



## TerraCom Ltd (TER.ASX)

2H turnaround in FY18; refi and wash plant next catalysts

### Event:

- FY18a result review; Earnings and price target changes.

### Investment Highlights:

- TerraCom Ltd (TER) reported a FY18a loss of -\$18.4M which was as per our forecast.** However after stripping non-recurring items we estimate underlying loss was -\$26.2M, higher than our forecast loss mostly due to higher BNU, corporate, and depreciation expenses. The loss almost halved in the 2<sup>nd</sup> half to -\$8.6M from the interim (-\$17.6M), with higher shipments and pricing from Blair Athol the key difference.
- Underlying EBITDA was \$27.4M vs our forecast of \$29.6M, with higher Corporate and Mongolia costs the chief difference.** EBITDA rose to \$21.8 in 2H vs only \$5.5M in interim, the step up due to Blair Athol performance.
- Net free cash flow of -\$19.0M for the year was in-line with our estimate of -\$18.6M.** However operating cash flow was significantly higher than our forecast (\$34.3M vs \$16.7M), mostly due to pre-payments TER received for both BNU and Blair Athol. \$31M of the \$34M cash flow was achieved in 2H, again due to Blair Athol's impact.
- Company provides guidance.** What was mostly new was commentary, the company forecasting EBITDA of between \$130M and \$150M and net operating profit of up to \$100M for FY19e. These are higher than our forecast of \$84M for EBITDA and \$27M NPAT. We believe the difference is mostly due to coal prices assumed. While the company did not explicitly disclose its prices, from back-calculation we estimate TER is assuming a Newcastle thermal 6,000kcal benchmark equivalent of about US\$110/t, vs our assumption of US\$89/t.

### Earnings and Valuation:

- We have made downgrades to TER earnings, cutting FY19e NPAT to \$27M (prior \$36M); FY20e top \$55M (prior \$60m); and FY21e to \$19M (prior \$25M), mostly on higher Mongolia, corporate, and depreciation costs.** Our production and commodity price assumptions are unchanged.
- Our valuation of TER has increased to \$0.73/share from \$0.67/share previously, based on increased cash flow from BNU pre-payments and better working capital, and a less dilutive factoring of any future equity raise, which have offset higher BNU and corporate costs.**
- Upside from BNU wash plant and refinancing.** TER is trading at 7.9x P/E FY19e, the same as the average for pure play coal peers (WHC, NHC, and SMR), but at 63% discount on FY20e (4x vs 11x). The BNU wash plant – for which we estimate FY20e is first full year of operation – represents a significant re-rate for the stock of up to \$1.50/share if TER were to match the average peer 11x FY20e multiple.
- Additionally, a refinancing event that would reduce interest by 40%, or lift FY19e NPAT to \$41M, is another trigger.** It would imply a share price of \$0.83 if TER were to retain the same 7.9x FY19e multiple.

### Recommendation:

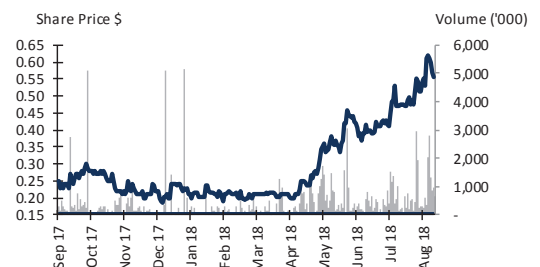
- We maintain our Buy recommendation, and raise our 12-month price target to \$0.73/share (prior \$0.67) in line with our revised valuation (1.0x Price/NPV<sub>10</sub>).**
- Catalysts for the share price include refinancing and BNU wash plant.**

Recommendation		Buy			
Previous		Buy			
Risk		High			
Price Target		\$0.73			
Previous		\$0.67			
Share Price (A\$)		\$ 0.56			
ASX Code		TER			
52 week low - high (A\$)		0.15-0.635			
Valuation (A\$/share) - risked		\$0.73			
Methodology		DCF			
Capital structure					
Shares on Issue (M)		380			
Market Cap (A\$M)		211			
Net (Debt)/Cash (A\$M)		-210			
EV (A\$M)		421			
Warrants (M)		13			
Fully diluted EV (\$M)		428			
12mth Av Daily Volume ('000)		429			
Y/e Jun (A\$M)		2018a	2019e	2020e	2021e
Sales		147.1	353.5	378.3	352.8
EBITDA underlying		27.4	84.2	110.6	85.5
NPAT underlying		-26.2	27.5	54.6	18.8
NPAT reported		-18.4	27.5	54.6	18.8
EPS diluted adj. \$		-0.07	0.07	0.14	0.04
PER x diluted		nm	7.9	4.0	12.9
EV/EBITDA x		16.0	5.2	3.9	5.1

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	7.5%

### 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 2,415,000 TER shares.

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

Refer details at end of report.