GEAR – 2Q 2019 Results Briefing

Aug 2019

golden energy and resources

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ii.agree to be bound by the limitations and restrictions described herein.

Agenda

1. **Performance Highlights**

2. **Outlook & Growth Strategies**

3. **Q&A**

Performance Highlights

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Performance Highlights

Strong production growth momentum

- Achieved production of **12.6 million tonnes** in 1H 2019, an increase of **38.5%** from 9.1 million tonnes in 1H 2018

- Quarterly ASP of **US$37.25/t**(1) -11.7% YoY from US$42.17
- 1H 2019 revenue of **US$500.4m** +3.9% YoY from US$481.6m
- 1H 2019 net profit of **US$24.9m** -57.4% YoY from US$58.5m

Revenue growth driven by higher production volume

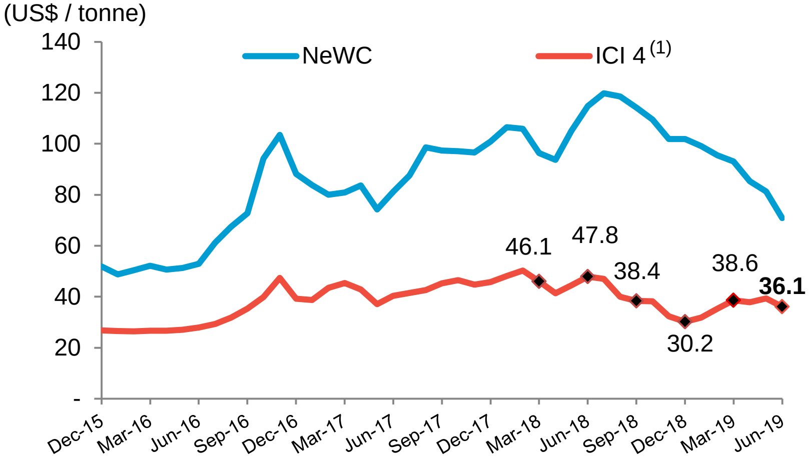
Balance sheet remains stable

- Group cash position increased to **US$124.5m** from US$119.3m as at 31 Mar 2019
- Leverage ratio(2) stands at **2.85x**
- First interim dividend of FY 2019 of **0.29** Singapore cent

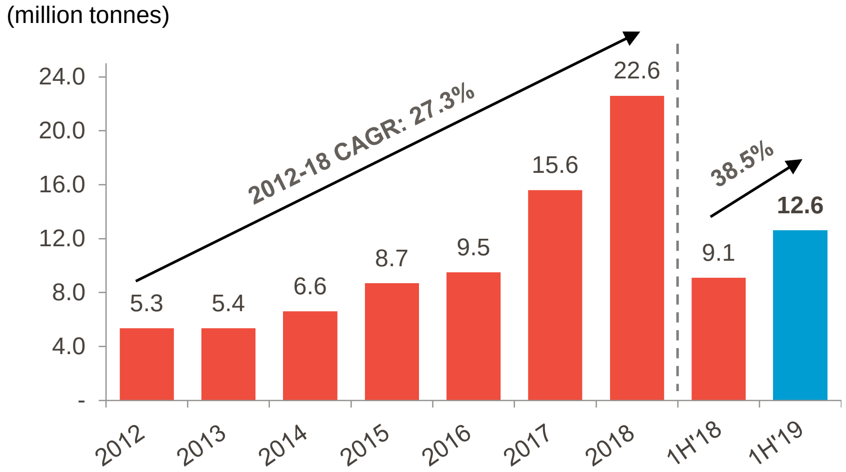
(1) Coal Mining Division
(2) Refers to Total debt to LTM EBITDA

Performance Highlights

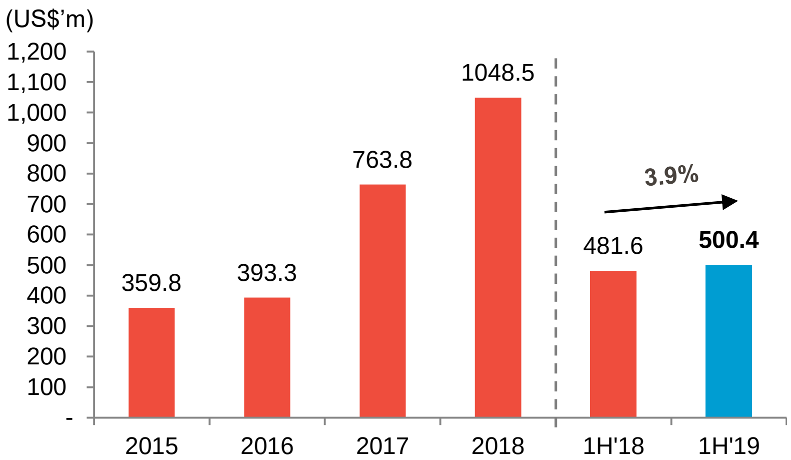
Coal Price Trend



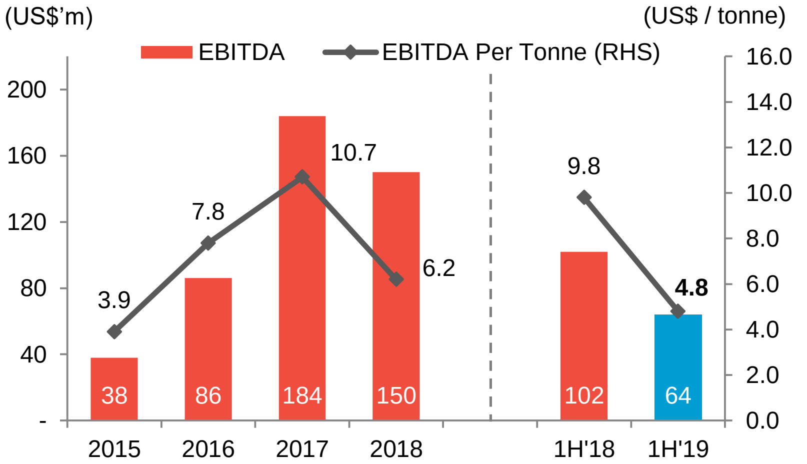
Production Volume Trend – Coal Mining



Revenue Growth



EBITDA(2) Trend



Source: Company, Bloomberg
(1) ICI 4 prices represent average of the month
(2) EBITDA = Profit for the year/period + finance costs + income tax expense + depreciation and amortization – reversal of prior year interest expense – income tax benefit

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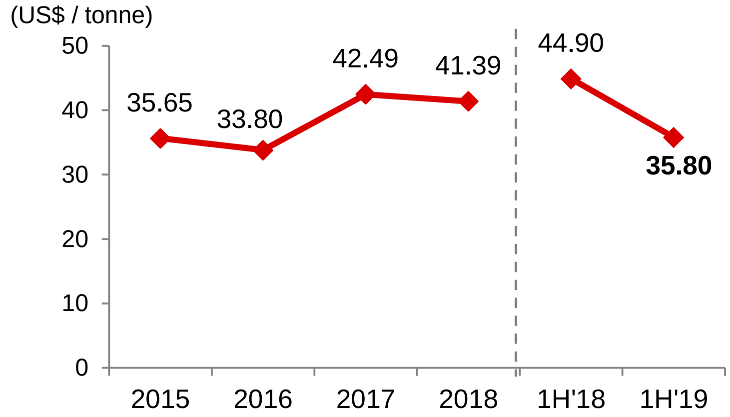
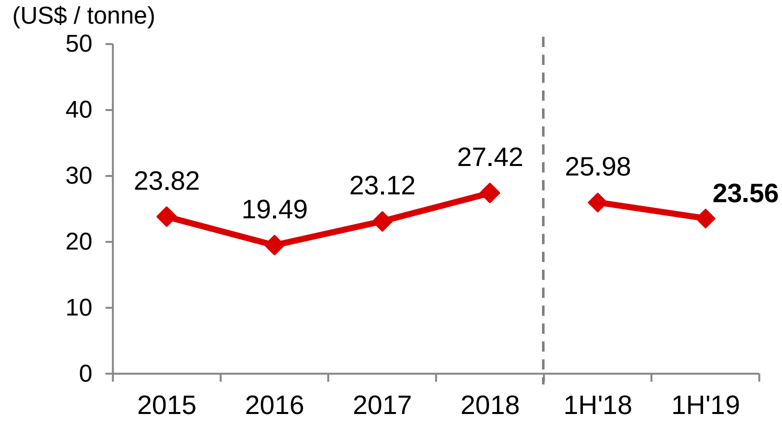
Performance Highlights

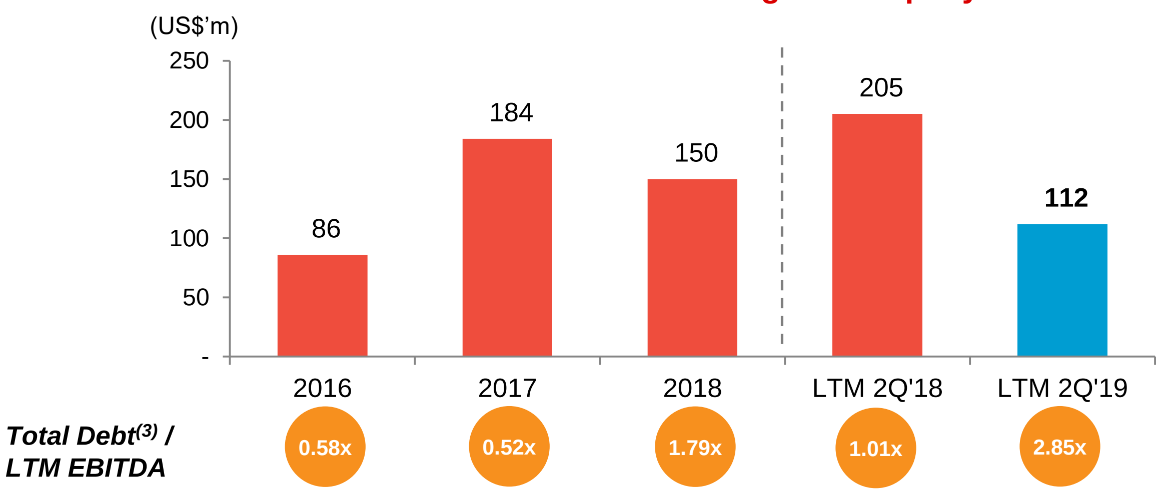
Average Selling Price – Coal Mining



Cash Cost[1] - Coal Mining

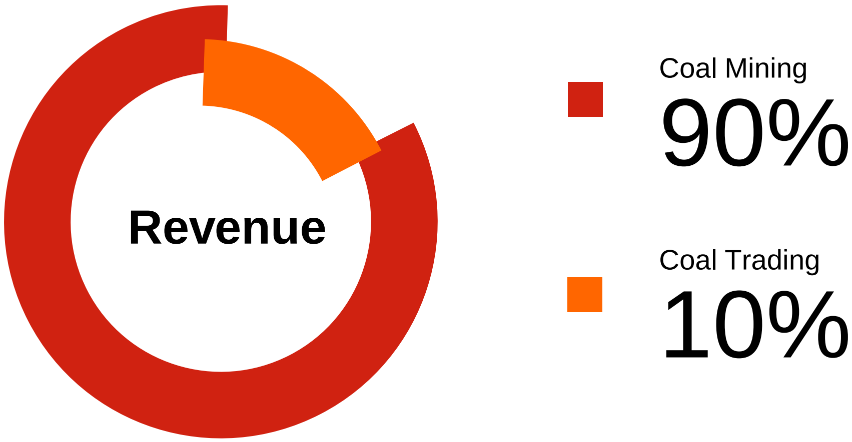


LTM EBITDA[2] and Leverage – Company

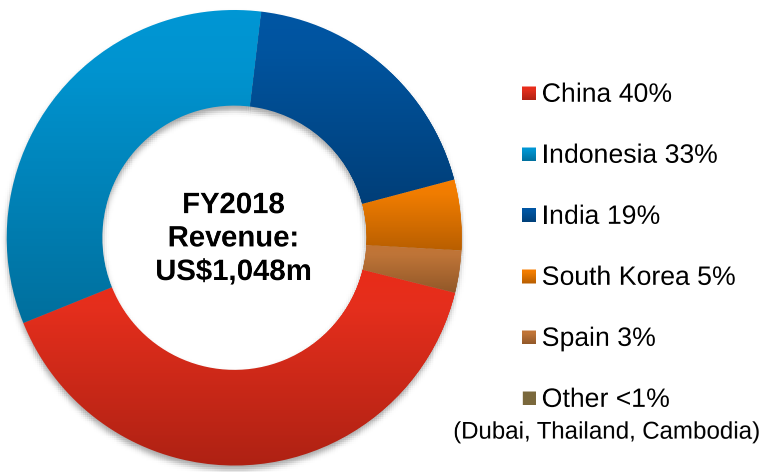


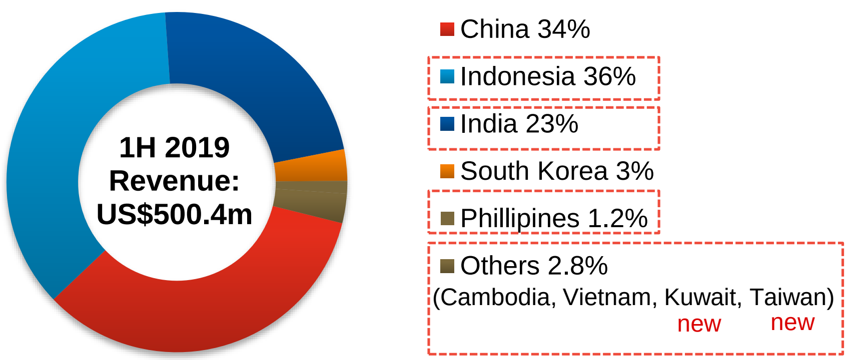
(1) Includes COGS and selling expenses, excludes royalty and non cash items such as depreciation and amortization (D&A)
(2) EBITDA = Profit for the year/period + finance costs + income tax expense + depreciation and amortization – reversal of prior year interest expense – income tax benefit.
(3) Total Debt = Loans and borrowings

Revenue breakdown by division (1H 2019)



Revenue breakdown by geography





Outlook and Growth Strategies

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Outlook & Growth Strategies

On track to achieve 25 million tonnes in 2019

- Produced 5.4 million tonnes and 12.6 million tonnes in 2Q 2019 and 1H 2019, respectively

- Coal consumption to be supported by growing energy requirements of developing countries in South Asia and Southeast Asia
- Strong growth in import demand from GEAR's new markets such as Philippines, Cambodia, Vietnam

Stable demand from key export markets in Asia

Value accretive acquisitions to diversify our core business

- **Stanmore Coal (25.85%)** Australia-based metallurgical and thermal coal miner
- **Westgold Resources (9.25%)** Top 10 Australian gold producer
- Continue to explore other potential acquisition targets and opportunities in counter-cyclical commodities

Latest Analyst Recommendations

Downgraded to ACCUMULATE;
Target Price: S$0.24 (23 May 2019)

PhillipCapital

Golden Energy and Resources Ltd

Mitigating an unfavourable ASP

StocksBnB.com

SINGAPORE | MINING | 1Q19 RESULTS

- Revenue and PATMI missed our expectations due to higher operating costs and lower ASP.
- Production volume on-track to meet FY19 target of 25mn tonnes.
- Cash profit slight above US$10/tonne in 1Q19.
- Coal price headwinds dim the outlook.
- We lower FY19e EPS to 1.8 US cents (previously 2.2 US cents) due to higher overhead costs such as freight and stockpile expenses resulting from higher sales volumes. Based on the unchanged peer average forward PER of 10x and the FX rate (USD/SGD) of 1.36x, we downgrade our recommendation to ACCUMULATE with a lower target price of S$0.24 for FY19.

Results at a glance

(USD mn)	1Q19	1Q18	YoY (%)	Comments
Revenue	276.2	273.0	1.2	Increase in revenue from Coal Mining, offsetting a decrease in revenue from Coal Trading Division and Non-coal Businesses
Gross profit	91.5	115.9	(21.1)	Increase in mining services costs, coal freight, mining overheads, fuel costs, and royalty expenses, partially offset by a lower coal trading volume and a decrease in equipment rental
PBT	24.3	59.9	(59.4)	Increase in operating expenses in line with higher mining and sales activities, and higher interest expenses as a result of the issuance of the Company's bond in Feb-18
PATMI	7.2	26.8	(73.1)	In line with the above

Source: Company, PSR

The Positives

+ Production volume on-track for FY19 target. In 1Q19, the quarterly production volume arrived at a historical high of 7.1mn tonnes, which accounts for 28.4% of FY19 target of 25mn tonnes. The steady growth was owing to the ramp-up of output in BIB mine whose FY19 mining plan is 22mn tonnes.

+ Moderate drop in cash cost. In 1Q19, cash cost decreased by 8.9% YoY and 21.8% QoQ to US$23.3/tonne due mainly to the fall of ASP (part of the fuel cost is proportionate to ASP) and the change of terms in coal hauling services (from hourly basis to distance basis). The guidance for full-year cash cost remains at US$25/tonne to US$26/tonne.

	1Q19	1Q18	YoY (%)	4Q18	QoQ (%)
Production volume (tonnes)	7.1	4.7	51.1	6.4	11.6
ASP (US$/tonne)	34.7	47.4	-26.8	40.0	-13.3
Cash cost (US$/tonne)	23.3	25.6	-8.9	29.8	-21.8
Revenue from coal mining (US$mn)	249.4	237.3	5.1	268.2	-7.0

Source: Company, PSR

The Negatives

- Sink in ASP. During 1Q19, ICI 4 averaged at US$38.6/tonne (down 16.2% YoY but up 27.8% QoQ). Accordingly, the ASP plunged by 26.8% YoY and 13.3% QoQ to US$34.7/tonne.

23 May 2019

ACCUMULATE (Downgraded)

CLOSING PRICE	SGD 0.210
FORECAST DIV	SGD 0.010
TARGET PRICE	SGD 0.240
TOTAL RETURN	19.0%

COMPANY DATA

BLOOMBERG CODE	GER SP
O/S SHARES (MN) :	2,353
MARKET CAP (USD mn / SGD mn) :	358 / 494
52 - WK HI/LO (SGD) :	0.38 / 0.18
3M Average Daily T/O (mn) :	0.15

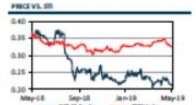
MAJOR SHAREHOLDERS (%)

PT DIAN SWASTATIKA SENTOSA	86.9%
DIMENSIONAL FUND ADVISORS	0.11%
Frank Russell Co	0.04%

PRICE PERFORMANCE (%)

	1MTH	3MTH	1YR
COMPANY	(6.7)	(12.5)	(40.9)
STI RETURN	(3.3)	(1.0)	(6.6)

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Dec	FY17	FY18	FY19e	FY20e
Revenue (US$ mn)	764	1,048	1,103	1,253
EBITDA (US$mn)	184	151	161	175
PATMI (US$ mn)	63	39	41	45
P/E (x)	6	10.4	9.8	9.1
P/B (x)	1.2	1.3	1.1	1.0
ROE	18%	13%	11%	11%
ROA	8%	4%	4%	4%

Source: Company, PSR

VALUATION METHOD

P/E MULTIPLE (PER: 10x)

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Downgraded to ACCUMULATE;
Target Price: S$0.24 (3 June 2019)

PhillipCapital

Singapore Coal Monthly

Cooling down

StocksBnB.com

SINGAPORE | MINING | SECTOR UPDATE

China

Room for 180mn tonnes of capacity cut during 2019-2020

In May-19, CCTEG Coal Industry Planning Institute published the Mid-term 13-Five-Year Plan Evaluation and Outlook for Coal Industry, stating that 810mn tonnes of capacity were phased out during 2016-2018. There is still room for 180mn tonnes of capacity curtailment during 2019-2020. Total coal production will reach 3.7bn tonnes out of 4.5bn to 4.7bn tonnes of domestic capacity by 2020 with an utilisation rate of 75%. The overcapacity issue will be resolved amidst increasing market consolidation. The number of coal mines will decline to 5,000, and 82% will be the large mines (more than 120mn tonnes of annual production).

Indonesia

Indonesia and China coal associations collaborate in the coal mining sector

In May-19, the Indonesian Coal Mining Association and China National Coal Association signed a memorandum of understanding (MOU) to cooperate in the development of the coal mining sector. Both parties will build a framework of cooperation in coal mining and utilisation, development of environmental technology and personnel exchanges. The MOU also provides certainty on China coal import policy on Indonesian coal.

The authority rejects calls for DMO reduction

In May-19, the Indonesian government rejected calls from miners for a reduction of in Domestic Market Obligation (DMO), which demands that the local producers supply 25% of the output to the domestic market. Companies that fail to meet the DMO need to purchase quota from other producers who deliver more than 25% of supply. Miners can only purchase DMO quota from others from July onwards.

Ongoing clampdown on capacity and market consolidation support coal prices

The supply-side reform to phase out 800mn tonnes of coal capacity is completed two years in advance. However, the authority signals it intends to tighten further the domestic supply growth. The large-sized producers will continue to increase the market share in terms of output. With the encouragement of mid-to-long term coal purchase agreement between coal and power enterprises, China will rein in coal prices more efficiently. The policies concentrate on capping the upside of prices. The MOU could provide relief over concerns in the reduction on Indonesian coal demand given that the restriction on coal import (mainly on Australian coal) that remains at the moment. On average, China imports 120mn to 130mn tonnes of Indonesian coal annually.

Indonesian government policies are more volume-driven

Indonesia is expected to grow the domestic consumption of coal by 20mn tonnes to 135mn tonnes in 2019. The unchanged DMO is in line with the ambitious infrastructure expansion plan with a budget of more than US$400bn. The government foresee growth in the domestic demand for coal. However, the authorities will not take care of the downside of coal price. Producers have to ramp up the output despite the thin margins to maintain or improve profitability. This will hurt the miners with smaller reserves and more dependence on the export market.

3 June 2019

Golden Energy & Resources

ACCUMULATE (Downgraded)

BLOOMBERG CODE	GER SP
CLOSING PRICE	SGD 0.200
FORECAST DIV	SGD 0.010
TARGET PRICE	SGD 0.240
TOTAL RETURN	25.0%

Geo Energy Resources

NEUTRAL (Downgraded)

BLOOMBERG CODE	GERL SP
CLOSING PRICE	SGD 0.149
FORECAST DIV	SGD 0.004
TARGET PRICE	SGD 0.150
TOTAL RETURN	3.4%

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Latest Credit Rating Reports

Fitch Ratings - 17 Jan 2019
B+ ; Positive Outlook

Moody's Investors Service - 29 Jul 2019
B1 ; Stable Outlook

FitchRatings

Fitch Affirms GEAR, GEMS at 'B+'; Outlook Positive

Fitch Ratings-Singapore/Jakarta-17 January 2019: Fitch Ratings has affirmed the Long-Term Issuer Default Ratings (IDR) of Golden Energy and Resources Limited (GEAR) and PT Golden Energy Mines Tbk (GEMS) at 'B+'. The Outlook is Positive. The agency has also affirmed the 'B+' rating and 'RR4' Recovery Rating of GEAR's US dollar bond.

At the same time, Fitch Ratings Indonesia has affirmed GEMS's National Long-Term Rating of 'A(idn)'. The Outlook is Positive.

The ratings of both entities are based on the consolidated profile of Singapore-based GEAR. They reflect the group's strong financial profile, healthy reserve life, track record of production growth, and the moderate sensitivity of its credit metrics to benchmark coal prices. The Positive Outlook reflects our expectation that GEMS will likely be able to continue to increase coal production to a level commensurate with the profile of a 'BB-' rated entity over the coming year.

'A' National Long-Term Ratings denote expectations of low default risk relative to other issuers or obligations in the same country. However, changes in circumstances or economic conditions may affect the capacity for timely repayment to a greater degree than is the case for financial commitments denoted by a higher rated category.

KEY RATING DRIVERS

Moderate Linkages: The linkages between GEAR and Indonesia-based GEMS are moderate, as assessed under Fitch's Parent and Subsidiary Rating Linkage criteria. GEAR owns 67% of GEMS, its sole operating subsidiary accounting for all of the group's consolidated EBITDA, retains majority representation over the board, and is actively involved in managing GEMS's operation. An agreement between GEMS's shareholders ensures that the company will maximise profit distribution by paying at least 80% of its free cash flow as dividends.

The two companies' ratings are based on the consolidated profile of the GEAR group. Fitch will reassess this rating approach should weaknesses arise in the linkages. We adjust the consolidated credit metrics to include only 67% of the financial data of GEMS due to the presence of a minority shareholder, GMR Coal Resources Pte. Ltd, which owns 30%. GEAR's standalone operations are not significant and most of its earnings are derived from GEMS's dividends.

Stanmore Acquisition; Credit Positive: We expect GEAR's financial profile to continue to remain strong even after the proposed acquisition of Australia-based Stanmore Coal with consolidated net debt to EBITDA remaining at or below 1.0x (9M18: -0.6x). In our view, Stanmore's net cash position and steady earnings in the medium term will support GEAR's financial profile after the acquisition. GEAR acquired a 19.9% stake in Stanmore in December 2018 and if its bid is accepted, its effective ownership could rise to 51%. Depending on GEAR's final shareholding, the acquisition could hasten the group's scale and diversity improvement, which would increase the likelihood of rating upgrades.

MOODY'S INVESTORS SERVICE

CREDIT OPINION
29 July 2019

Update

Rate this Research

RATINGS

Golden Energy And Resources Ltd

Domicile	Singapore
Long Term Rating	B1
Type	LT Corporate Family Ratings
Outlook	Stable

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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EMEA	44-20-7772-5454

Golden Energy And Resources Ltd

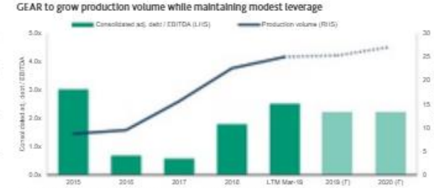
Update to credit analysis

Summary

Golden Energy And Resources Ltd's (GEAR) B1 rating is supported by (1) its 67% controlling interest in PT Golden Energy Mines Tbk (GEMS), an Indonesian thermal coal producer with a growing production volume, long reserve life and competitive cost position, supported by integrated operations; (2) GEMS' prudent capital management and performance during the recent coal price downturn; and (3) GEAR's strong financial metrics on a consolidated basis.

However, GEAR's rating is constrained by (1) its reliance on cash dividends from GEMS for its debt-servicing requirements; (2) the execution risks related to its significant capacity expansion at GEMS; (3) risks related to its evolving acquisition strategy; and (4) its exposure to single-commodity and geographic concentration risks stemming from its strong reliance on one mine for most of its cash flow generation.

Exhibit 1
GEAR to grow production volume while maintaining modest leverage



Sources: Moody's Financial Metrics™, Moody's Investors Service estimates, company information

Credit strengths

» Growing production volume and long reserve life

» Integrated operations, which support its competitive cost position

» Strong financial metrics on a consolidated basis

Q & A