882	-882	-882	-882	-882	-882	-840
Royalty (13.5%)	-70	-75	-85	-125	-170	-190	-210	-210	-210	-210	-210	-210	-210	-210	-210	-210	-210	-210	-200
EBITDA	154	165	187	275	374	418	462	462	462	462	462	462	462	462	462	462	462	462	440
Depreciation	-37	-37	-35	-33	-31	-30	-28	-27	-26	-24	-23	-22	-21	-20	-19	-18	-17	-16	-15
EBIT	117	128	152	242	343	388	434	435	437	438	439	440	441	442	443	444	445	446	425
EBIT (1-25% tax rate)	88	96	114	182	257	291	325	326	327	328	329	330	331	332	333	333	334	335	319
Capex	-47	-71	-76	-75	-51	-15	-10	-10	-10	-10	-10	-10	-10	-10	-10	-10	-10	-10	-10
Working capital adj	-5	-6	-6	-9	-13	-14	-16	-16	-16	-16	-16	-16	-16	-16	-16	-16	-16	-16	239
FCF	73	56	67	130	225	292	328	328	328	327	327	327	326	326	326	326	325	325	563
PV (FCF)	64	45	47	81	125	144	144	128	113	101	89	79	71	63	56	49	44	39	60
PV (FCF)	1543																		
Less Net Debt (US\$m)	20																		
FCF to equity (US\$m)	1522																		
FCF to equity (S\$m)	2131																		
Equity/share (S\$)	0.91																		
GEAR share - 67%, (S\$)	0.61																		
WACC	12.5%																		

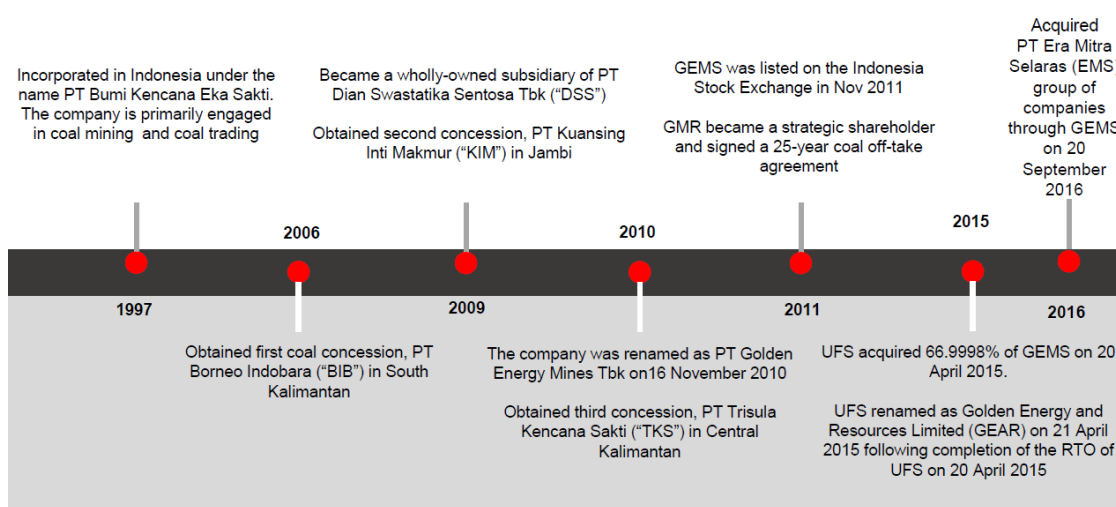
Source: KGI Securities

Company Overview

GEAR owns 67% of PT Golden Energy Mines Tbk (GEMS), which is principally engaged in the exploration, mining and marketing of thermal coal sourced from its coal mining concessions in South and Central Kalimantan and Jambi (a province in Sumatra), Indonesia.

GEAR was formerly known as United Fiber System, until a reverse takeover (RTO) on 20 April 2015 of 69.9998% of PT Golden Energy Mines Tbk (GEMS). GEMS is listed on the Jakarta Stock Exchange. The vendor was PT Dian Swastatika Sentosa Tbk (DSS), also listed on the Jakarta Stock Exchange. GEAR's stock had been suspended until recently as its public float was only 3.4% after the reverse takeover. It completed a compliance placement at 67 SG cents, raising S\$120m, on 28 Nov 2016 and subsequently resumed trading on 12 Dec 2016.

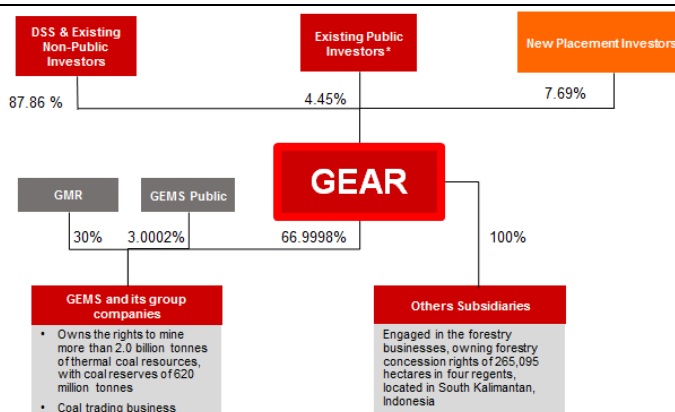
Figure 4: GEAR's journey to becoming one of the largest coal company in Indonesia



Source: Company presentation

Ownership. After completion of its post-compliance placement exercise, the Sinar Mas Group, through its Jakarta-listed entity, DSS, owns 87.93% of GEAR. AT GEMS' level, GMR Group (GMR), a leading infrastructure group in India, owns 30%. We note that the ownership of GMR allows GEMS to secure long demand for its coal through its 25-year offtake agreement to sell and deliver 217.5m tonnes of coal. This arrangement is in addition to currently supplying to the Sinar Mas Group of companies.

Figure 5: Group structure post-compliance placement to bring its free float above 10%



* Include new shares to be issued to a creditor

Source: Company Presentation

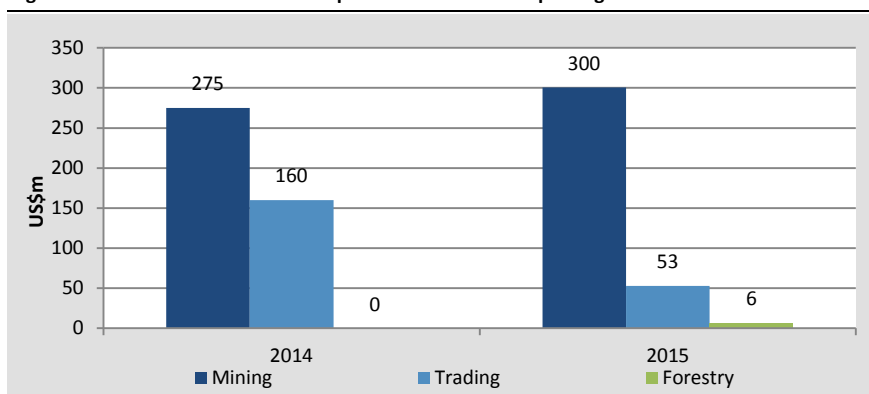
Business segments

GEAR has three business segments driven mainly by its coal mining division. Its coal mining division contributes 85-90% of total group revenues and is principally engaged in the exploration, mining, processing and marketing of thermal coal sourced from its main coal mining concession areas in Indonesia, which are in Jambi (a province in Sumatra), and South Kalimantan.

Its other business segment, coal trading, currently consists of procuring sales orders from customers and sourcing for domestic suppliers. The thermal coal in the group's coal trading business is generally of higher calorific value than those mined by GEAR's coal mining division.

The group holds a forestry concession right of 265,095 hectares in four regents in South Kalimantan, Indonesia. Out of the total concession rights, approximately 4,723 hectares of the forestry concession area has been planted with Acacia Mangium trees, Sengon trees and Rubber trees; and 1,496 hectares of natural forest plantation. We have not included the coal trading and forestry business in our valuations.

Figure 6: Lower ASP resulted in a drop in total revenues despite higher sales volume

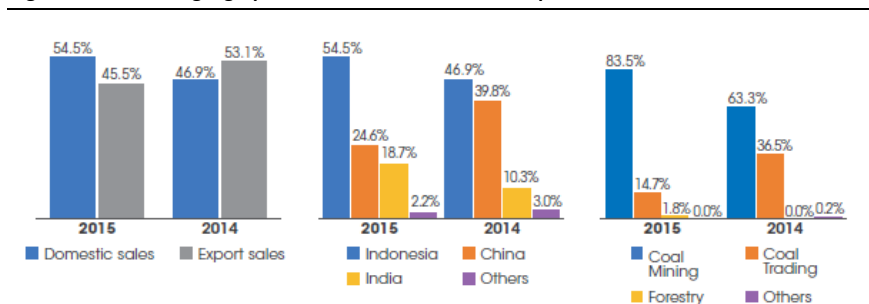


Source: Company, KGI Securities

Diversified customer base

GEAR's coal revenues is evenly split between domestic sales and export sales. Its export sales is mainly to China and India, which accounts for 95% of its total export sales. The international customers of the coal mining and coal trading typically consist of traders and end users. Domestic customers include power plant operators, pulp and paper factory operators, cement industry and coal trading companies that purchase coal for resale purposes.

Figure 7: Diversified geographical reach in both local and export sales



Source: Company

Coal mining assets

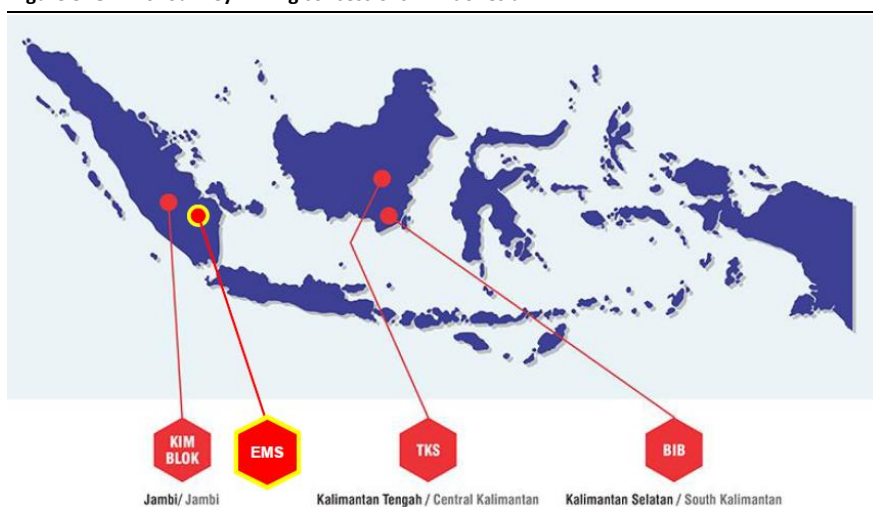
Although GEAR owns four mining concessions in Indonesia, its BIB mine in South Kalimantan currently contributes more than 95% of our fair value of the group. As a result, most of our discussion will focus primarily on its BIB mine. Information on the remaining three mines can be found in the appendix section.

The BIB mine is located in the Tanah Bumbu Regency of the South Kalimantan Province, Indonesia. The BIB concession is a second generation PKP2B coal concession (CCoW) covering a total area of 24,100 ha. The BIB concession consists of following five coal blocks.

The BIB Mine has been operating since 2005. It has produced 4.1m tonnes in 2013, 4.6m tonnes in 2014, 6.3m tonnes in 2015 and expected to produce 7.1m tonnes in 2016, according to the IQPR.

As per Salva Mining's preliminary production schedule, the minable tonnes over life of mine (LOM) for BIB is expected to be 654.7m tonnes and the corresponding waste mining would be 2,698 Mbcm. The LOM Stripping ratio is expected to be at 4.12 bcm/tonne of coal mined. The schedule targeted production is to increase to 12m tonnes in 2017 and 23m tonnes by year 5 with peak production of 40m tonnes from year 8 onwards. The average product coal quality based on reserves and life of mine plan for BIB is TM (ar) 35.4%, Ash (ar) 4.8%, CV (gar) 4,100 Kcal/Kg.

Figure 8: GEAR's four key mining concessions in Indonesia



Source: Company

Figure 9: Details of GEAR's coal mines

Asset	Location	Number of coal blocks	JORC Reserves, Mt	JORC Resources, Mt	CV (arb) - min	CV (arb) - max	License Type	License end date	2015 production (mil tonnes)
BIB	South Kalimantan	5	655	1819	3864	6528	CCOW 2nd Gen	2036	6.3
KIM	Jambi, Sumatra	2	57	258	4835	4961	IUP	2029	2.4
TKS	Central Kalimantan	2	0	77	5352	5352	IUP	2028	
EMS	Musi Banyuasin, South Sumatra	1	68	183	2865	2865	IUP	2036	

Source: Company, KGI Securities

Figure 10: Direct barge loading at BIB



Source: Company

GEAR's BIB conveyer belt has a max capacity in excess of 1m tonnes/month, providing ample support for the group's planned production expansion. Its conveyer belt extends 800metres into the sea and enables direct loading unto large barges.

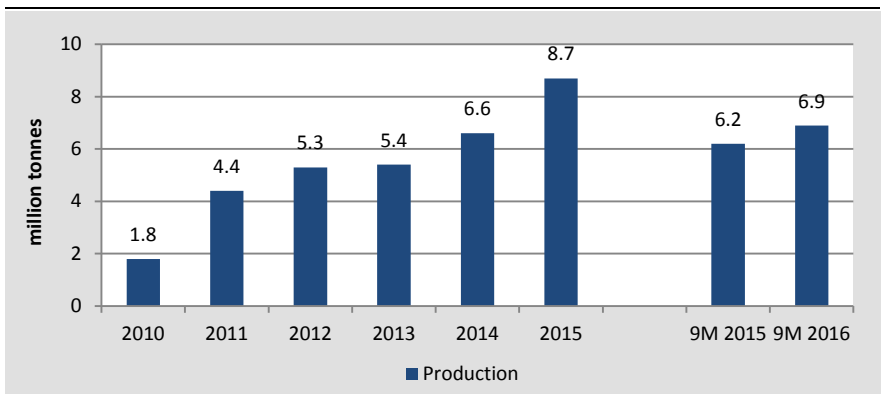
Operating Metrics – Increasing production and decreasing costs

GEAR has received approval from the Indonesian government to raise coal production at its BIB mine to 7.5m tonnes per annum for FY16 and it is in the process of seeking to approval to increase its production output at BIB to 12.0m tonnes in FY17.

Necessary infrastructure in place to support the increase in production. GEAR's BIB mining pits enjoys close proximity to its port (average 25km distance), compared to competitor's mining operations in South Kalimantan. GEAR enjoys the distinct competitive advantage of having their conveyer belts extend 800 metres into the Java Sea, which enable direct loading onto large barges that are not subjected to tidal conditions unlike many of its competitors which load at riverfront. These conveyer belts have a maximum capacity of 1 metric tonne per month and barge loading rate of 3,000 tonnes per hour. GEAR's transport infrastructure also encompasses other strategic assets, such as BIB-controlled hauling roads.

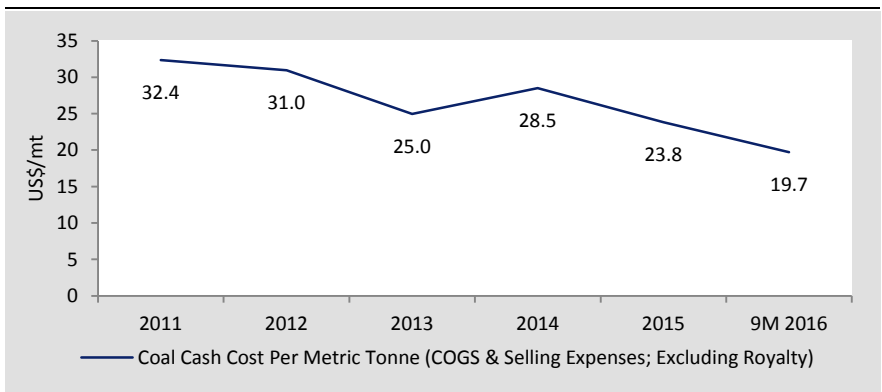
Consistent increase in production over the past six years. GEAR's coal mining division produced 8.7 million tonnes of thermal coal in FY2015, a 31.8% increase from FY2014's production volume of 6.6 million tonnes. Its BIB mining block's production volume contributed 72.4% of the total production volume, increased by 37.0% from 4.6m tonnes in FY2014 to 6.3m tonnes in FY2015. In addition, KIM mining block's production volume also increased by 20.0% to 2.4m tonnes in FY2015 from 2.0m tonnes in the corresponding year.

Figure 11: GEAR's production volumes continue to increase



Source: Company, KGI Securities

Figure 12: Declining operating costs as it benefits from improvements in operations



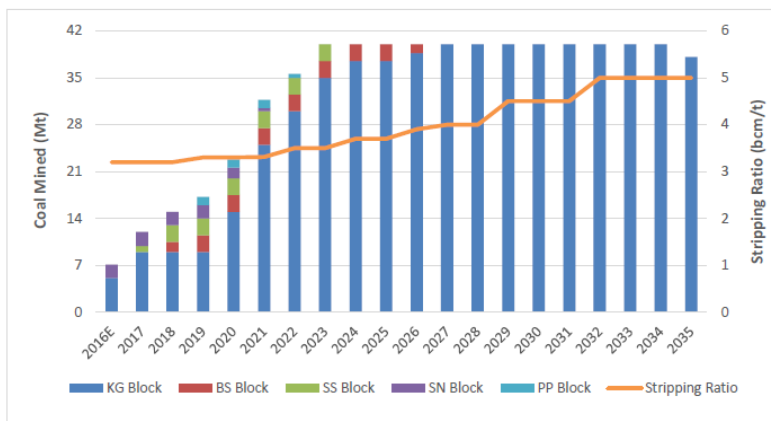
Source: Company, KGI Securities

GEAR is able to achieve low cash costs due to lower stripping ratios compared to peers and close proximity to port and transport infrastructure. For the 9M16 period, cash cost has declined to US\$19.7/t, well below that of regional peers.

Forecasts – production and coal prices

Production mainly from BIB mine. We expect GEAR’s BIB mine to be the main contributor given it has the largest reserves, lowest cash costs and sufficient supporting infrastructure in place out of its four mining concessions. According to the IQPR, the schedule targeted production for the BIB mine for 2016 is estimated to reach 7.1m tonnes, increasing to 12m tonnes in 2017 and 23m tonnes by year 5 with peak production of 40m tonnes from year 8 onwards.

Figure 13: BIB mining schedule as per the IQPR



Source: Company, BIB Valuation by Salva Mining (October 2016)

GEAR’s quality of coal sells at 40-50% discount to Newcastle prices. The average product coal quality based on reserves and life of mine plan for BIB is TM (ar) 35.4%, Ash (ar) 4.8%, CV (gar) 4,100 Kcal/Kg. The coal will be blended to produce one single product – Low Rank Coal (LRC). The LRC sells at a discount to the Newcastle benchmark price. This includes a pro-rata energy discount and further discount to account for higher freight and, lower boiler efficiencies, and higher ash disposal associated with lower quality coal.

The quality of the LRC coal is expected to be similar to that marketed by PT Adaro Energy Tbk (ADRO IJ) as Ecocoal, albeit a slightly bit lower CV (2.4% lower than Ecocoal). Historical prices of Adaro’s Ecocoal traded in the range of 54% to 62% of the Newcastle Index over in the past three years.

Coal price forecast in IQPR is 15%-30% discount to current prices. Salva Mining’s estimate of coal prices used for its valuation of BIB were made in Aug 2016, just before monthly coal prices increased an average 12%MoM from Aug 2016 to Dec 2016. Despite the 14% MoM drop in Jan 2017 prices, Ecocoal prices in Jan 2017 (US\$46/tonne) are still higher by 20% QoQ and 50% YoY. In contrast, our forecasts have utilised a range of US\$37/tonne (bear case) to US\$47/tonne (bull case) for the average long term coal price.

Figure 14: Coal price forecast as per BIB IQPR are significantly below current prices

	2016E	2017F	2018F	2019F	2020F	Long Term
Nominal Terms						
Newcastle Coal Index	56.4	53.7	55.1	57.4	58.9	70.1
Adaro’s Eco Coal	33.3	31.7	32.5	33.8	34.7	41.4
BIB - LRC Coal	32.5	30.9	31.7	33.0	33.9	40.4
BIB - HRC Coal	56.4	53.7	55.1	57.4	58.9	70.1
Real Terms						
Newcastle Coal Index	56.2	52.7	52.7	53.6	53.8	62.5
Adaro’s Eco Coal	33.2	31.1	31.1	31.6	31.7	36.9
BIB - LRC Coal	32.4	30.3	30.4	30.9	31.0	36.0
BIB - HRC Coal	56.2	52.7	52.7	53.6	53.8	62.5

Source: Compan, BIB Valuation by Salva Mining (October 2016)

Financial review

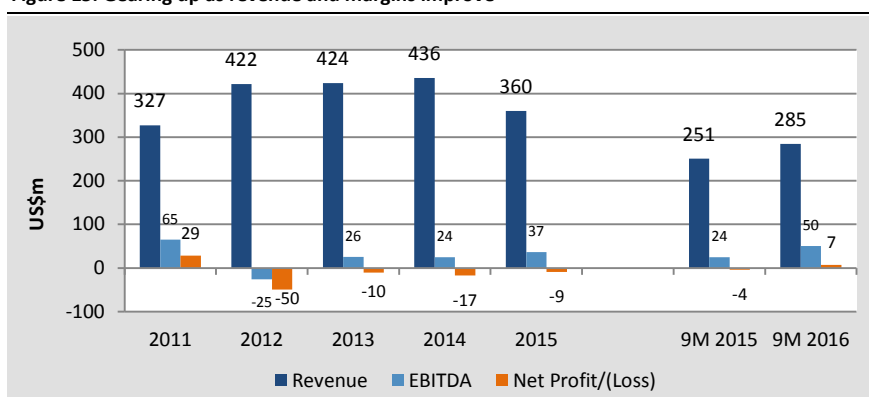
Revenues are mainly contributed its coal mining segment, which made up 85-90% of total sales in FY15-16. The remaining revenue contribution is from its coal trading division and forestry segment.

FY15 review. The group reported a US\$8.5m loss in FY15 compared to a net profit of US\$10.8m in FY14, due to lower gross profit margins attributed to the continuous pressure in coal prices and one-off losses including US\$5.2m in forex losses and US\$2.7m fair value loss on its forestry asset. Finance costs increased US\$5.9m in FY14 to US\$11.7m in FY15, mainly due to drawn down of a facility and finance costs payable to the group's secured and unsecured lenders since the completion of the reverse takeover. However, we expect finance costs to decline to around US\$4-5m/year post-placement exercise in Dec-16.

3Q16 results. GEAR's 3Q16 revenue increased to US\$87.1m from US\$70.8m in 3Q15 mainly due to higher sales volume. ASP increased marginally to US\$33.12/tonne in 3Q16 from US\$33.07/tonne in 3Q15. Although coal prices began rising in 3Q16, GEAR typically sets its next three months' coal prices based on the previous three months' prices. The prices are set according to 20%/30%/50% of the past three months (e.g., coal prices sold in 1Q17 will take the weighted average of 20% of Oct, 30% of Nov and 50% of Dec coal prices).

On a positive note, it reported its highest quarterly profit since the reverse takeover in April 2015. The group reported a net profit of US\$11.6m in 3Q16 as compared to a net loss of US\$5.5m in 3Q15, on improved operational performance resulting in higher gross margins.

Figure 15: Gearing up as revenue and margins improve



Source: Company, KGI Securities

Capital structure and cashflows. GEAR had net debt of US\$92m or 32% net gearing as at end 3Q16. However, post-placement of S\$120m (~US\$87m), its net debt should decline to around ~US\$45m, or a net gearing of 15%. Operating cash flows have improved in 3Q16 to its highest levels in the past two years.

We note that FY15 net cash flows of US\$59.6m used in investing activities included a US\$30m loan to Asia Coal Energy Ventures (ACEV), a fund under the Sinar Mas Group. This loan may be repaid or exchanged for shares in ACEV. ACEV acquired London miner Asia Resources Minerals Ltd (ARMS) in July 15, which in turn holds ~85% of PT Berau Coal Energy (Berau), another major Indonesian coal mining company that has ~650m tonnes of coal reserves. This may eventually lead to GEAR acquiring Berau to synergize the mining and energy businesses under the Sinar Mas Group (e.g., supporting the electricity expansion of DSS). We have not factored this into our valuations and forecasts.

Industry Outlook

The world is still expected to be highly dependent on coal

Coal, the second source of primary energy (roughly 30%), is mostly used for power generation (over 40% of worldwide electricity is produced from coal).

Significant trends in coal include:

- Global coal consumption in 2015 decreased for the first time this century. Growth is expected to recover back to 2014 levels only in 2021, as per IEA.
- Outlook for coal in Asia is positive as it remains the preferred source for power generation.
- Accelerating shift of demand to Asia is expected to benefit Indonesia due to its strategic location to major consumers like China and India.
- China to remain significant driver of coal prices in the short-mid term. The country accounts for 50% of global coal demand and 10% of seaborne trade.

Although coal's share of the global power generation mix is projected to drop to 36% by 2021, down 41% from 2014, as per IEA's assessment, the world is still expected to be highly dependent on coal. Coal is relatively affordable and widely available and thus is essential for new power generation, particularly where emerging countries with growth populations are seeking affordable energy sources to power their economies.

In 2015, global coal consumption decreased for the first time in this century, and the IEA forecasts demand reaching 2014 levels only in 2021. However, the IEA cautions that its estimates are largely dependent on Chinese demand. Regardless, coal is expected to be the preferred source of power generation among Asia's emerging countries.

Shift of demand to the East

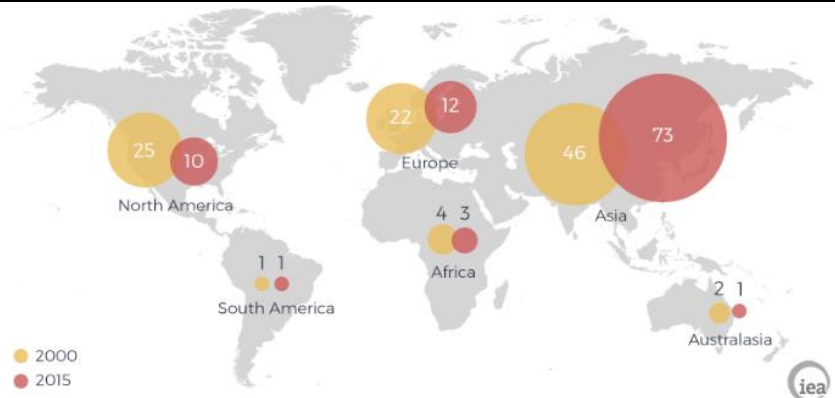
The decline of coal demand in Europe and North America continues as expected driven by the retirement of coal-powered power plants. The IEA forecasts coal demand to decrease by 100m tonnes in the U.S. through 2021 (300m tonnes decline in U.S. demand from 2007 to 2015).

However, coal demand is moving to Asia, where emerging economies with growing populations are seeking affordable and secure energy sources to power their economies.

IEA forecasts robust consumption to continue in North Asia (e.g., Japan, Korea and Taiwan) and high growth in South and Southeast Asia (e.g., India, Vietnam, Indonesia), where coal-based electricity is one of the preferred options to increase power generation in growing economies with electricity shortage. China, despite consumption having likely peaked, will continue to be the largest coal consumer by far over the period.

Indonesia is strategically located to cater to this growing demand in Asia. The main export destination countries for Indonesian coal are China, India, Japan and Korea. Coal has a clear importance for Indonesia's state revenue as the commodity accounts for around 85% of mining revenue.

Figure 16: Coal demand is moving to Asia (numbers in percentage)



Source: International Energy Agency(IEA)

Local demand

Domestic demand is likely to continue to increase given the Government's planned build-out of coal-fired power plants over the next five to ten years as it looks to improve Indonesia's electrification rate.

Between 2016 and 2024, electricity consumption in Indonesia is expected to increase from 219TWh to 464TWh, with an average growth of 8.7% per year.

Indonesian Government policy will also affect the nation's coal mining industry. To secure domestic supplies, the Indonesian Ministry of Energy and Mineral Resources ordered coal producers to reserve a specific amount of their production for domestic consumption. The government is targeting for more domestic consumption of coal as it wants coal to supply around 30% of the country's energy mix by 2025, an increase from 24% in 2011.

Figure 17: ID's gov't planned energy mix

Energy Mix	2011	2025
Oil	50%	23%
Coal	24%	30%
Gas	20%	20%
Renewable	6%	26%

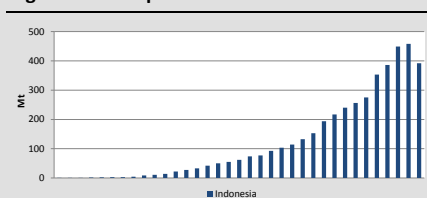
Source: Ministry of Energy and Mineral Resource

Supply

Indonesia is expected to remain the world's largest exporter of thermal coal as Indonesian coal mines are historically sitting at the lower end of the global production cost curve. However, export of coal from Indonesia is expected to grow at a slower pace as most of the incremental tonnes will be used in the expanding demand from the domestic market, in our view.

In terms of costs, Indonesia dominates the 1st quartile due to the availability of abundant and cheap labour, low-cost river barging, capital-light operations and the ability to sell run-of-mine coal, without the added expense of washing. According to the CRU Group, free on board costs for global thermal coal producers range from a low of US\$21.9/tonne to a high of US\$116.2/tonne for ongoing operations. In this context, GEAR's coal cost of US\$21.50/tonne (as at 31 December 2014) ranks among the lowest among major mine producers in Indonesia and regionally.

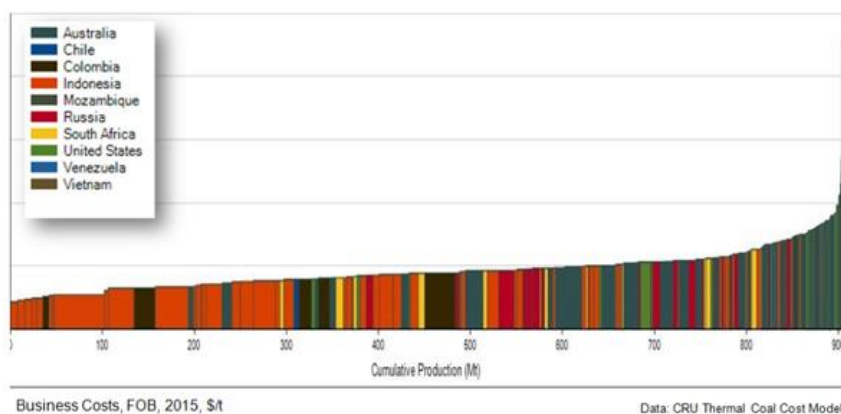
Figure 18: Coal production in Indonesia



Source: BP Statistical Review

Indonesian exports fell in 2015 for the first time in over a decade due to weaker demand growth in China and India, two of Indonesia's largest export markets. However, IEA still expects demand to remain robust as coal is the preferred choice for electricity generation in Asia's emerging countries.

Figure 19: Indonesia ships coal for as little as US\$22/tonne



Source: CRU Group

A significant portion of this exported thermal coal consists of a medium-quality type (between 5100 and 6100 cal/gram) and a low-quality type (below 5100 cal/gram) for which large demand comes from China and India.

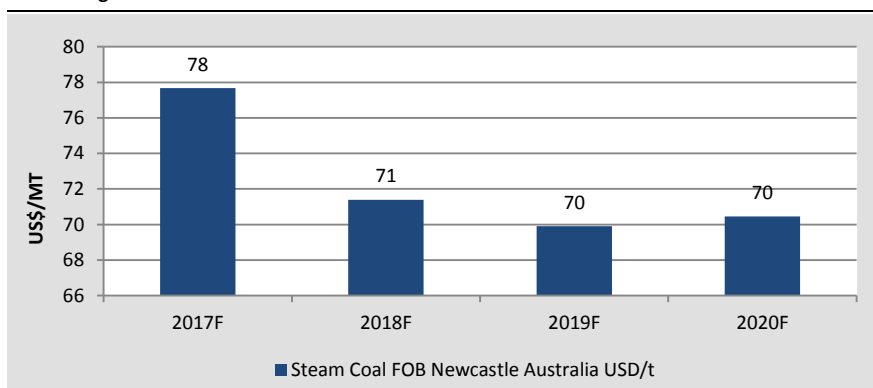
Prices

After a sustained four-year long decline, coal prices rebounded in 2016, mostly because of policy changes in China to cut capacity and limit oversupply. Measures taken by the Chinese government to curb oversupply, in particular, the reduction of working days, gave rise to a spike in coal prices, further exacerbated by disruptions in Australia and Indonesia.

Spot thermal coal prices increased significantly, from around US\$45/tonne in January 2016 up to over US\$90/tonne in November 2016 (thermal coal imports to Europe). Likewise, with regard to coking coal, the increase was even higher, quadrupling from US\$77/tonne in January 2016 up to over US\$300/tonnes in November 2016 (coking coal exports from Australia).

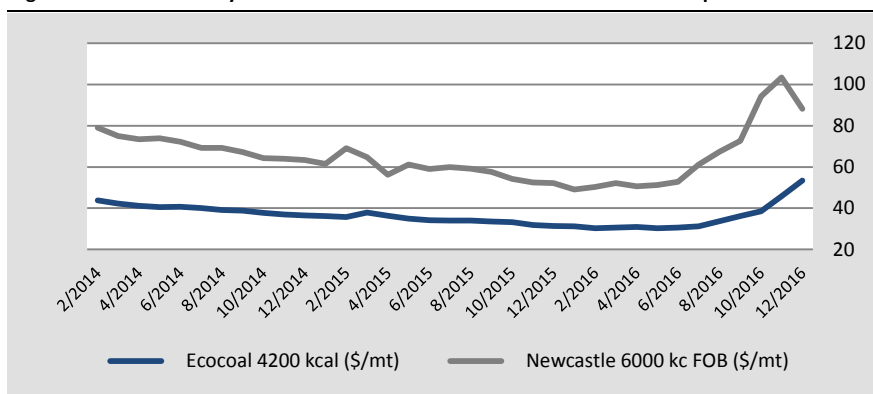
Prices of Newcastle thermal coal is expected to range between 70-78 US\$/tonne from 2017 to 2020, according to Bloomberg consensus estimates. The average of Newcastle prices over the last three years was US\$65/tonne.

Figure 20: Newcastle coal prices expected to trade above US\$70/t over the next four years as per Bloomberg consensus forecasts



Source: Bloomberg, KGI Securities

Figure 21: Ecocoal usually trades at 40-45% discount to Newcastle benchmark prices



Source: Bloomberg, KGI Securities

Key Risk

Decline in coal prices

Coal prices and the demand for coal are cyclical in nature and subject to significant fluctuations, and any significant decline in the prices of coal or demand for coal could materially and adversely affect the Company's business and financial condition.

Demand is primarily affected by the power sector and other industries utilising thermal coal. While we believe that it is unlikely that GEAR's assets will become uneconomic as it is considered to be a relatively low-cost producer, the reduction in long-term price will adversely affect the coal reserves estimates and may cause a reduction in production target and mine design.

Overall perspectives on the coal industry are now much firmer than just one year ago although reasonable doubts persist on the sustainability of current prices, given that climate pressure continues and air pollution is a serious issue which will shape policies in China, India and other emerging countries.

Expansion and infrastructure risk

Ramping up production to 40m tonnes/yr for its BIB mine requires the mobilisation of large amounts of mobile equipment and construction of coal handling facilities. The ability to achieve the target production expansion has a significant impact on the valuation of GEAR.

Regulatory risks

A number of government permits and approvals are required to facilitate expansions of the BIB Mines and the associated infrastructure facilities. Any delays in obtaining the necessary approvals may affect the production expansion and the mine plan. This may likely to cause the project to overrun which may significantly affect project capital and operating costs.

The risk associated with the tenure of concession is considered to be significantly lower than many other nearby mines, as the tenure is held under a 2nd generation PKP2B that is valid for close to the entire planned mine life.

Some future regulations may include a coal export tax or ban on certain qualities, stricter coal road transportation rules and alignment of IUP and CCOW royalty rates. The actual implementation of these new aspects of the law is still unclear and many contract holders are currently in negotiation with the Indonesian government regarding this issue. Issues like DMO, Coal upgrading requirements, Export taxes, Minimum Pricing Regulations and Foreign Ownership Restriction of the new law may affect the valuation of the BIB concession.

In our forecast for coal production, we have relied on the forecasts provided in the IQPR for GEAR's mines. The production schedule is dependent upon government approval. In the event that GEAR is unable to obtain the necessary approvals to increase production, our fair value of the company will be negatively impacted.

Peer Comparison

Singapore lists four Coal mining plays - GEAR, Geo Energy Resources, Resources Prima Group and BlackGold Natural Resources. All four stocks mine thermal coal - used to generate electricity, with mining conducted in Indonesia. GEAR represents around 75% of the combined market capitalisation of the four SGX-listed coal mining companies.

Geo Energy would perhaps be the closest SGX-listed peer, although its reserves of 54m tonnes (~100m tonnes post acquisition of PT Tanah Bumbu Resources) makes it a significantly smaller player compared to the larger Indonesian miners with coal reserves of 500m to 2bn tonnes.

Among its IDX-listed peers, GEAR has the fourth largest reserves after Adaro Energy, Bayan Resources and Bukit Asam. These companies have reserves of between 835m to 1990m tonnes as of FY15. Large reserves are an important factor in order to supply to the local energy market. GEAR's large reserves enable it to tender to supply coal to domestic power plant projects which require 20-25 years of coal supply. This is the competitive advantage larger coal companies have over smaller coal producers with small reserves.

On average, Indonesian coal miners are trading at 7.2x forward EV/EBITDA and 10.3x forward P/E. In contrast, we expect GEAR to trade at 7.2x FY17F EV/EBITDA and 8.3x FY17F P/E. Smaller companies are trading at a discount to their larger peers and may be due to the shorter life of their concessions, which makes them vulnerable to significant shift in short-term coal prices.

Figure 22: Peer comparison among Indonesian coal miners

Company	Bloomberg Ticker	Price (Lcl curr)	Mkt Cap (\$m)	P/E (x) (hist)	P/E (x) (fwd)	P/B (x)	ROE (%)	EV/EBITDA (x) (ttm)	EV/EBITDA (x) (fwd)	EV/EBITDA (x) (fwd 1 yr)	Net Gearing (%)	Dvd Yld (%)	BETA
Golden Energy and Resources	GER SP	0.48	1,118	114.1	42.6	3.6	5	13.0	19.6	7.2	29.7	na	na
Indonesian Coal Miners													
Adaro Energy	ADRO IJ	1,740	6,003	23.0	11.9	1.4	6	7.0	6.9	5.6	14.5	2.4	2.0
Tambang Batubara	PTBA IJ	12,075	3,001	16.5	10.4	2.7	17	11.8	11.4	7.7	NC	2.4	1.6
Indo Tambangraya	ITMG IJ	15,650	1,907	23.3	8.5	1.5	6	5.1	5.4	3.9	NC	3.2	1.2
Harum Energy	HRUM IJ	2,110	615	na	19.8	1.5	(3)	13.0	9.9	7.5	NC	na	0.8
Delta Dunia Makmur	DOID IJ	535	480	15.3	5.0	2.9	21	4.3	4.2	3.3	405.8	na	1.2
Geo Energy	GERL SP	0.23	279	76.3	6.2	1.8	1	17.7	5.2	3.3	50.7	na	0.4
Average (Excluding Golden Energy)				30.9	10.3	2.0	7.9	9.8	7.2	5.2	157.0	2.7	1.2

Source: Bloomberg, KGI Securities

Company Profile

Golden Energy and Resources Limited (GEAR), which owns 66.9998% of PT Golden Energy Mines Tbk, was formed from the RTO of United Fiber System Limited in April 2015. GEAR is engaged in the mining and marketing of thermal coal sourced from its mining concessions in Indonesia.

GEAR is backed by the Sinar Mas Group, one of Indonesia's largest conglomerates. The group collectively owns the right to mine more than 2.0bn tonnes of thermal coal resources, with coal reserves of 780m.

Figure 23: Key shareholders to help support long term volume growth

25-year Offtake Agreement with GMR Coal Resources ("GMR")

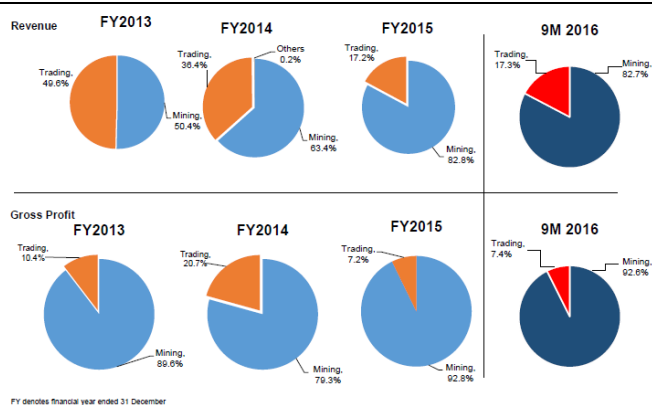
- To sell and deliver up to approximately 217.5 million tonnes of coal
- Support for long-term volume growth
- Part of terms agreed in connection with GMR's 30.0% investment in PT Golden Energy Mines Tbk in November 2011
- GMR Group is a leading infrastructure group in India

Backed by the Sinar Mas Group

- Currently supplies coal to Sinar Mas Group of Companies such as PT Indah Kiat Pulp and Paper Tbk and PT Pabrik Kertas Tjiwi Kimia Tbk
- Potential to supply coal to majority shareholder PT Dian Swastatika Sentosa Tbk as it plans to develop, construct and operate power plants in Indonesia
- Signed MOU with PT DSSE Energi Mas Utama ("DEMS") for the supply of coal to its 2 x 50 MW power plant ("Kendari Project") with first priority to supply any coal required for the Kendari Project and future power plants owned by DEMS

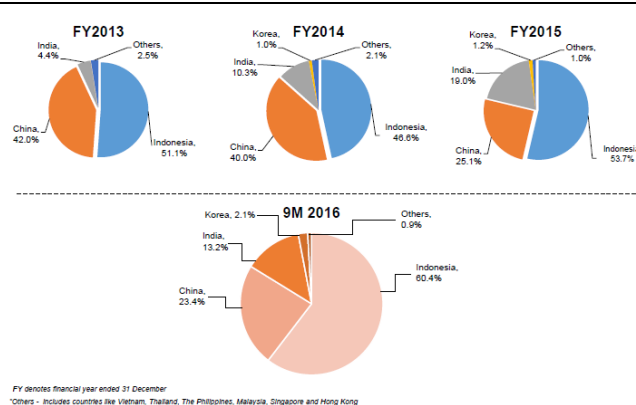
GEMS Financial and Operating Metrics

Figure 24: Revenue and gross profit breakdown (GEMS)



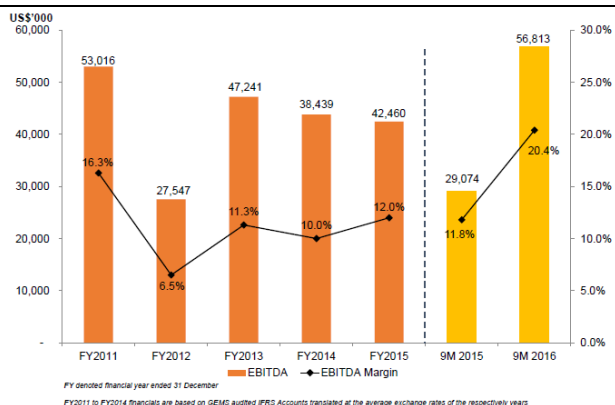
Source: Company

Figure 25: Geographical revenue breakdown (GEMS)



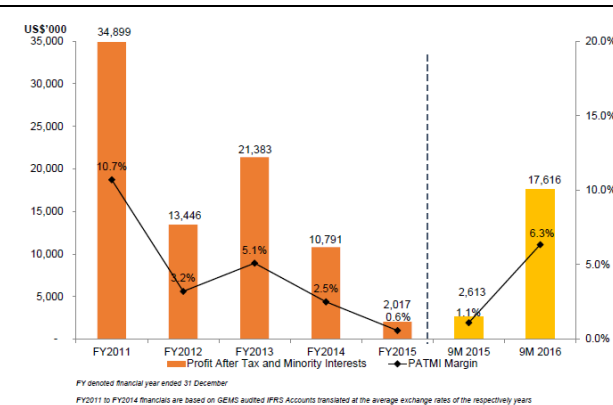
Source: Company

Figure 26: EBITDA & EBITDA margin (GEMS)



Source: Company

Figure 27: PATMI & PATMI Margin (GEMS)



Source: Company

Financials

YE 31 Dec

INCOME STATEMENT (US\$m)	2014	2015	2016F	2017F	2018F
Revenue	436.0	359.8	413.2	588.0	630.0
Profit from Operations	21.1	5.2	50.6	191.9	208.3
Finance income/(expenses)	(5.9)	(11.7)	(16.9)	(1.3)	(1.5)
Share of JV results	0.0	0.0	0.0	0.0	0.0
Exceptionals/Investment income	0.0	(2.7)	0.0	0.0	0.0
Profit before Tax	15.2	(9.2)	33.7	190.6	206.8
Income tax	(4.4)	1.0	(8.4)	(47.7)	(51.7)
Non-controlling interests	(0.0)	(0.7)	(8.3)	(47.2)	(51.2)
PATMI	10.8	(8.9)	16.9	95.8	103.9
PATMI Normalized	10.8	(6.2)	16.9	95.8	103.9
BALANCE SHEET (US\$m)	2014	2015	2016	2017	2018
Cash and cash equivalents	63.2	44.5	29.5	156.6	271.0
Trade and other receivables	41.1	90.6	104.0	133.2	142.7
Inventory	9.8	16.5	18.2	22.0	23.5
Other current assets	27.2	46.7	65.1	65.1	65.1
Current Assets	141.3	198.3	216.8	376.8	502.3
Property, plant and equipment	55.0	59.7	36.7	54.3	93.8
Other non-current assets	119.4	234.1	278.2	282.5	287.0
Non-current Assets	174.3	293.8	314.8	336.7	380.7
Total assets	315.6	492.1	531.6	713.5	883.0
Trade and other payables	58.1	87.4	96.1	116.1	124.4
Borrowings (current)	5.0	20.7	41.3	29.4	31.5
Other current liabilities	0.9	0.6	7.3	46.5	50.5
Current Liabilities	64.1	108.8	144.7	192.0	206.4
Borrowings (non-current)	0.0	105.1	8.3	0.0	0.0
Other non-current liabilities	3.5	4.6	4.6	4.6	4.6
Non-current liabilities	3.5	109.7	12.8	4.6	4.6
Shareholders equity	247.3	191.6	283.6	379.4	483.3
Non-controlling interests	0.7	82.1	90.4	137.6	188.8
Total Equity	248.1	273.7	374.0	517.0	672.1
Total Liabilities and Equity	315.6	492.1	531.6	713.5	883.0
CASH FLOW STATEMENT (US\$m)	2014	2015	2016	2017	2018
Net income before tax	15.2	(9.2)	33.7	190.6	206.8
Depreciation & non cash adjustments	11.1	45.0	15.2	19.3	(17.9)
Change in Working Capital	7.2	(26.9)	(3.6)	(3.6)	45.9
Income Tax Paid	0.0	(1.2)	(1.7)	(8.4)	(47.7)
Interest Paid	(5.9)	(11.7)	(17.9)	(2.4)	(2.5)
CF from operating activities	27.6	(3.8)	25.6	195.6	184.6
Purchase/Disposal of PPE	(33.2)	(8.3)	(10.0)	(47.0)	(71.0)
Other CFI	(0.1)	(51.3)	(37.0)	0.0	0.0
CF from investing activities	(33.3)	(59.6)	(47.0)	(47.0)	(71.0)
Dividends Paid	0.0	(2.0)	0.0	0.0	0.0
Debt Raised / (Repaid)	0.2	48.1	(76.3)	(20.2)	2.1
Equity Raised / (Bought Back)	0.0	0.0	84.0	0.0	0.0
Other Cash from Financing	0.0	(0.1)	0.0	0.0	0.0
CF from financing activities	0.2	46.0	7.7	(20.2)	2.1
Net increase in cash & cash equiv.	(0.9)	(18.7)	(15.0)	127.1	114.4
FX effects	4.6	(1.3)	(1.3)	(1.3)	(1.3)
Beginning Cash	64.1	63.2	44.5	29.5	156.6
Ending Cash	63.2	44.5	29.5	156.6	271.0
KEY RATIOS	2014	2015	2016	2017	2018
Profitability					
Core EPS	0.4	(0.1)	0.7	4.1	4.4
Core EPS Growth (%)	(99.9)	(140.4)	(603.1)	465.6	8.5
DPS (SGD Cents)	-	-	-	-	-
Dividend Yield (%)	-	-	-	-	-
Profitability					
EBITDA margin	4.8%	11.1%	20.2%	38.9%	38.9%
Net margin	2.5%	-2.5%	4.1%	16.3%	16.5%
ROE	4.4%	-3.2%	4.5%	18.5%	15.5%
ROA	3.4%	-1.8%	3.2%	13.4%	11.8%
Financial Structure (x)					
Interest coverage	3.6	0.4	2.8	81.6	82.6
Total Debt/Equity	0.0	0.5	0.1	0.1	0.0
Net Gearing	-0.2	0.3	0.1	-0.2	-0.4

Source: KGI Securities

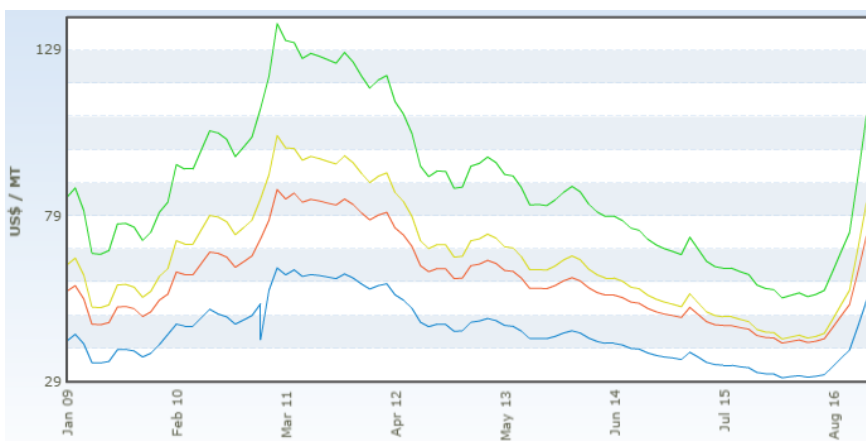
Appendix: Indonesia coal prices and benchmarks

The quality of the GEAR's LRC coal is expected to be similar to that marketed by PT Adaro Energy Tbk (Adaro) as Ecocoal, albeit a slightly bit lower CV (2.38% lower than Ecocoal). According to Salva Mining's opinion, LRC coal should trade at a slight discount to price of Adaro's Ecocoal mainly because of a slightly lower CV.

Historical prices of Adaro's Ecocoal traded in the range of 54% to 62% of the Newcastle Index over the past three years. The price differential between the Newcastle coal index and Indonesian LRC has decreased in recent times, due to low bulk sea freight rates at present and increased power plants being designed to operate at these coal blends.

Figure 28: Benchmark price of Indonesian Coal - Monthly coal price chart as at end Dec-16

Benchmark Price - Monthly Coal Price (US\$/MT)								
Coal Brand (Basic Coal Brand)	GCV (GAR)	TM (GAR)	Total Sulphur	Ash	December 2016	January 2017	Change Price (US\$/MT)	Change %
Gunung Bayan I	7,000	10.00	1.00	15.00	109.35	92.60	▼ 16.75	15.32
Prima Coal	6,700	12.00	0.60	5.00	107.88	92.21	▼ 15.67	14.53
Pinang 6150	6,200	14.50	0.60	5.50	97.28	83.19	▼ 14.09	14.48
Indominco IM East	5,700	17.50	1.63	4.80	82.98	70.48	▼ 12.50	15.06
Melawan Coal	5,400	22.50	0.40	5.00	78.77	67.65	▼ 11.12	14.12
EnviroCoal	5,000	26.00	0.10	1.20	73.01	63.18	▼ 9.83	13.46
Jorong J-1	4,400	32.00	0.25	4.15	58.85	50.90	▼ 7.95	13.51
Eco Coal	4,200	35.00	0.18	3.90	53.46	46.36	▼ 7.10	13.28



Source: : The Directorate General of Mineral, Coal and Geothermal, Ministry of Energy and Mineral Resources, Indonesia

GEAR's coal also references the ICI 4 benchmark reported by Argus and PT Coalindo Energy. The ICI is used as the leading coal price reference by buyers and sellers of Indonesian coal for spot trade, tax calculations, financial and investment analysis, strategic reporting and production planning. The ICI is also used in the computation of the Indonesian domestic coal price and serves as a planning tool for producing companies required to fulfil domestic sales quotas. The five types of ICI assessments are as follows:

Figure 29: Indonesia Coal Price Index (ICI) Specification

Grade (Kcal)	Timing	Sulphur	Ash	TM	Size
6500 GAR (6200NAR) - ICI 1	in 90 days	Up to 1%	Up to 12%	Up to 12%	Panamax
5800 GAR (5500NAR) - ICI 2	in 90 days	Up to 0.8%	Up to 10%	Up to 18%	Panamax
5000 GAR (4600NAR) - ICI 3	in 90 days	Up to 0.6%	Up to 8%	Up to 30%	Panamax
4200 GAR (3800NAR) - ICI 4	in 90 days	Up to 0.4%	Up to 6%	Up to 40%	Mother Vessel
3400 GAR (3000NAR) - ICI 5	in 90 days	Up to 0.2%	Up to 4%	Up to 50%	Mother Vessel

Source: Argus/PT Coalindo Energy

Appendix: Regulations and taxes

Corporate income tax is applicable to all Indonesian registered corporations. In 2009, the tax payable was reduced from 30% to 28% of gross income less allowable deductions. From 2010 onwards, the corporate income tax rate was reduced further to 25% of net taxable profit.

The BIB concession is a second generation CCoW concession and applicable tax rates will be governed by its contract clause which stipulates that the company is subject to prevailing laws and regulations on taxation. Therefore, in line with the prevailing corporate income tax regulation an income tax rate of 25% is applied to the revenues from the concession.

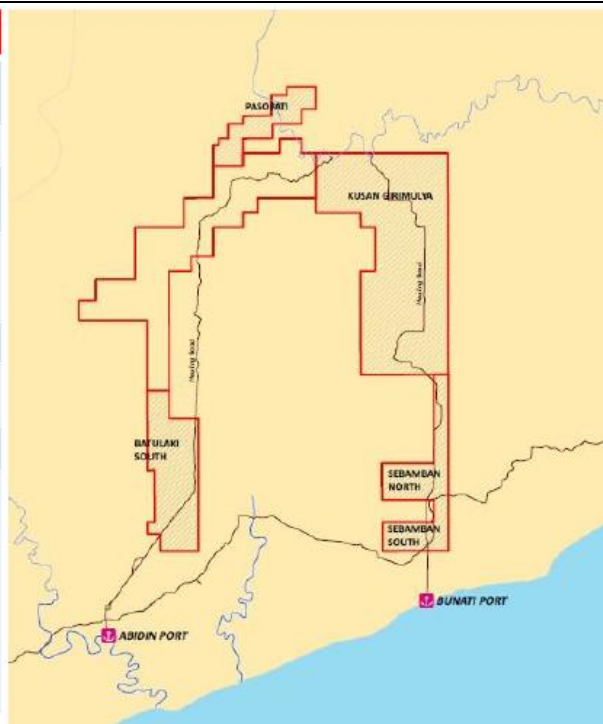
Figure 30: Indonesia Corporate Tax Rates

Concession Type	Corporate Tax	Reversion Rate
CCoW (First generations)	35%	45%
CCoW (Second generations)	25%	N/A
CCoW (others)	30-45%	N/A
IUP	25%	N/A

Source: Company

Appendix: Details on GEAR's four mining concession in Indonesia
Figure 31: BIB Concession

BIB Concession	
Location (& size)	South Kalimantan (24,100 ha)
Number of coal blocks	5
JORC Reserve* Proved & Probable	654.7 million tonnes
JORC Resource* Measured, Indicated & Inferred	1,819 million tonnes
CV (arb)*	3,864 – 6,528 kcal/kg (arb)
License	2nd Gen CCOW up to 30 years (2036)
2015 Production	6.3 million tonnes
Remarks	<ul style="list-style-type: none"> • Largest coal reserve of GEAR • Low average life-of-mine strip ratio of only 1:4.1 • Excellent coal transport infrastructure • Coal blocks are located between 7-52 km from the nearest port • Open-pit mining

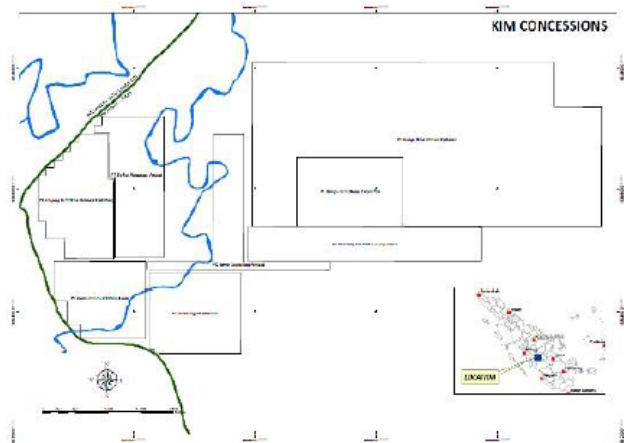


(* based on independent QP Report as at 31 August 2016)

Source: Company

Figure 32: KIM Concession

KIM and Subsidiaries Concession	
Location (& size)	Jambi, Sumatra (2,610 ha)
Number of Coal Blocks	2
JORC Reserve* Proved & Probable	57.2 million tonnes
JORC Resource* Measured, Indicated & Inferred	258 million tonnes
CV (arb)*	4,835 – 4,961 kcal/kg (arb)
License	IUP Operations up to 20 years (2029)
2015 Production	2.4 million tonnes
Remarks	<ul style="list-style-type: none"> • Located approx. 250km to the southeast of Padang, Sumatra • Open-pit mining • Own full-fledged "Nilau Port" located 300km from the mine site

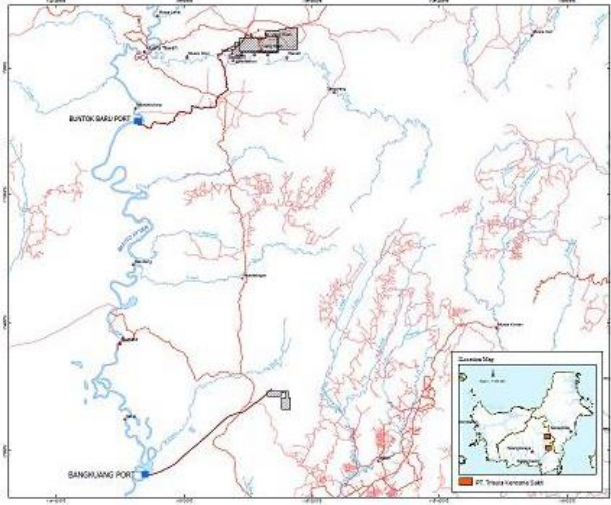


(* based on independent QP Report as at 31 August 2016)

Source: Company

Figure 33: TKS Concession

TKS Concession	
Location (& size)	Central Kalimantan (9,707 ha)
Number of Coal Blocks	2
JORC Reserve* Proved & Probable	-
JORC Resource* Measured, Indicated & Inferred	77 million tonnes
CV (arb)*	5,352 kcal/kg (arb)
License	IUP Operations up to 18 yrs (2028)
2015 Production	-
Remarks	<ul style="list-style-type: none"> • Less than 50km away from Pangku port • Mining operations commenced in August 2010 • Temporarily under care and maintenance since March 2012 pending recovery of coal prices • Open-pit mining

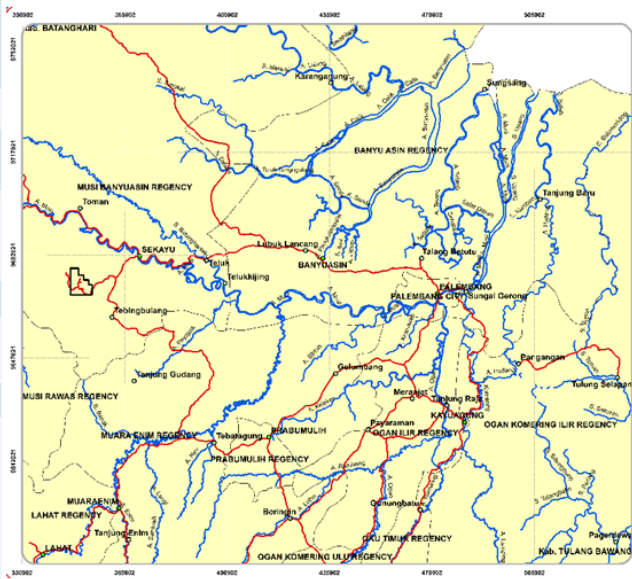


(*) based on independent JORC Report as at 31 August 2016

Source: Company

Figure 34: EMS Concession

EMS Concession	
Location (& size)	Musi Banyuasin, South Sumatra (4,739 ha)
Number of Coal Blocks	1
JORC Reserve* Proved & Probable	68 million tonnes
JORC Resource* Measured, Indicated & Inferred	183 million tonnes
CV (arb)*	2,865 kcal/kg (arb)
License	IUP Operations up to 20 years (2036)
2015 Production	-
Remarks	<ul style="list-style-type: none"> • Open-pit mining • Located approx. 2hrs 45 mins from Palembang • Free of forestry restrictions



(*) based on independent JORC Report as at 16 May 2016

Source: Company

Appendix: BIB coal reserves/resources and unit operating cost
Figure 35: BIB Reserves and Resources which makes up 95% of our fair value for GEAR

Category	Mineral Type	Gross (100% Project)		Net Attributable to GEAR		Remarks
		Tonnes (millions)	Grade	Tonnes (millions)	Grade	
Reserves						
Proved	Coal	519	Bituminous A / Subbituminous B	509	Bituminous A / Subbituminous B	
Probable	Coal	136	Bituminous A / Subbituminous B	134	Bituminous A / Subbituminous B	
Total	Coal	655	Bituminous A / Subbituminous B	642	Bituminous A / Subbituminous B	
Resources*						
Measured	Coal	919	Bituminous A / Subbituminous B	901	Bituminous A / Subbituminous B	
Indicated	Coal	335	Bituminous A / Subbituminous B	329	Bituminous A / Subbituminous B	
Inferred	Coal	565	Bituminous A / Subbituminous B	554	Bituminous A / Subbituminous B	
Total	Coal	1,819	Bituminous A / Subbituminous B	1,784	Bituminous A / Subbituminous B	

* Mineral Resources are reported inclusive of the Mineral Reserves.

Source: Company, BIB Valuation by Salva Mining (October 2016)

Figure 36: BIB total unit operating cost over life of mine (US\$/tonne)

Cost Item	\$/t
Land Clearing	\$0.01
Topsoil Removal	\$0.03
Waste Mining	\$7.42
Waste Overhaul	\$0.58
Coal Mining	\$0.70
Haul to ROM stockpile	\$0.57
ROM Coal Handling	\$0.30
Haul to Port Stockpile	\$0.97
Port Stockpile and Barge loading	\$0.70
Barging	\$1.15
Transshipment	\$1.30
Mine Closure	\$0.05
Environmental and Rehabilitation	\$0.10
Dewatering and Water Treatment	\$0.05
Salary and Wages	\$0.25
Camp and Accommodation	\$0.05
Medical & Community Development	\$0.05
Land Use Payment	\$0.25
Corporate Overheads	\$0.50
Local Government Fees	\$0.25
VAT	\$1.20
Contingency	\$0.82
Operating Cost Excl. Royalty	\$17.31
Royalty	\$4.47
Operating Cost Incl. Royalty	\$21.78

Source: Company, BIB Valuation by Salva Mining (October 2016)

Appendix: Management Team

Lay Krisnan Cahya
Non-Executive Chairman

- President Director of PT Dian Swastatika Sentosa Tbk(DSS)
- President Commissioner of GEMS
- Presently sits on the board of commissioners of various mining and mining-related companies in Indonesia


Fuganto Widjaja
Executive Director, Group CEO

Oversees the overall management and operations of the group

- President Director of GEMS and PT Berau Coal Energy Tbk with 10 years of management experience in the coal industry
- Holds a Master's Degree in Philosophy(Finance) from the University of Cambridge


Dwi Prasetyo Suseno
Executive Director, Deputy CEO

Assists Mr Widjaja in overseeing the overall management and operations of GEMS

- Former Group CFO at Straits Corporation Group (part of Straits Asia Resources)
- Over 20 years experience in mining, commodities and oil & gas industries
- Presently sits on the Board of Directors of GEMS


Mochtar Suhadi
Executive Director

- Responsible for defining long-term organisational strategic goals, building key customer relationships and identifying business opportunities


Pauline Lee
Chief Financial Officer

- Responsible for overseeing GEAR's financial, accounting and reporting functions as well as the overall financial risk management of the group
- 15 years of accounting and finance experience
- Chartered Accountant and holds a Master of Finance from the Royal Melbourne Institute of Technology


Mark Zhou
Head of Investments

- Responsible for overseeing and managing GEAR's assets, fund raising and M&A activities, as well as investor relations
- Former CIO of GeoEnergy Resources – completed various equity and debt raising as well as coal mine acquisitions
- Possesses investment banking experience having completed numerous IPOs, RTOs and corporate actions on the Singapore Exchange

Appendix: Glossary

Term	Definition
Stripping ratio	Stripping ratio or strip ratio refers to the ratio of the volume of overburden (or waste material) required to be handled in order to extract some tonnage of ore. For example, a 3:1 stripping ratio means that mining one tonne of ore will require mining three tonnes of waste rock.
Coal Reserve	A 'Coal Reserve' is the economically mineable part of a Measured and/or Indicated Mineral Resource.
Mineral Resource	A 'Mineral Resource' is a concentration or occurrence of solid material of economic interest in or on the Earth's crust in such form, grade (or quality), and quantity that there are reasonable prospects for eventual economic extraction. To convert Resources to Reserves it must be demonstrated that extraction could be justified after applying reasonable economic assumptions.
gar	gross as received, a basis on which coal quality is measured
GCV	Gross Calorific Value, "The Gross Calorific Value of coal is the amount of heat produced by its complete combustion of its unit quantity." It is usually expressed in kcal/kg unit.
IUP	'Izin Usaha Pertambangan' which translates to 'Mining Business License'
JORC	2012 Edition of the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves, Australian Institute of Geoscientists and Mineral Council of Australia
VALMIN	2015 Edition of the Code for the Technical Assessment and Valuation of Mineral and Petroleum Assets and Securities for Independent Expert Reports

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BUY	>10% total return over the next 12 months
HOLD	-10% to +10% total return over the next 12 months
SELL	<-10% total return over the next 12 months

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