

## TerraCom Limited

Margins rising on pricing, volumes and management control

### Headwinds saw a management refocus – now tailwinds

TER is now generating positive EBITDA margins as it emerges from a difficult period that severely impacted their newly acquired South African coal operations. Its largest customer, power generator Eskom experienced maintenance issues across its generation portfolio resulting in reduced coal purchasing. Weather and depletion of Kangala mine also impacted unit costs. All these issues were compounded by the severe Covid-19 conditions that prevented much closer management control of operations.

These headwinds and low export coal prices in the DecH'20 saw TER generate a group EBITDA loss of A\$27.5m and an equity NPAT loss of \$23.3m. *This was below our Dec'20 report's expectation of a loss of \$11.6m for DecH20.*

However, remedial action has been undertaken and aided by a lift in export coal pricing, 4-months to April 2021 EBITDA for South Africa was a positive \$9.9m. Blair Athol generated \$15.2m EBITDA in the same 4-month period.

TER's has made leadership changes in South Africa with CEO Mr Shammy Luvhengo resigning and COO Mr Tony Weber being replaced by Mr Zirk Van Der Bank. He has strong record of production and margins improvement in multi-mine management. Danny McCarthy has taken on the Managing Director role after generating solid improvements at the Blair Athol mine in Qld and is currently overseeing changes in South Africa. At head office – industry stalwart Craig Ransley has moved to Executive Chairman on Wal King's retirement.

### Proactive steps for enhancing margins

In South Africa – the closer attention to operations and the resumption of near-normal coal supply to Eskom is driving the return to profitability. Importantly, management have invested in coal processing facilities and logistics for achieving two things. *First*, the ability to increase the proportion of coal saleable into higher priced export markets from its NCC and NBC mines. *Second*, it has begun to take more control of marketing and achieved its first managed export shipment during Mar'21. Both these initiatives enhance revenue generation.

### Blair Athol's solid and strengthening performance

Pricing conditions in the DecH20 were difficult at just A\$59/t at Blair Athol. TER did achieve productivity gains shaving ~A\$15/tonne of costs to ~\$60/t since it assumed mining owner operatorship early in FY21. Export prices rose in MarQ21 to A\$77/t to generate a ~A\$16/t margin. Target marketing of Blair Athol's moderate energy and low impurities to sponge iron producers may see its current 20+% discount to Newcastle marker coal decrease. We see a strong JunQ21 period for pricing and rising margins across its Australian and South African operations. The start-up of the new Eloff domestic coal mine next to closing Kangala mine, during DecH21 adds a volume growth tailwind.

### Earnings Revision - upside on current coal price momentum

Export coal pricing has improved, with partial offset from the firming AUD/USD & ZAR/USD. We look for confirmation on the sustainability and extent of margin improvement in South Africa. The difficult DecH20 saw debt rise. TER is yet to re-finance a US\$153m loan due 30Jun'21 with a possible 9 to 10% pa interest cost. Combing these factors, we reduce our target price from \$0.26/share to \$0.24/share, *though each sustained 1% lift in coal prices raises valuation 6%.*

### Key risks to view

Risks include coal price falls and stronger Australian dollar and South African Rand to the US dollar. A resumption of Eskom maintenance, strikes, severe weather, marketing and refinancing issues can see lower output/higher costs. A delay in Eloff mine commissioning would reduce earnings and valuation. An inability to re-finance its Eurobond loan would present capital structure risks.

## ASX Code: TER

Lawrence Grech

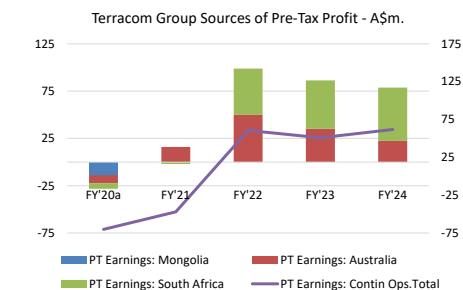
[enquiries@corporateconnect.com.au](mailto:enquiries@corporateconnect.com.au)

### Company Data

<b>ASX price</b>	<b>\$0.125</b>
<b>Target price (previously \$0.26)</b>	<b>\$0.24/share</b>
Market capitalisation	\$94m
Shares on issue	753.6m
12-month price range	\$0.08 – \$0.19
ASX av daily turnover (90 day)	1.09 m.shares

<sup>1</sup>Cash = Latest 4C balance + Raisings + Tax + 4C Expected outflows

### Earnings Outlook <sup>1,2</sup>



<sup>1</sup> Continuing operation excludes Mongolia.

<sup>2</sup> Enterprise value = Mkt capitalisation plus debt & ST liabilities minus cash

### NPV-based Valuation after risking <sup>1,2</sup>

Asset or Liability	A\$mil.	A\$/share
Blair Athol	184.8	0.24
South African Mines	226.4	0.30
Development assets	40.8	0.05
Net Fees, Corp Costs	-29.5	-0.04
Net ST Liabilities	-31.7	-0.04
Net Debt	-206.9	-0.27
<b>Total</b>	<b>183.7</b>	<b>0.24</b>

<sup>1</sup> Valuation as @ 31 Dec 2020

<sup>2</sup> Aust assets discount rate 10.9% pa; 16.4% p.a. for South African assets

### Price/Volume Chart – 1-year



Volume (Shrs. in K), AUD

Source: FactSet

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### Corporate Profile

TerraCom Ltd (*TER*) is an ASX-listed resource developer and export thermal coal producer at the Queensland industry veteran mine, Blair Athol. In June 2020, *TER* completed the 100% acquisition of ASX-listed and South African thermal coal producer, Universal Coal (UNV). This was for an A\$118m outlay following its per UNV share bid of \$0.10/share in cash and 0.6026 shares in *TER* stock.

*TER*'s acquisition was strategically transformative in diversifying production to five operating mines spanning two countries and with a rough 55%/45% mix of domestic and export customers. Management is also considering an acquisition in Guinea's bauxite industry. Anglo African Minerals PLC (AAM) – owner of three hi-quality bauxite resources in Guinea, has been the subject of *TER*'s due diligence. If *TER*'s involvement proceeds, it could accelerate development in around 13 months of the Forward Africa Resources project. This has delineated a 76mt Bauxite Resource.

### Recent challenging conditions – now turning positive

#### Domestic Coal – volume pressures now abating

*TER*'s South African acquisition however coincided with demand from escalating maintenance problems of their major customer, power generator Eskom. Covid-19's severe impact in South Africa presented challenges to Eskom's maintenance and operations, industry's power demand and ability for *TER* to closely manage and integrate its new acquisition. Labour strikes and high rainfall also contributed to both erratic domestic power demand and as well as mine site productivity issues.

The situation in South Africa is improving as its industrial and mining sectors rising on higher commodities pricing and better management of both Covid-19 and labour relations. This added to power demand that is mostly being met by better plant performance by Eskom. Eskom has essentially reached its contracted offtake from *TER*'s mines as of April 2021.

We are hopeful that *TER* will soon conclude an agreement with Eskom for supply domestic coal and finalisation of all permits to begin mining at its Elooff development. When we initiated research on *TER*, we expected the start-up of the Elooff mine would have already taken place. Elooff is likely to be a source of both volume and margin growth. Delay in the start-up and slower ramp-up of volumes has been one of the key operational factors behind our reduction in estimated value for *TER*.

Eloff, 49%-owned by *TER*, is a low-strip domestic coal resource in a licence area contiguous with the 70.5% owned Kangala operation. The start-up of Elooff can leverage off the infrastructure and workings of the Kangala mine. Elooff will have lower costs than incurred by Kangala over the last year as it exhausted readily mineable coal with last extraction in Jan 2021. We anticipate the start-up of Elooff can be early in the FY22, which after ramp-up can significantly boost the South African operations EBITDA.

#### Export Coal – price slump switches to above average pricing

*TER*'s South African mine output includes ~20% of export quality thermal coal, sourced from its New Clydesdale Colliery and North Block Complex mines. Coal pricing turned negative during DecH20 which resulted in lower-than-expected revenues.

During DecH20 prices for *TER*'s predominant mid-calorific 5,500kcal export coal averaged around US\$48/t or 10% lower YoY. See table right.

A smaller portion of 6,000kcal coal is also sold by *TER*'s operations. These prices were more resilient and only fell 5% YoY to ~US\$64/t in DecH20. This occurred as non-Australian premium coals were bid up as China stifled imports of Australian coals.

Blair Athol's 5,500 kcal export thermal coal margin was adversely impacted during DecH20 as the benchmark Newcastle coal price fell 9% YoY. *TER* reported its Blair Athol coal realisations for DecH20 were only A\$59/t. During that period, *TER*'s management was transitioning to a ~A\$60/t cost level saving A\$15/t. However, higher costs early in the period and sale of hi-cost inventories lead to a \$3.3m EBITDA reported loss in DecH20.

2021 Year-to-date thermal coal prices have staged a remarkable recovery. While non-Australian coals rose quickly on China's demand, Australian producers have found other markets and its price discount to South African coals is shrinking. Even the Australian coals former 70% discount to China's domestic has shrunk to ~10%. The continued rise of export prices underpins *TER* reclaiming positive and steeply rising operation margins in both South African and Australian coal operations.

Spot prices are now trading well above the average of the commodity coal price since 2012. We expect a modest price dip post the Northern summer, still buoyed by economic activity strength due to pent-up demand of Covid-19 and massive global fiscal stimulus.

	Newcastle Coal US\$ 6000kcal/kg	Newcastle Thermal Coal: A\$ US\$/t	Richards Bay coal 6000kcal/kg	Richards Bay coal 5500kcal/kg US\$/t
JunH19	85	120	77	58
DecH19	65	95	67	53
JunH20	62	94	67	50
DecH20	59	82	64	47
YTD-21	92	118	94	71
Spot	108	138	105	85
Spot:Av	36%	40%	36%	33%
Mean 2012-21	79	98	77	64

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### Export thermal coal prices – a remarkable recovery

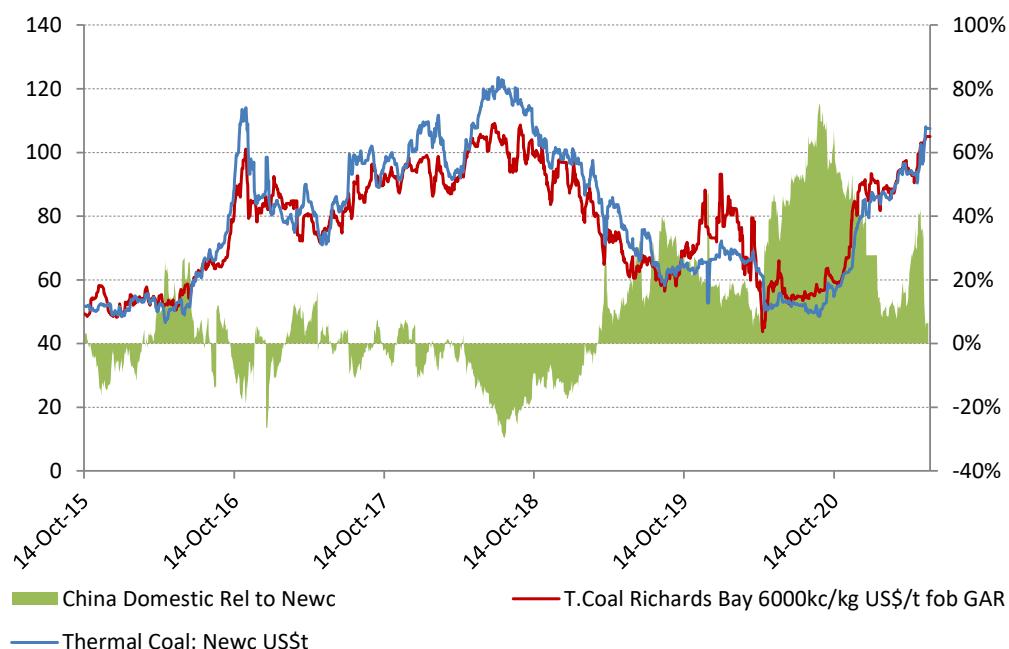
The 2020 year saw a combination of disruptions to industry demand for power from Covid-19 and China's stepped-up trade restrictions on Australian coal. Internationally traded thermal coal prices in US dollars fell to lows not seen since 2015. Newcastle benchmark thermal coal spent most of the year at a discount to Richards Bay 6,000 kcal/kg coals as Australian coals tried to find alternative markets than China. This hurt local producers, but the pain has dissipated with Newcastle prices nearing 2018 highs.

The key driver being a strong bounce back in China's economy and surge of demand globally funded by consumers pent-up demand and fiscal expansion.

Ironically – the biggest winners were coal arbitrageurs and the biggest losers in value terms were Chinese power producers and customers. China's local thermal coal premiums were driven to as much as 60% over Australian thermal coals – and this counted on hundreds of millions of tonnes of production. *It also had negative pollution outcomes.*

China's domestic coal price premium to Australian coal has retreated as China is tapping on the policy brakes to prevent an input-price inflation; threatened anti-speculation policies and potentially may relax some import restrictions.

Source: FactSet



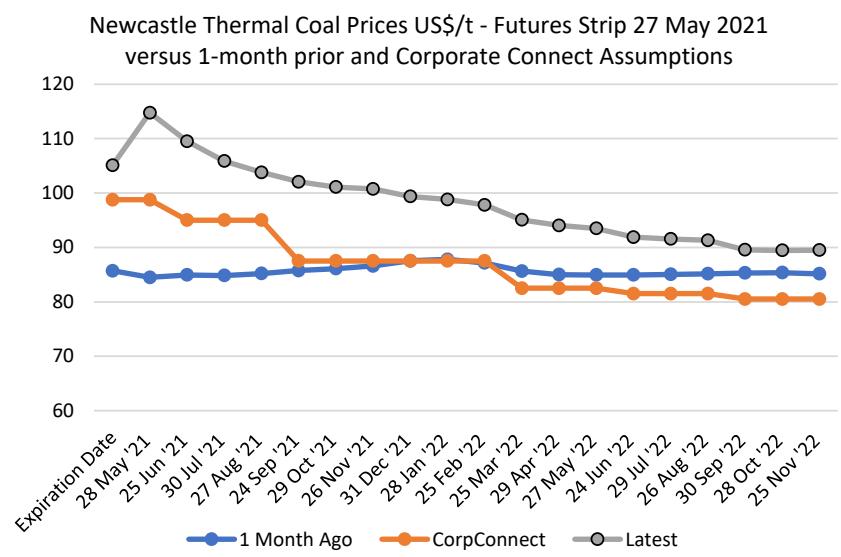
### Export thermal coal prices – futures indicating ongoing price strength.

In recent weeks we have noted the continued rise of thermal coal prices and amended our shorter-term forecasts.

The chart on the right – the **grey line** is recent futures strip – month-by-month to end of 2022 in US\$/t for 6,000 kcal/kg grade Newcastle Thermal Coal. This has risen across all months when compared to the **blue line**, that is the same contract, priced one month ago.

Our own forecast Newcastle Benchmark Thermal Coal forecast is shown as the orange line. We acknowledge recent strength in coal markets particularly over the next 5-months. We have conservatively priced our own estimates below present futures price spectrum.

We believe that some pull-back in coal pricing is likely as supply restrictions abate, but note that TER is leveraged to export coal prices to the extent of a 1% sustained coal price increase generates a 6% or \$0.016/share increase in our risked-NPV valuation of TER. [See Valuation Sensitivity section below.](#)



We believe that some pull-back in coal pricing is likely as supply restrictions abate, but note that TER is leveraged to export coal prices to the extent of a 1% sustained coal price increase generates a 6% or \$0.016/share increase in our risked-NPV valuation of TER. [See Valuation Sensitivity section below.](#)

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### We priced a peak in coal prices, but sustained pricing has big upside potential for our valuation

Our view is that present strength in export coal prices is likely to consolidate for a couple of quarters; and then retreat gradually toward longer term averages by FY2024. See table on right.

We see more coal supply availability and less supply disruptions due to Australia's recent wet conditions. In time, Covid-19 disruptions in coal mines spanning South Africa, Russia, Colombia and India will also diminish.

Rising power demand may be met by added supply of fuels like LNG and renewables, but this takes time.

However, coal markets are presently seeing more protracted shortages than our present view. In the sensitivity table below we outline the NPV impact of a **sustained 15% rise above the above Base Case doubles our NPV**.

#### Sensitivity table & chart

On the table right, we set out Base Case inputs and the sensitivities to our risk-adjusted NPV-based valuation for TER, and chart these below with the blue line showing NPV per share.

The chart's mauve bars show percentage change from Base Case impact for a discreet change in parameter e.g., a sustained 5% coal price change led to a 32% increase in NPV.

The orange bars compare the relative importance of each parameter for each 1% *sustained* change in a single parameter. For example, the AUDUSD and coal prices have a 6% value change for a 1% move from our Base Case valuation of \$0.24/share. But the Rand only has 2% value change for a 1% move in the ZARUSD.

The South African Rand/US dollar exchange rate has less sensitivity to TER as ~40% of TER's total revenues and most of its South African costs are denominated in Rand.

#### Mixed sensitivities of coal price/AUDUSD

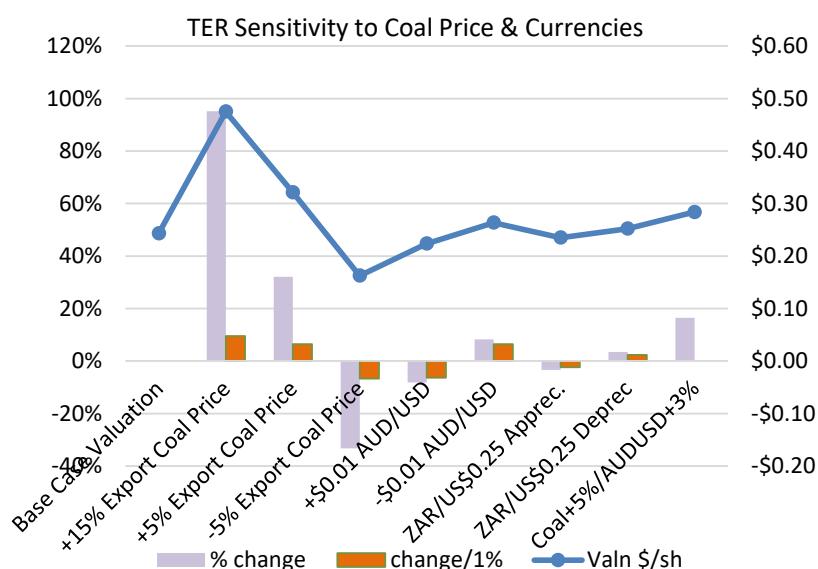
Significant coal price rises are sometimes driven by macroeconomic events and often accompanied by a rise in the AUD/USD. Statistically, a coal price rise could outpace offsetting AUDUSD rate rises by a factor of 1.6x. This is due positive correlation and the coal price Standard Deviation of ~24% versus the AUDUSD smaller Standard Deviation of 15%.

For example, we measure the impact of a sustained 5% coal price rise and a 3.1% rise in the AUDUSD as a \$0.28/share valuation or a 17% increase in our Base Case risked valuation.

#### PRICE ASSUMPTIONS

Y/E 30 June	FY'20a	FY'21	FY'22	FY'23	FY'24
Australian \$/USD \$	A\$/US\$	0.671	0.748	0.775	0.775
SthAf.Rand/USD \$	ZAR\$/US\$	15.66	15.41	14.66	15.55
SthAf.Rand/AUD \$ Hedged	ZAR\$/AU\$	10.50	11.51	11.36	12.05
<b>Coal price in US\$/t unless stated</b>					
Thermal Coal - Newcastle export		63.28	76.08	88.13	80.13
Th.Coal - Blair At. - Standard		56.89	57.06	72.86	67.65
Blair Athol Disc to Newc %		-10%	-25%	-17%	-16%
T.Coal Richards Bay 6000kc/kg US\$/t fc		67.11	79.68	89.69	81.51
Av. Export Price - Sth Af.		57.47	63.71	75.38	68.71
Export Disc to Richards Bay 6000		-14%	-20%	-16%	-16%
Av. Domestic Price Sth Af.	ZAR/tonne	627	529	546	572
Av. Domestic Price Sth Af.	US\$/tonne	40.06	34.32	37.26	36.79
					36.28

Inputs to Base Case	Newcastle coal US\$/t	AUDUSD	ZARUSD
Real FY'2024 Inputs	\$75.69	0.775	15.5
<b>Sensitivity of Base Case</b>	<b>Real \$ Input</b>	<b>Valn \$/sh</b>	<b>% change</b>
<b>Base Case Valuation</b>			
+15% Export Coal Price	\$87.0	\$0.48	95%
+5% Export Coal Price	\$79.5	\$0.32	32%
-5% Export Coal Price	\$71.9	\$0.16	-33%
+\$0.01 AUD/USD	\$0.785	\$0.22	-8%
-\$0.01 AUD/USD	\$0.765	\$0.26	8%
ZAR/US\$0.25 Apprec.	\$15.3	\$0.24	-3%
ZAR/US\$0.25 Deprec	\$15.8	\$0.25	4%
Coal+5%/AUDUSD+3%	\$0.28	17%	



# COMPANY REVIEW

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### After the 2020 negative revisions, a promising profit outlook and improving balance sheet

See table right, for key revisions over last 6-months

Coal sales volumes are down around 7% largely on a lower expected profile of South African domestic coal sales. This is due to the later than expected start-up for the Eloff operation and longer ramp-up of the Ubuntu mine sales.

Stronger assumed AUD and Rand compounded the negative revenue revisions. Remedial measures to improve margins saw containment of EBITDA revisions in FY22 fall far less than sales.

FY22 NPAT profit rises as unit depreciation expensed falls and higher coal prices boost bottom line. However, FY23 earnings is forecast to retreat as coal prices are expected to peak, *but at still be attractive PE's of 5x to 6x at our target price of \$0.24/share.*

TER's earnings in the next year have become more sensitive to all factors as its debt leverage has risen. *However, the recent coal price surge will enable a quickened pace of net debt reduction, with benefits to compound by FY23 onward.*

#### Volume growth – now a positive driver

Our group managed coal sales are in line with TER's projected 9.3mt guidance for FY21. This is down on FY20 level of 9.9mt of equivalent ownership of TER's continuing operations.

Output growth resumes in FY22 with higher productivities and start-up of Eloff mine generates higher domestic coal sales and an added push for more exports from South African operations.

Blair Athol sales volumes are forecast to slightly slip as excess inventory is assumed to be sold in the JunH21. *This output forecast may prove conservative if higher coal pricing remains intact. Higher margins enable TER to mine extra tonnes with higher-strip ratios and/or extra shifts worked.*

#### Unit revenues & costs positive trend

Despite the better export pricing outlook for FY22 the average prices received at group level falls 17%. In part is due to higher assumed AUD and ZAR currencies levels versus the USD. However, the main factor is the higher proportion of low-priced domestic coal sales. Of overall sales, domestic coal is forecast to rise to 54% from 46% of total sales volumes. In parallel, unit costs per tonne also fall enabling a trebling of EBITDA per tonne to ~A\$10.30/t in FY22.

Rising free cash flow in FY22 are key factors to reduce unit finance costs.

... though extra debt leverage magnifies profit volatility

Jun Yr	Current Forecasts				Change since Dec20 Report		
	FY'20a	FY'21	FY'22	FY'23	Δ FY'21	Δ FY'22	Δ FY'23
Coal sales	3,909	5,980	6,561	6,855	-6%	-7%	-7%
Sales Revenu	316.9	463.7	455.8	451.1	-18%	-32%	-37%
EBITDA	5.4	27.9	113.8	102.9	-52%	-10%	-32%
NPAT continu	(25.2)	(42.1)	43.5	36.8		63%	1%
EPS	(4.5)	(5.6)	5.8	4.9		63%	0%
PE	(2.8)	(2.2)	2.2	2.6			
Div. Yield	8%	0%	0%	0%			
EV/EBITDA	+>100.0	15.9	3.4	3.3			
Price Target		\$0.24			-9%		
NetDebt/NDebt+Equity		1.1	0.9	0.7	33%	24%	73%
Australian \$/USD \$		0.75	0.78	0.78	0.01	0.03	0.03
SthAf.Rand/USD \$		15.41	14.66	15.55	(0.65)	(1.68)	(1.51)
Blair Athol coal US\$/t		57.06	72.86	67.65	2.95	14.09	7.26
SA Exports US\$/t		63.71	75.38	68.71	5.46	13.50	5.22

Source: CorporateConnect estimates

#### Production, Sales and Unit Earnings per tonne analysis

Y/E 30 June	'000t.	FY'20a	FY'21	FY'22	FY'23
<b>Group ROM -Managed</b>		6,340	13,125	16,095	16,854
Group ROM - Blair Athol+Mongolia		3,369	2,635	2,829	2,836
Group ROM - Sth Africa		11,494	10,490	13,266	14,018
ROM - Blair Athol		3,052	2,635	2,829	2,836
<b>Group Coal Sales -Managed</b>		4,765	9,291	11,074	11,624
<b>Equity ROM '000t.</b>		4,978	8,022	9,328	9,703
Equity Exports - Mongolia		502	0	0	0
Equity Exports - Australia		2,589	2,411	2,228	2,277
Equity Exports - Sth Africa		448	754	786	850
Equity Domestic - Sth Africa		3,562	2,757	3,547	3,728
Equity Coal Sales '000t		3,909	5,980	6,561	6,855
Domestic % of Equity sales		45%	46%	54%	54%
Y/E 30 June	P&L/sales tonne	FY'20a	FY'21	FY'22	FY'23
Av. Price Received A\$/t		66.5	49.9	41.2	38.8
Cost of Goods Sold A\$/t		-62.2	-42.8	-28.2	-27.5
Gross Profit A\$/t		4.3	7.1	12.9	11.3
Operating & Admin		-5.5	-4.1	-2.6	-2.6
Other Income & associates		2.3	0.0	0.0	0.1
EBITDA A\$/t		1.1	3.0	10.3	8.9
Deprecn & Explorn w/off		-5.3	-2.9	-2.3	-2.3
EBIT - operations A\$/t		-4.2	0.1	7.9	6.6
Net Interest & FX A\$/t		-5.6	-5.4	-2.5	-2.2
Pre-Tax Profit A\$/t		-9.8	-5.3	5.5	4.4
Tax & other items		-19.9	0.8	-1.5	-1.2
NPAT A\$/t		-29.7	-4.5	3.9	3.2

Source: TER announcements, CorporateConnect estimates

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### Valuation and price target - \$0.24/share

TerraCom Ltd	\$0.125	ROM Proven	Confidence	Risked	Risked	Reserves	Unrisked	Unrisked	Reserves
Diluted No. sh.	Ownership	Reserves	Factor	Valuation	Valuation	Valuation	Valuation	Valuation	Valuation
754.6	%	Net mil.t.	%	A\$m.	A\$/sh	A\$/t.	A\$m.	A\$/sh	A\$/t.
Blair Athol	100.0%	9	90%	184.8	0.24	24.53	205.3	0.27	27.25
Kangala/Eloff	49.0%	25	83%	95.0	0.13	3.54	115.2	0.15	4.29
New Clydesdale Co	49.0%	17	90%	18.2	0.02	1.19	20.2	0.03	1.33
North Block Compl	49.0%	21	90%	100.2	0.13	4.86	111.3	0.15	5.40
Ubuntu Colliery	48.9%	5	90%	13.0	0.02	2.88	14.4	0.02	3.20
Manage't Fees	100.0%		87%	8.8	0.01		10.1	0.01	
Projects Valuation		77	88%	420.0	0.56	5.82	476.6	0.63	6.35
Net Debt est. @	DecH'21		100%	-206.9	-0.27	-2.91	-206.9	-0.27	-2.91
Net ST Liabilities			100%	-31.7	-0.04	-0.53	-31.7	-0.04	-0.53
Other incl. Corporate Cost			100%	-38.4	-0.05	-0.50	-38.4	-0.05	
Total Projects & Financials	Net Resources			142.9	0.19		199.5	0.26	
Australia Mine Extension	53	23%	17.8	0.02	0.34	78.9	0.10	1.50	
Sth Afric. Mine Extension	436	23%	16.3	0.02	0.04	72.7	0.10	0.17	
Australian Explorn	1,850	10%	4.1	0.01	0.00	40.6	0.05	0.02	
Sth African Explorn	675	23%	2.6	0.00	0.00	11.6	0.02	0.02	
Guinean Bauxite Minerals			0.0	0.00		0.0	0.00		
Total Valuation	3,014	46%	183.7	0.243	0.06	403.4	0.53	0.12	

Source: CorporateConnect Estimates

After incorporating our changes to volumes, pricing, unit cost and rolled forward our valuation date to Dec2021, our post-risk NPV-based valuation of \$0.26/share assessed in Dec'20 has reduced to \$0.24/share. Key changes reflect later start-up of Eloff and lower sales profile going forward, higher starting net debt position due to cashflow losses during DecH20. We have reduced the risked values of exploration by 41% or \$0.038/share as rising costs of carbon regulation may stymie future developments.

We see upside in this valuation should coal pricing and mine production remain firmer than our moderated expectations.

### Some investment catalysts in coming months

- A necessary and successful refinancing in coming months with the listing on the ASX of a ~A\$220m debt security or other new line of credit. While we had hoped the cost would be ~BBSW+8%pa coupon issue, higher cost debt may be in prospect.
- Jun Half 2021 reports that that Eskom's extended maintenance period shutdowns has drawn to a close and signal higher sustained coal offtakes. Also, that initiatives to improve coal pricing at Blair Athol and SA coal exports have borne fruit.
- Announcement of a start date for the new Eloff mine. Eloff is a low-cost extension of the depleted Kangala mine. Eloff has strong resource position and may also secure an expanded Eskom coal contract in later periods.
- The ~A\$50m upgrade of wash facilities and loading capacity at NBC and NCC operations may produce higher volumes of export coals than our forecasts.
- An acquisition of Anglo-African Minerals PLC, with prospect that a bauxite project may proceed in 13-months, can convert TER into a more diversified bulk commodity producer with potential positive cost of capital and share market rating benefits.

### Risks of investment – refi the key item in the short term

The key risk for TER is the successful refinancing of its ~US\$153m (~A\$200m) Eurobond facility that matures 30 June 2021.

TER's management has stated that the structure and terms of a suitable refinance package with two new parties were in advanced negotiation stage. The terms may incorporate coal pre-payment and term loan of up to 5 to 7 years at a cost below 10%. We note that failure to secure this funding may precipitate significant change in TER's capital structure which would present risk to equity holders.

Other risks include falls in coal pricing, rises in ZAR & AUD exchange rate to the USD, and offtake shortfalls from Eskom. Operational issues arising from labour disputes, adverse weather and extension of Covid-19 pandemic conditions can also impact negatively upon sales volume and earnings margins.

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### TerraCom – Revised Forecasts

**PROFIT & LOSS (A\$m)**

Y/E 30 June	FY'20a	DecH'20	JunH'21	FY'21	FY'22	FY'23
<b>Sales Revenue</b>	<b>316.9</b>	<b>245.6</b>	<b>218.1</b>	<b>463.7</b>	<b>455.8</b>	<b>451.1</b>
Cost of Goods Sold	-296.2	-248.7	-149.2	-397.9	-312.6	-319.4
<b>Gross Operating Profit</b>	<b>20.7</b>	<b>-3.1</b>	<b>68.9</b>	<b>65.8</b>	<b>143.1</b>	<b>131.8</b>
Operating & Admin	-26.3	-17.8	-20.1	-37.8	-29.3	-29.7
Other Income & associates	11.0	0.0	0.0	0.0	0.0	0.8
<b>EBITDA</b>	<b>5.4</b>	<b>-20.9</b>	<b>48.8</b>	<b>27.9</b>	<b>113.8</b>	<b>102.9</b>
Exploration w/off	-0.9	0.0	0.0	0.0	-0.4	-0.1
Deprecn & Amortn	-24.5	-15.5	-11.8	-27.4	-25.5	-26.3
<b>EBIT - operations</b>	<b>-20.0</b>	<b>-36.4</b>	<b>37.0</b>	<b>0.6</b>	<b>88.0</b>	<b>76.5</b>
Net Interest Expense	-32.8	-28.4	-19.3	-47.7	-27.5	-25.7
FX & Other W/off	6.2	-2.4	0.0	-2.4	0.0	0.0
<b>Pre-Tax Profits</b>	<b>-46.5</b>	<b>-67.3</b>	<b>17.7</b>	<b>-49.6</b>	<b>60.5</b>	<b>50.8</b>
Tax	15.5	2.0	-5.2	-3.2	-17.5	-14.5
Minorities	-5.8	-10.0	-0.7	-10.6	-0.5	-0.5
Discontinued & other	-116.0	0.0	0.0	0.0	0.0	0.0
<b>NPAT TER s/holders pre-Compreh</b>	<b>-141.3</b>	<b>-55.3</b>	<b>13.2</b>	<b>-42.1</b>	<b>43.5</b>	<b>36.8</b>
Reported Profit TER sh/holders	-137.9	-23.3	13.1	-10.1	44.0	37.1
<b>Group Profit</b>	<b>-150.5</b>	<b>-33.2</b>	<b>12.5</b>	<b>-20.8</b>	<b>43.4</b>	<b>36.6</b>

**BALANCE SHEET (A\$m)**

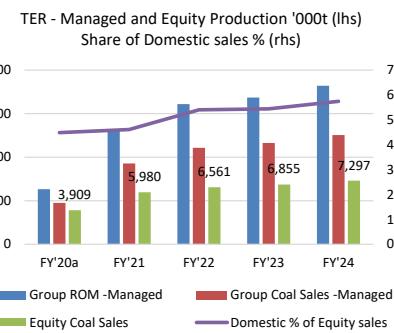
Y/E 30 June	FY'20a	DecH'20	JunH'21	FY'21	FY'22	FY'23
<b>Current Assets</b>	<b>88.3</b>	<b>18.1</b>	<b>57.0</b>	<b>57.0</b>	<b>107.4</b>	<b>118.8</b>
Cash and Liquids	10.1	4.1	24.7	24.7	60.4	68.6
<b>Non-Current Assets</b>	<b>542.0</b>	<b>332.6</b>	<b>326.9</b>	<b>326.9</b>	<b>312.7</b>	<b>298.6</b>
<b>Current Liabilities</b>	<b>331.2</b>	<b>280.8</b>	<b>93.8</b>	<b>93.8</b>	<b>72.2</b>	<b>62.1</b>
Borrowings	219.8	212.4	21.2	21.2	2.1	2.1
Creditors, Leases & Finan Liab.	110.1	66.7	65.9	65.9	60.7	51.3
Provisions & Other	1.4	1.7	6.6	6.6	9.4	8.6
<b>Non-Current Liabilities</b>	<b>235.7</b>	<b>106.0</b>	<b>313.2</b>	<b>313.2</b>	<b>327.5</b>	<b>298.4</b>
Borrowings	39.6	30.8	238.0	238.0	252.3	223.2
Creditors, Leases & Finan Liab.	7.8	3.1	3.1	3.1	3.1	3.1
Provisions & Other	188.4	72.1	72.1	72.1	72.1	72.1
<b>GROUP EQUITY</b>	<b>63.3</b>	<b>-36.0</b>	<b>-23.0</b>	<b>-23.0</b>	<b>20.4</b>	<b>57.0</b>
Minority Interest	74.9	1.3	0.6	0.6	0.1	-0.4
<b>SHAREHOLDERS EQUITY</b>	<b>-11.6</b>	<b>-37.3</b>	<b>-23.6</b>	<b>-23.6</b>	<b>20.3</b>	<b>57.4</b>

**CASHFLOW STATEMENT (A\$m)**

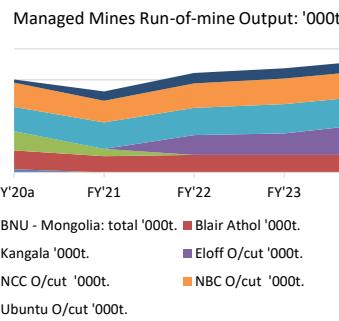
Y/E 30 June	FY'20a	DecH'20	JunH'21	FY'21	FY'22	FY'23
<b>Cash Flows From Operating Activities</b>	<b>2.8</b>	<b>-32.9</b>	<b>12.0</b>	<b>-20.9</b>	<b>55.8</b>	<b>53.2</b>
Receipts from Customers	409.7	178.4	218.1	396.5	455.8	451.1
Payments to Suppliers	-401.9	-199.8	-169.2	-369.1	-341.9	-349.0
Net Interest	-24.4	-11.4	-19.3	-30.8	-27.5	-25.7
<b>Cash Flows From Investing Activities</b>	<b>-44.5</b>	<b>-6.3</b>	<b>-7.2</b>	<b>-13.5</b>	<b>-15.2</b>	<b>-16.1</b>
Acq. of Property & Equip.	-15.4	-5.1	-6.9	-12.0	-15.0	-15.9
Exploration Expenditure	-0.8	0.0	-0.3	-0.3	-0.2	-0.2
Business acquisitions & Other	-28.2	-1.2	0.0	-1.2	0.0	0.0
<b>Cash Flows From Financing Activities</b>	<b>-7.4</b>	<b>33.1</b>	<b>15.8</b>	<b>48.9</b>	<b>-4.8</b>	<b>-28.9</b>
Net Change in Borrowings	20.7	34.6	16.8	51.3	-4.4	-28.8
Dividends Paid	-4.7	0.0	0.0	0.0	0.0	0.0
Equity Issues less Buy backs	0.0	0.0	0.0	0.0	0.0	0.0
Other Financing & FX Adjust.	-23.4	-1.4	-1.0	-2.4	-0.5	-0.1
<b>Net Increase In Cash</b>	<b>-49.1</b>	<b>-6.0</b>	<b>20.6</b>	<b>14.5</b>	<b>35.8</b>	<b>8.2</b>
Cash At End of Period	8.1	4.1	24.7	24.7	60.4	68.6
Free Cash flow	-41.7	-39.2	4.8	-34.4	40.6	37.1

**TER's Production and Sale Forecasts**

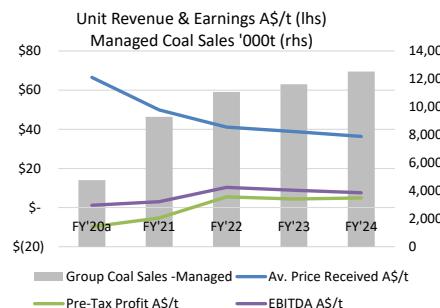
Organic growth from 5.9mt in FY21 to ~6.9mt net by FY23


**TER's Managed Mines Sales**

Elooff mine a source of growth


**TER's A\$/t Unit Revenue & Earnings**

Flat revenue forecast but profitable margins in prospect, with upside on more persistent export price rise



Sources: CorporateConnect estimates, TER announcements, FactSet and RBA

# COMPANY REVIEW

## TerraCom Limited

ASX Code: TER

Margins rising on pricing, volumes and management control



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