



TerraCom Ltd (TER.ASX)

4Q beats our forecasts, while refinance opportunity emerges

Event:

- 4Q result review; Earnings and price target changes.

Investment Highlights:

- TerraCom Ltd (TER) reported EBITDA of \$21.0M for June 4QFY18, beating our forecast of \$17.2M.** While coal shipments were lower than we estimated, especially from BNU, cash costs were also lower. The result was a significant lift on the 3Q, mostly due to initial contribution from the Blair Athol rail load out.
- Blair Athol achieved EBITDA of \$18.3M vs our forecast of \$16.9M, and was significantly up on the 3Q.** Coal price received (A\$103/t) improved as we anticipated following commissioning of the rail load out, which removed the discount TER had previously incurred due to using a third party facility. During the quarter the company revised its FY19e mining target for Blair Athol to 2.5Mtpa ROM coal vs 2.0Mtpa previously.
- BNU had a troubled quarter with equipment, geotech, and trucking issues.** Nevertheless EBITDA for the operation was \$4.0M, beating our forecast of \$1.6M although below company guidance of \$8.1M. The wash plant remains a key catalyst for a step change improvement, and we now expect commissioning in April 2019, while the company has guided 1QCY19.
- Refinancing opportunity could see interest rate and /or debt reduce.** TER has executed a non-binding "in-principle" mandate with the Sydney branch of the State Bank of India for refinancing of the company's debt, with a "soft commitment" of US\$50M (A\$68M) at interest of 6% to 7% p.a, well below rates across most TER's debt facilities. Negotiations are still in progress.
- TER ended the quarter with \$14M cash and \$35M of inventory at realisable value.** We expect most of the inventory – largely that from Blair Athol – to be liquidated during the September quarter. While not disclosed, we estimated TER net debt to be approximately A\$200M, inclusive of redemption value of the Euroclear bond.

Earnings and Valuation:

- Earnings lifted from FY20e and beyond.** We have shrunk our forecast loss for FY18 to -\$18M from -\$21M following the better than expected 4Q result. For FY19e, we have downgraded NPAT to \$36M from \$101M mostly due to delaying commissioning of the wash plant and lower production from BNU. These more than offset increased production from Blair Athol and upgrade to our coal price forecasts. For FY20e and beyond, we have upgraded our earnings based on higher coal prices and higher Blair Athol production.
- Our valuation of TER has increased to \$0.67/share from \$0.58/share previously, based on upgrades to our earnings from FY20e and beyond.**

Recommendation:

- We maintain our Buy recommendation, and raise our 12-month price target to \$0.67/share (prior \$0.58) in line with our revised valuation (1.0xP/ NPV₁₀).**
- Catalysts for share price include 1) Improved mines' performance; 2) Commissioning of BNU wash plant; 3) Higher coal prices; 4) Reduction in net debt; 5) Reserve and Resource upgrades; 6) Generation of underlying net profit; 7) conclusion of refinancing; and 8) Progress on BNU South.**

Recommendation	Buy			
Previous	Buy			
Risk	High			
Price Target	\$0.67			
Previous	\$0.58			
Share Price (A\$)	\$ 0.47			
ASX Code	TER			
52 week low - high (A\$)	0.15-0.535			
Valuation (A\$/share) - risked	\$0.67			
Methodology	DCF			
Capital structure				
Shares on Issue (M)	379			
Market Cap (A\$M)	178			
Net (Debt)/Cash (A\$M)	-200			
EV (A\$M)	378			
Options (M)	2			
Warrants (M)	13			
Fully diluted EV (\$M)	385			
12mth Av Daily Volume ('000)	377			
Y/e Jun (A\$M)	2017a	2018e	2019e	2020e
Sales	22.5	148.0	358.4	398.4
Underlying EBITDA	-19.2	29.6	93.3	132.9
Underlying NPAT	-56.8	-18.4	36.1	59.9
NPAT reported	5.0	-18.4	38.5	59.9
EPS diluted adj. \$	-0.20	-0.06	0.26	0.13
PER x diluted	nm	nm	5.2	3.1
EV/EBITDA x	nm	13.9	4.4	3.1

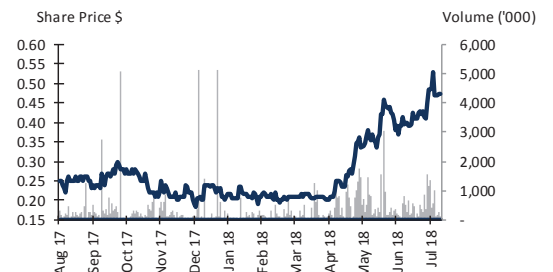
Board

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%
Rasia	5.8%

Share Price Graph



Analyst: Mark Fichera +612 9993 8162

mark.fichera@fostock.com.au

The analyst owns 65,000 TER shares.

Foster Stockbroking and associated entities (excluding Cranport Pty Ltd) own 1,015,000 TER shares and 1,500,000 TER options exercise price \$0.45 expiry 31 August 2018.

Cranport Pty Ltd owns 3,000,000 TER shares.

Refer details at end of report.