



TerraCom Ltd (TER.ASX)

A better quarter with positive operating cash flow

Event:

- December quarterly; Earnings changes.

Investment Highlights:

- TER's December quarterly was not surprising in terms of coal production, as the company pre-released the figures.** However the figures were below our prior forecasts, chiefly due to the company achieving name plate ROM production at both Blair Athol and BNU in December 2017 whereas we had assumed it to be achieved earlier.
- Operating cash flow was \$5.7M, positive for the first time since TER restarted Mongolia a year ago.** However it was below our forecast of \$34.9M, due to lower shipments from BNU and Blair Athol than we had forecast.
- TER ended the quarter with cash of \$1M and debt of \$225M.** In January the company announced a \$15M underwritten rights issue. We believe the funds raised will help the company achieve construction of its rail load-out facility at Blair Athol, the construction of a CHPP at BNU, and Super Senior note principal and interest payments.
- BNU CHPP and rail load-out key for earnings uplift.** TER stated that construction of the CHPP will commence during the current quarter, and we assume commissioning in July. This will be key in achieving higher yields, improved coal quality, and a better margin for BNU. The company stated that the Blair Athol rail load-out facility will be commissioned in March, and this should reduce costs by \$20/t.
- We have revised down our forecast FY18e ROM coal production to 2.5Mt (prior 3.1Mt), based on the December quarter.** However our FY19e figure of 3.5Mt (2Mt Blair Athol and 1.5Mt BNU) remains largely unchanged. We have also revised coal prices up in the short term.

Earnings and Valuation:

- We have downgraded NPAT for FY18e to a loss of -\$4M (prior \$72M) while upgrading FY19e to \$59M (from \$47M).** The downgrade in FY18e is due to lower shipments from both Blair Athol and Mongolia, while for FY19e it is due mostly to higher coal prices and lower BNU costs. The major reason for the earnings uplift in FY19e vs FY18e is the first full year of production from Blair Athol.
- Our risked valuation of TER has reduced to \$0.69/share (previous \$0.82/share adjusted for share consolidation) mostly due to dilutive impact of the rights issue, which has more than offset higher coal prices.**

Recommendation:

- We maintain our Buy recommendation, and reduce our 12-month price target to \$0.69/share (prior \$0.82) in line with our revised valuation.**
- Catalysts for share price include 1) Commissioning of Blair Athol rail load-out facility; 2) Commissioning of BNU CHPP; 3) Higher coal prices; 4) Reduction in net debt; 5) Reserve and Resource upgrades; and 6) Generation of underlying net profit.**

Recommendation	Buy
Previous	Buy
Risk	High
Price Target	\$0.69
Previous	\$0.82
Share Price (A\$)	\$ 0.210
ASX Code	TER
52 week low - high (A\$)	0.15-0.41
Valuation (A\$/share) - risked	\$0.69
Methodology	DCF
Capital structure	
Shares on Issue (M) pro-forma*	372
Market Cap (A\$M)	78
Net (Debt)/Cash (A\$M) pro-forma*	-209
EV (A\$M)	287
Options (M)	3
Warrants (M)	13
Fully diluted EV (\$M)	290
12mth Av Daily Volume ('000)	390

*Based on rights issue of 69.7M shares for \$15M.

Y/e Jun (A\$M)	2017a	2018e	2019e	2020e
Sales	22.5	169.8	349.8	316.3
Underlying EBITDA	-19.2	47.1	132.8	99.4
Underlying NPAT	-56.9	-3.8	58.7	31.5
NPAT reported	5.0	-3.8	58.7	31.5
EPS diluted adj. \$	-0.20	-0.01	0.15	0.08
PER x diluted	nm	nm	1.4	2.6
EV/EBITDA x	nm	6.8	2.4	3.2

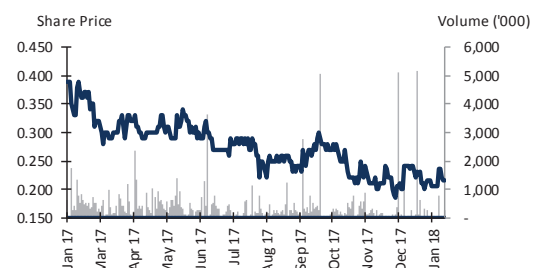
Board

Wal King	Non-Executive Chairman
Craig Wallace	Non-Executive Deputy Chairman
Michael Avery	Executive Director
Matthew Hunter	Non-Executive Director
Tsogt Togoo	Non-Executive Director
Philip Forrest	Non-Executive Director
James Soorley	Non-Executive Director

Substantial Shareholders

OCP Asia	18.5%
Noble Resources International	9.9%

Share Price Graph



Analyst: Mark Fichera mark.fichera@fostock.com.au +612 9993 8162

The analyst owns 65,000 TER shares.

Foster Stockbroking and associated entities (excluding Cranport Pty Ltd) own 1,065,000 TER shares, 1,500,000 options at exercise price \$0.30 expiring August 2018, and 1,500,000 options exercise price \$0.45 expiring August 2018. Cranport Pty Ltd owns 2,501,234 TER shares.