

COMPANY Cuesta Coal Ltd| CQC | \$0.13/share

Date: 10th April 2013

RECOMMENDATION Spec Buy | Very High Risk | \$0.30/share target

EVENT Moorland resource expands by 7% | Mine scoping study in a month

KEY POINTS

- CQC yesterday released its updated geological model for the expanded Moorlands deposit (Qld close to RIO's Blair Athol mine) following acquiring adjacent acreage to the north of its Moorlands discovery. The report indicated that JORC thermal coal resource of 146.1mt which is over 7% more than previous work indicated.
- Moorlands is CQC's priority project to convert this successful explorer to producer. Xenith Consulting has commenced a Mine Scoping Study for completion in 3 to 4 weeks.
- Importantly, 86% of the resource lies at depths of less than 150 metres depth, with multiple thick seams of 9 to 15 metres in evidence. The Mine Scoping Study is targeting a low operating cost starter operation where strip ratios are low (below 5 m³ waste to 1 tonne of raw coal) and where some of the coal does not need washing. Moorlands is close to existing under-utilised infrastructure, aiding potential to more quickly enter the market.

Valuation and other activity

- Our early assessment of Moorlands is worth \$0.12/share to CQC risked (un-risked \$0.20 plus \$0.07/share of resource upside). We currently anticipate that production could begin by mid-2017 at 1.5mtpa sales rate. We will update our valuation upon receipt of the Mine Scoping Study.
- CQC's successful and active exploration program will continue to bear fruit in the near term. We expect soon a JORC resource announcement on Eastern Galilee discovery at Yellow jacket. Targeted exploration at West Emerald, Eastern Galilee area and at Moorlands will likely see overall company resources expand further in the coming few quarters, as well as advancing mine plans at Moorlands.
- Maintain Speculative Buy, unchanged price target \$0.30/share.

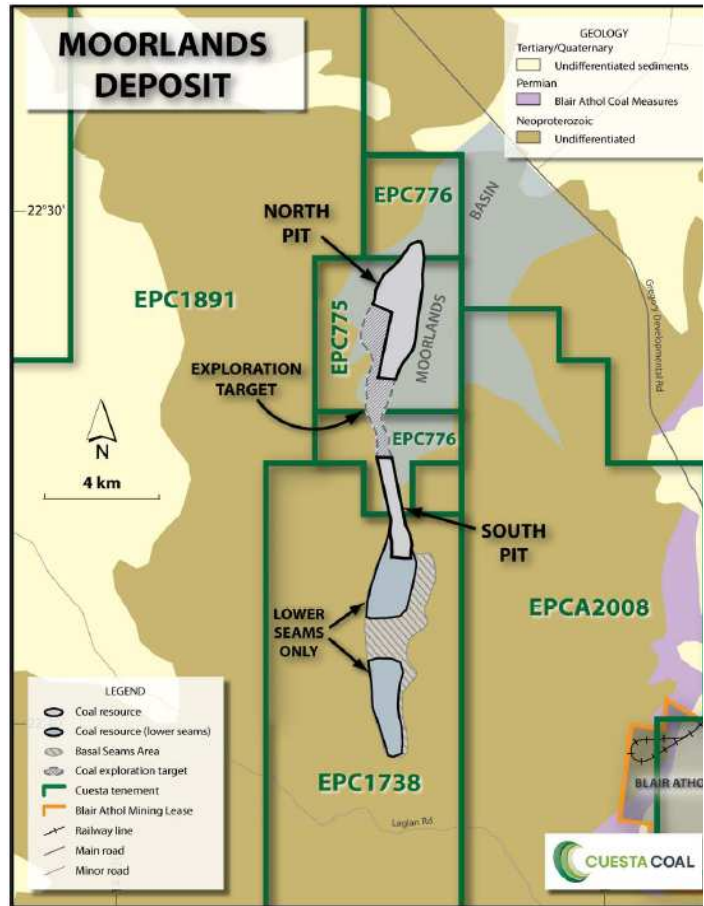
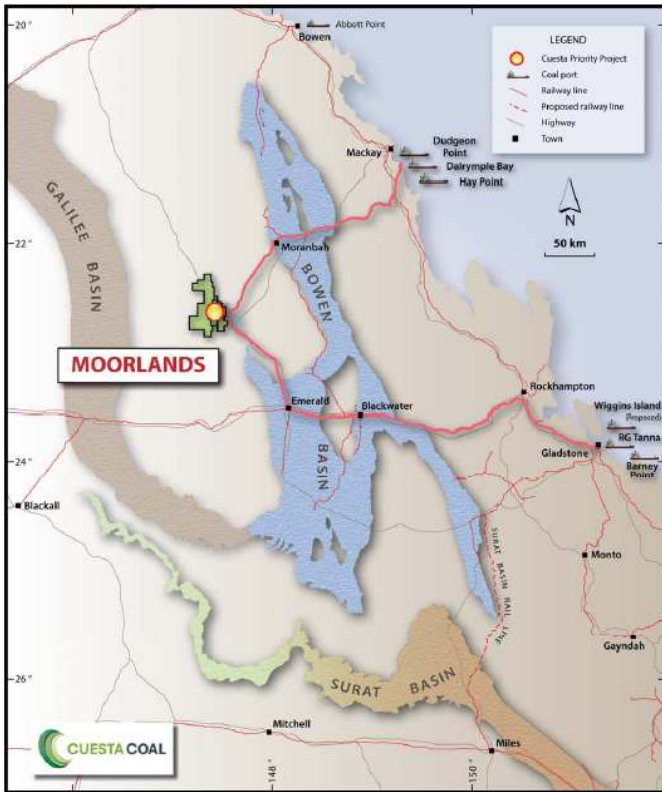
Moorlands Mine Scoping Study – in a month

Well located to Qld infrastructure

– under-utilised rail load out and facilities since RIO closed Blair Athol

Acquisition of EPC775/776 finalised recently

- low strip ratio coal in south pit likely starter
- Potential to mine 50 to 80mt of moderate energy thermal coal over time.



Source: CQC release 9th April 2013

Resource – 51mt Measured and Indicated JORC Resource, plus 95.1mt Indicated level

Most of the resource (86%) lies less than 150metres depth. Moderate energy thermal coal – similar to well known but now largely exhausted Blair Athol coal next door. Raw coal analysis is ~24MJ/kg (air dried basis). Washed and bypass coal we would expect that coal of ~24MJ/kg as received basis to be deliverable and attract a moderate discount to Newcastle contract. All the more important for CQC to investigate low operating and capital cost mining options in this area.

Table 2: Moorlands Project – Resources by Depth of Cover (Mt)

Seam	Resource Categories	0-50 metres	50-100 metres	100-150 metres	150-200 metres	200-250 metres	Total
B4	Measured+Indicated	-	-	-	-	-	-
	Inferred	-	3.7	9.1	1.6	-	14.4
B5	Measured+Indicated	0.2	1.0	-	-	-	1.2
	Inferred	0.2	-	-	-	-	0.2
B7	Measured+Indicated	0.1	0.9	0.1	-	-	1.1
	Inferred	-	1.5	1.8	-	-	3.3
B8	Measured+Indicated	0.9	14.7	18.5	-	-	34.1
	Inferred	1.0	11.1	18.3	5.6	-	36.0
B9	Measured+Indicated	-	6.4	8.2	-	-	14.6
	Inferred	-	2.1	4.7	5.2	0.1	12.1
B11	Measured+Indicated	-	-	-	-	-	-
	Inferred	0.6	1.9	2.4	0.9	-	5.8
B12	Measured+Indicated	-	-	-	-	-	-
	Inferred	0.2	1.7	2.3	0.7	0.5	5.4
B13	Measured+Indicated	-	-	-	-	-	-
	Inferred	0.7	3.7	8.6	3.2	1.7	17.9
Total	Measured+Indicated	1.2	23.0	26.8	-	-	51.0
	Inferred	2.7	25.7	47.2	17.2	2.3	95.1

Note: Values have been rounded and may not total

Cuesta Coal Limited CQC

 Recommendation
Spec Buy

 Date 10-Apr-13 Price Target Shares Market Cap
\$0.125 \$0.300 191.6 24.0

PROFIT AND LOSS - A\$m

Y/E June	FY'12	FY'13	FY'14	FY'15	FY'16
Sales Revenue	0.2	1.0	0.0	0.0	0.0
Other Revenue (incl hedge)	0.0	0.0	14.4	0.0	0.0
Operating Costs	0.0	0.0	0.0	0.0	0.0
Gross Operating Profit	0.2	1.0	14.4	0.0	0.0
Depreciation	0.0	0.0	0.0	0.0	0.0
Exploration and Royalties	0.0	0.0	0.0	0.0	0.0
Corporate and Other	4.3	2.5	3.2	3.1	3.1
EBIT	-4.1	-1.6	11.2	-3.2	-3.2
Less Net Interest Expense	0.6	-0.5	0.2	0.9	2.7
Pre-Tax Profits	-4.7	-1.1	10.9	-4.2	-5.9
Add Equity Profits	0.0	0.0	0.0	0.0	0.0
Less Tax	0.0	-0.3	3.3	-1.3	-1.8
Less Minorities	0.0	0.0	0.0	0.0	0.0
NPAT (pre-Abs)	-4.7	-0.8	7.7	-2.9	-4.2
NPAT Abnormals	0.0	0.0	0.0	0.0	0.0
Reported Profit	-4.7	-0.8	7.7	-2.9	-4.2
Tax Rate (%)	0.0%	30.0%	30.0%	30.0%	30.0%

CASH FLOW ANALYSIS - A\$m

Y/E June	FY'12	FY'13	FY'14	FY'15	FY'16
Cash Flows From Operating Activities					
Receipts from customers	0.0	1.0	0.0	0.0	0.0
Payments To Suppliers	(2.3)	(0.0)	(0.0)	(0.0)	(0.0)
Net Interest	0.1	0.5	(0.2)	(0.9)	(2.7)
Tax, Royalty and Other	0.0	(2.5)	(4.2)	(3.2)	(3.2)
	(2.2)	(1.1)	(4.4)	(4.1)	(5.9)
Cash Flows From Investing Activities					
Acq. of Property, Plant and Equip.	(0.0)	(23.4)	5.0	(22.2)	(31.7)
Exploration Expenditure	(8.3)	(5.4)	(3.0)	(0.8)	(0.3)
Other	0.0	0.0	0.0	0.0	0.0
	(8.4)	(28.9)	1.9	(23.0)	(32.0)
Cash Flows From Financing Activities					
Net Change in Borrowings	0.0	10.0	(3.8)	15.0	26.9
Dividends Paid	0.0	0.0	0.0	0.0	0.0
Other (Inc issues less buy backs)	25.9	11.4	0.0	19.2	0.0
	25.9	21.4	(3.8)	34.1	26.9
Net Increase In Cash Held	15.3	(8.6)	(6.3)	7.0	(10.9)
Cash At End of Year	19.3	10.7	4.4	11.4	0.4

BALANCE SHEET ANALYSIS - A\$m

Y/E June	FY'12	FY'13	FY'14	FY'15	FY'16
Current Assets					
Cash and Liquids	19.3	10.7	4.4	11.4	0.4
Other	7.9	7.9	7.9	7.9	7.9
Non-Current Assets					
Receivables	0.0	0.0	0.0	0.0	0.0
Fixed Assets	0.1	23.5	32.9	55.1	86.7
Exploration & Other	12.9	18.3	21.3	22.1	22.4
Current Liabilities					
Borrowings	0.0	0.0	0.0	0.0	0.0
Creditors	2.7	2.7	2.7	2.7	2.7
Other	0.0	(0.3)	1.9	0.7	(1.1)
Non-Current Liabilities					
Borrowings	0.0	10.0	6.2	21.1	48.1
Other	0.0	0.0	0.0	0.0	0.0
Minority Interest	0.0	0.0	0.0	0.0	0.0
SHAREHOLDERS FUNDS	37.5	48.1	55.8	72.0	67.8

PRICE ASSUMPTIONS

Y/E June	FY'12	FY'13	FY'14	FY'15	FY'16
FOB prices: US\$/t LT Real (2016\$)					
Exchange Rate USD/AUD	0.84	1.03	1.04	0.99	0.91
Coking Coal - Premium	180.00	254.00	177.50	192.50	195.00
Semi Soft Coking Coal	119.89	169.15	106.72	114.75	122.50
Export Grade Thermal Coal	97.00	111.33	89.88	92.50	95.00
Moorlands area Products					
Semi-soft Coking Coal	126.99	179.18	113.05	121.55	129.76
Thermal Coal - Premium	88.21	101.24	81.73	84.12	86.39
Thermal Coal - Standard	85.20	97.79	78.94	81.25	83.44
Company Tax Rate	30.0%	Secondary Tax applicable: MRRT Applies			

VALUATION PARAMETERS

Y/E June	FY'12	FY'13	FY'14	FY'15	FY'16	
NPAT (pre-Abs)	\$m	-4.7	-0.8	7.7	-2.9	-4.2
EPS	eps	-3.8	-0.3	2.3	-0.6	-0.9
PE Ratio	x	-3.3	-43.4	5.5	-19.9	-14.6
EPS Growth	%	100.0	92.4	+>100.0	->100.0	-35.9
Enterprise Value	\$m	-0.5	31.6	38.1	65.2	101.3
EV / Sales	x					
EV / EBITDA	x	0.1	-20.1	3.4	-20.3	-31.6
EV / EBIT	x	0.1	-19.6	3.4	-20.1	-31.2
Price / NTA	x	0.6	0.8	0.7	0.8	0.9
Dividend	eps	0.0	0.0	0.0	0.0	0.0
Yield	%	0.0	0.0	0.0	0.0	0.0
Franking	%	0.0	0.0	0.0	0.0	0.0
CFPS	eps	-2.4	-0.3	2.4	-0.6	-0.9
Price / CFPS	x	-5.2	-49.5	5.1	-20.8	-14.6
NFPOS	mil.	191.6	303.0	317.0	480.2	480.2
Fully Diluted Shares	mil.	191.6	328.7	342.7	505.3	480.2

KEY RATIOS

Y/E June	FY'12	FY'13	FY'14	FY'15	FY'16	
EBITDA	\$m	-4.1	-1.6	11.2	-3.2	-3.2
EBITDA per Share	eps	-3.3	-0.6	3.3	-0.7	-0.7
EBITDA Margin	%					
EBIT Margin	%					
NPAT Margin	%					
ROE	%	-12%	-2%	14%	-4%	-6%
ROA	%	-12%	-1%	12%	-3%	-4%
NTA per share	eps	19.6	15.9	17.6	15.0	14.1
Eff Tax Rate	%	0%	30%	30%	30%	30%
Interest Cover	x	-7.5	3.5	51.0	-3.5	-1.2
Net Debt/Equity	%	-51%	-1%	3%	14%	70%
Net Debt/Net Debt plus Equity %	%	-106%	-1%	3%	12%	41%

DIVISIONAL VALUATION & RESOURCES

	Risked	NPV A\$m	p sh	mt	Resource mt	Targets mt
Moorlands-Orion	60%	40	0.12	71	146	
W. Bowen extended	17%	4	0.01		0	34
Thorn Hill	45%	9	0.03		40	59
Amberley	95%	14	0.04		55	3
Yellow Jacket	16%	38	0.11		0	748
West Emerald	27%	6	0.02		0	80
Other Assets	18%	4	0.01		0	960
Corporate Costs		-17	-0.05			
Debt & Convert Notes		-10	-0.03			
Options exercise		0	0.00			
Cash - Jun'13e		11	0.03			
TOTAL NPV (A\$m)		98	0.30	71	241	1884
NPV per Share (Unrisked)		387	1.18			
Target Price - 1 year			0.30			

COAL SALES

Y/E June	FY'12	FY'13	FY'14	FY'15	FY'16
By Project - mt					
Net w.i.					
Moorlands-Orion	100%	0.0	0.0	0.0	0.0
Other 1	0%	0.0	0.0	0.0	0.0
Other 2	0%	0.0	0.0	0.0	0.0
Total Shipments		0.0	0.0	0.0	0.0
By Product - mt					
Export Thermal - Standard		0.0	0.0	0.0	0.0
Export Thermal - Premium		0.0	0.0	0.0	0.0
Semi-soft Coking Coal		0.0	0.0	0.0	0.0
PCI Low Vol Coking Coal		0.0	0.0	0.0	0.0
Total Shipments		0.0	0.0	0.0	0.0

MARGIN ANALYSIS

	FY'12	FY'13	FY'14	FY'15	FY'16
Average Price Received (A\$/t)					
Site & Transport Cash costs (A\$/t)					
Total costs (A\$/t)					
Incl interest (A\$/t)					
Incl Tax (A\$/t)					
Net Margin (A\$/t)					
Price Received (US\$/t)					
Cash costs (US\$/t)					
Total costs (US\$/t)					
Incl interest (A\$/t)					
Incl Tax (A\$/t)					
Net Margin (US\$/t)					

Should you have any queries, please do not hesitate to contact me on +61 2 9233 9635.

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Recommendation Criteria

Investment View

PhillipCapital Investment View is based on an absolute 1-year total return equal to capital appreciation plus yield.

Buy	Hold	Sell
> 20%	20% - 5%	< 5%

A Speculative recommendation is when a company has limited experience from which to derive a fundamental investment view.

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