



## TerraCom Ltd (TER.ASX)

*Rebirth – right commodity at the right time*

### Event:

- We initiate research coverage on TerraCom Ltd (TER).

### Investment Highlights:

- We expect TER to be producing at least 3.5Mtpa ROM coal in CY2017**, as it restarts production in Mongolia and the recently acquired Blair Athol coal mine by end CY2016. Both coking and thermal coal prices are currently providing strong tailwinds.
- Mongolian hard coking coal operations restructured.** Following hiatus in production earlier this year, TER has engaged a new logistics chain, including commissioning an onsite CHPP which should reduce costs and improve yields. We also expect new marketing agreements - such as that with Kingho – will have better linkage of coal pricing to that of export markets, avoiding the unwarranted discounting of the past.
- Blair Athol purchase perfectly timed.** TER acquired the Blair Athol thermal coal mine for just \$1, in return receiving mining license, fully functional mine, all plant and equipment, and \$80M cash for rehabilitation bond. A perfect storm of the mine reaching the end of its life and the severe depression of the coal markets engendered the low price.
- Indonesian asset potential.** TER has identified a hard coking coal mine in Central Kalimantan on which it is undertaking due diligence. This could add further value if it can execute an acquisition at reasonable price.
- Experienced coal industry management,** headed by Executive Chairman Cameron McRae, are highly credentialed with expansive coalmine experience including in Mongolia and Australia for majors such as BHP, Rio and Glencore.
- Capex sunk, now to take advantage of coal prices.** The attraction of TER is that capex is mostly sunk in Mongolia and Blair Athol, so now it's a matter of executing on production restart. The company has entered into agreements with mining contractors to fund its working capital.

### Earnings and Valuation:

- We forecast TER to earn NPAT of \$50M in FY17e and \$37M in FY18e, based on production from both Mongolia and Blair Athol.** The decrease in FY18e earnings is driven by our forecast decline in coal prices in-line with consensus. TER valuation is attractive with PE of 2.0x FY17e and EV/EBITDA of 3.3x.
- We value TER by DCF, deriving an NPV<sub>10</sub> of \$0.083/share risked and \$0.15/share unrisked,** or \$234M risked and \$469M unrisked for the company.
- Interest covered.** TER has \$168M in net debt. With recent restructuring we forecast TER should be able to service its interest with cover of 3x-5x.

### Recommendation:

- We initiate with a Buy recommendation and PT \$0.083 /share, based on valuation.** We envisage multiple catalysts based on delivering milestones, including restart of production at Mongolia and Blair Athol; executing Indonesia acquisition; reaching production targets; achieving profitable pricing for both thermal and coking coal; and generating positive net free cashflow inclusive of servicing debt interest.

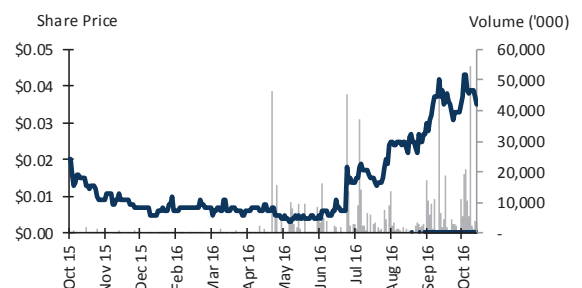
Recommendation	Buy
Previous	n/a
Risk	High
Price Target	\$0.083
Previous	n/a
Share Price (A\$)	\$ 0.037
ASX Code	TER
52 week low - high (A\$)	0.002-0.048
Valuation (A\$/share) - risked	\$0.083
Methodology	DCF
Capital structure	
Shares on Issue (M)	2,582
Market Cap (A\$M)	96
Net (Debt)/Cash (A\$M)	-168
EV (A\$M)	264
Options (M)	30
Warrants (M)	126
Fully diluted EV (\$M)	269
12mth Av Daily Volume ('000)	2,745

Y/e Jun (A\$M)	2016a	2017e	2018e	2019e
Sales	9.9	188.7	321.9	299.5
Adj EBITDA	-18.0	80.5	83.1	63.4
Adj NPAT attributable	-49.7	49.7	37.1	21.4
Adj EPS diluted \$	-0.03	0.02	0.01	0.01
PER x diluted	nm	2.0	2.7	4.7
EV/EBITDA x	nm	3.3	3.2	4.2

\*Adj = underlying FSB estimate

Board	
Cameron McRae	Executive Chairman
Craig Wallace	Non-Executive Deputy Chairman
Michel Avery	Executive Director
David Stone	Executive Director
Tsoegt Togoo	Non-Executive Director
Philip Forrest	Non-Executive Director
Loo Hwee Fang	Non-Executive Director

### Share Price Graph



Analyst: Mark Fichera

+612 9993 8162

[mark.fichera@fostock.com.au](mailto:mark.fichera@fostock.com.au)

**Foster Stockbroking is engaged in providing corporate services to TER and was Sole Lead Manager in the \$1M placement of 46.5M TER shares at \$0.0215 in August 2016 for which it earned fees, including 30M unlisted TER options.**