Results Note
25 November 2014

Wescoal Holdings Ltd
H1:15 Results – Big Strides Forward

Share Code: WSL – Market Cap: R380m – PE: 12.4x – DY: 2.0%

12m Target Price	**294cps**
Share Price	**195cps**
Implied Return	**51%**

Coal Mining & Trading | South Africa

H1:15 Results: Strong Results

- Wescoal reported its H1:15 results with Revenue rising 93% boosting Operational EBITDA (which excludes once-offs) to R84m (H1:14 – R49m) and HEPS grew by 33% to 15.2cps (H1:14 – 11.4cps).
- The Group also concluded a financing agreement for its Elandspruit mine, acquired the Muhanga plant, added an extension to both Intibane and Khanyisa's Life of Mine (LoM) and integrated MacPhail into its Coal Trading segment.

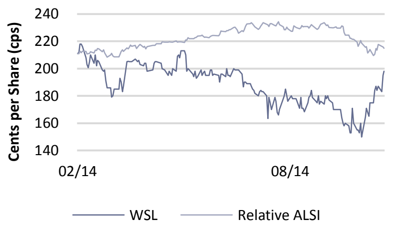
Our Thoughts: Big Strides Forward, Underrated Trading Business

- The successful acquisition and integration of MacPhail into the Group's Coal Trading segment now makes this enlarged business the largest coal trader in South Africa. We do not believe that this dominant position's value is fully appreciated by the market and see significant (though hard to value) upside coming from this base.
- The timing and ultimate profitability of Elandspruit, though, will still have a significant impact the Group's future. We have assumed that its Water Use License (WUL) is issued during December 2014 and mining starts in the *first* month of FY 16E.

Forecast, Valuation and Implied Return: Under Appreciated

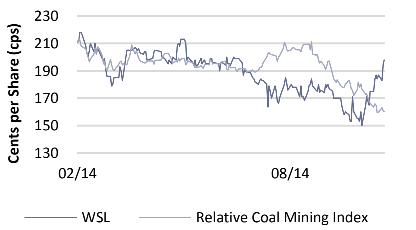
- We raise our fair value by 5% to 254cps (previous: 240cps), as the various Group projects de-risk, the mine extensions add uplift and MacPhail synergies are increasingly realized.
- The implied PE of 13.0x is not very illustrative, though, as Elandspruit is currently adding to our valuation, but not yet contributing to the Group's profits.
- Based off this fair value, we keep our 12m TP flat at 294cps (previous 12m TP: 301cps), implying a 51% return on an Exit PE of 10.0x, though with plenty of up- and downside risks attached.
- Note the numerous key risks to our view hereon at the end of this report given the junior mining status of the stock.

Share Price against the ALSI



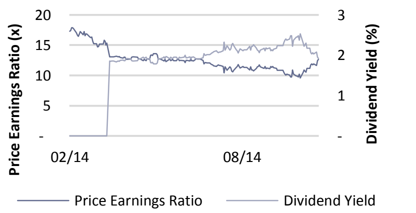
Sources: Bloomberg, Blue Gem Research

Share Price against the Coal Mining Index



Sources: Bloomberg, Blue Gem Research

Price Earnings (x) and Dividend Yield (%)



Sources: Bloomberg, Blue Gem Research

Key Forecasts (R m)	Mar 12A	YoY %	Mar 13A	YoY %	Mar 14A	YoY %	H1:15A	Mar 15E	YoY %	Mar 16E	YoY %
Revenue	**631**	**13%**	**677**	**7%**	**1147**	**70%**	**898**	**1449**	**26%**	**2035**	**40%**
HEPS (Cont. Ops.)	**13.0cps**	**-260%**	**12.4cps**	**-5%**	**15.7cps**	**27%**	**15.2cps**	**19.8cps**	**26%**	**49.5cps**	**149%**
Return on Equity (%)	*13.1%*	-	*11.1%*	-	*31.7%*	-	*9.7%*	*12.0%*	-	*24.3%*	-
Price Earnings ratio (x)	*14.9x*	-	*15.6x*	-	*12.4x*	-	*12.8x*	*9.8x*	-	*3.9x*	-
Price-to-Book ratio (x)	*2.0x*	-	*1.7x*	-	*1.3x*	-	*1.2x*	*1.2x*	-	*1.0x*	-

Sources: Wescoal, Bloomberg, Blue Gem Research

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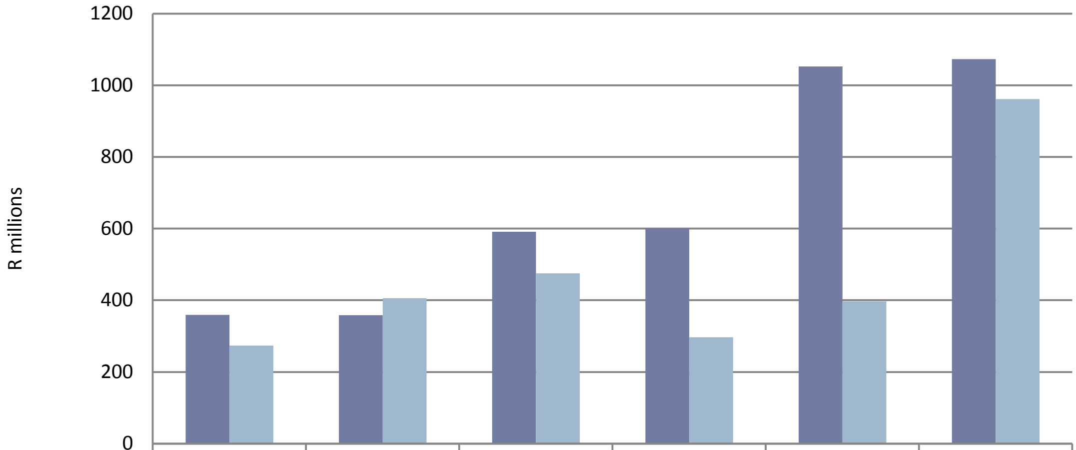
Key Forecasts (R m)	Mar 12A	YoY %	Mar 13A	YoY %	Mar 14A	YoY %	H1:15A	Mar 15E	YoY %	Mar 16E	YoY %
Revenue	**631**	**13%**	**677**	**7%**	**1147**	**70%**	**898**	**1449**	**26%**	**2035**	**40%**
Coal Trading	359	14%	359	0%	591	65%	601	1052	78%	1073	2%
Coal Mining	274	13%	406	48%	476	17%	297	397	-17%	962	143%
Khanyisa	274	13%	274	48%	275	1%	-	186	-33%	186	0%
Khanyisa (Mtpa)	*1.18*	*-15%*	*1.31*	*11%*	*0.89*	*-32%*	-	*0.60*	*-33%*	*0.60*	*0%*
Intibane	-	-	-	-	319	>100%	-	310	-3%	310	0%
Intibane (Mtpa)	-	-	-	-	*1.03*	*>100%*	-	*1.00*	*-3%*	*1.00*	*0%*
Elandspruit	-	-	-	-	-	-	-	-	-	706	>100%
Elandspruit (Mtpa)	-	-	-	-	-	-	-	-	-	*2.28*	*>100%*
- Inter-Group	-2	>100%	-87	3703%	81	-192%	-	-	-	-	-
Gross Profit	**64.1**	**126%**	**72.7**	**13%**	**125.5**	**73%**	**120.4**	**198.7**	**58%**	**324.7**	**63%**
GP Margin (%)	*10.2%*	-	*10.7%*	-	*10.9%*	-	*13.4%*	*13.7%*	-	*16.0%*	-
Operating Costs	-40.9	-19%	-48.8	20%	-82.4	69%	-72.4	-108.8	32%	-145.4	34%
EBITDA	**30.5**	**-592%**	**27.7**	**-9%**	**159.7**	**476%**	**84.3**	**152.5**	**-4%**	**305.9**	**101%**
EBITDA Margin (%)	*4.8%*	-	*4.1%*	-	*13.9%*	-	*9.4%*	*10.5%*	-	*15.0%*	-
Operating Profit	**30.5**	**-243%**	**27.7**	**-9%**	**118.9**	**329%**	**48.4**	**90.4**	**-24%**	**179.3**	**98%**
- Coal Trading	5.1	-	4.2	-18%	4.7	13%	14.0	57.3	1123%	58.7	2%
- Coal Mining	29.9	-	34.7	16%	52.4	51%	0.0	76.4	46%	193.9	154%
- Khanyisa (Estimated)	30		35		-0		-	-0		-0	
- Intibane (Estimated)	-		-		53		-	87		87	
- Elandspruit (Estimated)	-		-		-		-	-11		107	
Operating Profit Margin (%)	*4.8%*	-	*4.1%*	-	*10.4%*	-	*5.4%*	*6.2%*	-	*8.8%*	-
Net Profit (Att. Parents)	**20.6**	-147%	**19.7**	-4%	**86.7**	340%	**28.1**	**36.2**	-58%	**89.1**	146%
Net Profit Margin (%)	*3.3%*	-	*2.9%*	-	*7.6%*	-	*3.1%*	*2.5%*	-	*4.4%*	-
Issued Shares (millions)	157.9	0%	157.9	0%	184.8	17%	183.6	180.0	-3%	180.0	0%
Weighted Shares (millions)	157.9	5%	157.9	0%	170.1	8%	184.3	182.1	7%	180.0	-1%
EPS (Cont. Ops.)	13.1	-216%	12.5	-5%	51.0	308%	15.2	19.8	-61%	49.5	149%
HEPS	13.0	-150%	12.4	-5%	15.7	27%	15.7	19.8	26%	49.5	149%
HEPS (Cont. Ops.)	**13.0cps**	**-260%**	**12.4cps**	**-5%**	**15.7cps**	**27%**	**15.2cps**	**19.8cps**	**26%**	**49.5cps**	**149%**
DPS (cps)	**-**	**-**	**3cps**	**>100%**	**4cps**	**27%**	**-**	**5cps**	**32%**	**12cps**	**146%**
Assets	282	3%	289	3%	724	150%	784	714	-1%	865	21%
Return on Assets (%)	*7.3%*	-	*6.8%*	-	*12.0%*	-	*3.6%*	*5.1%*	-	*10.3%*	-
Liabilities	282	1%	289	3%	724	150%	784	714	-1%	865	21%
Equity (Parent)	157	15%	177	13%	273	54%	289	301	10%	367	22%
Return on Equity (%)	***13.1%***	**-**	***11.1%***	**-**	***31.7%***	**-**	***9.7%***	***12.0%***	**-**	***24.3%***	**-**
NAV (cps)	99.5	10%	112.4	13%	148.0	32%	157.3	167.0	13%	204.1	22%
Tangible NAV (cps)	56.1	21%	63.2	13%	87.4	38%	88.4	51.5	-41%	91.4	78%
Cash flow from operations	12	-29%	38	214%	102	164%	88	228	125%	269	18%
Cash conversion ratio (%)	*40.1%*	-	*138.8%*	-	*63.6%*	-	*104.8%*	*149.8%*	-	*88.0%*	-
Cash flow from investing	-4	-82%	-25	473%	-210	739%	-73	-210	0%	-120	-43%
Change in cash for the year	-11	-157%	1	87%	31	2013%	28	-17	-44%	58	238%
Cash	20	-36%	21	7%	52	144%	80	35	-33%	93	168%
Net cash	19	-37%	21	9%	-129	-719%	-125	-165	28%	-107	-35%
Price Earnings (x)	14.9x	-	15.6x	-	12.4x	-	12.8x	9.8x	-	3.9x	-
Price-to-Book (x)	2.0x	-	1.7x	-	1.3x	-	1.2x	1.2x	-	1.0x	-
Price-to-Tangible-Book ratio (x)	3.5x	-	3.1x	-	2.2x	-	2.2x	3.8x	-	2.1x	-
EV/EBITDA ratio (x)	11.7x	-	12.9x	-	2.2x	-	4.2x	2.3x	-	1.2x	-
Dividend Yield (%)	-	-	2%	-	2%	-	0%	3%	-	6%	-

Sources: Wescoal, Bloomberg, Blue Gem Research workings, assumptions and forecasts

H1:15 Results Highlights

- Wescoal reported its H1:15 results with the following key aspects:
  - Revenue rose 93% boosting Operational EBITDA (which excludes once-offs) to R84m (H1:14 – R49m),
  - HEPS grew by 33% to 15.2cps (H1:14 – 11.4cps), and
  - The Group also concluded a pivotal financing agreement for its new Elandspruit mine, acquired the Muhanga processing plant, added an extension to both Intibane and Khanyisa Life of Mines (LoM) and successfully integrated MacPhail into its Coal Trading segment.

Figure 1: Segmental Revenue Split, Trends and Forecasts for Wescoal



	Mar 12A	Mar 13A	Mar 14A	H1:15A	Mar 15E	Mar 16E
Coal Trading	359	359	591	601	1,052	1,073
Coal Mining	274	406	476	297	397	962

Sources: Wescoal, Blue Gem Research forecast and assumptions

- Overall, H1:15 results were more or less in line with our expectations and, although we have slightly downgraded our FY 15E HEPS expectations to 19.8cps (previously: 24.6cps), we remain optimistic regarding the prospects of this maturing coal junior as both its operations improve and its assets de-risks.
- The successful acquisition and integration of MacPhail into the Group's Coal Trading segment now makes this enlarged business the largest coal trader in South Africa. We do not believe that this dominant position's value is fully appreciated by the market and see significant (though hard to value) upside coming from this base.
- The timing and ultimate profitability of Elandspruit will still have a significant impact the Group's future. We have assumed that its Water Use License (WUL) is issued during December 2014 and mining starts in the first month of FY 16E, although this event could well happen before or after this assumed date.

Coal Mining

Table 1: Segment Key Forecasts (consolidated)

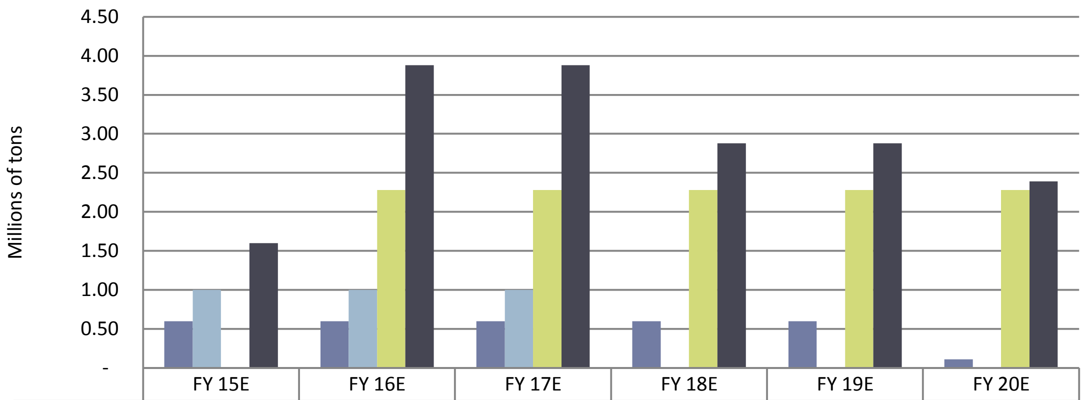
Mining Segment (Rm)	FY 11A	FY 12A	FY 13A	H1:14A	FY 14A	H1:15A	FY 15E	FY 16E	FY 17E	FY 18E
Revenue	243	274	406	262	476	297	397	962	962	714
Cost of production	278	244	283	213	388	229	312	750	750	584
Average Revenue per ton (Rand/t)*	225	243	250	292	292	315	248	248	248	248
Average cost per ton (Rand/ton)	200	207	310	-238	202	243	195	193	193	203
Operating Profit	-	30	35	28	59	38	48	122	122	50

Sources: Wescoal (various), Blue Gem Research workings, assumptions and forecasts

** This price per ton differs (i.e. is below) thermal coal export prices predominantly due to its lower-grade. Our forecast assumes a flat average spot of R229/t (previously used spot: R250/t). Based off 32% realization of RBCT's API#4 price in ZAR (historical average of 30% to 34%) at 4 November 2014. This is further blended with an assumed price of R350/t for Eskom contract coal. The split between these two coal stream is assumed to be 1:2 in favour of inland coal.*

- The Coal Mining segment performed well with 0.942mt (H1:14 – 0.895mt) being produced from a fully incorporated Intibane offsetting some soft production at Khanyisa.
- Revenue rose to R297m (H1:14 – R262m) as the Operating Margin expanded to 12.8% (H1:14 – 10.6%).
- The extension to Intibane was concluded to the period (addition 2.mt2 to 2.9mt added), taking its Life of Mine (LoM) to 2017, while the Group also concluded an extension project to Khanyisa, adding quite valuable, low-cost coal to this asset.
- The Water Use License (WUL) continues to be a bottleneck to the roll-out of Elandspruit, though we believe that the risk is not *whether* the Group will receive the WUL, but *when* it will. We have assumed the WUL is issued during December 2014 and that ramp-up to production takes a quarter, such that Elandspruit begins production during the first month of FY 16E (Figure 2). Note that previously we were forecasting a c.3 month contribution from Elandspruit in FY 15E, hence the major reason for our downgrade to our FY 15E earnings forecast.

Figure 2: Forecast Production Profile of the Group (assuming no further resource expansion)



	FY 15E	FY 16E	FY 17E	FY 18E	FY 19E	FY 20E
Khanyisa	0.60	0.60	0.60	0.60	0.60	0.11
Intibane	1.00	1.00	1.00	-	-	-
Elandspruit	-	2.28	2.28	2.28	2.28	2.28
Total	1.60	3.88	3.88	2.88	2.88	2.39

Source: Blue Gem Research forecasts – Note that management forecast volumes of c.4.0mt in FY 17E
** We have assumed that the Elandspruit Water Use License (WUL) is only received by Wescoal during December 2014 and that mining only starts in the first month of FY 16E.*

Coal Trading

Table 2: Segment Key Forecasts

Trading Segment (Rm)	FY 11A	FY 12A	FY 13A	H1:14A	FY 14A	H1:15A	FY 15E	FY 16E	FY 17E	FY 18E
Revenue	315	359	359	204	591	601	1052	1073	1095	1116
Growth in revenue (% y/y)	0.15	14%	0%	-2%	65%	195%	78%	2%	2%	2%
Operating Profit	2	5	4	3	5	14	57	59	54	49
Growth in Operating Profit (% y/y)	4410%	176%	-18%	-43%	13%	384%	1123%	2%	-8%	-9%

Sources: Wescoal (various), Blue Gem Research workings, assumptions and forecasts

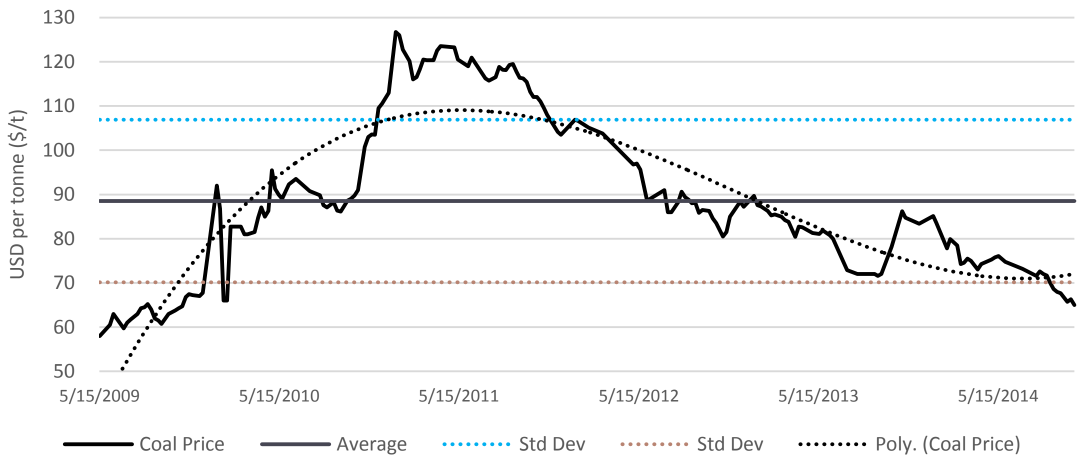
- MacPhail's integration into the Coal Trading segment was instrumental in the segment's revenue jumping to R601m (H1:14 – R204m) and its Operating Profits growing to R14m (H1:14 – R3m).
- The segment sold 0.626mt (H1:14 – 0.218mt) of coal during the period, achieving significant cost-based, logistical and purchasing synergies. Management anticipate further synergies flowing over time.
- While the market tends to focus on Wescoal's mining assets, we believe that the Coal Trading segment (and its dominance in the local market) is significantly underappreciated.
- If our fair value of the mining assets and Group overheads are taken out of Wescoal's current share price, this Coal Trading segment appears to be priced at almost nil (i.e. currently *free* in the share price).

- A continued low international spot price for coal does create the risk that local major coal miners currently exporting product turn to the inland market for revenues, dumping product within South Africa and negatively impacting margins of the local coal traders. The many long-term take-or-pay contracts entered into by these players with Transnet Freight & Rail (amongst others), though, do somewhat mitigate against this scenario.

Coal Market

- See our Initiation of Coverage for Wescoal for our long-term views regarding the local coal market.
- The key local API4 (FOB) coal price at Richards Bay Coal Terminal (RBCT) continues to ease downwards (Figure 3) as both general commodity prices ease and the Shale Gas Revolution in the States exacerbates this situation by create export surplus coal from the US into the global market.
- Despite this, the coal price remains almost a full standard deviation below the long-term average coal price and we remain bullish on this commodities local (driven by Eskom Supply Cliff) and international (driven by the Chinese Supply Cliff) future demand and global energy needs steadily growing.

Figure 3: Richards Bay Coal Terminal (RBCT) and Other Export Coal Prices



Sources: Bloomberg and Blue Gem Research workings and assumptions

- We previously used an assumed inland coal price of R250/t, which we have decided to lower to R229/t given the recent spot weakness in the international market only being partially offset by currency movements.
- Nothing substantial has occurred for us to alter our previously stated macro view of the international and local coal markets (see our Initiation of Coverage on Wescoal). We remain bullish on the long-term fundamentals of both international and inland coal markets, though note that short-term spot downside exists and possible Government interference in the South African coal market remains a risk.

Forecasts

Revenues and profitability

- Key changes to our forecasts for Wescoal are:
  - Current spot coal price is c.8% lower at R229/t (previously: R250/t).
  - We no longer expect Elandspruit tp start during H2:15 due to Governmental delays in issuing the Water Use License (WUL). We are expecting the WUL to be issued in December 2014 and mining to start at Elandspruit in March 2015 (i.e. the first month of FY 16E).

   - We expect both Intibane and Khanyisa succeed in their extension projects and have modelled around these variables.
- These, and the above noted segmental assumptions, result in the following FY 15E financial forecasts:
   - Revenue jumping by 26% to R1.5bn (FY 14: R1.1bn),
   - HEPS growing strongly to 19.8cps (FY 14: 15.7cps), and
   - A full year dividend of 5cps (FY 14: 3.8cps).

Liquidity, solvency and assets

- According to our forecasts, Wescoal appears likely to remain both solvent and liquid, helped by the Investec loan facility taking Elandspruit from peak capex into free cash flow during the duration of its loan.

Valuation and 12m TP

Valuation

Coal Mining Segment

- Our valuation methodology is unchanged (DCF) and our key assumptions are materially unchanged (other than updating the models for our latest forecast and production changes).

Table 3: Discounted Free Cash Flow (DCF) Models for Wescoal's Khanyisa, Intibane and Elandspruit Mines

Khanyisa	**FY 15E**	**FY 16E**	**FY 17E**	**FY 18E**	**FY 19E**	**FY 20E**	**FY 21E**	**FY 22E**	**FY 23E**	**FY 24E**	**FY 25E**	**FY 26E**	**FY 27E**
Revenue	186	186	186	186	186	34	-	-	-	-	-	-	-
Variable cash costs	-177	-177	-177	-177	-177	-33	-	-	-	-	-	-	-
Aggregate taxes	-1	-1	-1	-1	-1	-0	-	-	-	-	-	-	-
Capex	-6	-6	-6	-6	-6	-	-	-	-	-	-	-	-
Rehabilitation	-	-	-	-	-	-	-	-	-	-	-	-	-
Free cash flows	2	2	2	2	2	2	-	-	-	-	-	-	-
Discount factor	R0.92	R0.77	R0.64	R0.54	-	-	-	-	-	-	-	-	-
Discounted FCF	2	2	1	1	-	-	-	-	-	-	-	-	-
Net Present Value													6
Net Debt													-
Fair value													**R6m**
Fair value (per Wescoal share - cps)													**3cps**
Implied fair value per estimated resource (R/t)													*R2.06/t*

Intibane	**FY 15E**	**FY 16E**	**FY 17E**	**FY 18E**	**FY 19E**	**FY 20E**	**FY 21E**	**FY 22E**	**FY 23E**	**FY 24E**	**FY 25E**	**FY 26E**	**FY 27E**
Revenue	310	310	310	-	-	-	-	-	-	-	-	-	-
Variable cash costs	-198	-198	-198	-	-	-	-	-	-	-	-	-	-
Aggregate taxes	-26	-26	-26	-	-	-	-	-	-	-	-	-	-
Capex	-15	-15	-15	-	-	-	-	-	-	-	-	-	-
Rehabilitation	-	-	-	-	-	-	-	-	-	-	-	-	-
Free cash flows	72	72	72	-	-	-	-	-	-	-	-	-	-
Discount factor	R0.92	R0.77	R0.64	R0.54	R0.00	R0.00	R0.00	R0.00	R0.00	R0.00	R0.00	R0.00	R0.00
Discounted FCF	66	55	46	-	-	-	-	-	-	-	-	-	-
Net Present Value													167
Net Debt													-
Fair value													**R167m**
Fair value (per Wescoal share - cps)													**90cps**
Implied fair value per estimated resource (R/t)													*R98.0/t7*

Elandspruit	**FY 15E**	**FY 16E**	**FY 17E**	**FY 18E**	**FY 19E**	**FY 20E**	**FY 21E**	**FY 22E**	**FY 23E**	**FY 24E**	**FY 25E**	**FY 26E**	**FY 27E**
Revenue	-	706	706	706	706	706	706	706	706	706	706	706	706
Variable cash costs	-	-524	-524	-524	-524	-524	-524	-524	-524	-524	-524	-524	-524
Aggregate taxes	3	-33	-33	-30	-30	-30	-30	-30	-30	-30	-30	-30	-30
Capex	-121	-51	-34	-100	-34	-34	-34	-34	-34	-34	-34	-34	-34
Rehabilitation	-1	-1	-1	-1	-1	-1	-1	-1	-1	-1	-1	-1	-1
Free cash flows	-119	98	115	52	117	117	117	117	117	117	117	117	117
Discount factor	R0.92	R0.77	R0.64	R0.54	R0.45	R0.38	R0.32	R0.27	R0.22	R0.19	R0.16	R0.13	R0.11
Discounted FCF	-109	75	74	28	53	44	37	31	26	22	18	15	13
Net Present Value													329
Net Debt													-
Fair value													**R336m**
Fair value (per Wescoal share - cps)													**182cps**
Implied fair value per estimated resource (R/t)													*R8.37/t*

Sources: Wescoal, Bloomberg, Blue Gem Research assumptions, workings and calculations

- Our fair value for Khanyisa falls to R6m (previous: R14m) or c.R2.06/t (previous: R4.61/t), as this mine approaches the end of its life. The recently concluded mine extension will add value to this mine, though we have not yet modelled this in this valuation.
- Our fair value for Intibane lifts in line with its extension to R167m (previous: R105m) or R98.0/t (previous: R61.91/t). The recently concluded mine extension will add value to this mine, though we have not yet modelled this in this valuation.
- Elandspruit/Muhanga valuation remains flat at R336m (previous: R426m) or R8.37/t (previous: R10.61/t).
- Note that an 8% lower spot coal price of c.R229/t (previous: R250/t) has also been assumed, thus negatively impacting on each mines' respective DCF valuation. Despite this, we have assumed that two thirds of coal volumes are sold on a contractual basis to Eskom, which has a fixed price and thus lowers the exposure to spot coal price changes.

Coal Trading Valuation

- Now that MacPhail is integrated into Wescoal's Coal Trading segment and synergies are starting to flow, we have adapted our relative valuation of the business to a Price-to-Sales model (Table 4).
- The P/S of 0.1x is based off the MacPhail acquisition's implied ratios.

Table 4: Relative Valuation of Wescoal's Coal Trading Segment

(1) Sales (annualised)*	R1bn
(2) Price-to-Sales Ratio (x)	*0.1x*
(1) x (2) = (3) Fair Value	R147m
Fair value of segment	**R147m**
Fair value of segment (cps)	**79cps**
Implied (fully year) Price Earnings (x)	*3.6x*

Sources: Wescoal, Blue Gem Research workings and assumptions
** Obtained from the implied Price-to-Sales Ratio implicit in the MacPhail transaction of c.0.1x.*

- We keep the Coal Trading segment's fair value relative flat at to R147m (previous: R169m) or 79cps (previous: 92cps), putting this segment on a Price earnings (PE) of 3.6x.
- The extremely low multiple on this segment's valuation implies that our valuation may risk upside.

Sum-of-the-Parts (SOTP)

- Adding the fair value of the Coal Mining segment to the Coal Trading segment, taking out the net cash and taking out a 10% discount (previously: 20% discount) due to assumed Group overheads, we arrive at what we believe is a good estimate of Wescoal's fair value (Table 5):
    - The fair value of 254cps (previous: 240cps) is 5% higher than our previous fair value as projects de-risk, the MacPhail acquisition beds down and the Group steadily approaches maturity.
    - The fair value implies a PE of 13.0x. This PE is not very illustrative, though, as is currently adding to our SOTP, but not yet (fully) contributing to the Group's profits yet.
- Based off this fair value, we keep our 12m TP flat at 294cps (previous 12m TP: 301cps):
    - This implies a 51% return on an Exit PE of 10.0x, though we note that Elandspruit will not have contributed a full year's earnings yet on the denominator of this Exit PE.

Table 5: Sum-of-the-Parts (SOTP)

R m	Fair Value	%	12m TP	%
Mining segment	**509**	**109%**	**608**	**113%**
- Khanyisa	6	1%	8	1%
- Intibane	167	36%	199	37%
- Elandspruit	336	72%	401	74%
Trading segment	**147**	**31%**	**175**	**32%**
Group net cash	-124	-27%	-165	-
Group overheads (10%)	-66	-14%	-78	-15%
Sum of the Parts (SOTP)	**R467m**	**100%**	**R539m**	**100%**
Issued shares (millions)	184m	-	184m	-
Valuation per share (cps)	**254cps**	**-**	**294cps**	**-**
Implied Price Earnings Ratio (x)	*13.0x*	-	*10.0x*	-
Share price's implied discount to fair value (%)	*30%*	-	-	-
Implied Return (%)	-	-	*51%*	-

Sources: Bloomberg and Blue Gem Research workings and assumptions

- As the Group is a junior miner, we draw your attention to the key identifiable risks of the valuation in the section below.

Valuation, 12m TP and Implied Return

- We peg Wescoal's fair value at 254cps (previous fair value: 240cps) on an implied PE of 13.0x.
- Rolling this forward, we keep our 12m TP flat at 294cps (previous 12m TP: 301cps) for Wescoal on an Exit PE of 10.0x, implying a 51% return.

Key risks to our valuation

- The major key risks to our above valuation methodology are:
  - "Above-ground" and "below-ground" risk implicit in junior mining activities and operations (e.g. resource risk, labour risk, fuel price, stripping ratio variability).
  - Changes in the spot coal price (market-related and/or any regulatory market intervention) and the various spot prices (for example, sold to Eskom) that Wescoal realises its mined product at.
  - Related timing, quantum and Life of Mines (LoM) of Intibane, Khanyisa and Elandspruit (including the event and timing of the mine's Water Use License).
  - Eskom-related order volumes of coal in the local economy.
  - Underlying inflation of the Group's cost base.
  - Significant interest rate movements.
  - Significant Rand movements.
  - Overall equity market's performance (i.e. beta).

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Confused by this report? View our methodology, FAQ and this disclaimer.

All dates and market ratios pegged to close/intra-day as at 17 November 2014.

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