



TerraCom Ltd (TER.ASX)

Solid interim result and a better outlook

Event:

- 1H FY19 result review; Earnings and PT changes.

Investment Highlights:

- Underlying interim NPAT \$18.8M, 7% above our forecast.** TerraCom Ltd (TER) reported 1HFY19 NPAT of \$3.3M vs our forecast of \$17.6M. The key difference was the company accounting a non-cash tax expense of \$13.3M. Stripping this out and other non-recurring items such as foreign exchange losses, TER's underlying NPAT was \$18.8M, 7% above our forecast.
- Interim EBITDA revised up from quarterly to \$53.7M.** Main reason for higher NPAT was higher EBITDA of \$53.7M vs prior \$47.6M reported in quarterly. This was due to appropriate capitalisation of previously expensed pre-stripping costs.
- Operating cash flow was \$33M, with 96% EBITDA conversion to cash flow.** Net debt reduced to \$193M from \$208M end FY18. Interest coverage over the half improved to 2.2x from 0.8x in the prior half.
- Positive commentary on BNU performance and Pit 5 commences production.** A key feature of the result was positive update commentary on Mongolia. BNU had shipped 43kt coal over a ten day period in February equivalent to an annualised rate of 1.6Mtpa. Meanwhile the new coking coal pit (Pit 5) commenced production in the month.
- The company also stated it expected to complete refinancing of debt by end April 2019.** We expect that this may eventuate in interest rate reducing, potentially even halving. The company is also continuing to negotiate on replacing its bank guarantee by an insurance bind as surety for the rehabilitation, although we expect this may occur post the refinance.
- Post the result, TER announced it increased its interest in the Springsure project to 87% from 36% for consideration of \$6M, comprising 3.2M shares at \$0.65.** This values Springsure (100%) at \$12M, in-line with our valuation.

Earnings and Valuation:

- We have only made minor changes to our forecast NPAT with FY19e unchanged at \$44M, FY20e up 1% to \$88M, and FY21e down 1% to \$55M.
- TER reaffirmed EBITDA guidance of \$130M to \$150M, which is above our forecast of \$106M. We believe the reason for the difference is that TER has assumed more positive production, costs, and coal price outlook than we have in our forecasts.
- Our risked NPV₁₀ share valuation of TER has slightly increased to \$0.99 from \$0.97, mostly due to lower costs and improved net debt position.

Recommendation:

- We maintain our Buy rating, raising our 12-month price target to \$0.99 from \$0.97 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; improvement in net debt; and refinancing of debt.

Disclosures

The analyst owns 65,000 TER shares. Foster Stockbroking and associated entities (excluding Cranport Pty Ltd) own 1,165,000 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		\$0.99		
Previous			\$0.97	
Share Price (A\$)		\$ 0.68		
ASX Code			TER	
52 week low - high (A\$)			0.19-0.805	
Valuation (A\$/share) - risked		\$0.99		
Methodology			DCF	
Capital structure				
Shares on Issue (M)			397	
Market Cap (A\$M)			270	
Net (Debt)/Cash (A\$M)			-210	
EV (A\$M)			480	
Warrants and options (M)			14	
Fully diluted EV (\$M)			490	
12mth Av Daily Volume ('000)			475	
Y/e Jun (A\$M)	2018a	2019e	2020e	2021e
Sales	147.3	380.2	541.2	524.0
EBITDA adj.	27.4	106.1	163.1	133.3
NPAT adj.	-26.2	43.7	87.6	55.2
NPAT rep.	-18.3	12.9	87.6	55.2
EPS diluted adj. \$	-0.07	0.11	0.21	0.12
PER x diluted	nm	6.3	3.2	5.7
EV/EBITDA x	17.5	4.5	2.9	3.6

adj. = underlying estimate

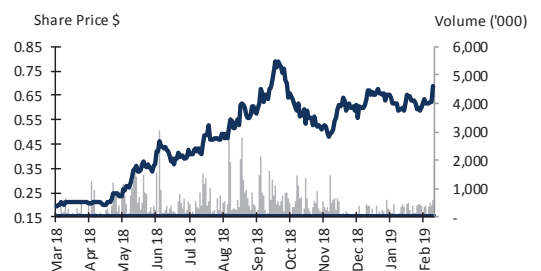
Board

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	18.7%
Bonython Coal	14.8%
Noble Resources International	13.6%
Rasia	8.6%
Accreets Investments	7.0%

Share Price Graph



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