



## TerraCom Ltd (TER.ASX)

Resource upgrade potentially lifts Blair Athol life to 10 years

### Event:

- Blair Athol JORC Resource upgrade; Valuation and PT change.

### Investment Highlights:

- TerraCom Ltd (TER) announced an upgrade to its Blair Athol JORC Resources**, resulting in 44% and 29% increases to the Measured and Indicated categories, adding 9.6Mt and 2.6Mt, or collectively 12.2Mt to Measured and Indicated. This resulted mostly from conversion of Inferred into the other two categories. Total JORC Resource increased slightly by 3% to 45Mt, adding 1.2Mt overall.
- Increase in Measured and Indicated potentially increases mine life by 3 to 4 years, extending LOM to 10 years.** Crucially, should TER convert most of its Measured and Indicated Resources into Reserves, it could potentially extend the mine life (assuming 2.9Mtpa ROM or 2.5Mtpa product) by three to four years, potentially making it a 10 year life of mine (LOM). TER is in the process of working to convert the new Measured and Indicated Resource into Reserves.
- We expect analysis of further historical results could provide further impetus for a Resource upgrade.** The upgrade to Resource included evaluation of a database of 3,421 historical drill holes undertaken when the mine was operated by Rio Tinto Ltd (RIO), which TER inherited as part of acquiring the mine. The total database is 4,216 holes, with nearly another 800 holes to be analysed.
- All the JORC Resource is open-pittable, to a maximum depth of 90m, and restricted to maximum strip 15:1 (39Mt of the 45Mt is <10:1).** The Resource is limited to a maximum raw ash of 40% which is the limit used by the existing wash plant.
- Seam 3 not included but remnants may still occur.** The Resource wholly resides within Seam 4 which ranges from 3m to 5m cumulative coal thickness. The thicker and shallower remnant Seam 3, which was mostly mined by RIO, is excluded from the Resource. However occurrences of Seam 3 on the tenement may provide upside should TER mine it.

### Earnings and Valuation:

- We make no changes to our earnings forecasts.**
- Our risked NPV<sub>10</sub> valuation of TER shares increases to \$1.01 from \$0.97 previously, due to the Resource upgrade** We attribute 75% probability that the additional Measured & Indicated Resources will be mined. Previously the tonnages resided in Inferred for which we attributed a lower chance of being exploited.

### Recommendation:

- We maintain our Buy rating, raising our 12-month share price target to \$1.01 from \$0.97 in line with our revised valuation (1.0x Price/Risked NPV<sub>10</sub>).**
- Catalysts for the share price include commissioning of BNU South; reducing net debt; Reserves upgrade; and commissioning wash plant.**

### Disclosures

The analyst owns 65,000 TER shares. Foster Stockbroking and associated entities (excluding Cranport Pty Ltd) own 2,065,000 TER shares and 1,500,000 options exercise price \$0.60 expiry 31 August 2020. Cranport Pty Ltd owns 3,001,519 TER shares. Refer details at end of report.

Recommendation	Buy
Previous	Buy
Risk	High
Price Target	\$1.01
Previous	\$0.97
Share Price (A\$)	\$ 0.64
ASX Code	TER
52 week low - high (A\$)	0.15-0.805
Valuation (A\$/share) - risked	\$1.01
Methodology	DCF
Capital structure	
Shares on Issue (M)	380
Market Cap (A\$M)	243
Net (Debt)/Cash (A\$M)	-191
EV (A\$M)	434
Warrants and options (M)	14
Fully diluted EV (\$M)	443
12mth Av Daily Volume ('000)	460

Y/e Jun (A\$M)	2018a	2019e	2020e	2021e
Sales	147.1	382.9	486.6	463.7
EBITDA adj.	27.4	105.7	152.7	113.9
NPAT adj.	-26.2	50.5	80.8	39.9
NPAT rep.	-18.4	50.5	80.0	37.1
EPS diluted adj. \$	-0.07	0.13	0.20	0.08
PER x diluted	nm	3.7	2.3	5.3
EV/EBITDA x	15.1	3.9	2.7	3.6

adj. = underlying estimate

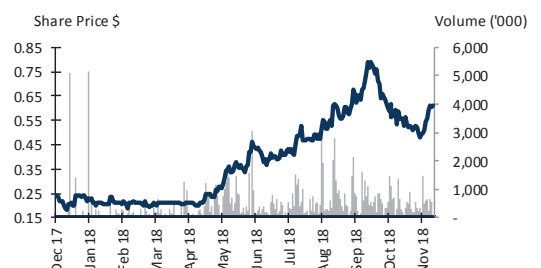
### Board

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	16.7%
Bonython Coal	14.8%
Noble Resources International	9.9%
Rasia	8.6%
Acecrests Investments	7.0%
TIGA Trading	5.0%

### Share Price Graph



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