



## TerraCom Ltd (TER.ASX)

### BNU South discovery – Game changer in Mongolia?

#### Event:

- Discovery of thick coal deposit – BNU South.

#### Investment Highlights:

- TER announced today discovery of a thick coal deposit – BNU South – only 12km south of its BNU mine. The deposit lies on the 50km of Noyon coal subcrop, and within the BNU mining license. Strike of the deposit is 5km.
- Average gross coal thickness of BNU South is 28m, with 42 holes drilled to date at a mean depth of 161m.
- The standout hole was an intersection containing 122m gross thickness, with a downhole vertical strip of 0.35:1.
- A high priority target area was identified comprising 20 holes that averaged coal thickness of 45m.
- Coal quality analysis and further drilling is underway, but we presume the presence of at least some coking coal given the location on the Noyon subcrop.
- Chairman Mr Wal King stated BNU South has the potential to significantly reduce operating costs and increase output from the mine. We would not disagree at this stage given the promising intersections drilled.
- Given that Mongolian coal geology generally tends to fluctuate in continuity vs Australia counterparts, the discovery of an attractive deposit is major plus for TER in its Mongolian coal development pipeline.
- TER stated that it could potentially expedite development of the deposit in late 3Q/early 4Q CY2018. This is unsurprising given TER can leverage the deposit's location within the mine license and being only 12km from the BNU mine and associated infrastructure. We would expect Kingho and/or other customers would purchase coal at mine gate.
- Once the BNU CHPP is commissioned – anticipated January 2019 - we would expect coal from BNU South that would require washing to be processed by the plant.

#### Earnings and Valuation:

- No changes to earnings or valuation of \$0.58/share. While the discovery is definitely promising, we await to see further details on both coal quality and how BNU South will be brought into production.

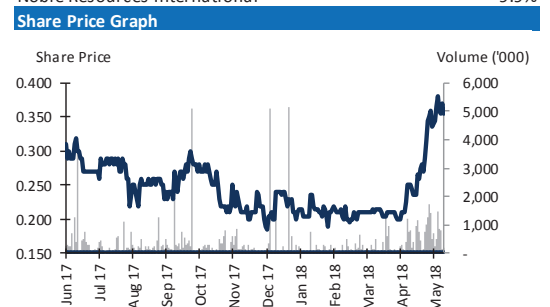
#### Recommendation:

- We maintain our Buy recommendation and 12-month price target of \$0.58/share in line with our 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.

Recommendation	Buy			
Previous	Buy			
Risk	High			
Price Target	\$0.58			
Previous	\$0.58			
Share Price (A\$)	\$ 0.370			
ASX Code	TER			
52 week low - high (A\$)	0.15-0.385			
Valuation (A\$/share) - risked	\$0.58			
Methodology	DCF			
Capital structure				
Shares on Issue (M)	377			
Market Cap (A\$M)	139			
Net (Debt)/Cash (A\$M)	-197			
EV (A\$M)	336			
Options (M)	3			
Warrants (M)	13			
Fully diluted EV (\$M)	342			
12mth Av Daily Volume ('000)	350			
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
Underlying NPAT	-56.8	-21.4	101.0	51.4
NPAT reported	5.0	-21.4	101.0	51.4
EPS diluted adj. \$	-0.20	-0.06	0.26	0.13
PER x diluted	nm	nm	1.4	2.8
EV/EBITDA x	nm	14.5	2.3	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
Paul Anderson	Non-Executive Director
James Soorley	Non-Executive Director

Substantial Shareholders	
OCP Asia	17.6%
Bonython Coal	14.8%
Noble Resources International	9.9%



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 65,000 TER shares, 1,500,000 TER options \$0.30 expiring 31st August 2018, and 1,500,000 TER options exercise price \$0.45 expiring 31st August 2018. Cranport Pty Ltd owns 3,430,364 TER shares.