



Golden Energy & Resources Ltd

(GER SP/AUE.SI)

Fastest growing diversified miner in Asia

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- Transformational year.** Golden Energy & Resources (GEAR) is on track to significantly expand its production capacity and profits with the acquisition of BHP Mitsui Coal Pty Ltd (BMC). The acquisition will cement GEAR, through its ASX-listed Stanmore subsidiary, as a major metallurgical coal (coking coal) provider in the region. Metallurgical coal is the key ingredient in the steel industry, whose demand is driven by China now and India in the future.
- Metallurgical and thermal coal are hot.** Coal prices have surged through the roof given the need from importing countries to source non-Russian coal. Australian and Indonesian coal miners are expected to be key beneficiaries.
- Gold's back.** GEAR, through 50% owned Ravenswood Gold (Ravenswood), is on track to increase production capacity to around 200koz of gold per annum in 1H2022. Timing could not be better given the recent return of demand for the precious metal.
- Flying above the perfect storm.** We maintain GEAR with Outperform and raise our TP to S\$1.29 as we factor in the acquisition of BMC. Our TP is derived from the sum-of-the-parts of GEAR's three key investments. GEAR is now reaping the harvest of the seeds sown in the past.

Financials & Key Operating Statistics

| YE Dec (US\$m) | FY19 | FY20 | FY21 | FY22F | FY23F |
|----------------------|--------|--------|--------|--------|--------|
| Revenue | 1695.9 | 1162.7 | 1874.1 | 1750.0 | 1620.0 |
| PATMI | 32.9 | 34.5 | 251.3 | 237.4 | 176.6 |
| Core PATMI | 9.9 | 8.1 | 114.3 | 108.0 | 80.4 |
| Core EPS (SG cents) | 0.4 | 0.3 | 4.9 | 4.1 | 3.0 |
| Core EPS grth (%) | -75% | -19% | 1314% | -16% | -26% |
| Core P/E (x) | 69.2 | 85.2 | 6.0 | 7.1 | 9.6 |
| Gross Margin (%) | 32.7 | 32.4 | 43.6 | 41.6 | 39.2 |
| Net Margin (%) | 2.9 | 3.0 | 13.4 | 13.6 | 10.9 |
| Price / Earnings (x) | 69.2 | 85.2 | 6.0 | 7.1 | 9.6 |
| Price / Book (x) | 1.9 | 1.8 | 1.4 | 1.1 | 1.0 |
| ROE (%) | 9.2 | 9.0 | 51.6 | 35.0 | 21.9 |

Source: Company Data, KGI Research

Diversified resources play. GEAR is a diversified mining and natural resources investment company. Having its roots as one of Indonesia's largest coal miners, the group is on track to become the dominant metallurgical coal player in Australia with the acquisition of Mitsui Coal Pty Ltd (BMC) from BHP Group (BHP AU). GEAR will further diversify into base metals that will be utilised for clean energy uses such as copper, cobalt, zinc and nickel.

Becoming the dominant metallurgical coal player in Australia. Stanmore will be acquiring the 80% interest in BMC from BHP Group (BHP AU), with the transaction slated for completion in 2Q22. The acquisition of BMC will cement Stanmore as a major metallurgical pure-play in Australia, with a total combined capacity of around 13mn tonnes. While we have incorporated BMC's valuation into our DCF-derived valuation of Stanmore, we have not combined it into our P&L forecast until after the deal is potentially completed in 2Q22.

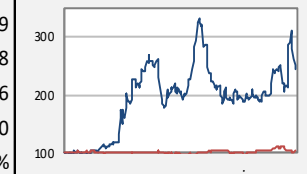
Outperform - Maintain

| | | | |
|-----------------------------|-------|-------------------------------|-------|
| Price as of 16 Mar 22 (SGD) | 0.39 | Performance (Absolute) | |
| 12M TP (S\$) | 1.29 | 1 Month (%) | 5.4 |
| Previous TP (S\$) | 0.64 | 3 Month (%) | 23.7 |
| Upside (%) | 230.8 | 12 Month (%) | 160.0 |

Trading data

| | |
|---------------------------|-------|
| Mkt Cap (\$mn) | 1,029 |
| Issued Shares (mn) | 2,638 |
| Vol - 3M Daily avg (mn) | 2.6 |
| Val - 3M Daily avg (\$mn) | 1.0 |
| Free Float (%) | 22.5% |

Perf. vs STI Index (Red)



Major Shareholders

| | |
|----------------------------|-------|
| PT DIAN SWASTATIKA SENTOSA | 77.5% |
|----------------------------|-------|

Previous Recommendations

| | |
|-----------|-----------|
| 25-Aug-21 | OP \$0.64 |
|-----------|-----------|

Australian and Indonesian coal are in strong demand. Pulverized Coal Injection (PCI) spot prices are now trading close to the PLV HCC price, instead of the usual 25% discount, highlighting the favourable supply-demand dynamics. Given that PCI will represent 60% of proforma-tonnes of Stanmore, the timing could not be better. Meanwhile, global trading firm Trafigura expects thermal coal to remain high given the supply tightness in the market. It expects an estimated supply shortage of 3-5% in 2022. Thus, with the displacement of Russian coal, coal miners from Indonesia and Australia are set to benefit.

Gold production ramp-up by Ravenswood just at the right time. Ravenswood is on track for its expansion plans to increase production capacity to around 200koz of gold per annum by 1H2022. We derive a DCF-backed valuation for Ravenswood of US\$434mn. This translates to a value of US\$0.11 per share attributable to GEAR's 50% stake in Ravenswood. We believe there could be more upside given how buoyant gold prices have been trading recently compared to the long-term assumption of US\$1,650 used in our DCF valuation.

Valuation & Action: We maintain our **Outperform** recommendation and raise our TP to **S\$1.29**, taking into account the acquisition of BMC. Our TP is based on the SOTP valuation of its majority stakes in Stanmore Resources (metallurgical coal), PT Golden Energy Mines (thermal coal) and Ravenswood Gold (gold). Stanmore will increasingly drive GEAR's valuations, which currently makes up 48% of GEAR's fair value, while GEMS drops to 42% of our fair value, down from 85% in our initiation report (25 Aug 2021).

Risks: The direction of coal price is the biggest driving factor of profits. Asian demand represents the largest variable. However, we expect demand to remain resilient among developing Asian countries due to the favourable cost benefits. **See the last page for important disclosures.**

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GEAR's stake in Stanmore will be reduced from 75.3% to 64.1% after the entitlement offer.

Strategic acquisition

GEAR's 64%-owned subsidiary Stanmore Resources Limited (SMR AU) announced to acquire the 80% interest in BHP Mitsui Coal Pty Ltd (BMC) from BHP Group (BHP AU). Mitsui & Co owns the remaining 20% of BMC.

BMC owns two metallurgical coal mines, South Walker Creek and Poitrel, that are operational with an annual capacity of 10mn tonnes. BMC also owns the undeveloped Wards Well coal project.

| Purchase Price | Status |
|---|--|
| US\$1.1bn payable on completion | |
| US\$100mn payable six months post completion | |
| Up to a maximum of US\$150 million based on a revenue sharing mechanism if the average sales price achieved is above a certain threshold over a two-year period from completion, payable within three months of the end of the testing period (expected to be in 2024). | |
| Stanmore's funding | |
| A partially underwritten pro-rata entitlement offer of ordinary shares in Stanmore | Institutional Entitlement Offer completed, raising gross proceeds of approximately A\$656mn (94.6% of the total offer): GEAR has committed to subscribe US\$300mn of its entitlements. The remaining 5.4% will be completed by retail offer which is underwritten by Petra Capital. |
| a new US\$625 million acquisition debt facility with a 5-year maturity | The debt facility was executed. |
| Internal sources | US\$75mn of cash in hand and cash from operations. |
| Conditions precedent to the acquisition | |
| Approval from the Australian Foreign Investment Review Board | The no objection letter from FIRB was received. |
| Approval from PT Dian Swastatika Sentosa Tbk (DSS), GEAR's controlling shareholder and GEAR's participation in the entitlement offer | The approval of DSS shareholder was received. GEAR has committed US\$300m of its entitlements and is expected to retain an approximately 64% voting power in Stanmore. |
| Approval from certain merger control authorities | The overseas merger control clearance was received. |

Stanmore projects

As of December 2021, total resources and reserves arrived at 1,725mn tonnes and 160mn tonnes, respectively. Stanmore also owns the 50% interest of Millennium and Mavis Down project via a joint venture with M Resources, adding an additional 18mn tonnes of resources and 3.2mn tonnes of reserves to the portfolio.

Stanmore's main project under operation is Isaac Plains Complex, including Isaac Plains, Isaac Plains East, and Isaac Downs. The total reported resources and marketable reserves of the Isaac Plains Complex project are estimated to be 163mn tonnes and 31.2mn tonnes, respectively. There was a 4.1mn tonnes of reduction in total reported resources in 2021, which was a result from the 1.2mn tonnes of coal extracted from Issac Downs and 2.9mn tonnes of estimate adjustments. There was 6.7mn tonnes of depletion in total reported coal reserves, resulting from 4.4mn tonnes of coal extraction and 3.2mn tonnes of estimate adjustments.

Figure 1: Stanmore's coal resources and reserves (mn tonnes)

| Coal Resources as of December 2021 | | | | | |
|------------------------------------|---|-------------|-------------|-----------|------------|
| Isaac Plains Complex Project | Coal type | Resources | | | |
| | | Measured | Indicated | Inferred | Total |
| Isaac Plains | Coking coal, Semi-soft or greater | 24.3 | 16 | 5 | 45.3 |
| Isaac Plains East | | 6.4 | 9.8 | 18 | 34.2 |
| Isaac Downs | | 29.2 | 2.9 | 0 | 32.1 |
| Isaac South | | 11.9 | 14.5 | 25 | 51.4 |
| | | 71.8 | 43.2 | 48 | 163 |

| Coal Resources as of December 2021 | | | | | |
|------------------------------------|-----------|-------------|------------|------------|------------|
| Surat Basin Complex Project | Coal type | Resources | | | |
| | | Measured | Indicated | Inferred | Total |
| Clifford | Thermal | 0 | 200 | 430 | 630 |
| The Range | Thermal | 18.1 | 187 | 81 | 286 |
| | | 18.1 | 387 | 511 | 916 |

| Coal Resources as of December 2021 | | | | | |
|------------------------------------|--|-----------|-------------|------------|------------|
| Other Project | Coal type | Resources | | | |
| | | Measured | Indicated | Inferred | Total |
| Mackenzie | Coking coal, Semi-soft or greater, | 0 | 25.7 | 117 | 143 |
| | Thermal | | | | |
| Belview | Coking coal, Semi-soft or greater, PCI | 0 | 50 | 280 | 330 |
| Tennyson | Thermal | 0 | 0 | 140 | 140 |
| Lilyvale | Coking coal, Semi-soft or greater | 0 | 0 | 33 | 33 |
| | | 0 | 75.7 | 570 | 646 |

| Coal Resources as of December 2021 | | | | | |
|------------------------------------|--|------------|------------|------------|-----------|
| Millennium/Mavis Complex Project | Coal type | Resources | | | |
| | | Measured | Indicated | Inferred | Total |
| Millennium | Coking coal, Semi-hard or greater, | 2.7 | 3.2 | 2 | 8 |
| Mavis Downs | Pulverised coal injection | 3.5 | 5.5 | 1.5 | 10 |
| | | 6.2 | 8.7 | 3.5 | 18 |

Coal Reserves as of December 2021

| Isaac Plains Complex Project | ROM Coal Reserves | | | Marketable Reserves | | |
|-------------------------------|-------------------|------------|-------------|---------------------|------------|-------------|
| | Proved | Probable | Total | Proved | Probable | Total |
| Isaac Plains East open-cut | 0.9 | 0.6 | 1.5 | 0.7 | 0.5 | 1.2 |
| Isaac Plains East Underground | 21.1 | 0.4 | 21.5 | 14.2 | 0.3 | 14.4 |
| Isaac Downs open-cut | 11.8 | 7.7 | 19.5 | 9.5 | 6.1 | 15.6 |
| | 33.8 | 8.8 | 42.5 | 24.3 | 6.9 | 31.2 |

| Surat Basin Complex Project | Coal Reserves | | | Marketable Reserves | | |
|-----------------------------|---------------|----------|-------|---------------------|----------|-------|
| | Proved | Probable | Total | Proved | Probable | Total |
| The Range open-cut | - | 117.5 | 117.5 | 0 | 94.2 | 94.2 |

| Millennium/Mavis Complex Project | Coal Reserves | | | Marketable Reserves | | |
|----------------------------------|---------------|----------|-------|---------------------|----------|-------|
| | Proved | Probable | Total | Proved | Probable | Total |
| Millennium/Mavis | 1 | 2.2 | 3.2 | 0.9 | 1.8 | 2.7 |

Coal Reserves Breakdown by Mining Method

| Isaac Plains Complex Project | Coal Reserves | | | Marketable Reserves | | |
|------------------------------|---------------|----------|-------|---------------------|-----|-------|
| | Proved | Probable | Total | Coking coal | PCI | Total |
| Open-cut | 22 | 1 | 23 | 15 | 0.6 | 15.6 |
| Underground | 11.8 | 7.7 | 19.5 | 12.3 | 3.3 | 15.6 |

| Surat Basin Complex Project | Coal Reserves | | | Marketable Reserves | |
|-----------------------------|---------------|----------|-------|---------------------|-------|
| | Proved | Probable | Total | Thermal | Total |
| Open-cut | 0 | 117.5 | 117.5 | 94.2 | 94.2 |

| Millennium/Mavis Complex Project | ROM Coal Reserves | | | Marketable Reserves | | |
|----------------------------------|-------------------|----------|-------|---------------------|-------|-------|
| | Proved | Probable | Total | Coking coal | PCI | Total |
| Open-cut | 0.1 | 0.2 | 0.3 | 0.096 | 0.104 | 0.2 |
| Underground | 0.9 | 2.0 | 3.0 | 1.35 | 1.15 | 2.5 |

Coal resources and reserves of Millennium/Mavis Project is measured at 50% Stanmore ownership interest

Source: Company, KGI Research

BMC projects

As of December 2021, total resources and reserves arrived at 2,245mn tonnes and 137mn tonnes respective.

BMC’s main projects under operation are South Water Creek and Poitrel. As of June 2021, the total reported resources and reserves are estimated to be 689mn tonnes and 150mn tonnes, respectively. Poitrel and South Water Creek have a respective life of mine of 25+ and 10+ years. Both mines have relatively low FOB cash cost, averaging at US\$75/tonne which positions BMC as one of the lowest cost metallurgical coal producers in the Bowen Basin.

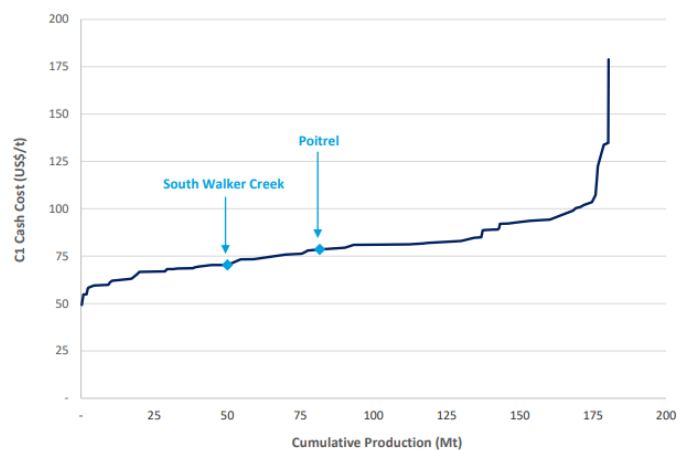
Figure 2: BMC’s coal resources and reserves (mn tonnes)

| Coal Resources as June 2021 | | | | | |
|-----------------------------|---|------------|--------------|------------|--------------|
| Project | Coal type | Resources | | | |
| | | Measured | Indicated | Inferred | Total |
| Poitrel | Hard coking coal, Pulversied coal injection | 42 | 49 | 59 | 150 |
| South Walker Creek | High quality, low volatile PCI | 237 | 273 | 179 | 689 |
| Wards Well | Hard coking coal | - | 1,164 | 149 | 1,313 |
| Bee Creek and Nebo West | | - | 9 | 84 | 93 |
| | | 279 | 1,495 | 471 | 2,245 |

| Coal Reserves as of June 2021 | | | | |
|-------------------------------|--------------------|-----------|------------|---------------------|
| Project | JORC Coal Reserves | | | Marketable Reserves |
| | Proved | Probable | Total | Total |
| Poitrel | 24 | 24 | 48 | 39 |
| South Walker Creek | 87 | 36 | 123 | 98 |
| | 111 | 60 | 171 | 137 |

Source: Company, KGI Research

Figure 3: Cash cost reference



Source: Company

Historical operations

Figure 4: BMC operation highlights

| (mn tonnes) | FY18 | FY19 | FY20 | FY21 | 1H22 |
|--------------------|------|------|------|------|------|
| South Walker Creek | 6 | 6.2 | 5.4 | 4.9 | 3 |
| Poitrel | 3.7 | 4.1 | 4.1 | 3.9 | 1.7 |

| (mn) | FY18 | FY19 | FY20 | FY21 | 1H22 |
|---------|------|------|------|------|------|
| Revenue | 1363 | 1446 | 971 | 778 | 952 |
| EBITDA | 573 | 607 | 283 | 20 | 508 |
| Capex | 91 | 100 | 92 | 76 | 33 |

FY21 impacted by low coal price combined with dragline maintenance and higher strip ratios

Source: Company, KGI Research

Combined capacity and projected production

The capacity of Stanmore's Isaac Plains Complex is 3.5mn tonnes. The respective capacity of BMC's South Walker Creek (SWC) and Poitrel is 6.3mn tonnes and 4.2mn tonnes. The total combined capacity upon the completion of the acquisition will be 13.0mn tonnes. Accordingly, Stanmore will become the world second largest PCI coal producer and rank No.7 of the top seaborne metallurgical coal exporters in 2022.

Figure 5: Combined historical production

| (mn tonnes) | FY18 | FY19 | FY20 | FY21 | TTM |
|--------------|-------------|-------------|-------------|-------------|-------------|
| Stanmore | 1.6 | 2.6 | 2.3 | 2.1 | 2.1 |
| BMC | 9.7 | 10.3 | 9.5 | 8.7 | 9.1 |
| Total | 11.3 | 12.9 | 11.8 | 10.8 | 11.2 |

Stanmore FY ends in December, while BMC FY ends in June

Source: Company, KGI Research

Synergies

Financially, the combined projects will further enhance the value in the portfolio as the company will achieve a higher overall weighted average price. Accordingly, the increase in cash flows from operations are expected to service the capex and debt requirements. Operationally, Stanmore can utilise excess Red Mountain CHPP capacity to process additional third-party coals via run-of-mine purchasing or toll washing. The company will explore the opportunity to ramp up the Millennium or Issac Downs by leveraging spare processing capacity at the Red Mountain CHPP.

Valuations and peer comparison

We expect GEMS's valuations to be driven by a diversified mix of thermal and met coal prices, production volumes and operating costs.

We maintain our **Outperform** recommendation while raising our fair value to **S\$1.29**, an increase from S\$0.64 in our initiation reported (dated 25 Aug 2021). The increase is mainly due to the acquisition of BMC.

GEAR Valuation

We used the sum-of-the-part method to derive the final valuation of GEAR. The valuations for Stanmore, GEMS and Ravenswood are derived from discounted cash flow models. As a conservative measure, we applied a 10% discount to the SOTP valuation.

Figure 6: SOTP valuation

| Subsidiary | Valuation (S\$m) | Ownership by GEAR | GEAR's Stake (S\$m) | Valuation Method |
|-----------------------------------|------------------|-------------------|---------------------|------------------|
| GEMS | 2,314 | 62.5% | 1,446 | DCF, 13.5% WACC |
| Stanmore | 3,199 | 64.1% | 2,051 | DCF, 12.5% WACC |
| Ravenswood | 564 | 50.0% | 282 | DCF, 12.5% WACC |
| Total | | | 3,779 | |
| Fully-diluted shares of GEAR (mn) | | | 2,638 | |
| Valuation per share | | | 1.43 | |
| SOTP discount | | | 10.0% | |
| GEAR valuation | | | 1.29 | |

Source: KGI Research

Figure 7: Coal miners peer table

| Bloomberg Code | Stock | Market Cap (US\$m) | 1M Return | 3M Return | 1Y Return | PSR | PER | EV/EBITDA | Gross Margin (%) | Operating Margin (%) | Net Margin (%) |
|------------------|------------------------------|--------------------|-----------|-----------|-----------|-----|------|-----------|------------------|----------------------|----------------|
| GER SP | GOLDEN ENERGY & RESOURCES LT | 767 | 11.3% | 27.4% | 165.1% | 0.4 | 6.0 | 1.9 | 43.6 | 24.7 | 6.1 |
| Singapore | | | | | | | | | | | |
| GERL SP | GEO ENERGY RESOURCES LTD | 518 | 26.6% | 49.3% | 189.0% | 0.8 | 2.7 | 1.3 | 40.7 | 36.5 | 27.7 |
| BHR SP | BLACKGOLD NATURAL RESOURCES | 10 | 8.3% | -7.1% | -7.1% | 0.7 | NA | 6.8 | 31.0 | 13.7 | -19.9 |
| Indonesia | | | | | | | | | | | |
| BYAN IJ | BAYAN RESOURCES TBK PT | 9914 | 15.1% | 60.3% | 226.7% | 4.6 | 11.4 | 8.7 | 33.2 | 20.4 | 23.6 |
| ADRO IJ | ADARO ENERGY INDONESIA TBKPT | 6674 | 38.0% | 55.2% | 154.7% | 1.7 | 7.1 | 3.3 | 44.3 | 38.4 | 23.4 |
| PTBA IJ | BUKIT ASAM TBK PT | 2799 | 22.2% | 26.6% | 33.5% | 1.3 | 5.0 | 2.5 | 46.1 | 34.0 | 27.0 |
| ITMG IJ | INDO TAMBANGRAYA MEGAH TBK P | 2148 | 27.8% | 35.1% | 137.6% | 1.0 | 4.4 | 1.7 | 44.1 | 38.1 | 22.9 |
| HRUM IJ | HARUM ENERGY TBK PT | 2158 | 13.7% | 8.1% | 129.8% | 9.2 | 29.5 | 25.5 | 27.4 | 3.8 | 37.4 |
| BSSR IJ | BARAMULTI SUKSESSARANA TBK P | 546 | -0.7% | -12.1% | 100.7% | 1.0 | 5.0 | 2.9 | 30.1 | 12.4 | 9.2 |
| BUMI IJ | BUMI RESOURCES TBK PT | 404 | -32.9% | -23.2% | -10.2% | 0.3 | NA | 14.5 | 11.6 | 3.6 | -42.8 |
| Australia | | | | | | | | | | | |
| YAL AU | YANCOAL AUSTRALIA LTD | 4905 | 66.7% | 106.1% | 113.1% | 1.2 | 8.4 | 3.7 | NA | 28.0 | 14.2 |
| WHC AU | WHITEHAVEN COAL LTD | 3000 | 33.4% | 64.6% | 135.8% | 1.7 | NA | 22.6 | NA | -45.1 | -34.9 |
| CRN AU | CORONADO GLOBAL RESOURCE-CDI | 2417 | 29.4% | 64.0% | 89.5% | 0.1 | 1.4 | 4.7 | 44.4 | 14.1 | 8.8 |
| NHC AU | NEW HOPE CORP LTD | 1714 | 12.0% | 34.0% | 107.4% | 2.2 | 29.5 | 8.7 | 37.2 | 13.3 | 7.6 |
| SMR AU | STANMORE RESOURCES LTD | 437 | 32.8% | 59.4% | 107.0% | 1.9 | NA | NA | 11.4 | 1.1 | -2.7 |

Source: Bloomberg, KGI Research

#1 Stanmore valuation

Forecast and KGI Valuation for Stanmore

Currently, GEAR owns 64.1% of Stanmore whose main revenue contributions are from Issac Plains Complex and 80%-owned BMC (Poitrel and South Walker Creek). The key assumptions are based on the company reports:

- Issac Plains Complex has 14 years life of mine.
- Poitrel has 11 years of life of mine.
- South Walker Creek has 26 years of life of mine.
- Mavis/Millennium has 11 years of life of mine.
- Respective long-term sales volume of Issac Plains Complex, Poitrel, South Walker Creek, and Mavis/Millennium is 2.1mn, 4.3mn, 6.2mn, and 1.1mn tonnes.
- Long-term respective average ASP of Issac Plains Complex, Poitrel, South Walker Creek, and Mavis/Millennium is US\$150/tonne, US\$170/tonne, US\$160/tonne, and US\$165/tonne.
- Respective long-term respective operating cost of Issac Plains Complex, Poitrel, South Walker Creek, and Mavis/Millennium is US\$97/tonne, US\$100/tonne, and US\$76/tonne, and US\$86/tonne.
- 1.30 SGD/USD Exchange Rate.
- 12.5% Discount Rate.

Figure 8: Stanmore's coal mines valuation

| (US\$m) | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 | 2030 | 2031 | 2032 | 2033 | 2034 | 2035 | 2036 | 2037 | 2038 | 2039 | 2040 | 2041 | 2042 | 2043 | 2044 | 2045 | 2046 | 2047 | |
|--|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|
| Sales volume (mn tonnes) | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Issac Plains Complex | 2.1 | 2.1 | 2.1 | 2.1 | 2.1 | 2.1 | 2.1 | 2.1 | 2.1 | 2.1 | 2.1 | 2.1 | 2.1 | 2.1 | | | | | | | | | | | | | |
| Poitrel | 3.5 | 4.3 | 4.3 | 4.3 | 4.3 | 4.3 | 4.3 | 4.3 | 4.3 | 4.3 | 4.3 | 4.3 | 4.3 | 4.3 | | | | | | | | | | | | | |
| South Walker Creek | 6.0 | 6.2 | 6.2 | 6.2 | 6.2 | 6.2 | 6.2 | 6.2 | 6.2 | 6.2 | 6.2 | 6.2 | 6.2 | 6.2 | 6.2 | 6.2 | 6.2 | 6.2 | 6.2 | 6.2 | 6.2 | 6.2 | 6.2 | 6.2 | 6.2 | 6.2 | 6.2 |
| Mavis/Millennium (50% interest in JV) | 0.7 | 1.2 | 1.0 | 1.1 | 1.1 | 1.1 | 1.1 | 1.1 | 1.1 | 1.1 | | | | | | | | | | | | | | | | | |
| Total | 12.3 | 13.8 | 13.6 | 13.7 | 13.7 | 13.7 | 13.7 | 13.7 | 13.7 | 13.7 | 12.6 | 12.6 | 8.3 | 8.3 | 8.3 | 6.2 | 6.2 | 6.2 | 6.2 | 6.2 | 6.2 | 6.2 | 6.2 | 6.2 | 6.2 | 6.2 | 6.2 |
| Average Selling Price (US\$/t) | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Issac Plains Complex | 240 | 195 | 150 | 150 | 150 | 150 | 150 | 150 | 150 | 150 | 150 | 150 | 150 | 150 | | | | | | | | | | | | | |
| Poitrel | 280 | 225 | 170 | 170 | 170 | 170 | 170 | 170 | 170 | 170 | 170 | 170 | 170 | 170 | | | | | | | | | | | | | |
| South Walker Creek | 250 | 205 | 160 | 160 | 160 | 160 | 160 | 160 | 160 | 160 | 160 | 160 | 160 | 160 | 160 | 160 | 160 | 160 | 160 | 160 | 160 | 160 | 160 | 160 | 160 | 160 | 160 |
| Mavis/Millennium (50% interest in JV) | 270 | 218 | 165 | 165 | 165 | 165 | 165 | 165 | 165 | 165 | | | | | | | | | | | | | | | | | |
| Total Revenue (US\$m) | 2,588 | 2,335 | 1,778 | 1,783 | 1,784 | 1,784 | 1,784 | 1,784 | 1,784 | 1,693 | 1,693 | 1,109 | 1,109 | 1,109 | 794 | 794 | 794 | 794 | 794 | 794 | 794 | 794 | 794 | 794 | 794 | 794 | 794 |
| Operating cost | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Issac Plains Complex (US\$90-97/tonne) | 189 | 189 | 204 | 204 | 204 | 204 | 204 | 204 | 204 | 204 | 204 | 204 | 204 | 204 | | | | | | | | | | | | | |
| Poitrel (US\$90-100/tonne) | 350 | 430 | 430 | 430 | 430 | 430 | 430 | 430 | 430 | 430 | 430 | 430 | 430 | 430 | | | | | | | | | | | | | |
| South Walker Creek (US\$76/tonne) | 510 | 496 | 484 | 471 | 471 | 471 | 471 | 471 | 471 | 471 | 471 | 471 | 471 | 471 | 471 | 471 | 471 | 471 | 471 | 471 | 471 | 471 | 471 | 471 | 471 | 471 | 471 |
| Mavis/Millennium (50% interest in JV) | 89 | 112 | 95 | 100 | 95 | 95 | 95 | 95 | 95 | 95 | | | | | | | | | | | | | | | | | |
| Total | 921 | 986 | 982 | 975 | 972 | 972 | 972 | 972 | 972 | 925 | 925 | 581 | 581 | 581 | 377 | 377 | 377 | 377 | 377 | 377 | 377 | 377 | 377 | 377 | 377 | 377 | 377 |
| EBITDA | 1,667 | 1,350 | 796 | 809 | 812 | 812 | 812 | 812 | 812 | 769 | 769 | 528 | 528 | 528 | 417 | 417 | 417 | 417 | 417 | 417 | 417 | 417 | 417 | 417 | 417 | 417 | 417 |
| Dep & Amt | 160 | 150 | 150 | 150 | 150 | 150 | 150 | 150 | 150 | 145 | 145 | 140 | 140 | 140 | 140 | 140 | 140 | 140 | 140 | 140 | 140 | 140 | 140 | 140 | 140 | 140 | 140 |
| EBIT | 1,507 | 1,200 | 646 | 659 | 662 | 662 | 662 | 662 | 662 | 624 | 624 | 388 | 388 | 388 | 277 | 277 | 277 | 277 | 277 | 277 | 277 | 277 | 277 | 277 | 277 | 277 | 277 |
| EBIT (1-30% tax) | 1,055 | 840 | 452 | 461 | 464 | 464 | 464 | 464 | 464 | 437 | 437 | 272 | 272 | 272 | 194 | 194 | 194 | 194 | 194 | 194 | 194 | 194 | 194 | 194 | 194 | 194 | 194 |
| Capex & Acquisition | 805 | 120 | 70 | 70 | 70 | 70 | 70 | 70 | 70 | 60 | 60 | 50 | 50 | 50 | 50 | 50 | 50 | 50 | 50 | 50 | 50 | 50 | 50 | 50 | 50 | 50 | 50 |
| Working capital | 26 | 23 | 18 | 18 | 18 | 18 | 18 | 18 | 18 | 17 | 17 | 11 | 11 | 11 | 8 | 8 | 8 | 8 | 8 | 8 | 8 | 8 | 8 | 8 | 8 | 8 | 8 |
| FCF | 224 | 696 | 365 | 373 | 376 | 376 | 376 | 376 | 376 | 360 | 360 | 210 | 210 | 210 | 136 | 136 | 136 | 136 | 136 | 136 | 136 | 136 | 136 | 136 | 136 | 136 | 136 |
| PV (FCF) | 211 | 584 | 272 | 247 | 221 | 197 | 175 | 155 | 138 | 117 | 104 | 54 | 48 | 43 | 25 | 22 | 19 | 17 | 15 | 14 | 12 | 11 | 10 | 9 | 8 | 7 | |
| PV (FCF)* | 2461.0 | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Plus Net Borrowing (US\$m) | - | | | | | | | | | | | | | | | | | | | | | | | | | | |
| FCF to equity (US\$m) | 2461.0 | | | | | | | | | | | | | | | | | | | | | | | | | | |
| FCF to equity (S\$m) | 3199.2 | | | | | | | | | | | | | | | | | | | | | | | | | | |
| WACC | 12.5% | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Fully-diluted shares (mn) | 901 | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Equity/share (S\$) | 3.55 | | | | | | | | | | | | | | | | | | | | | | | | | | |
| GEAR share - 64.1%, (S\$) | 2.28 | | | | | | | | | | | | | | | | | | | | | | | | | | |

* PV (FCF) only includes 50% of 2022 valuations as the completion of the acquisition is expected to be in June.

Source: KGI Research

#2 GEMS Valuation

Forecast and KGI Valuation for GEMS

The three key drivers of GEAR's valuation are the average selling price of coal, production volume and operating cost. Currently, GEAR owns 62.5% of GEMS which owns the concessions of BIB, KIM, and other mines (BSL, TKS, and WRL). The key assumptions are based on the 2020 Qualified Person's Report:

- 14 years life of mine.
- Respective long-term production for BIB, KIM, and other is 42mn, 4mn, and 6mn tonnes.
- Long-term average ASP is US\$36.
- Respective long-term operating cost for BIB, KIM, and other is US\$24.7/tonne, US\$41.1/tonne, and US\$30/tonne.
- Total long-term production weighted average cash cost is estimated to be US\$26.5/tonne. The actual cost ranges from US\$27.5/tonne to US\$28/tonne after adding administrative and overhead costs.
- 1.30 SGD/USD Exchange Rate.
- 13.5% Discount Rate.

Figure 9: GEMS's coal mines valuation

| (US\$m) | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 | 2030 | 2031 | 2032 | 2033 | 2034 | 2035 |
|---------------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Production (mn tonnes) | | | | | | | | | | | | | | |
| BIB | 35 | 38 | 40 | 42 | 42 | 42 | 42 | 42 | 42 | 42 | 42 | 42 | 42 | 42 |
| KIM | 2.0 | 2.0 | 3.0 | 4.0 | 4.0 | 4.0 | 4.0 | 4.0 | 4.0 | 4.0 | 4.0 | 4.0 | 4.0 | 4.0 |
| Others | - | 3 | 4 | 4 | 5 | 5 | 6 | 6 | 6 | 6 | 6 | 6 | 6 | 6 |
| Total | 37 | 43 | 47 | 50 | 51 | 51 | 52 | 52 | 52 | 52 | 52 | 52 | 52 | 52 |
| Average Selling Price (US\$/t) | | | | | | | | | | | | | | |
| | 44 | 40 | 39 | 38 | 36 | 36 | 36 | 36 | 36 | 36 | 36 | 36 | 36 | 36 |
| Total Revenue (US\$m) | 1,628 | 1,720 | 1,814 | 1,900 | 1,826 | 1,844 | 1,862 | 1,862 | 1,862 | 1,862 | 1,862 | 1,862 | 1,862 | 1,862 |
| Operating cost | | | | | | | | | | | | | | |
| BIB (US\$25.9/tonne) | 907 | 985 | 1,037 | 1,088 | 1,088 | 1,088 | 1,088 | 1,088 | 1,088 | 1,088 | 1,088 | 1,088 | 1,088 | 1,088 |
| KIM (US\$43.2/tonne) | 86 | 86 | 130 | 173 | 173 | 173 | 173 | 173 | 173 | 173 | 173 | 173 | 173 | 173 |
| Others (US\$31.7/tonne) | | 95 | 111 | 127 | 143 | 159 | 175 | 175 | 175 | 175 | 175 | 175 | 175 | 175 |
| Total | 993 | 1,197 | 1,313 | 1,429 | 1,450 | 1,471 | 1,492 | 1,492 | 1,492 | 1,492 | 1,492 | 1,492 | 1,492 | 1,492 |
| EBITDA | | | | | | | | | | | | | | |
| | 635 | 523 | 500 | 471 | 375 | 373 | 370 | 370 | 370 | 370 | 370 | 370 | 370 | 370 |
| Dep & Amt | | | | | | | | | | | | | | |
| | 40 | 43 | 47 | 48 | 48 | 48 | 48 | 48 | 48 | 48 | 48 | 48 | 48 | 48 |
| EBIT | | | | | | | | | | | | | | |
| | 595 | 480 | 453 | 423 | 327 | 325 | 322 | 322 | 322 | 322 | 322 | 322 | 322 | 322 |
| EBIT (1-22% tax) | | | | | | | | | | | | | | |
| | 464 | 374 | 354 | 330 | 255 | 253 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 |
| Capex | | | | | | | | | | | | | | |
| | 25 | 24 | 24 | 15 | 15 | 15 | 15 | 15 | 15 | 15 | 15 | 15 | 15 | 15 |
| Working capital | | | | | | | | | | | | | | |
| | 18 | 19 | 20 | 20 | 20 | 20 | 20 | 20 | 20 | 20 | 20 | 20 | 20 | 20 |
| FCF | | | | | | | | | | | | | | |
| | 421 | 331 | 310 | 295 | 220 | 218 | 216 | 216 | 216 | 216 | 216 | 216 | 216 | 216 |
| PV (FCF) | 421 | 257 | 212 | 178 | 117 | 102 | 89 | 78 | 69 | 61 | 54 | 47 | 42 | 37 |
| PV (FCF)* | | | | | | | | | | | | | | |
| | 1762.5 | | | | | | | | | | | | | |
| Plus Net Borrowing (US\$m) | | | | | | | | | | | | | | |
| | 17.6 | | | | | | | | | | | | | |
| FCF to equity (US\$m) | | | | | | | | | | | | | | |
| | 1780.0 | | | | | | | | | | | | | |
| FCF to equity (S\$m) | | | | | | | | | | | | | | |
| | 2314.0 | | | | | | | | | | | | | |
| WACC | | | | | | | | | | | | | | |
| | 13.5% | | | | | | | | | | | | | |
| Fully-diluted shares (mn) | | | | | | | | | | | | | | |
| | 2638.1 | | | | | | | | | | | | | |
| Equity/share (S\$) | | | | | | | | | | | | | | |
| | 0.88 | | | | | | | | | | | | | |
| GEAR share - 62.5%, (S\$) | | | | | | | | | | | | | | |
| | 0.55 | | | | | | | | | | | | | |

*PV (FCF) only accounts from 2023 onwards

Source: KGI Research

#3 Ravenswood Valuation

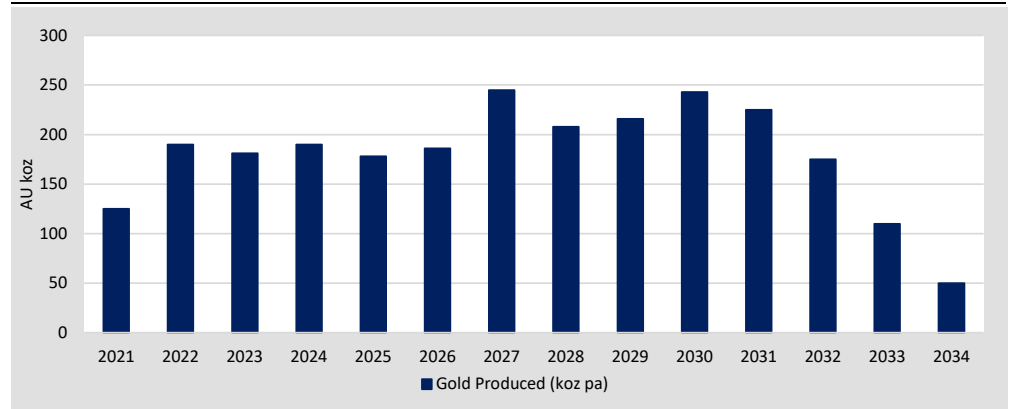
On track for expansion in 2022

GEAR has a 50% stake in the Ravenswood gold project with EMR Capital owning the remaining 50%. The Ravenswood acquisition is GEAR’s second investment in a gold miner. From 2017 to 2020, GEAR held a minority stake in Australian-listed Westgold Resources Limited, which it has since divested for a profit. The investment in Ravenswood is in line with the group’s strategy to extend its core business within the natural resource sector include precious metal, base metals and minerals. Precious metals include gold and silver, and base metals and minerals include, among others, copper, cobalt, zinc, nickel, and ferroalloys.

2021 review. Ravenswood produced 79,000 ounces of gold in 2021, representing a 66% YoY increase. However, GEAR recognised losses of US\$20.9mn under its share of joint ventures due to Ravenwood Gold in FY2021. This was mainly from expenses related to the ramp up of the new open cut development and the ongoing plant expansion. Completion of the expansion is expected to complete in 1H 2022.

Production ramp up in 2022. Ravenswood remains on track to increase production capacity to around 200,000 ounces of gold per annum by 1H 2022.

Figure 10: Ravenswood gold production schedule, 2021-2034



Source: Independent Qualified Persons Technical and Valuation Report, KGI Research

Forecast and KGI valuation for Ravenswood

We derive a DCF-backed fair value of US\$434mn for Ravenswood. GEAR's 50% stake in Ravenswood translates to US\$293mn or US\$0.11 per share.

Ravenswood gold reserves. The Ravenswood gold mine has a total gold resource of 4.4mn ounces and total gold reserve of 2.60 mn ounces, as at end-Dec 2021.

The key assumptions we used in our DCF is provided below:

- 13 years life of mine (LOF), 2022 to 2034
- Total of 2.5mn ounces of gold produced
- Initial capex of US\$500mn (2021-2022)
- US\$1,650/oz gold price (an increase from US\$1,500/oz in our initiation report)
- All-in Sustaining Cost (AISC) of US\$859/oz over the life of the mine
- 0.75 AUD/USD Exchange Rate
- 12.5% Discount Rate

Figure 11: Ravenswood valuation based on KGI Assumptions and Estimates

| | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 | 2030 | 2031-34 |
|-----------------------------------|--------------|--------------|--------------|----------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Ore Mined (Mt) | 7.2 | 8.2 | 8.3 | 8.2 | 10.3 | 14.6 | 13.8 | 15.4 | 15.0 | 15.7 |
| Waste Mined (Mt) | 32.3 | 30.5 | 29.9 | 29.7 | 21.1 | 11.4 | 12.7 | 11.4 | 7.1 | 2.6 |
| Total Rehandle (Mt) | 5.9 | 7.1 | 2.6 | 4.6 | 4.9 | 4.1 | 4.1 | 4.1 | 4.8 | 30.2 |
| Total Mined/Handled (Mt) | 45.4 | 45.8 | 40.8 | 42.5 | 36.3 | 30.1 | 30.5 | 30.9 | 26.9 | 48.5 |
| Ore Crushed (Mt) | 7.2 | 7.2 | 7.6 | 10.7 | 11.8 | 11.3 | 11.3 | 11.3 | 11.3 | 40.7 |
| Ore Milled (Mt) | 7.2 | 7.2 | 7.2 | 7.2 | 7.2 | 7.2 | 7.2 | 7.2 | 7.2 | 25.0 |
| Payable Au (koz), A | 190.0 | 181.0 | 190.0 | 178.0 | 186.0 | 245.0 | 208.0 | 216.0 | 243.0 | 572.0 |
| Costs (A\$m) | | | | | | | | | | |
| Mining (A\$m) | 110.1 | 115.9 | 114.7 | 107.3 | 98.4 | 82.0 | 86.5 | 86.4 | 78.6 | 134.9 |
| Crushing/Milling (A\$m) | 103.4 | 97.4 | 94.8 | 99.0 | 100.8 | 99.8 | 99.7 | 99.7 | 99.8 | 346.2 |
| G&A and Others (A\$m) | 20.0 | 198.0 | 19.8 | 19.7 | 19.6 | 19.5 | 19.5 | 19.6 | 19.4 | 65.8 |
| Royalty (A\$m) | 21.6 | 19.2 | 18.6 | 17.1 | 17.8 | 23.5 | 19.9 | 20.7 | 23.3 | 54.9 |
| Total Costs (A\$m) | 255.0 | 252.3 | 247.9 | 2,431.0 | 236.7 | 224.9 | 225.7 | 226.5 | 221.1 | 601.8 |
| Unit Costs (A\$/t milled) | | | | | | | | | | |
| Mining/t Ore (A\$/t milled) | 153.3 | 16.1 | 15.9 | 14.9 | 13.7 | 11.4 | 12.0 | 12.0 | 10.9 | 5.4 |
| Processing (A\$/t milled) | 14.4 | 13.5 | 13.2 | 13.7 | 14.0 | 13.9 | 13.9 | 13.9 | 13.9 | 13.8 |
| G&A and Others (A\$/t milled) | 2.8 | 2.8 | 2.8 | 2.7 | 2.7 | 2.7 | 2.7 | 2.7 | 2.7 | 2.6 |
| Royalty (A\$/t milled) | 3.0 | 2.7 | 2.6 | 2.4 | 2.5 | 3.3 | 2.8 | 2.9 | 3.2 | 2.2 |
| Total Costs (A\$/t milled) | 40.0 | 36.0 | 34.4 | 33.8 | 32.9 | 31.2 | 31.4 | 31.5 | 30.7 | 24.0 |
| Cash Costs (A\$/oz AU) | | | | | | | | | | |
| | 1,344 | 1,396 | 1,306 | 1,363 | 1,272 | 915 | 1,085 | 1,047 | 909 | 1,052 |
| Assumptions | | | | | | | | | | |
| Exchange Rate (AUD/USD) | 0.75 | 0.75 | 0.75 | 0.75 | 0.75 | 0.75 | 0.75 | 0.75 | 0.75 | 0.75 |
| Gold Price (US\$/oz AU) | 1,650 | 1,650 | 1,650 | 1,650 | 1,650 | 1,650 | 1,650 | 1,650 | 1,650 | 1,650 |
| Cash Costs (US\$/oz AU) | 1,915 | 1,361 | 980 | 1,022 | 954 | 686 | 814 | 785 | 682 | 789 |
| Revenue (U\$m) | 314 | 299 | 314 | 294 | 307 | 404 | 343 | 356 | 401 | 944 |
| Operating Cash Cost (US\$m) | 364 | 246 | 186 | 182 | 177 | 168 | 169 | 170 | 166 | 451 |
| Capex (US\$m) | 329 | - | - | - | - | - | - | - | - | - |
| Cash Profit (US\$m) | (379) | 52 | 127 | 112 | 129 | 236 | 174 | 187 | 235 | 492 |
| Discount Rate | 12.5% | | | | | | | | | |
| NPV (US\$m) | 434 | | | | | | | | | |
| NPV (A\$m) | 579 | | | | | | | | | |
| GEAR Share | 50.0% | | | | | | | | | |
| GEAR Shares Outstanding (mn) | 2,638 | | | | | | | | | |
| NPV/Share (US\$), GEAR | 0.08 | | | | | | | | | |

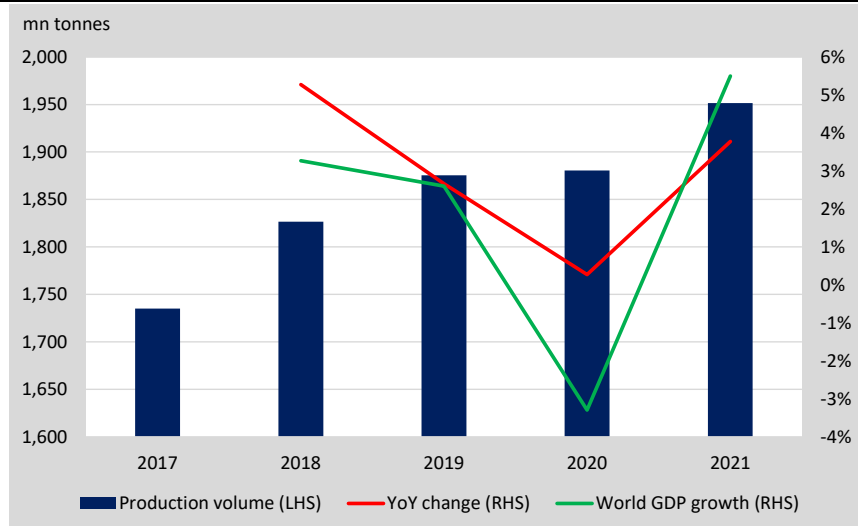
Source: Independent Qualified Persons Technical and Valuation Report, KGI Research

Metallurgical coal outlook in 2022

Metallurgical coal comprises of coking coal (hard, medium, and semi-soft) and coal for pulverised coal injection. They are mainly used for steel production. Hence, the steel supply and demand dynamics are the key driver of the metallurgical coal outlook.

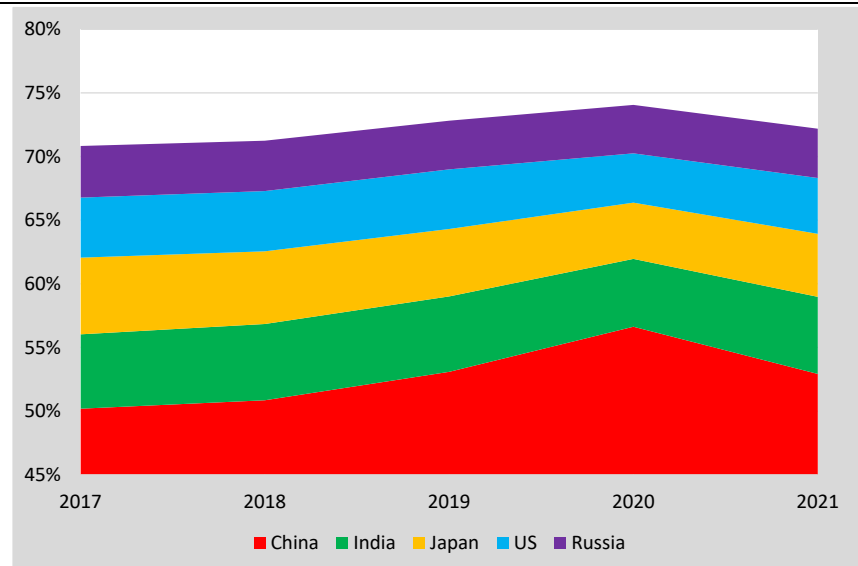
Generally, global steel production growth aligns with GDP growth. Excluding the impact from COVID-19 outbreak in 2020, global production has maintained positive moderate growth. China is the largest steel consumer and producer, accounting for more than 50% of the respective supply and demand volume. The top five steel producers take up more than 70% of the global supply, according to the World Steel Association (WSA).

Figure 12: World crude steel production growth and GDP growth



Source: World Steel Association, KGI Research

Figure 13: Top five steel producers worldwide (as % of the total global production)



Source: World Steel Association, KGI Research

Both steel supply and demand have grown moderately over the past five years. However, the demand gap is trending downwards. In 2021, the gap was below 100mn tonnes. The supply chain issues due to the lockdowns during 2020-2021 slowed down steel production. Meanwhile, the accelerating adoption of clean energy and electric vehicles have boosted the demand for steel in the last two years.

In January, World Bank adjusted global 2022 GDP growth from the previous 5.5% estimate, down to 4.1%. However, the macro environment changed sharply over the past one month.

Russia initiated the invasion of Ukraine on 24th February. The ensuing unprecedented number of sanctions targeting Russia by western governments pushed commodities prices to record highs. The global economy is expected to confront the threat of stagflation.

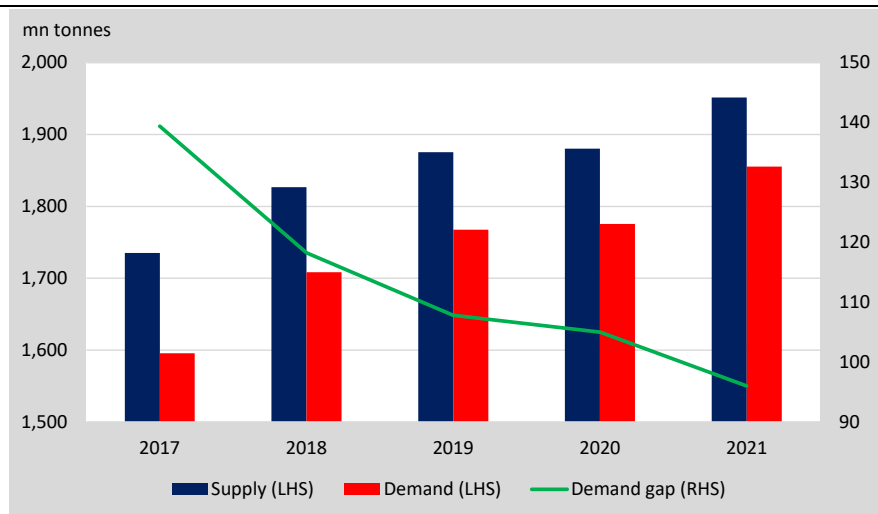
Meanwhile, on one hand, Europe has targeted to speed up clean energy adoption to reduce reliance on Russia’s oil and gas; on the other hand, European countries are expected to increase defence spending substantially, and the rest of the world is likely to follow. Germany has committed EUR100bn to defence budget in 2022. Meanwhile, China announced a 7.1% YoY growth in defence budget.

China’s GDP growth dropped further to 4% YoY in 2021, down 90bps from 2020. The slowdown is not surprising as the world’s second largest economy has been adopting the most draconian lockdown measures to maintain its zero-covid policy. Meanwhile, authorities have aggressively demanded that the real estate sector to de-leverage and have imposed a series of regulations upon the fast-growing sectors such as education and technology.

Last year, the only driver that has prevented China from tipping into recession is its exports. However, Southeast Asia countries are expected to recover quickly in 2022, regaining market share of low-end production from China. Therefore, it is inevitable to see China’s export growth slow down this year. Given the weak domestic consumption which is difficult to be pushed by administrative measures, China has to resort to the old measures, which is mainly fixed asset investment. The recent loose monetary policies have paved the way for it to push infrastructure expansion to maintain economic growth.

Last October, WSA projected steel demand growth to be 2.2% YoY in 2022. With the abovementioned factors, the demand growth could be larger than expected.

Figure 14: World crude steel supply and demand dynamics



Source: World Steel Association, KGI Research

According to the International Energy Agency (IEA), global met coal consumption dropped by 3% YoY to 1,100mn tonnes in 2020 due to the COVID-19 impact. China accounted for 68% of the total demand in 2020, followed by Russia (6%), EU (5%), and India (5%). IEA estimates 0.5% YoY growth in the global met coal consumption, lifting the total amount to 1,106mn tonnes. India, EU, Japan, and Russia see recoveries in demand with respective YoY growths of 17%, 9%, 10%, and 2.4%; while China exceptionally experienced a 3.9% decline in consumption due mainly to the shut-down of steel plants resulting from lockdowns in 2H2021.

In the short term, IEA expects met coal consumption to grow from 1,106mn tonnes in 2021 to 1,164mn tonnes in 2024. The 58mn tonnes of increment includes 22mn tonnes from China, 14mn tonnes from India, 6mn tonnes from Russia, 5mn tonnes from EU, 3mn tonnes from Japan and Korea, and 9mn tonnes from other countries.

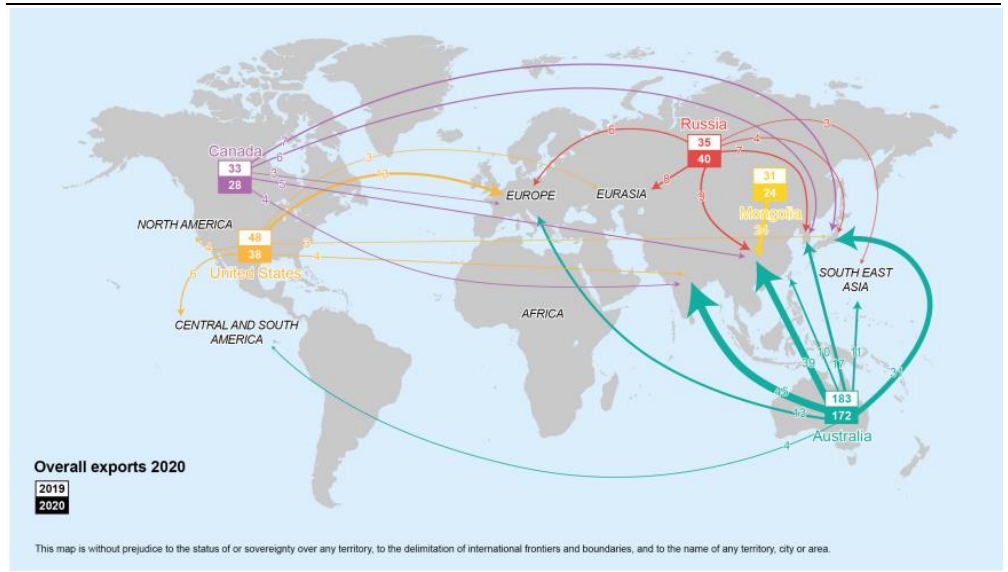
Australia is the largest metallurgical coal exporter

In 2020, approximately 318mn tonnes (29%) of the total met coal consumption came from imports, of which 286mn tonnes (88%) was via seaborne trade. Australia is the largest met coal exporter, accounting for 54% of total exports, followed by US (12%), Canada (9%), Russia (12%) and Mongolia (7%). EIA estimates the global met coal import to grow slightly by 1% YoY to 323mn tonnes in 2021.

India will overtake China to be the world’s largest metallurgical coal importer in 2024

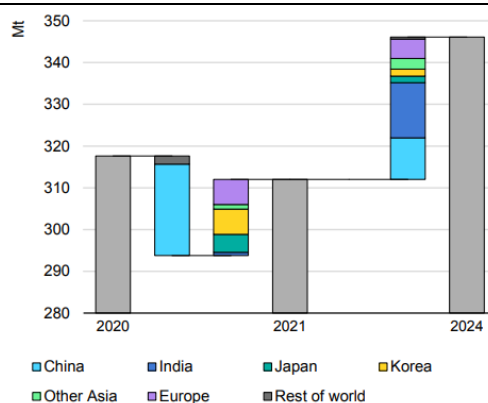
By 2024, China remains the largest met coal importer though its growth of import is flattening. India is expected to overtake China to be the largest met coal importer in 2024.

Figure 15: Main trade flows in the met coal market in 2020 (mn tonnes)



Source: EIA

Figure 16: Met coal import changes 2020-2024



Source: EIA

However, there will be a supply and export shortage due to the sanctions on Russia. If the sanctions pan out, the 40mn tonnes of met coal export gap (based on 2020 figures) needs to be filled by other main exporters. Australia will be a key beneficiary provided that it can ramp up capacity, as South Korea and Japan will likely replace Russian coal with Australian coal. The implication for the market is that met coal prices will stay buoyant, and the upcycle will last longer than expected.

Financial Summary

YE 31 Dec

| INCOME STATEMENT (US\$m) | FY19 | FY20 | FY21 | FY22F | FY23F |
|---------------------------------|--------------|--------------|--------------|--------------|--------------|
| Revenue | 1,116 | 1,163 | 1,874 | 1,750 | 1,620 |
| Cost of sales | (751) | (786) | (1,057) | (1,021) | (985) |
| Gross Profit | 364 | 377 | 817 | 729 | 635 |
| Profit from Operations | 105 | 109 | 460 | 429 | 337 |
| EBITDA | 122 | 140 | 490 | 456 | 368 |
| Depreciation & Amortisation | 17 | 35 | 53 | 43 | 47 |
| EBIT | 105 | 104 | 437 | 414 | 322 |
| Net Finance (Expense)/Inc | (35) | (37) | (55) | (43) | (46) |
| Profit before Tax | 70 | 67 | 382 | 371 | 276 |
| Income tax | (37) | (32) | (131) | (134) | (99) |
| PAT | 33 | 34 | 251 | 237 | 177 |
| PATMI | 10 | 8 | 114 | 108 | 80 |

| BALANCE SHEET (US\$m) | FY19 | FY20 | FY21 | FY22F | FY23F |
|-------------------------------------|--------------|--------------|--------------|--------------|--------------|
| Cash | 178 | 263 | 380 | 624 | 826 |
| Inventories | 23 | 71 | 39 | 41 | 43 |
| Trade receivables | 136 | 140 | 214 | 231 | 245 |
| Others | 115 | 103 | 88 | 83 | 75 |
| Current Assets | 452 | 577 | 720 | 979 | 1,188 |
| PP&E | 92 | 141 | 134 | 146 | 150 |
| Mining properties | 232 | 403 | 414 | 431 | 447 |
| Others | 330 | 274 | 300 | 298 | 297 |
| Non-current Assets | 654 | 818 | 848 | 876 | 893 |
| Total assets | 1,106 | 1,394 | 1,568 | 1,855 | 2,082 |
| Trade payables | 238 | 278 | 308 | 327 | 346 |
| Borrowings | 60 | 112 | 74 | 78 | 81 |
| Others | 5 | 14 | 82 | 78 | 78 |
| Current Liabilities | 303 | 404 | 464 | 482 | 505 |
| Borrowings | 256 | 267 | 331 | 348 | 376 |
| Others | 68 | 145 | 120 | 122 | 124 |
| Non-current liabilities | 324 | 413 | 451 | 470 | 500 |
| Shareholders equity | 359 | 385 | 487 | 677 | 808 |
| Total Equity | 479 | 578 | 653 | 903 | 1,077 |
| Total Liabilities and Equity | 1,106 | 1,394 | 1,568 | 1,855 | 2,082 |

| CASH FLOW STATEMENT (US\$m) | FY19 | FY20 | FY21 | FY22F | FY23F |
|-------------------------------------|-------------|-------------|--------------|--------------|--------------|
| Profit before tax | 70 | 67 | 382 | 371 | 276 |
| Adjustments | 44 | 64 | 141 | 86 | 93 |
| WC changes | 38 | 22 | (53) | 4 | 12 |
| Others | (66) | (44) | (92) | (176) | (145) |
| CF from operating activities | 86 | 109 | 378 | 285 | 236 |
| CAPEX, net | (32) | (25) | (55) | (58) | (63) |
| Others | (18) | (50) | (91) | (2) | (3) |
| CF from investing activities | (50) | (75) | (146) | (61) | (66) |
| Bond issuance, net | – | – | 119 | – | – |
| Loans, net of repayments | 51 | 45 | (101) | 20 | 32 |
| Dividends | (18) | 2 | (119) | – | – |
| Others | (2) | (2) | (10) | – | – |
| CF from financing activities | 31 | 46 | (110) | 20 | 32 |
| Net increase in cash & cash equiv. | 66 | 80 | 121 | 244 | 202 |
| FX effects | (2) | 5 | (4) | – | – |
| Beginning Cash | 113 | 178 | 263 | 380 | 624 |
| Ending Cash | 178 | 263 | 380 | 624 | 826 |

| KEY RATIOS | FY19 | FY20 | FY21 | FY22F | FY23F |
|-------------------------|-------------|-------------|-------------|--------------|--------------|
| Profitability | | | | | |
| Core EPS (US cents) | 0.4 | 0.3 | 4.9 | 4.6 | 3.4 |
| Core EPS Growth (%) | -75% | -19% | 1314% | -6% | -26% |
| Profitability | | | | | |
| Gross margin | 32.7% | 32.4% | 43.6% | 41.6% | 39.2% |
| EBITDA margin | 10.9% | 12.0% | 26.1% | 26.1% | 22.7% |
| Net margin | 2.9% | 3.0% | 13.4% | 13.6% | 10.9% |
| ROE | 9.2% | 9.0% | 51.6% | 35.0% | 21.9% |
| ROA | 3.0% | 2.5% | 16.0% | 12.8% | 8.5% |
| Growth (% Y-o-Y) | | | | | |
| Revenue | 6.4% | 4.2% | 61.2% | -6.6% | -7.4% |
| Total Debt/Equity | 0.7 | 0.7 | 0.6 | 0.5 | 0.4 |
| Net Gearing | 0.3 | 0.2 | 0.0 | Net Cash | Net Cash |

*FY22F/23F does not account for the substantial financial impacts from the acquisition of BMC. We will issue updates upon the completion of the acquisition.

| KGI's Ratings | Rating | Definition |
|----------------------|-------------------------|---|
| | Outperform (OP) | We take a positive view on the stock. The stock is expected to outperform the expected total return of the KGI coverage universe in the related market over a 12-month investment horizon. |
| | Neutral (N) | We take a neutral view on the stock. The stock is expected to perform in line with the expected total return of the KGI coverage universe in the related market over a 12-month investment horizon. |
| | Underperform (U) | We take a negative view on the stock. The stock is expected to underperform the expected total return of the KGI coverage universe in the related market over a 12-month investment horizon |
| | Not Rated (NR) | The stock is not rated by KGI Securities. |
| | Restricted (R) | KGI policy and/or applicable law regulations preclude certain types of communications, including an investment recommendation, during the course of KGI's engagement in an investment banking transaction and in certain other circumstances. |

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