



## TerraCom Ltd (TER.ASX)

3Q result mixed but 4Q to lift

### Event:

- Review of 3Q (March); Earnings and price target changes.

### Investment Highlights:

- TER reported its 3Q result last week which was mixed and mostly below our expectations. Blair Athol was the highlight displaying improvement on higher coal sales and revenues vs the 2Q. BNU disappointed with lower sales due to interruptions from China New Year and Mongolia festivities.
- Total 3Q shipments were 622kt up 21% over 2Q, with ramp up in Blair Athol being major driver (BA shipments up 159% over 2Q). However BNU coal sales fell 33% QoQ to 213kt.
- We estimate TER EBITDA was \$2.8M in the 3Q, below our forecast of \$16.1M, mostly due to the underperformance by BNU. While Blair Athol reported \$4.5M EBITDA for the quarter, TER stated no EBITDA margin was created by BNU.
- Cash position of the company was \$1.6M at end of the quarter. While the debt position was not disclosed, we estimate it was mostly in line with that reported end December 2017 (\$198M). We believe most of the \$15M in equity raised during the quarter was expended on the Blair Athol rail load out.
- TER disclosed 4Qe FY18 (June) forecasts which show a strong uplift. A marked lift in coal sales and profit is forecast, with BNU to operate in normalised China and Mongolia business conditions and Blair Athol to fully benefit from the recently commissioned rail load out.
- Commissioning of BNU coal wash plant pushed back to January 2019. TER announced it now expects commissioning of the BNU wash pant in January 2019. We had previously factored July 2018 but believe the company's prioritising of resources to the Bair Athol rail load out incurred the postponement.

### Earnings and Valuation:

- We have made changes to our coal price forecasts which are in-line with market consensus. These resulted in upgrades to both our coking and thermal coal prices, most notably to coking in FY18e (up 16%) and FY19e (up 10%).
- Downgrade to FY18e earnings; upgrade to FY19e. We have downgraded our forecast FY18e NPAT to -\$21.4M from -\$4M, mostly due to the lower than expected 3Q result. However we have upgraded our forecast FY19e NPAT on the back of higher coal prices, which have more than offset the delay to the BNU coal wash plant. Our FY19e coal sales of 3.2Mt remain unchanged.
- Our valuation of TER is now \$0.58/share (previously \$0.65/share), with the reduction mostly due to the lower cash position resulting from the 3Q result than we had expected.

### Recommendation:

- We maintain our Buy recommendation, and reduce our 12-month price target to \$0.58/share (prior \$0.65) in line with our revised valuation.
- Catalysts for share price include 1) Improved mines' performance; 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.

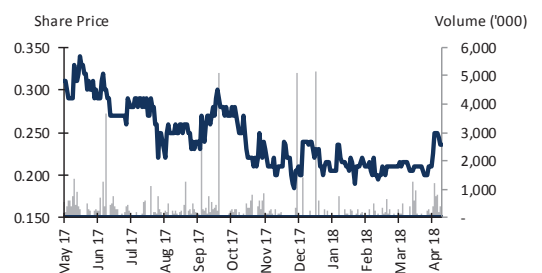
<b>Recommendation</b>	<b>Buy</b>
Previous	Buy
Risk	High
<b>Price Target</b>	<b>\$0.58</b>
Previous	\$0.65
<b>Share Price (A\$)</b>	<b>\$ 0.235</b>
ASX Code	TER
52 week low - high (A\$)	0.15-0.36
<b>Valuation (A\$/share) - risked</b>	<b>\$0.58</b>
Methodology	DCF
<b>Capital structure</b>	
Shares on Issue (M)	377
<b>Market Cap (A\$M)</b>	<b>89</b>
Net (Debt)/Cash (A\$M)	-197
<b>EV (A\$M)</b>	<b>286</b>
Options (M)	3
Warrants (M)	13
<b>Fully diluted EV (\$M)</b>	<b>289</b>
12mth Av Daily Volume ('000)	325

Y/e Jun (A\$M)	2017a	2018e	2019e	2020e
Sales	22.5	157.6	372.2	337.7
Underlying EBITDA	-19.2	26.0	165.1	118.6
<b>Underlying NPAT</b>	<b>-56.8</b>	<b>-21.4</b>	<b>101.0</b>	<b>51.4</b>
NPAT reported	5.0	-21.4	101.0	51.4
<b>EPS diluted adj. \$</b>	<b>-0.20</b>	<b>-0.06</b>	<b>0.26</b>	<b>0.13</b>
<b>PER x diluted</b>	<b>nm</b>	<b>nm</b>	<b>0.9</b>	<b>1.8</b>
EV/EBITDA x	nm	12.7	2.0	2.8

<b>Board</b>	
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

<b>Substantial Shareholders</b>	
OCP Asia	17.6%
Bonython Coal	14.8%
Noble Resources International	9.9%

### Share Price Graph



Analyst: Mark Fichera +612 9993 8162  
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 The analyst owns 65,000 TER shares.  
 Foster Stockbroking and associated entities (excluding Cranport Pty Ltd) own 931,264 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 3,531,324 TER shares.