



TerraCom Ltd (TER.ASX)

Mining again at Mongolia; Blair Athol Resource upgrade

Event:

- Mining at BNU; Blair Athol Resource increase; Coal price revisions; Earnings and price target upgrades.

Investment Highlights:

- TER announced on 18 November that it had restarted mining at its BNU mine in Mongolia, sooner than our expectation of end CY2016. TER also signed a binding offtake agreement with a subsidiary of China's Kingho for 7.5Mt of coking coal over 5.5 years. Pricing structure is linked to the seaborne market, which should enable TER to capture most of the upside in current coal markets.
- We have upgraded our forecast coking and thermal coal prices, including forecasting hard coking coal at US\$154/t and US\$138/t in FY17e and FY18e (up 33% and 18%), and thermal at US\$79 and US\$63 (up 20% and 2%). Our forecasts are in line with consensus but still well below spot.
- Our risked valuation of South Gobi (including BNU) has increased to \$385M from \$308M, mostly due to the upgrade in our hard coking coal prices. We forecast South Gobi will generate \$63M EBITDA in FY17e, and \$65M EBITDA at long-term hard coking coal price of US\$114/t.
- Blair Athol JORC Resources and Reserves upgrade lifts valuation to \$111M. TER announced an increase to Blair Athol JORC Resources of 44.9Mt, including 13.5Mt Reserves. We now forecast a 15-year life (previously 5 years) comprising all Reserves and 50% of remaining Resources being mined. The increase in mine life, as well as higher thermal prices, has lifted our risked valuation to \$111M. We expect indicative approval for the mine's license transfer soon, which would allow transfer of mining lease and restart of operations by end CY2016.

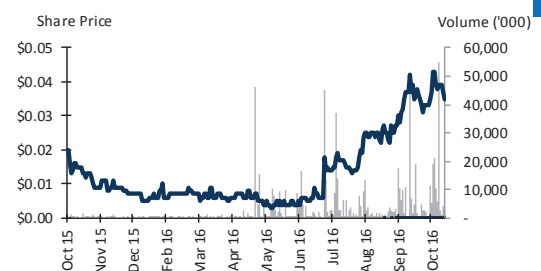
Earnings and Valuation:

- We upgrade TER earnings mostly on back of higher revised coking and thermal coal price estimates. We now forecast NPAT of \$51M and \$64M in FY17e FY18e (previous \$50M and \$37M). Under our new forecasts, TER should be able to meet interest payments and repay debt in 2021 out of cashflows.
- Our risked valuation of TER has increased to \$0.125/share (previous \$0.083), due to higher coking and thermal coal prices, and longer Blair Athol mine life.
- On our estimates TER is on PE of 1.9x and 1.5x FY17e and FY18e, and EV/EBITDA of 2.9x and 2.2x, the latter at 67% discount to ASX listed miners. We believe once TER can demonstrate profitability at both Mongolia and Blair Athol, its share price should rerate.
- Spot prices increase risked valuation to \$0.195/share. We have run our model using spot coking and thermal prices of US\$308/t and US\$100/t for FY17e and FY18e only, using base case prices thereafter. This lifts valuation 56% to \$0.195, and NPAT by 229% and 383% to \$171M and \$309M in FY17e and FY18e.

Recommendation:

- We maintain our Buy recommendation and lift our PT to \$0.125/share, based on revised valuation. We envisage multiple catalysts including transfer of mining lease at Blair Athol and restart of production; reaching production targets; and demonstrating positive cashflows; and Indonesian effecting acquisition.

Recommendation	Buy			
Previous	Buy			
Risk	High			
Price Target	\$0.125			
Previous	\$0.083			
Share Price (A\$)	\$ 0.036			
ASX Code	TER			
52 week low - high (A\$)	0.002-0.048			
Valuation (A\$/share) - risked	\$0.125			
Methodology	DCF			
Capital structure				
Shares on Issue (M)	2,582			
Market Cap (A\$M)	93			
Net (Debt)/Cash (A\$M)	-168			
EV (A\$M)	261			
Options (M)	30			
Warrants (M)	126			
Fully diluted EV (\$M)	267			
12mth Av Daily Volume ('000)	2,745			
Y/e Jun (A\$M)	2016a	2017e	2018e	2019e
Sales	9.9	203.6	358.0	321.4
Adj EBITDA	-18.0	90.6	118.4	85.0
Adj NPAT attributable	-49.7	51.2	64.0	38.2
Adj EPS diluted \$	-0.03	0.02	0.02	0.01
PER x diluted	nm	1.9	1.5	2.6
EV/EBITDA x	nm	2.9	2.2	3.1
*Adj = underlying FSB estimate				
Board				
Cameron McRae	Executive Chairman			
Craig Wallace	Non-Executive Deputy Chairman			
Michel Avery	Executive Director			
David Stone	Executive Director			
Tsogt Togoo	Non-Executive Director			
Philip Forrest	Non-Executive Director			
Loo Hwee Fang	Non-Executive Director			



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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.