



TerraCom Ltd (TER.ASX)

Blair Athol target raised again, while BNU lags

Event:

- 2QFY19 review; Earnings and PT changes.

Investment Highlights:

- TerraCom Ltd (TER) reported 2QFY19 EBITDA of \$22.5M, missing our forecast of \$30.9M mostly due to BNU underperformance, while Blair Athol largely met expectations.
- Blair Athol EBITDA was \$28.2M just shy of our estimate of \$30.1M. Better than expected yield and inventory drawdown offset lower ROM, resulting in shipments of 0.61Mt equivalent to 2.4Mtpa rate.
- Mongolia reported an EBITDA loss of -\$2.5M vs our forecast of \$2.6M. Still lower than expected shipments (0.14Mt vs our estimate 0.32Mt) dragged down the result. We believe a focus on pre-stripping of new pits being opened in February (coking) and April (thermal from BNU South) was a factor. TER expects Mongolia shipments in the current March quarter to be 0.315Mt.
- Cash of \$14.5M end December was lower than our forecast of \$41M. We believe the difference was due to worse Mongolia earnings and a less favourable working capital movement than we had expected.
- The key commentary was TER upgrading its coal production forecast for Blair Athol to 3.0Mtpa (previously 2.5Mtpa). We expect this is due to continuing buoyant coal markets and existing infrastructure capacity. Blair Athol achieved a record 2.9Mtpa rate in the month of December 2018 and TER aims for the mine to achieve the 3.0Mtpa rate by the June quarter.
- While we have downgraded our forecast Group shipments for FY19e on lower Mongolia output, we have upgraded those from FY20e onwards based on Blair Athol's rate. We have also mostly made upgrades to our coking and thermal coal price forecasts.

Earnings and Valuation:

- We downgraded our forecast FY19e NPAT -12% to \$44M due to lower Mongolia sales, while upgrading FY20e and FY21e NPAT by 7% and 40% to \$87M and \$56M due to both higher Blair Athol shipments and coal prices.
- We note our EBITDA forecast of \$103M for FY19e lies below the range of \$130M to \$150M that TER reaffirmed in the quarterly. We believe this is due to our adoption of more conservative coal price and Blair Athol shipments ramp up for the balance of the fiscal year.
- Our risked NPV₁₀ share valuation of TER has decreased to \$0.97 from \$1.01, with the dilutive impact of shares issued to Noble and increase in A\$ value of mostly US\$ denominated debt offsetting the positive impact of higher coal prices and shipments.

Recommendation:

- We maintain our Buy rating, cutting our 12-month price target to \$0.97 (prior \$1.01) in line with our revised valuation (1.0x Price/Risked NPV₁₀).
- Catalysts for the share price include increasing Blair Athol and Mongolia shipments; return to profitability of BNU; and improvement in net debt.

Disclosures

The analyst owns 65,000 TER shares. Foster Stockbroking and associated entities (excluding Cranport Pty Ltd) own 1,436,577 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	\$0.97			
Previous	\$1.01			
Share Price (A\$)	\$ 0.60			
ASX Code	TER			
52 week low - high (A\$)	0.19-0.805			
Valuation (A\$/share) - risked	\$0.97			
Methodology	DCF			
Capital structure				
Shares on Issue (M)	397			
Market Cap (A\$M)	238			
Net (Debt)/Cash (A\$M)	-214			
EV (A\$M)	452			
Warrants and options (M)	14			
Fully diluted EV (\$M)	461			
12mth Av Daily Volume ('000)	453			
Y/e Jun (A\$M)	2018a	2019e	2020e	2021e
Sales	147.3	385.7	537.0	524.0
EBITDA adj.	27.4	103.1	160.5	131.9
NPAT adj.	-26.2	44.1	86.6	55.8
NPAT rep.	-18.3	44.1	86.6	55.8
EPS diluted adj. \$	-0.07	0.11	0.21	0.12
PER x diluted	nm	5.4	2.8	4.9
EV/EBITDA x	16.4	4.4	2.8	3.4

adj. = underlying estimate

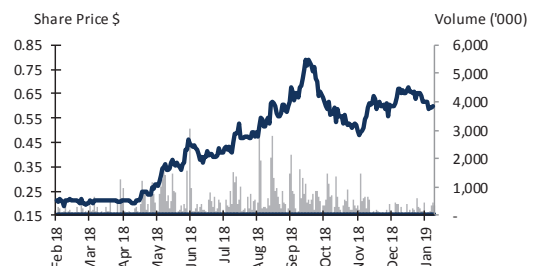
Board

Wal King	Non-Executive Chairman
Craig Wallace	Non-Executive Deputy Chairman
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	13.6%
Rasia	8.6%
Accreets Investments	7.0%

Share Price Graph



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