Beer & Co.
Equity Research

Acacia Coal (AJC.ASX) — 8 May 2017

385kt/yr of high grade, strongly demanded anthracite

First product in early 2019; 18month pay-back

Recommendation

Strong BUY, High Risk

Price

0.6c

Risked, NPV based Valuation

1.5c

Commodity

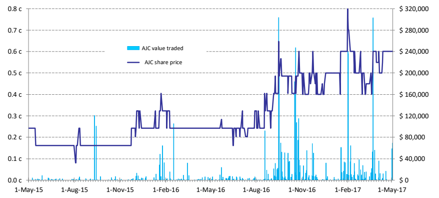
Anthracite

- **AJC announced the acquisition of the Riversdale Anthracite Colliery, in South Africa, in October 2016. A Feasibility had been completed on RAC in 2006.**
- **In March 2017, the promoters of RAC, who are very experienced in this area, became the management of AJC.**
- **On 1 May, AJC announced the results of its PFS. A decision to proceed with mine development is expected in early 2018, with first product early in 2019.**
- **Project capital cost is expected to be AUD 24m to produce 520kt/yr (100% basis) of high grade anthracite with an All-In Cost of just over $A 70/t, compared with expected average revenue of $A 150/t.**

Snapshot

Market Cap	$9.6m
Cash on hand (31 March 201t)	$1.46m
Shares on Issue	1,599m
52 Week High	0.8c
52 Week Low	0.2c
1 month / 6 month VWAP	0.59c /0.58c

AJC : daily share price v. value traded



AJC announced the acquisition of Coalvent, which had an option to acquire RIO's 74% share of the Riversdale Anthracite Colliery (RAC), in South Africa, in October 2016. Consideration was 250m AJC shares plus a potential further 600m performance shares, and payments to RIO of ZAR 38m.

The Coalvent management team were Riversdale Mining when its focus was RAC and a similar project, leaving when RIV's focus became its Mozambique project.

Anthracite is high rank coal and good quality anthracite is used for metallurgical purposes, with a strong demand in South Africa for the production of ferro-chrome and similar products.

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AJC Acquires the Riversdale Anthracite Colliery (RAC)

The RAC was one of the original assets of Riversdale Mining (RIV.ASX). The intention was to bring RAC into production to provide cashflow and prove operational expertise that could be used to develop more significant assets.

The original management left RIV when it made Mozambique its main focus.

Following RIO's acquisition and then exit from RIV, the RAC project was "lost". The original management, which had come from RIO, reached agreement to acquire RAC from RIO, and then to vend it into AJC.

High quality anthracite; in demand

Anthracite is high rank coal, with volatiles below 10% for high value anthracite, and fixed carbon above 70%, up to 85%.

South African metallurgical processing, for ferro-chrome, ferro-manganese and titaniferous slag, consumes over 2Mt/yr. While supply is currently adequate, it is projected to fall significantly, especially for higher quality anthracites, due to resource depletion.

The alternative feed is blast furnace coke.

RAC is nearly ready to go

RAC has a granted Mining Lease. It requires a water licence to begin operations and AJC is about to apply for one. Grant is expected mid 2018.

A feasibility study was completed on RAC in 2006. AJC is updating this study.

AJC already has off-take as non-binding MoUs, and the final feasibility study, with metallurgical test-work and greater geological certainty, will convert the MoUs into agreements.

Project pay-back period just over 18 months

The RAC project is well known to AJC management. Costs are subdued due to mine closures in KwaZulu-Natal.

Beer & Co.'s risked valuation is 1.5c/share; Strong BUY.

There is significant upside potential to our valuation from successful execution and firmer product markets.

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Acacia Coal (AJC.ASX)

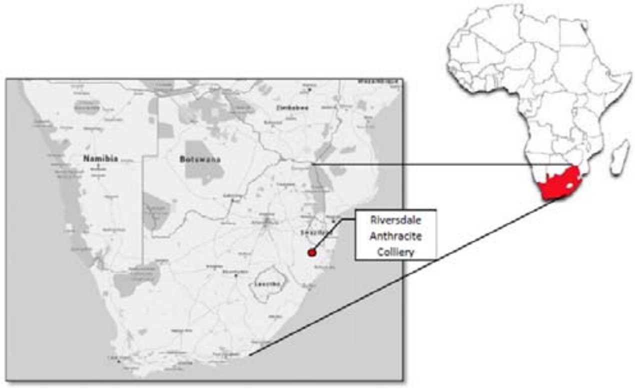
Riversdale Anthracite Colliery (RAC)

AJC announced the agreement to acquire a 74% stake in RAC in October 2016, which was then owned by Rio Tinto.

As shown in Figure 1, RAC is in KawZulu Natal, in South Africa.

AJC's focus is the Riversdale Anthracite Colliery, which is in KwaZulu-Natal province, in South Africa

Figure 1 : Riversdale Anthracite Colliery - location



Source : Acacia Coal (AJC.ASX)

Consideration was :

- Payment of 250m fully paid AJC shares to Coalvent, the party that had reached agreement with RIO to acquire RAC and brought it to AJC;
- Payment of further tranches of performance shares, of 250m and 350m, when milestones were reached; and
- A total payment to RIO and its BEE partner of ZAR 38m (about $A 3.5m) in 3 tranches, the first of which was a 10% deposit and the final payment after all approvals in place, including Ministerial approval for the change in ownership.

RAC is on a granted Mining Lease

RAC Project

RAC has a granted Mining Lease, but requires a Water licence before it can begin development.

The AJC management lead a feasibility study on this asset in 2006

RAC was part of Riversdale Mining, and a Bankable Feasibility Study was completed in 2006, influenced by RIV's nearby operating mine, Zululand Anthracite Colliery (ZAC).

The management of RIV at that time, which left RIV when its focus shifted to Mozambique, is the Coalvent team that approached RIO to sell the asset in 2016.

An operated a very similar asset nearby

Resources

AJC announced updated Mineral Resource Estimates on 19 April 2017, including most metallurgical qualities. This is shown in Figure 2.

Coal resources, JORC 2012 compliant, total 8.1Mt

Figure 2 : RAC Mineral Resource Estimate

				Raw Coal Measures				
	Gross coal	total coal	MJ/kg	Ash	Moisture	Volatiles	Fixed C	Sulphur
Measured	2,291,300 t	2,062,200 t	26.42	20.2 %	1.99 %	7.84 %	69.9 %	0.74 %
Indicated	5,953,500 t	5,034,900 t	25.10	22.1 %	2.50 %	7.92 %	67.5 %	1.03 %
M + I	**8,244,800 t**	**7,097,100 t**	**25.48**	**21.5 %**	**2.35 %**	**7.89 %**	**68.2 %**	**0.95 %**
Inferred	1,307,100 t	980,300 t	24.29	25.3 %	2.37 %	7.93 %	64.4 %	0.63 %
TOTAL	**9,551,900 t**	**8,077,400 t**	**25.34**	**22.0 %**	**2.35 %**	**7.90 %**	**67.7 %**	**0.91 %**

Source : AJC ASX announcement, 19 April 2017

Figure 2 shows total Resources of 9.6Mt. Figure 3 shows the MRE for product coal, including the washery yield, and this shows potentially saleable coal totalling 6.5Mt, of which 5.7Mt is in the Measured and Indicated categories.

Figure 3 : RAC Resources, product coal

					Product Coal Measures					
	Gross coal	total coal	Yield	net coal	MJ/kg	Ash	Moisture	Volatiles	Fixed C	Sulphur
Measured	2,291,300 t	1,804,800 t	88.6 %	1,598,382 t	29.65	16.0 %	1.82 %	8.07 %	74.11 %	0.76 %
Indicated	5,953,500 t	4,761,700 t	86.1 %	4,098,463 t	28.70	16.0 %	2.12 %	8.37 %	73.51 %	0.62 %
M + I	**8,244,800 t**	**6,566,500 t**	**86.8 %**	**5,696,845 t**	**28.97**	**16.0 %**	**2.03 %**	**8.29 %**	**73.68 %**	**0.66 %**
Inferred	1,307,100 t	1,111,000 t	75.4 %	837,280 t	28.21	16.0 %	2.01 %	9.13 %	72.85 %	0.60 %
TOTAL	**9,551,900 t**	**7,677,500 t**	**85.1 %**	**6,534,125 t**	**28.87**	**16.0 %**	**2.03 %**	**8.40 %**	**73.57 %**	**0.65 %**

Source : AJC ASX announcement, 19 April 2017

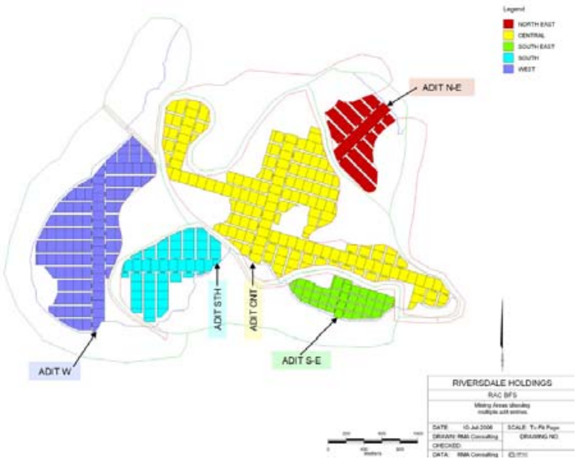
Figure 3 shows that AJC expects to produce low volatile anthracite, with less than 10% volatiles, low sulphur, with over 70% fixed carbon.

Mining

Figure 4 show detail behind the resource estimate, showing the blocks included in the Resource estimate. The different colours show areas that are separated by geological features, such as faulting or thrusts.

Figure 4 : RAC Resource Estimate

The resource estimate is based on blocks defined by geological features, dykes, sills and faulting.



Mining will be done by drill and blast

Source : AJC Presentation, February 2017

The resource is based on seam height of at least 0.8m, but the seams average 1.2m over the resource.

It has a highly competent sandstone roof

The coal has a sandstone roof, making open cut mining difficult.

Mining will be done by drill and blast to ensure than the coal is not overly broken, given the premium for lump over fines.

Drill & blast will enhance production of higher value lump, as opposed to fines

Mining will be done using 3 adits, at any one time, as indicated in Figure 4, with 2 sections off each adit.

Anthracite - description

There is a wealth of operator experience in the area

Anthracite is the highest rank of coal, with low volatile content, below 10% for high rank anthracite, and high fixed carbon, above 70%. It is clean and smokeless, with higher value applications as a reductant.

The geological conditions to produce anthracite are relatively rare, so global annual production of high grade anthracite is only about 25Mt.

The alternative to high grade anthracite as a metallurgical reductant is coke.

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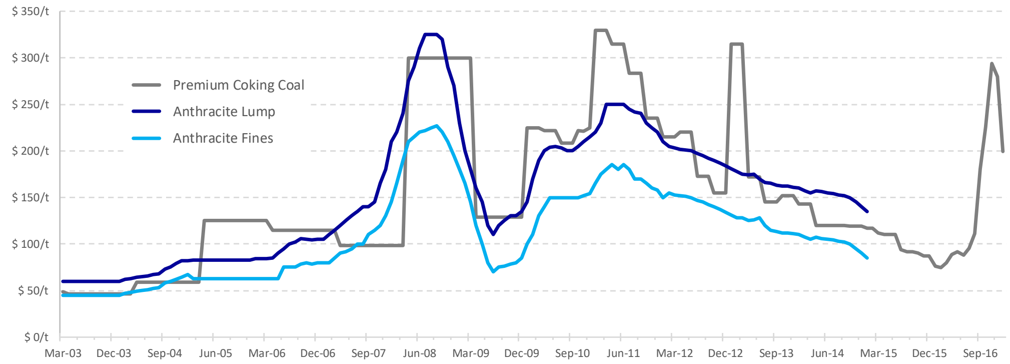
High grade anthracite is used as an alternative to metallurgical coke

Metallurgical coke is produced from coking coal, so trades at a premium to High Quality Hard Coking Coal (HQHCC). Figure 5 shows that the price for anthracite lump is related to the price for HQ HCC. Analysis of the data shows that

- Over the period shown, lump anthracite has trades at a premium of 6% to HQ HCC, despite HQ HCC being more volatile with higher highs; and
- Anthracite fines have trade at 73% of the lump price, though it has tended to be lower in the later years for which we have data.

Figure 5 : Anthracite pricing v. High Quality hard Coking Coal



Source : Resource-Net, Acacia Coal, Beer & Co

Which is why the anthracite lump price moves with the HQ HCC price

Beer & Co project the Long Run price of HQ HCC to be US$ 150/t (or $A 200/t).

Given that RAC product will be 16% ash, compared with low ash product for HQ HCC and from the ZAC, Beer & Co assumes that the L-R price of RAC's lump anthracite product will be $135/t, despite its low S, at 0.7% compared with 1.0% benchmark, and low P, at 0.007% compared with a limit of 0.02% (ie. 3x as much). Only a small proportion of south African production meets this limit.

Anthracite - demand

There is strong demand in South Africa for anthracite in the production of ferro-chrome, ferro-manganese, titaniferous slag and aluminium.

There are a range of demands in the South African metallurgical industry.

RAC's product is too high in ash to supply the titaniferous slag industry (Richards Bay Minerals, a subsidiary of RIO, and Tronox). However, especially with its low P and S levels, it is the best product for the ferro-chrome (FeCr) industry, which produces about 4.0Mt.yr of FeCr, consuming about 2.6Mtyr of anthracite.

Development of RAC

On 1 May 2017, AJC announced the summary results of its PFS to the ASX.

RAC has a granted Mining Licence.

AJC will lodge their application for a water licence in the very near future. AJC maintains that this will be granted as RAC already has a granted Mining Licence, but it is expected it will be about June 2018 by the time the water licence is granted.

To begin development, a water licence is required

AJC expect to have completed their BFS well before June 2018, so that finance for development can be secured immediately upon the grant of the water licence.

Mining Inventory

AJC is about to apply for a water licence and expects it will take about 12 months to be granted

Figure 3 showed the Mineral Resource Estimate for AJC's RAC project :

- 9.6Mt of total resources of which 8.2Mt is coal; for
- 8.2Mt of Measured plus Indicated resources, of which 5.7Mt is coal.

By definition, Ore Reserves are based on M+I Resources.

AJC based their PFS on Measured and Indicated Resources, adjusted for mining factors.

Beer & Co.'s estimated mining inventory is based on RAC's M+I Resources, adjusted for

- AJC will be successful in bringing more coal into Measured plus Indicated resources, some from the present Inferred resources, with a greater density of drilling and some form the other seams at RAC; and
- Some allowance needs to be made for the material presently in Resources that is not able to be economically mined, due to factors such as seam height, continuity or distance from development.

Beer & Co expects more material will be produced

Taking these factors into consideration gives Beer & Co.'s mining inventory which is shown in Figure 6.

Figure 6 : RAC Mining Inventory

	Resources	Blocked	ex Pillars	Product
Measured	1,805 kt	1,657 kt	1,515 kt	1,013 kt
Indicated	4,762 kt	4,371 kt	3,997 kt	2,672 kt
Inferred	1,111 kt	*944 kt*	864 kt	561 kt
Extensions	*1,500 kt*	*1,238 kt*	1,132 kt	736 kt
TOTAL	**9,178 kt**	**8,209 kt**	**7,507 kt**	**4,981 kt**

Source : Beer & Co estimates

Capital and Operating Costs

The PFS estimated total project capital cost, including the feasibility study, of $A 24.4m

In their PFS, AJC estimated project capital cost of $A 24.4m as shown in Figure 7.

This amount is constrained by out-sourcing the process plant and some mining.

Fig 7 : Cap.Ex

AUD m	Full Cost	Net Cost	Project	Sustaining
Feasibility	1.05	1.05	1.05	
Mining	31.93	21.95	14.10	7.85
Process	11.19	0.00		
Infrastructure	9.25	9.25	9.25	
TOTAL	**53.42**	**32.25**	**24.40**	**7.85**

Source : AJC PFS, May 2017

This is to produce 780kt/yr of Run of Mine (RoM) coal, which is washed to produce, on average, 520kt/yr of product coal, as shown in Figure 8.

Figure 8 : Beer & Co.'s expected production from RAC

	LoM	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30
Coal mined	**8,209 kt**	254 kt	781 kt	781 kt	781 kt	781 kt	781 kt	781 kt	781 kt	781 kt	781 kt	781 kt	144 kt
Coal processed	**8,209 kt**	225 kt	781 kt	781 kt	781 kt	781 kt	781 kt	781 kt	781 kt	781 kt	781 kt	781 kt	174 kt
Washery yield, primary	**67 %**	67 %	67 %	67 %	67 %	67 %	67 %	67 %	67 %	67 %	67 %	67 %	67 %
Product - Lump	**2,871 kt**	79 kt	273 kt	273 kt	273 kt	273 kt	273 kt	273 kt	273 kt	273 kt	273 kt	273 kt	61 kt
Product - Fines	**2,616 kt**	72 kt	249 kt	249 kt	249 kt	249 kt	249 kt	249 kt	249 kt	249 kt	249 kt	249 kt	55 kt

Source : Beer & Co estimates

Figure 9 shows Beer & Co.'s estimated operating costs for the RAC over time.

Figure 9 : Beer & Co.'s projected operating costs for RAC

	LoM	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30
MINING	**R 386/t**	R 473/t	R 384/t	R 384/t	R 384/t	R 384/t	R 384/t	R 384/t	R 384/t	R 384/t	R 384/t	R 384/t	R 338/t
Overhead	**R 14/t**	R 26/t	R 14/t	R 14/t	R 14/t	R 14/t	R 14/t	R 14/t	R 14/t	R 14/t	R 14/t	R 14/t	R 16/t
PROCESSING	**R 127/t**	R 149/t	R 126/t	R 126/t	R 126/t	R 126/t	R 126/t	R 126/t	R 126/t	R 126/t	R 126/t	R 126/t	R 131/t
SITE G & A	**R 32/t**	R 53/t	R 29/t	R 29/t	R 29/t	R 29/t	R 29/t	R 29/t	R 27/t	R 27/t	R 27/t	R 27/t	R 176/t
TRANSPORT	**R 6/t**	R 6/t	R 6/t	R 6/t	R 6/t	R 6/t	R 6/t	R 6/t	R 6/t	R 6/t	R 6/t	R 6/t	R 6/t
C 1 Costs	**R 565/t**	**R 707/t**	**R 560/t**	**R 560/t**	**R 560/t**	**R 560/t**	**R 560/t**	**R 560/t**	**R 557/t**	**R 557/t**	**R 557/t**	**R 557/t**	**R 667/t**
ROYALTIES	**R 92/t**	R 92/t	R 92/t	R 92/t	R 92/t	R 92/t	R 92/t	R 92/t	R 92/t	R 92/t	R 92/t	R 92/t	R 92/t
SUSTAINING CAPITAL	**R 22/t**	R 0/t	R 20/t	R 26/t	R 26/t	R 26/t	R 26/t	R 26/t	R 26/t	R 26/t	R 26/t	R 0/t	R 0/t
All In Costs	**R 678/t**	**R 857/t**	**R 706/t**	**R 713/t**	**R 713/t**	**R 713/t**	**R 713/t**	**R 713/t**	**R 707/t**	**R 707/t**	**R 707/t**	**R 681/t**	**R 940/t**

Source : Beer & Co estimates

As the process plant is out-sourced, plant operating costs are higher than they might otherwise be.

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Also, mining is to be drill & blast rather than by mechanical means. This saves on capital costs and produces a higher proportion of lump, boosting revenue. The competency of the sandstone roof coupled with generally thin seams and readily available skills also makes open cut mining comparatively less attractive.

Finally, Figure 8 shows a ramp up in mining and processing so that there is some material processed in the final year when there is no mining, and the final year reports a mine closure charge, of ZAR 17m, against Site G&A.

RAC Valuation

Figure 10 shows Beer & Co.'s projected cashflows for RAC, based on the pricing shown around Figure 5, production shown in Figure 8 and costs shown in Figure 9.

Figure 10 : Beer & Co financial projections for RAC

ZAR m	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30
Product - Lump	0 kt	79 kt	273 kt	273 kt	273 kt	273 kt	273 kt	273 kt	273 kt	273 kt	273 kt	273 kt	61 kt
Product - Fines	0 kt	72 kt	249 kt	249 kt	249 kt	249 kt	249 kt	249 kt	249 kt	249 kt	249 kt	249 kt	55 kt
Revenue	0	229	797	797	797	797	797	797	797	797	797	797	177
Cash Costs	0	(106)	(292)	(314)	(314)	(314)	(314)	(314)	(313)	(313)	(313)	(313)	(83)
Royalties	0	(14)	(48)	(48)	(48)	(48)	(48)	(48)	(48)	(48)	(48)	(48)	(11)
Dep'cn & Amort'sn	0	(10)	(36)	(47)	(50)	(50)	(50)	(50)	(42)	(14)	(14)	(14)	0
E B I T	0	99	421	389	385	385	385	385	395	423	423	423	83
Interest Expense	0	(3)	(10)	(6)	(2)	(0)	0	0	0	0	0	0	0
Tax Expense	0	(27)	(115)	(107)	(107)	(108)	(108)	(108)	(111)	(118)	(118)	(118)	(23)
N P A T	**0**	**59**	**259**	**229**	**225**	**227**	**227**	**227**	**243**	**291**	**291**	**291**	**60**
Feasibiilty / permitting	9	0	0	0	0	0	0	0	0	0	0	0	0
Project Cap.Ex	146	98	0	0	0	0	0	0	0	0	0	0	0
Sus Cap. Ex	0	0	10	14	14	14	14	14	14	14	14	0	0
Un-geared Net Cashflow	(155)	12	323	274	274	273	273	273	274	272	272	281	47
Net Cashflow to Equity	**(131)**	**100**	**284**	**235**	**235**	**273**	**273**	**273**	**274**	**272**	**272**	**281**	**47**

Source : Beer & Co estimates

Beer & Co estimate the NPV of the RAC project, discounting the after-tax cashflows at a rate of 12%, to be $A 114m.

The NPV, using a discount rate of 12% on the real, after-tax cashflows shown in Figure 10 is ZAR 1,150m, or $A 114m (or $A 115m using the geared cashflows).

Projected Cashflows for AJC

RAC is AJC's focus project. However :

- AJC has other assets and liabilities apart from the RAC project; and
- AJC has only a 74% economic interest in the RAC project, and is required to lend the capital required by its BEE partner the required funds.

AJC has 74% of the project, with a BEE partner having the other 26%

Figure 11 shows the resulting cashflows for AJC projected by Beer& Co., in AUD terms.

Figure 11 : AJC projected cashflows

AUD m	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30
Sales revenue	0	0	17	58	58	58	58	58	58	58	58	58	58	13
Total Revenue	**0**	**0**	**17**	**59**	**59**	**59**	**60**	**60**	**60**	**60**	**60**	**60**	**60**	**15**
Cost of Goods Sold	0	0	(8)	(21)	(23)	(23)	(23)	(23)	(23)	(23)	(23)	(23)	(23)	(6)
Royalties	0	0	(1)	(3)	(3)	(3)	(3)	(3)	(3)	(3)	(3)	(3)	(3)	(1)
Corporate Costs	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(0)
EBITDA	(1)	(0)	7	33	32	32	32	33	33	33	33	33	33	8
Dep'cn & Amort'sn	0	0	(1)	(3)	(3)	(4)	(4)	(4)	(4)	(3)	(1)	(1)	(1)	0
EBIT	(1)	(0)	6	30	28	28	29	29	29	30	32	32	32	8
Interest Expense	0	0	(0)	(1)	(0)	(0)	(0)	0	0	0	0	0	0	0
NPAT	**(1)**	**(0)**	**4**	**21**	**20**	**20**	**21**	**21**	**21**	**22**	**23**	**23**	**23**	**6**
Shares on Issue	903.9m	1,599m	5,253m	5,253m	5,603m	5,643m	5,643m	5,643m	5,643m	5,643m	5,643m	5,643m	5,643m	5,643m
Earnings per Share	(0.0c)	(0.0c)	0.1 c	0.4 c	0.4 c	0.4 c	0.4 c	0.4 c	0.4 c	0.4 c	0.4 c	0.4 c	0.4 c	0.1 c
Exploration + Feasibility	(0)	(1)	0	0	0	0	0	0	0	0	0	0	0	0
Maintenance Capex	0	0	0	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	0
Expansion Capex	0	(11)	(7)	0	0	0	0	0	0	0	0	0	0	0
Repayment from BEE	0	0	3	1	0	0	0	0	0	0	0	0	0	0

Source : Beer & Co estimates

Figure 11 also shows Beer & Co.'s projected financing for AJC, including equity issued, both for new capital and also performance shares and options on issue.

Valuation of AJC

Figure 12 shows Beer & Co.'s risked, base case valuation of AJC.

Beer & Co.'s base case, risked valuation of AJC is 1.5c/share

Figure 12 : AJC base case, risked valuation

discount rate = 12.0 %		30 June 2016			3-May-17
	risk :	100%	Product	per share	
Riversdale Anthracite Colliery					
Measured Resources	85 %	$ 19m	$ 16m	0.3 c	0.4 c
Indicated Resources	85 %	$ 44m	$ 37m	0.7 c	0.8 c
Inferred Resources	70 %	$ 7m	$ 5m	0.1 c	0.1 c
Extensions	60 %	$ 7m	$ 4m	0.1 c	0.1 c
Secondary	60 %	$ 0m	$ 0m	0.0 c	0.0 c
Comet Ridge	nom	$ 1m	$ 1m	0.0 c	0.0 c
Corporate	100 %	($6m)	($6m)	(0.1c)	(0.1c)
Cash	100 %	$ 1m	$ 1m	0.0 c	0.0 c
Equity raisings	100 %	$ 14m	$ 14m	0.3 c	0.3 c
TOTAL		**$ 86m**	**$ 72m**	1.4 c	1.5 c
Shares on issue		903.9m	F P O share:	40.0m	Options
		695.2m	FY 17	40.0m	ex'd
		3,547.9m	FY 18		

Source : Beer & Co estimates

The risking applied by Beer & Co reflects uncertainty and this should be reduced over time as more work is done.

Comments

The RAC project is to produce a 16% ash, low volatile, high fixed carbon anthracite

Comet Ridge

On 2 May 2017, AJC announced that Bowen Coking Coal Pty Ltd (BCC), a company that intended to list on the ASX, had advised AJC that it intended to exercise its option to acquire the Comet ridge project.

The yield from raw coal to product is about 67%.

BCC had already paid a fee of $50k to AJC and is to pay a further $350k in cash, plus equity in BCC to the value of $400k.

Secondary

The tails can be treated to produce a high ash (30%) product that can be sold as a thermal coal (at an appropriate discount) into the export market

The base case is a single stage wash to produce a 16% ash product, lump and fines. The tails of this process can be re-processed to produce a high ash (30%) product that can be sold into the thermal coal market, at an appropriate discount.

A single stage beneficiation (washing) of the raw coal achieves a recovery of only about 67% from raw coal to product, while a 2 stage process, producing 3 products (16% ash anthracite lump, 16% ash anthracite fines and a high ash thermal product) can a total recovery from raw coal to product of 85% - 87%, as shown in Figure 2.

If done, this would then give an overall yield of about 87%

Sensitivity Analyses

Figure 13 and 14 show the results of key sensitivities to Beer & Co.'s derived valuation.

Figure 13 : Sensitivities, risked

Anthracite price (lump)	PFS Case	Add Inferred	Add Extensions	Add secondary
US$ 120/t	1.0 c	1.1 c	1.2 c	1.3 c
US$ 135/t	1.3 c	1.4 c	**1.5 c**	1.6 c
US$ 150/t	1.6 c	1.7 c	1.8 c	1.9 c

Source : Beer & Co estimates

Figure 14 : Sensitivities, Un-risked

Anthracite price (lump)	PFS Case	Add Inferred	Add Extensions	Add secondary
US$ 120/t	1.1 c	1.2 c	1.4 c	1.5 c
US$ 135/t	1.4 c	1.6 c	1.7 c	1.9 c
US$ 150/t	1.7 c	1.9 c	2.1 c	2.2 c

Source : Beer & Co estimates

Discussion

The greatest sensitivity to our valuation is for the anthracite price.

Figure 12 showed that Beer & Co.'s analysis is based on projected cashflows for each asset, discounted to the present, which are then risked for uncertainty.

Figure 14 shows the value today if this risking is removed; in other words, the value if the project is executed as we expect.

In our base case, Beer & Co expect, as shown in Figure 6, that AJC will, over the life of the operations, extract more coal than is currently accounted for by Measured and Indicated Resources. Figures 13 and 14 show how this assumption adds to our base case valuation.

Extra mine life adds a little value, as does subsequent production of a high ash thermal product

Figures 13 & 14 show that commodity price is the key variable in our analysis.

We tested for other factors, including capital costs, operating cost estimates and exchange rates and the impact was less that for those shown.

Finally, our base case assumed 50% of the project cost is debt.

Increasing this to 65%, which we view as a high level given that $A 20m of a $A 45m project is already out-sourced, impacts on AJC's value by 0.17c in the base case, due to the lower number of shares that need to be raised.

Conclusions

Summary

The management of AJC is very familiar with this project, having managed secured the project previously, and, given their history with managing similar operations, investors can be confident in project delivery.

The management of AJC knows this project well

The project has been bought from RIO, where it had been "lost", as its scale was too small to be part of RIO's consideration.

It has very relevant operating experience

The RAC will produce a moderate (16%) ash anthracite that is suitable for use in the production of ferro-chrome, which is a major industry in South Africa.

The product will be demanded as other anthracite supplies reach the end of mine life

The project will come on-stream at a time when supply is tightening due to resource exhaustion.

Valuation

Beer & Co has modelled AJC's proposed operations for RAC, based on information in the PFS. After allowing for other assets and liabilities and also for financing, Beer & Co derives a base case risked valuation for AJC of 1.5c/share.

Beer & Co has tested our conclusion based on a range of sensitivities and we show significant upside potential. Also, our downside case still remains a significant premium to the current share price, with realistic upside much greater again.

Beer & Co is confident that AJC's management will be successful in investing the cashflows generated.

Investment Conclusion

Strong BUY

Beer & Co derives a valuation for AJC that is a multiple of the current share price, while there is good upside potential to Beer & Co.'s valuation.

High risk

Beer & Co initiates research on AJC with a Strong BUY recommendation.

Our risk rating is High, with our major risk concern being political risk.

Beer & Co is comfortable with all other risk parameters.

Strong BUY, High Risk.

Beer & Co.
Equity Research

Beer & Co. Research

Acacia Coal (AJC.ASX) — **May 2017**

Year ended June		**2015-16**	**2016-17**	**2017-18**	**2018-19**	**2019-20**	**2020-21**	**2021-22**	**2022-23**
Section 1 - P&L									
Sales revenue	$A m	0	0	0	17	58	58	58	58
Interest revenue	$A m	0	0	0	0	0	1	1	2
Other revenue	$A m	0	0	0	0	0	0	0	0
Total Revenue	$A m	0	0	0	17	59	59	59	60
Cost of Goods Sold	$A m	0	0	0	(8)	(21)	(23)	(23)	(23)
Royalties	$A m	0	0	0	(1)	(3)	(3)	(3)	(3)
Corporate Costs	$A m	(0)	(1)	(1)	(1)	(1)	(1)	(1)	(1)
Exploration Expense	$A m	0	0	0	0	0	0	0	0
Other Operating Expenses	$A m	(0)	0	0	0	0	0	0	0
Total Operating Expenses	$A m	(0)	(1)	(1)	(10)	(26)	(27)	(27)	(27)
EBITDA	$A m	(0)	(1)	(0)	7	33	32	32	32
Dep'cn & Amort'sn	$A m	(0)	0	0	(1)	(3)	(3)	(4)	(4)
EBIT	$A m	(0)	(1)	(0)	6	30	28	28	29
Interest Expense	$A m	(0)	0	0	(2)	(6)	(7)	(7)	(7)
Other	$A m	(1)	(1)	(1)	5	29	27	27	28
Pre-Tax Profit	$A m	(1)	(2)	(2)	10	54	49	49	50
Tax Expense	$A m	(1)	(1)	(1)	5	29	27	27	28
NPAT	$A m	(2)	(3)	(3)	15	83	76	76	77
Section 2 - Key Data									
Ordinary shares - year end	m	903.9	1,599	5,147	5,147	5,497	5,537	5,537	5,537
Fully diluted shares on issue	m	903.9	1,639	5,187	5,187	5,537	5,537	5,537	5,537
Weighted # shares	m	903.9	1,545	4,322	5,147	5,497	5,527	5,537	5,537
Earnings per Share		(1.1c)	(0.0c)	(0.0c)	0.1 c	0.4 c	0.4 c	0.4 c	0.4 c
Dividends Per Share		0.0 c	0.0 c	0.0 c	0.0 c	0.0 c	0.0 c	0.0 c	0.0 c
Section 3 - Balance Sheet									
Cash	$A m	1	1	2	11	34	52	69	90
Receivables	$A m	0	0	0	4	5	5	5	5
Inventory	$A m	0	0	0	1	1	1	1	1
Other	$A m	0	0	0	0	0	0	0	0
CURRENT ASSETS	$A m	1	1	2	16	40	58	76	96
Receivables	$A m	0	0	0	0	0	0	0	0
P , P & E	$A m	0	0	10	16	15	13	12	10
Mining Properties / Exploration	$A m	1	1	2	2	2	1	1	1
Other	$A m	0	0	0	3	1	0	0	0
NON-CURRENT ASSETS	$A m	1	1	12	21	17	15	13	12
TOTAL ASSETS	$A m	2	3	14	37	57	73	89	108
Payables	$A m	0	0	0	3	4	4	4	4
Debt	$A m	0	0	0	0	4	4	4	0
Other	$A m	0	0	0	0	0	0	0	0
CURRENT LIABILITIES	$A m	0	0	0	3	7	7	7	4
Long Term Debt	$A m	0	0	2	11	7	4	0	0
Other	$A m	0	0	0	0	0	0	0	0
Provisions	$A m	0	0	0	0	0	0	0	0
NON-CURRENT LIABILITIES	$A m	0	0	2	11	7	4	0	0
TOTAL LIABILTIES	$A m	0	0	2	14	15	11	7	4
NET ASSETS	$A m	**2**	**3**	**12**	**23**	**42**	**62**	**82**	**104**
Accumulated Profit (Loss)	$A m	(40)	(40)	(41)	(37)	(15)	5	25	46
Reserves	$A m	3	2	(4)	4	2	1	(0)	1
Contributed Equity	$A m	38	40	56	56	56	56	56	56
Total Equity	$A m	2	3	12	23	42	62	81	103
Section 4 - Cashflow									
Net Cashflow from operations	$A m	(0)	(1)	(0)	7	33	32	32	32
Net Interest Paid	$A m	0	0	0	(0)	(0)	0	1	2
Taxes Paid	$A m	0	0	0	0	(7)	(8)	(8)	(8)
Change in Working Capital	$A m	0	(0)	0	(1)	(0)	(0)	0	0
Other	$A m	0	0	0	3	1	0	0	0
OPERATING CASHFLOW	$A m	(0)	(1)	(0)	6	25	24	25	26
Exploration + Feasibility	$A m	0	(0)	(1)	0	0	0	0	0
Maintenance Capex	$A m	0	0	0	0	(1)	(1)	(1)	(1)
Expansion Capex	$A m	0	0	(10)	(7)	0	0	0	0
PPE Acquisitions (Total Capex)	$A m	0	(0)	(11)	(7)	(1)	(1)	(1)	(1)
PPE Divestments	$A m	0	0	0	3	1	0	0	0
INVESTING CASHFLOW	$A m	0	(0)	(11)	(4)	(0)	(1)	(1)	(1)
Change in Equity	$A m	0	2	16	0	0	0	0	0
Dividends Paid	$A m	0	0	0	0	0	0	0	0
Change in Debt	$A m	0	0	2	9	0	(4)	(4)	(4)
FINANCING CASHFLOW	$A m	0	2	18	9	0	(3)	(4)	(4)
Free Cashflow	$A m	(0)	(1)	(11)	2	25	23	24	25
Net Cashflow	$A m	(0)	1	7	10	25	19	20	21

Commodity price assumptions

Year ended June	**2016-17**	**2017-18**	**2018-19**	**2019-20**	**2020-21**	**L-R**
AUD-USD	0.754	0.750	0.750	0.750	0.750	0.750
Anthracite - lump, ZAR/t	1,825	1,825	1,825	1,825	1,825	1,825
Anthracite - fines, ZAR/t	1,200	1,200	1,200	1,200	1,200	1,200
USD-ZAR	13.6	13.5	13.5	13.5	13.5	13.5
Product Sales, AJC share, '000t						
Anthracite - Lump	0	0	58	202	202	202
Anthracite - Fines	0	0	53	184	184	184
Mine Production, 100% basis, '000t						
Riversdale Colliery	0	0	254	781	781	781

Resources, Reserves and assumed mining inventory ('000t), 100% basis

	Resources	**Blocked**	**ex Pillars**	**Product**
Measured	1,805	1,657	1,515	1,013
Indicated	4,762	4,371	3,997	2,672
Inferred	1,111	944	864	561
Extensions	1,500	1,238	1,132	736
TOTAL	**9,178**	**8,209**	**7,507**	**4,981**

Asset based Valuation

discount rate = 12.0 %		30 June 2016			3-May-17
	risk :	100%	Product	per share	
Riversdale Anthracite Colliery					
Measured Resources	**85 %**	$ 19m	$ 16m	0.3 c	0.4 c
Indicated Resources	**85 %**	$ 44m	$ 37m	0.7 c	0.8 c
Inferred Resources	**70 %**	$ 7m	$ 5m	0.1 c	0.1 c
Extensions	**60 %**	$ 7m	$ 4m	0.1 c	0.1 c
Comet Ridge	**nom**	$ 1m	$ 1m	0.0 c	0.0 c
Exploration	**80 %**	$ 0m	$ 0m	0.0 c	0.0 c
Corporate	**100 %**	($ 6m)	($ 6m)	(0.1c)	(0.1c)
Cash	**100 %**	$ 1m	$ 1m	0.0 c	0.0 c
Equity raisings	**100 %**	$ 14m	$ 14m	0.3 c	0.3 c
TOTAL		$ 86m	$ 72m	1.4 c	**1.5 c**
Shares on issue	903.9m	F P O shares	40.0m	Options	
	695.2m	FY 17	40.0m	ex'd	
	3,547.9m	FY 18			

Financial Ratios

Year ended June		**2016-17**	**2017-18**	**2018-19**	**2019-20**	**2020-21**	**2021-22**
Revenue	$A m	0	0	17	59	59	59
EBITDA	$A m	(1)	(0)	7	33	32	32
EBIT	$A m	(1)	(0)	6	30	28	28
NPAT (reported)	$A m	(3)	(3)	15	83	76	76
Adjusted EPS (cps)		(0.0c)	(0.0c)	0.1 c	0.4 c	0.4 c	0.4 c
EPS Growth (%)			69 %	784 %	382 %	(6%)	2 %
DPS (c)		0.0 c	0.0 c	0.0 c	0.0 c	0.0 c	0.0 c
Dividend Yield (%)		0 %	0 %	0 %	0 %	0 %	0 %
PE adj. (x)	x	(16.0)	(51.5)	7.5	1.6	1.7	1.6
EV / EBITDA (x)	x	(14)	(68)	4	0	(0)	(1)
EV / EBIT (x)	x	(14)	(68)	5	0	(0)	(1)
Gearing (%)		0 %	17 %	30 %	19 %	10 %	4 %
Return on Assets		(22%)	(3%)	17 %	53 %	39 %	32 %
Return on Equity		(110%)	(22%)	66 %	195 %	123 %	93 %
EBITDA Margin (%)		n/a	n/a	n/a	42 %	56 %	54 %
Interest Cover (x)	x	n/a	n/a	n/a	3.6	5.0	4.2

See Page 10 for Disclaimer and Disclosures

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The analyst responsible for this research report certifies that all of the views expressed reflect his personal views about the securities and the issuer.

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Beer & Co provide general recommendations only and do not consider the specific interests of the recipient of this report. Beer & Co generally provides a 2 part recommendation and both need to be considered together.

Recommendation : Beer & Co's investment recommendation is driven by the difference between our base case, risked valuation and the share price at the time. A Strong BUY recommendation means a very large difference (eg. over 100%), while BUY means a significant difference and Accumulate means a small, but positive difference. The recommendation is not independent of the uncertainty in Beer & Co's valuation.

Risk : Risk relates to the potential, over the long run, for an investor to lose money; it is a function of both the difference between our base case valuation and the uncertainty in our valuation due to the AJCree of estimation and/or uncertainties about project execution. Speculative means a high chance of loss; High risk means a good chance of loss and medium means some chance of loss, given the company size.

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