



TerraCom Ltd (TER.ASX)

Mongolia up and running; Blair Athol almost there

Event:

- Blair Athol Indicative Approval; Revised production estimates.

Investment Highlights:

- The transfer of mining title for Blair Athol has taken longer than we had expected.** The company currently has Indicative Approval from the Minister, and we understand needs to satisfy four conditions for title to be granted. One of these is the submission of a bank guarantee for \$13.5M, which together with the \$79.6M already to be provided from the Blair Athol Coal Joint Venture, will be for the rehabilitation bond.
- We now forecast TER to be granted mining title by end March, and that first coal shipment will be in May vs our previous expectation of January.**
- In contrast, the restart in Mongolia occurred according to plan in November 2016 with first coal sales in February and cash flowing.** Kingho have been purchasing the coal with pricing linked to that of seaborne export. Mining rate should gradually ramp up to the targeted 1.5Mtpa ROM by April.
- TER has received approval for its on-site CHPP in Mongolia.** The company is on track to commission it in mid-2017 as per our expectation. This should reduce costs and improve yields given the plant is more tailored to treat BNU coal characteristics.
- Production assumptions reduced for FY17e.** We have cut our TER production forecast for FY17e to 0.7Mt ROM and 0.5Mt product coal (vs 1.6 and 1.5Mt previously). This is mostly due to the delay in Blair Athol. Our FY18e production estimates of 3.5Mt ROM and 3.2Mt product coal remain unchanged.

Earnings and Valuation:

- We have downgraded our earnings forecasts for FY17e to -\$6.6M loss vs \$51.2M NPAT previously, as result of decrease in production forecasts.** However our FY18e forecast of \$64M NPAT remains largely unchanged.
- TER's cash position is tight.** Post our downgrade we still forecast that TER will be able to service its principal and interest debt repayments, including the repayment of the US\$124M bond in 2021.
- We forecast TER can pay the US\$12M Secured Note A in June 2017,** and interest payments of \$15M for FY17, leaving the company with cash of \$8M (excluding the \$93.5M Blair Athol rehabilitation bond). Obviously this does not leave much room for further delays to our expectation of timing for Blair Athol approval.
- Our risked valuation of TER has declined to \$0.105/share (previous \$0.125/share) based mostly on reduced FY17e forecasts.**

Recommendation:

- We maintain our Buy recommendation with a 12-month PT of \$0.105/share (previous \$0.125/share), in-line with our revised valuation.** TER is currently trading at 1.3x P/E and 2.6x EBITDA on FY18e earnings, a significant discount to peers. However TER needs to achieve some milestones before we see a marked re-rating, including 1) Disclosed metrics on profitability of Mongolia; 2) Being granted mining title to Blair Athol; and 3) Adequately servicing and reducing debt.

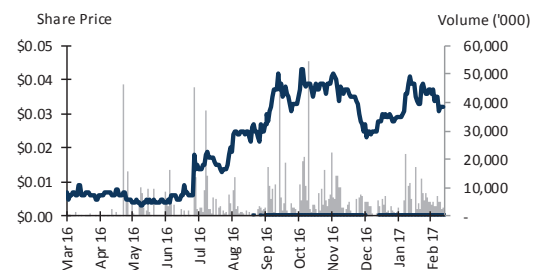
Recommendation	Buy			
Previous	Buy			
Risk	High			
Price Target	\$0.105			
Previous	\$0.125			
Share Price (A\$)	\$ 0.030			
ASX Code	TER			
52 week low - high (A\$)	0.002-0.048			
Valuation (A\$/share) - risked	\$0.105			
Methodology	DCF			
Capital structure				
Shares on Issue (M)	2,715			
Market Cap (A\$M)	81			
Net (Debt)/Cash (A\$M)	-193			
EV (A\$M)	274			
Options (M)	30			
Warrants (M)	126			
Fully diluted EV (\$M)	279			
12mth Av Daily Volume ('000)	2,745			
Y/e Jun (A\$M)	2016a	2017e	2018e	2019e
Sales	9.9	74.9	358.0	321.4
Adj EBITDA	-18.0	23.6	118.4	85.0
Adj NPAT attributable	-49.7	-6.6	63.9	38.1
Adj EPS diluted \$	-0.03	0.00	0.02	0.01
PER x diluted	nm	nm	1.3	2.3
EV/EBITDA x	nm	13.3	2.6	3.7

*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

Share Price Graph



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The analyst owns 650,000 shares in TER.

Foster Stockbroking is engaged in providing corporate services to TER. Foster Stockbroking was Sole Lead Manager in the \$1M placement of 46.5M TER shares at \$0.0215 in August 2016, and the \$4M placement of 133.3M TER shares at \$0.03 in December 2016, both for which it earned fees including 30M unlisted TER options.