



**GEAR - 1Q FY2018 Results Briefing**  
May 2018



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



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An aerial photograph of a large-scale mining operation. The image shows several deep, terraced pits of varying sizes, some containing dark material. Numerous yellow and blue excavators and large yellow haul trucks are visible throughout the site, engaged in various stages of excavation and transport. The terrain is rugged and shows signs of extensive earthmoving. A white banner with a blue and red arrow graphic on the left side is overlaid on the top left of the image.

## Performance Highlights



# Performance Highlights

## Continuing production growth momentum

- Achieved production of **4.7 MT**, an increase of **57% YoY**

## Recorded strongest quarterly financial performance

- Highest quarterly ASP of **US\$47.35/ tonne**
- Highest quarterly EBITDA and net profit of **US\$67.6m** and **US\$43.5m** respectively

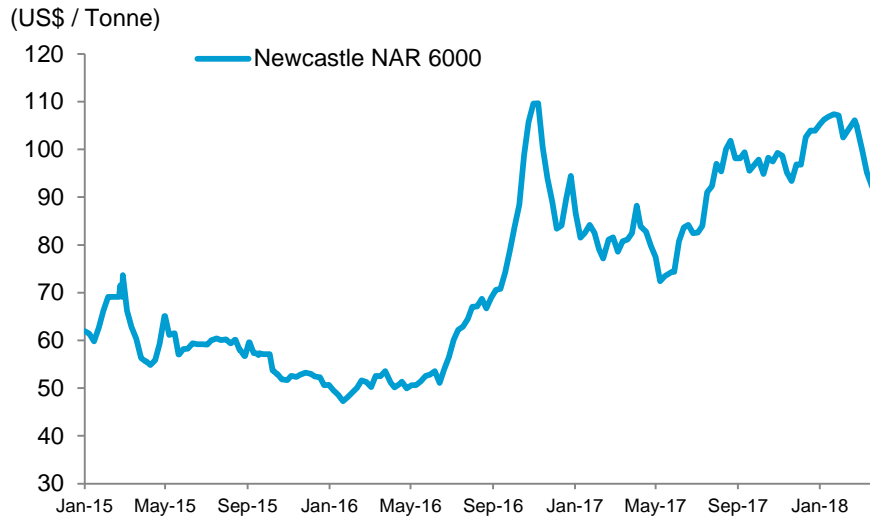
## Maintaining robust balance sheet

- Completed maiden bond issuance of US\$150m
- **Group cash position** increased to **US\$304.8m** from US\$188.7m as on 31 Dec 2017
- **Leverage ratio**<sup>(1)</sup> conservatively stands at **1.11x**

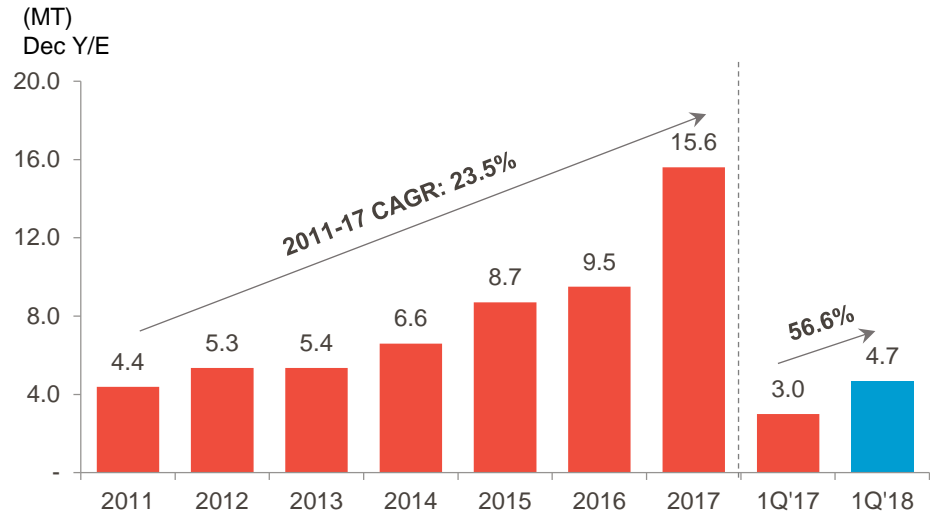
(1) Total debt to LTM EBITDA

# Performance Highlights

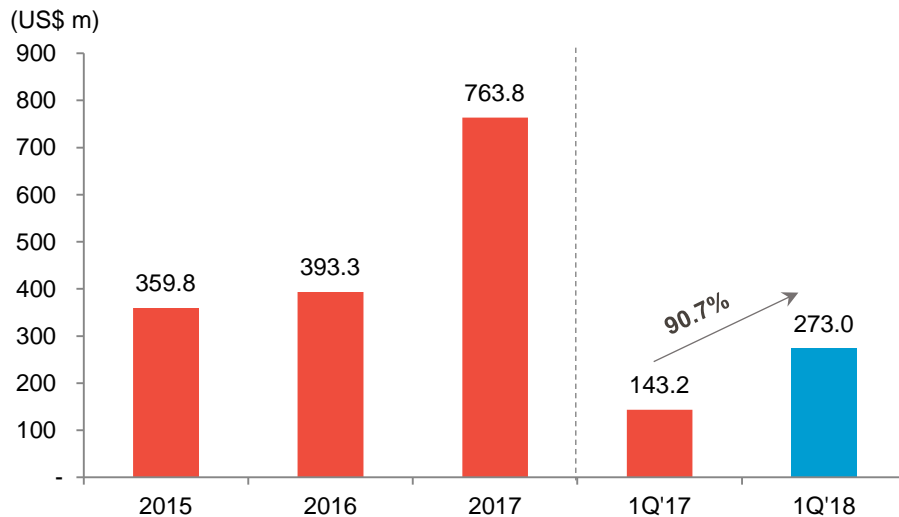
## Newcastle Coal Price Trend



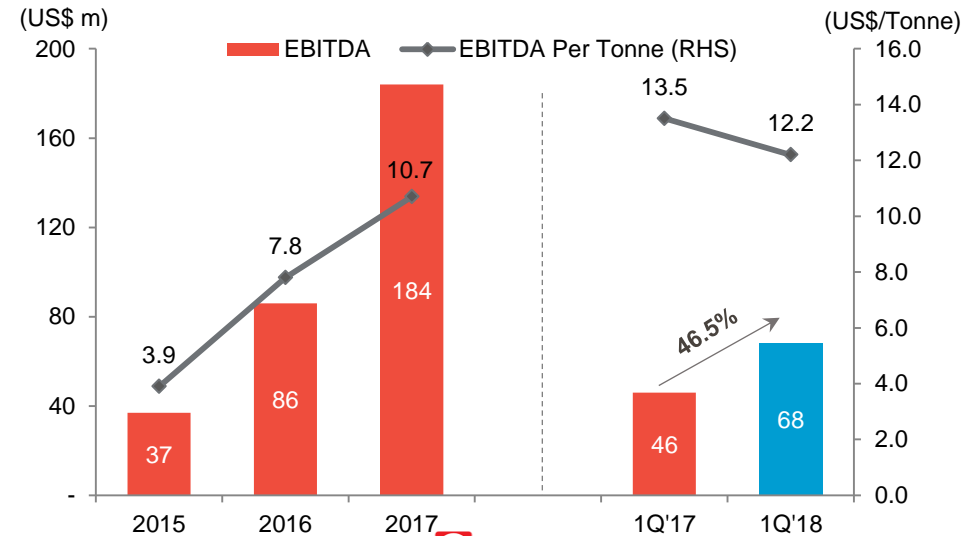
## Production Volume Trend – Coal Mining



## Revenue Growth



## EBITDA<sup>1</sup> Trend

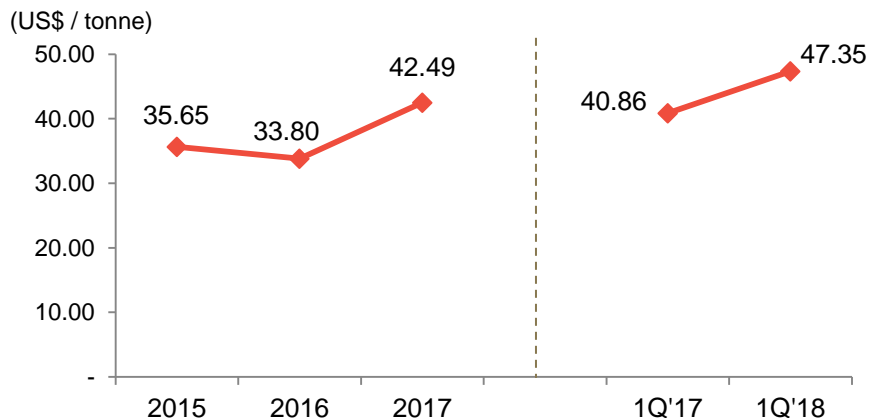


Source: Company financials, Bloomberg LLP

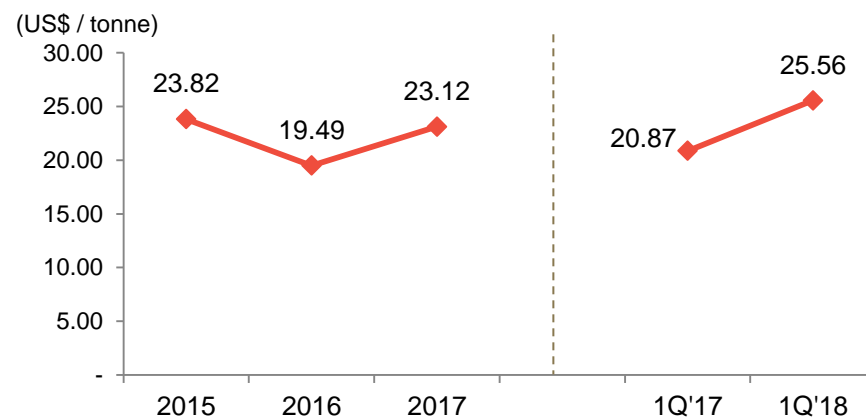
(1) EBITDA = Profit for the year/period + finance costs + income tax expense + depreciation and amortization – reversal of prior year interest expense – income tax benefit.

# Performance Highlights

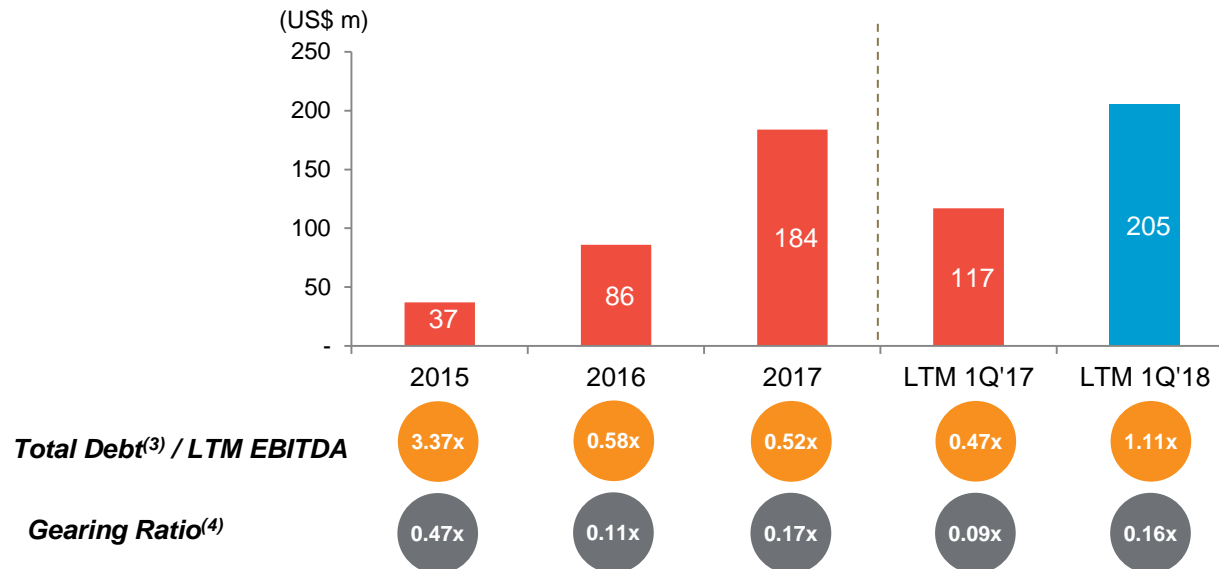
## Average Selling Price – Coal Mining



## Cash Cost per Tonne<sup>(1)</sup> - Coal Mining



## LTM EBITDA<sup>(2)</sup> and Leverage – Company



(1) Includes COGS and selling expenses, excludes royalty and non cash items such as depreciation and amortization (D&A)

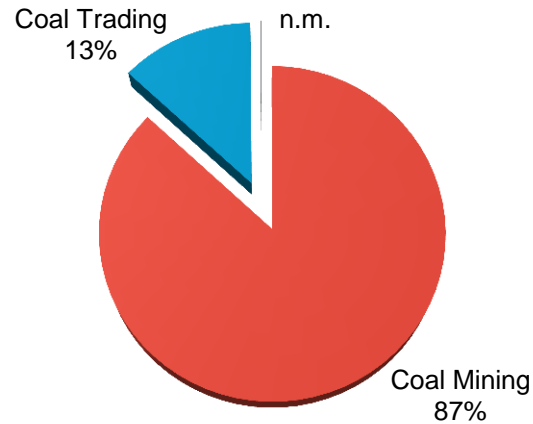
(2) EBITDA = Profit for the year/period + finance costs + income tax expense + depreciation and amortization – reversal of prior year interest expense – income tax benefit.

(3) Total Debt = Loans and borrowings

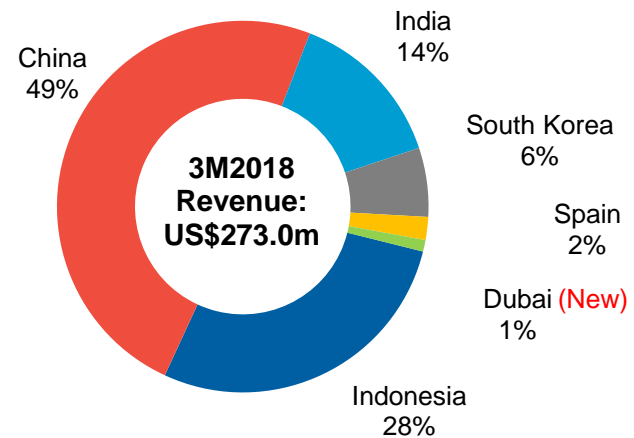
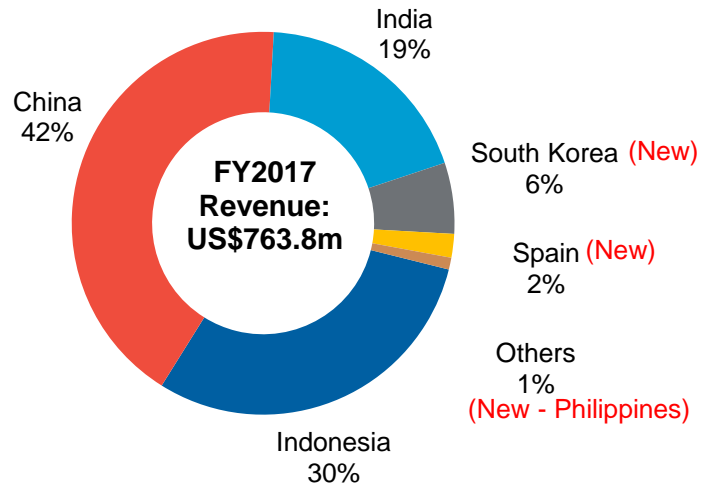
(4) Gearing ratio is calculated as total liabilities (excluding taxes) net of cash and cash equivalents divided by shareholders funds plus total liabilities (excluding taxes) net of cash and cash equivalents

# Performance Highlights

## Revenue breakdown by division



## Revenue breakdown by geography





# Outlook & Growth Strategies



# Outlook & Growth Strategies



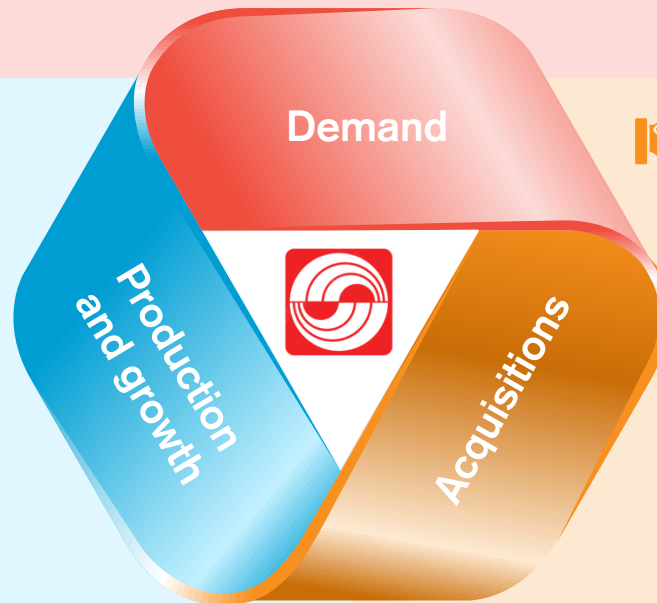
## Firm demand expected to continue in 2018

- Driven by robust coal use in Asia (over 70% of global consumption)
- Strong demand for BIB coal from key Asian markets – China, India and South Korea



## On track to achieve over 20 MT in 2018

- Produced 4.7 MT in 1Q 2018
- Plans to expand key infrastructure including capacity for coal crushers and conveyor belts to facilitate ramp up over existing production capacity in years ahead



## Look for additional value accretive acquisitions

- Explore acquisitions in coal or counter-cyclical precious metals
- BSL acquisition target to be completed by 3Q 2018



# Latest Analyst Recommendations

**Maintained BUY recommendation;**  
**Target Price: S\$0.48 (7 May 2018)**

**Maintained BUY recommendation;**  
**Target Price: S\$0.48 (19 March 2018)**

## Singapore Coal Monthly

Expecting a healthy price correction

SINGAPORE | MINING | SECTOR UPDATE

### What is the news?

#### China

On 16-Apr, the authority re-imposed a new round of restriction on coal imports at southern and eastern ports located in Zhejiang, Fujian, Guangdong, and Guangxi provinces. The regulations ranged from bans on unloading to tighter customs clearances. It is viewed as supporting the domestic coal prices and re-channelling profits back on domestic producers.

#### Indonesia

According to Platts, Indonesian coal miners reported health average selling price (ASP) in 1Q18. The growth of ASP was attributable to strong demand from China and weather-related supply disruptions. 1Q18 production from Adaro Energy, the largest coal miner in Indonesia, dropped by 8% YoY, while Bukit Asam, another coal giant reported an 18% YoY jump in production.

#### The cooling measure is seasonal

In retrospect, the initiation of the ban on imported coal through small ports was in Jul-17. It persisted until the end of the year. However, the extreme winter climate led to a surge in demand for coal. During that period, the domestic production failed to catch up, resulting in more reliance on imported coal since Dec-17, shown in Figure 1 and 2. In early 2018, the Big 4 power generators urged to loosen the control on imported coal, and the authorities relented in Feb-18. As shown in Figure 2 and 3, the jump of power demand aligned with the rebound of imported coal in Jan/Feb-18. The new round of restrictions is to protect the domestic coal miner's interest given the domestic capacity is relatively sufficient to cater to demand during the slack season. It is worth noting that the restrictions are mainly imposed on small ports rather than the large ports. Import volume from small ports accounts for less than 30% of the total amount. China still relies on imported coal to fill the demand gap. We believe the restriction is to maintain the domestic coal miners' market share amid a healthy supply-demand dynamic.

#### Coal price topped out in 1Q18

See Figure 3 and 4, the uptrend of coal prices starting in Jul-17 lasted for 9 months until Mar-18. The HBA index reached 6-year high, so did Qinghuangdao 5,500 GAR FOB price in 1Q18. In Apr-18, Coal prices started to correct (down c.10% MoM) due to a moderation in demand after winter. Accordingly, more supply began to build up. Shown in Figure 6, the port coal stockpile surged in Mar/Apr-18. We believe the seasonal correction of price is healthy given the recent coal price level have created untenable pressure on both China and Indonesia thermal plants for months. This implies less intervention by authorities on behalf of these utilities.



7 May 2018

### Golden Energy & Resources

#### BUY (Maintained)

BLOOMBERG CODE	GER SP
CLOSING PRICE	SGD 0.365
FORECAST DIV	SGD 0.014
TARGET PRICE	SGD 0.480
<b>TOTAL RETURN</b>	<b>35.3%</b>

### Geo Energy Resources

#### BUY (Maintained)

BLOOMBERG CODE	GERL SP
CLOSING PRICE	SGD 0.220
FORECAST DIV	SGD 0.010
TARGET PRICE	SGD 0.470
<b>TOTAL RETURN</b>	<b>118.2%</b>

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19 March 2018

### BUY (Maintained)

CLOSING PRICE	SGD 0.370
FORECAST DIV	SGD 0.014
TARGET PRICE	SGD 0.480
<b>TOTAL RETURN</b>	<b>33.6%</b>

#### COMPANY DATA

BLOOMBERG CODE	GER SP
QIS SHARES (Mn)	2,353
MARKET CAP (USD mn) / SGD (mn)	685 / 871
52-WK HI/LO (USD)	0.54 / 0.37
3M Average Daily T/O (mn)	0.57

#### MAJOR SHAREHOLDERS (%)

PY DIAN SWARSTATA SIA SENTOSA	89.0%
RUSSELL INVESTMENTS (RELAND)	0.0%
DIMENSIONAL FUND ADVISORS	0.0%

#### PRICE PERFORMANCE (%)

	1MTH	3MTH	1YR
COMPANY	(3.7)	13	N/A
STREET/IBN	4.0	3.4	0.2

#### PRICE VS. STI



Source: Bloomberg, PBR

#### KEY FINANCIALS

Y/E Dec	FY16	FY17	FY18e	FY19e
Revenue (USD mn)	393	754	885	962
EBITDA (USD mn)	89	84	224	251
PATM (USD mn)	22	83	82	91
P/E (x)	76	19	8.2	7.3
P/B (x)	2.6	2.0	1.5	1.1
RCE (%)	7%	9%	8%	6%
ROA (%)	4%	5%	6%	7%

Source: Company, PBR

#### VALUATION METHOD

P/E MULTIPLE (P/E: 10x)

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## Golden Energy and Resources Ltd

Great quarter to end a stunning year

SINGAPORE | MINING | 4Q17 RESULTS

- Revenue beat our forecast by 23.5% due to higher than expected sales volume and average selling price (ASP). On the flip side, net profit missed by 6% due to higher cash cost and income tax expenses.
- 15.6mn tonnes of production volume in FY17 (+64.2% YoY). FY17 ASP grew a healthy 25.7% YoY.
- 4Q17 cash cost was higher than expected (+139.5% YoY).
- We lower FY18e to EPS 3.5 US cents (previous 4.3 US cents) due to the expectation of higher cash costs and interest burden. Based on unchanged average 12-month forward PER of 10x (the average of regional peers) and the FX rate (USD/SGD) of 1.36x, we lower our target price to S\$0.48 for FY18 (previous S\$0.59) and reiterate our BUY recommendation.

#### Results at a glance

USD (mn)	4Q17	4Q16	YoY (%)	FY17	FY16	YoY (%)	Comments
Revenue	301.7	108.7	177.6	761.8	393.3	94.2	Increase in revenue from Coal Mining and Coal Trading Divisions, partially offset by a decrease in revenue from others
Gross profit	104.8	50.6	107.0	311.9	144.1	119.2	In line with the above
PBT	55.3	25.4	117.2	157.6	47.6	231.0	Increase in operating expenses offset by a decrease in finance expenses
PATM	22.2	14.5	52.9	63.0	22.0	186.1	Increase in deferred income tax expenses

Source: Company, PBR

#### Positives

+ **Exceeding the annual target amid buoyant coal prices:** See the table below, the stunning performance in FY17 was mainly attributed to the ramp-up of production. Especially in 4Q17, the production peaked, substantially favouring the group to overshoot the full year production target of 14.4mn tonnes. Meanwhile, ASP recorded healthy YoY growth of 25.7% in FY17, driven by the persistent shortage of thermal coal supply in China.

	4Q17	4Q16	YoY (%)	FY17	FY16	YoY (%)
Production volume (tonnes)	5.5	2.6	111.5	15.6	9.5	64.2
ASP (US\$/tonne)	43.1	38.3	12.3	42.5	33.8	25.7
Cash cost (US\$/tonne)	25.9	10.8	139.5	23.1	19.5	18.6
Revenue from coal mining (US\$m)	236.8	99.7	137.5	645.4	329.5	95.9

Source: Company, PBR

+ **Securing total 15mn tonnes of order for FY18:** At the beginning of FY18, GEAR signed 13 offtake agreements with clients including domestic power plants and trading houses. From this total, 9 contracts for export that locks 11.3mn tonnes of coal sales from the group and the remaining 4 domestic supply contracts will lock in another 3.8mn tonnes. To sum up, GEAR had secured 15.1mn tonnes of sales in FY18, which amounted to 75% of the annual target of 20mn tonnes.

#### Negatives

- **Cash cost was higher than expected in 4Q17:** In 4Q17, the growth of cash cost outpaced that of production volume, owing to higher coal freight, mining overhead and royalty. Moving forward, it is expected that the cash cost will be maintained at US\$23/tonne to US\$24/tonne in this and next year.



# Latest Analyst Recommendations

**Maintained BUY recommendation;**  
**Target Price: S\$0.59 (6 February 2018)**



## Singapore Coal Monthly

Seasonal demand comes

SINGAPORE | MINING | SECTOR UPDATE

What is the news?

China

In Jan-18, Big 4 power generators, namely Huaneng, Datang, Huadian and State Power Investment jointly sent an emergency report to National Development and Reform Commission (NDRC):

- To guarantee to operate at full capacity before lunar new year holiday and increase coal imports;
- To clamp down coal prices and coordinate with China Railway to cap the increase in transportation charge.

In the report, the 4 companies stated that since 2017 multiple factors such as over-demand, replacement of obsolete capacity and insufficient rail freight capacity had resulted in high coal prices. A few thermal plants are encountering liquidity crunch owing to suspension or restriction of bank loans. Plant coal stockpile has dropped below 100mn tonnes and expected to further fall to 90mn tonnes by Chinese New Year. The whole thermal power segment is loss-making.

Indonesia

In Jan-18, Indonesia government signed amended contracts with the remaining 18 coal mining companies. It marked the completion of amendments to contracts of all 68 coal miners. Under the amendments, the companies will commit a lump sum 13.5% royalties in cash, and the land rental will be lifted from US\$1/hectare to US\$4/hectare. Miners can keep on operating up to 2 years before their contracts expire, after which they will be granted special mining permits.

Increasing supply becomes imperative in the near term in China

China faced freezing temperatures recently, resulting in a surge in demand for heat and power. In Dec-17, the amount of thermal power production reached 441.7k GWh (+4% YoY). However, coal supply failed to meet the higher seasonal demand since domestic production remained flat and coal import volume fell sharply, shown in Figure 1 and 2. Meanwhile, port coal stockpile was further exhausted in Dec-17 and Jan-18. As a result, the uptrend of coal price continued without evident corrections, see Figure 4 and 5. We expect the authority will increase the import volume and cautiously boost the domestic production in the near term. After all, to guarantee heat and power supply especially during the upcoming lunar new year is the priority. Moving forward, we believe the government will speed up the consolidation between power plants and coal producers this year since coal miners thrived but power generators suffered last year.

Indonesia coal producers will be subject to higher cash costs

The amendments of mining contracts will negatively impact coal miners. Given the current prevailing high coal prices, producers are able to bear the increase in cash costs. Some miners could ramp up production to make up for the extra rental outlay in order to mitigate the headwinds. However, profit margins of the coal sector will be reduced.



6 February 2018

### Golden Energy & Resources

**BUY (Maintained)**

BLOOMBERG CODE	GER SP
CLOSING PRICE	SGD 0.435
FORECAST DIV	SGD 0.015
TARGET PRICE	SGD 0.590
<b>TOTAL RETURN</b>	<b>39.1%</b>

### Geo Energy Resources

**BUY (Maintained)**

BLOOMBERG CODE	GERL SP
CLOSING PRICE	SGD 0.260
FORECAST DIV	SGD 0.010
TARGET PRICE	SGD 0.440
<b>TOTAL RETURN</b>	<b>73.1%</b>

### Blackgold Natural Resources

**TRADING BUY (Maintained)**

BLOOMBERG CODE	BHR SP
LAST TRADED PRICE	SGD 0.096
FORECAST DIV	SGD 0.000
TARGET PRICE	SGD 0.160
<b>TOTAL RETURN</b>	<b>66.7%</b>

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**Maintained BUY recommendation;**  
**Target Price: S\$0.68 (26 January 2018)**



Singapore Company Update

26 January 2018

Basic Materials | Mining

## Golden Energy & Resources

On a Trajectory To Increase Production

We fine-tune our assumptions on coal prices and increase GEAR's FY18F-FY19F earnings by 8.3% and 3.5%, respectively. On top of that, we believe the company is on track to deliver FY18 coal production target of 18m tonnes (vs 14m tonnes in FY17). Maintain BUY with a revised TP of S\$0.68 (from S\$0.71, 42% upside), which implies our FY18F P/E of 13.1x. A key main catalyst is a sizable increase in earnings ahead due to the substantial increase in coal production.

Raising our coal price assumptions. Coal prices have rallied to above USD100/tonne. We think they should soften by April, as China's winter season is likely to end at end-March, and the La Nina is expected to end in April. However, we do not expect coal prices to soften significantly as we anticipate Newcastle coal price to soften to not lower than USD85/tonne (Newcastle 6,000kcal/kg). Positive factors supporting high coal prices include:

- Another cut in China's coal production capacity of c.360m tonnes in 2018;
- Healthy China coal consumption as its Purchasing Managers' Index (PMI) stays in an expansion mode with 147GW of new coal-fired power plants under construction;
- Indonesia's declining coal supply for export markets.

We upgrade our coal price assumptions to USD90/tonne, USD85/tonne and USD78/tonne for FY18-20 respectively.

Ramping up its coal production to 18m tonnes in FY18F (vs 14m tonnes in FY17). Golden Energy and Resources (GEAR) has proved its ability to ramp up its coal production to 9.5m tonnes in 2016 from 4.4m tonnes. It is on track to deliver its FY17 coal production target of 14m tonnes. To ensure the ramp up in coal production, GEAR has appointed two coal industry veterans, ie Mr Bonifasius and Mr R Utoro as the president director and director respectively of its 86.9% subsidiary, Golden Energy Mines (GEMS) effective 1 Jan 2017.

Mr Utoro was formerly Kaltim Prima Coal's (KPC) chief operating officer and instrumental in increasing that company's coal production to >80m tonnes pa (mtpa) from 2 mtpa. We believe GEAR would be able to deliver its FY18 coal production target of 18m tonnes as it has renewed its contract with mining contractor Saptaindra Sejati (SIS), a subsidiary of Adaro Energy, for a period up to Dec 2020.

Maintain BUY. We fine-tune our assumptions on coal prices and increase FY18F-FY19F earnings by 8.3% and 3.5%, respectively. We reiterate our BUY call with a revised TP of S\$0.68, which implies a 13.1x FY18F P/E. A key main catalyst is a sizable increase in earnings ahead due to the substantial increase in coal production.

Key risks to our call include execution risks in ramping up coal production, weaker-than-expected coal demand, weaker-than-expected coal prices and regulatory risks.

Forecasts and Valuations	Dec-15	Dec-16	Dec-17F	Dec-18F	Dec-19F
Total turnover (USDm)	360	339	535	619	815
Reported net profit (USDm)	(9)	22	76	104	131
Recurring net profit (USDm)	(9)	22	76	104	131
Recurring net profit growth (%)	(46.0)	0.0	249.3	36.3	28.9
Recurring EPS (USD)	(0.02)	0.01	0.03	0.04	0.06
EPS (USD)	0.001	na	0.001	0.003	0.004
Recurring P/E (x)	na	39.7	11.3	8.3	8.5
P/E (x)	4.99	2.86	2.30	1.65	1.49
P/CF (x)	na	19.9	5.6	5.3	4.3
Dividend Yield (%)	0.2	na	0.3	0.9	1.2
EV/EBITDA (x)	568	18	6	4	3
Return on average equity (%)	(4.9)	8.9	22.7	24.7	24.9
Net debt to equity (%)	29.7	net cash	net cash	net cash	net cash
Dividend cover EPS (adjusted) (%)	na	11.4	7.4	11.6	11.6

Source: Company data, RHB

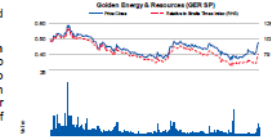
**Buy (Maintained)**  
 Target Price: S\$0.68  
 Price: S\$0.48  
 Market Cap: USD856m  
 Bloomberg Ticker: GER SP

**Share Data**  
 Avg Daily Turnover (SGD/USD) 0.40m/0.29m  
 52-wk Price low/high (SGD) 0.37 - 0.59  
 Free Float (%) 13  
 Shares outstanding (m) 133  
 Estimated Return 42%

**Shareholders (%)**  
 Dian Swastika Sentosa 86.9  
 Argyle Street Management 0.7  
 UBS AG Prop 0.5

**Share Performance (%)**  
 YTD 1m 3m 6m 12m  
 Absolute 21.8 23.4 9.2 21.8 (2.1)  
 Relative 16.8 17.9 2.4 14.4 (19.6)

Source: Bloomberg



Source: Bloomberg

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# Latest Analyst Recommendations

**Maintained BUY recommendation;**  
**Target Price: S\$0.78 (19 January 2018)**



## MORNING BUZZ

19 January 2018

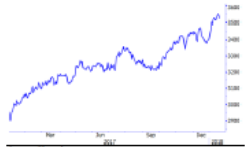
### Market Indicators

	16-Jan	17-Jan	18-Jan
Mkt. T/O (\$B mil)	1,097.6	1,377.6	1,280.0
Stock Advances	271	189	196
Stock Declines	187	265	256

### Major Indices

	16-Jan	17-Jan	18-Jan
DJ Ind Avg	25,792.9	26,115.7	26,017.8
S & P 500	2,776.4	2,802.6	2,798.0
Nasdaq Comp	7,223.7	7,298.3	7,296.0
Hang Seng	31,904.8	31,983.4	32,121.9

STI Index 3,521.31 (-0.58%)

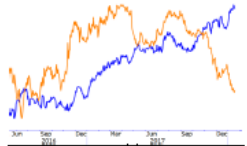


Source: Bloomberg

### Commodities

	Current Price	% Chg from Close
Gold (spot) US / oz	1,328.26	0.01%
Oil (WTI) US / barrel	63.65	-0.38%
Baltic Dry Index	1,164	-4.67%

### Exchange Rates



USD : SGD 1.3208 / MYR : SGD 2.9908

Source: Bloomberg

### Interest Rates

3-mth Sbor	1.197%
5GS (10 yr)	2.088%

KGI Securities Research Team

### Market Colour

Hong Kong's Hang Seng index closed at a record high on Thursday as China's economy grew at a much faster pace of 6.8% in the fourth quarter and 6.9% for the full-year. The benchmark index gained 0.4% to close above 32,000 for the first time as strong fund inflows and Chinese banks led the rally. Among the biggest gainers have been China Construction Bank (939 HK, +3%) and Industrial & Commercial Bank of China (1398 HK, +3%), which have extended their rally over the past month and almost reached their record levels set in 2007. C-Mer Eye Care Holdings (3309 HK, +6%), which had an IPO price of HK\$2.90 on Monday, continued to gain and closed at HK\$15.40 on Thursday.

### News

**China property:** New home sales increased in 57 cities out of 70 cities in December, compared to 50 in November, according to the National Bureau of Statistics. Positive news for developers with significant exposure to China. Among SG-listed developers with >50% revenues from China are CapitalLand (Consensus fair value S\$4.21, upside +11%) and Yanlord Land (Consensus fair value S\$2.12, upside +22%).

**Oxley Holdings:** 2Q18 net profit declined 45% YoY to S\$68m due to lower margins and a fair value loss of ~S\$17m on financial instruments. The company has declared an interim dividend of 0.72 SG cents compared to 0.5 SG cents in the preceding year. It has also proposed a bonus issue of new shares on the basis of one bonus share for every five existing shares held. Consensus has a fair value of S\$0.74, implying a 10% upside.

**First Ship Lease Trust:** Sold another vessel, containership vessel FSL Busan, for US\$6.2m. This follows the sale of a chemical tanker for US\$13.8m earlier this week. Following the disposal, total debt is estimated to decline to US\$132m. This is positive news for the trust as the sale values of the two vessels sold were 15-50% higher than our conservative estimates. We maintain our BUY recommendation with a fair value of S\$0.15.

**Golden Energy and Resources:** Reported 4Q17 coal production of 5.5m tonnes, bringing its full-year production volume to 15.6m tonnes, exceeding its target of 14.4m tonnes for 2017. We currently have a BUY recommendation with a target price of S\$0.78.

### Recent In-depth Regional Reports

18/1	TH C.P. ALL (CPALL TB; Outperform; TP: Bt 86.00): 4Q17 earnings preview: Growing YoY and QoQ.
18/1	TH Krung Thai Card (KTC TB; Outperform; TP: Bt 245.00): 4Q17 earnings review: Signs of balancing credit cost for growth.
18/1	TH Land and Houses (LH TB; Outperform; TP: Bt 13.40): Return of the Jedi.
18/1	TH Mono Technology (MONO TB; Outperform; TP: Bt 5.75): Stronger rating translated to greater ad rate.
17/1	TW Chieftek (1597 TT; Not Rated): Capacity additions to drive sales & margin upside.
17/1	HK Cryptocurrency: Regulatory measures in China & Korea depress crypto market; altcoin to outperform long term.

For full reports, please contact Research Department at 6202 1190 or [sgp.researchcom@kgi.com](mailto:sgp.researchcom@kgi.com)





# Q & A