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Intra Energy Corporation Limited (IEC)

Coal resource confirmed in Tanzania

Recommendation
Spec Buy (Unchanged)
Price
\$0.375 (\$0.33)
Target (12 months)
\$0.55 (Unchanged)

Expected Return

Capital growth	47%
Dividend yield	n.a.
Total expected return	47%

Company Data & Ratios

Enterprise value	\$70m
Market cap	\$86.7m
Issued capital	231.2m
Free float	45%
Avg. daily vol. (52wk)	388,325
12 month price range	\$0.20-\$0.59

GICS sector

Materials

Disclosure: Bell Potter Securities (then Southern Cross Equities) acted as lead manager in raising \$28.7m before costs for Intra Energy Corporation Limited (formerly Atomic Resources Ltd) in 1H2011 and received fees for that service.

Price Performance

	(1m)	(3m)	(12m)
Price (A\$)	0.26	0.35	0.28
Absolute (%)	47.06	7.14	33.93
Rel market (%)	44.74	17.95	44.62

Absolute Price



SOURCE: IRESS

Songwe-Kiriwa transaction completed

Intra Energy (IEC) has completed the acquisition of coal leases in the Songwe-Kiwira Coalfield, north of Lake Nyasa in southwest Tanzania. IEC now holds a 70% interest in the Songwe-Kabulo Mining Licence SML235 and three surrounding Prospecting Licences. It plans to develop the licences to supplement thermal coal output from the Mbalawala Mine (Ngaka Coalfield), which commenced production last month.

Resource at Songwe-Kabulo is 100Mt

Songwe-Kabulo has a JORC coal resource of 100Mt, with 74.7Mt Indicated and 25Mt Inferred at the Kabulo deposit on SML235. The resource is based on historical work by British Mining Consultants Limited (BMCL) during the 1980's, and subsequent evaluation by IEC. The Indicated resource, for seams A2, B and C, extends from surface to ~200m depth, which is 10:1 cubic metres per tonne vertical overburden to coal ratio. Seam A2 is thickest, at an average of 6.2m and contains 52.8Mt of 32% ash and 3.5% inherent moisture coal.

Port agreement established

Tancoal (IEC 70%) and the Tanzanian Port Authority (TPA) recently signed an MOU to upgrade the receiving port facilities at Itungi on Lake Nyasa. The upgrade should provide operational certainty for Tancoal's shipments and supplies to customers. It will include a stockpile, from where coal can be trucked to the Tanzanian industrial hub of Mbeya, as well as exported via road to Malawi and Zambia.

Investment View: Spec Buy maintained, target \$0.55/share

Intra's production strategy in Tanzania has been launched on schedule, with ~10kt of thermal coal stockpiled at Mbalawala (Ngaka Coalfield) since mining started in late August. Consequently, IEC's share price has gained 47% in the past month. We re-state our confidence, that the ability of Graeme Robertson and his team to develop bulk-commodity and infrastructure projects will help IEC grow into a strong small-cap and even mid-cap coal producer.

Earnings Forecast

Year end June	2011a	2012e	2013e	2014e
Sales (A\$m)	0.38	9.69	32.04	141.19
EBITDA (A\$m)	-6.97	-3.97	2.80	65.33
NPAT (reported) (A\$m)	-6.74	-4.61	-0.70	23.72
NPAT (adjusted) (A\$m)	-6.74	-4.61	-0.70	23.72
EPS (adjusted) (cps)	-3.1	-2.0	-0.3	10.1
PER (x)	n/a	n/a	n/a	5.4
CFPS	-3.2	-1.6	1.1	26.7
EV/EBITDA (x)	-8.8	-18.7	29.2	1.0
Dividend (cps)	n/a	n/a	n/a	n/a
ROE (%)	-24	-21	0	50

SOURCE: BELL POTTER SECURITIES ESTIMATES

Investment Summary

Overview

Intra Energy has started mining at the Ngaka Coal Project in Tanzania (IEC 70%), with the aim of selling thermal coal to the domestic market (Stage 1). Mid-term strategy is to build and fuel power stations in Tanzania (Stage 2), and export coal (Stage 3) for a combined 5mtpa. It holds earlier-stage coal projects in Tanzania, Laos and Vietnam.

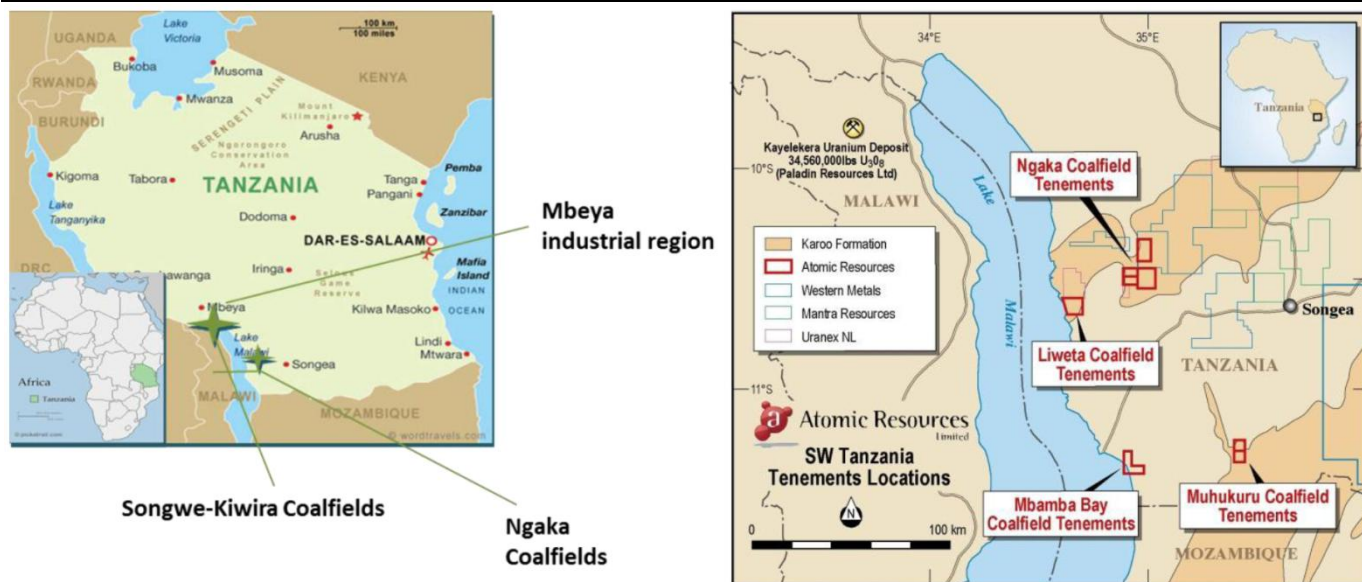
IEC is a domestic coal producer in Tanzania that plans to grow into coal export and power generation.

Key Points

- Now producing from Mbalawala Mine at Ngaka coalfield – 120ktpa and up to 500ktpa with second (Songwe-Kabulo) project. Mining Licence has been granted.
- Plans for domestic coal supply in Tanzania (industrial and power generation) up to 3mtpa, and export to adjacent countries, combined 5mtpa. First mover advantage.
- Potential to expand into electricity generation with near-mine power stations; 120MW capacity could be ready as early as 2013; target 1000MW.
- Project pipeline: other coal fields in Tanzania, as well as Laos and Vietnam.
- Strong management, including Graeme Robertson – former MD of New Hope Corporation, with vast experience in coal mining, infrastructure development.
- Well backed and funded to start production, with cash \$25.4m at June 30, no debt. Option conversions at \$0.25 in August 2011 raised a further ~\$5.5m.
- NPAT \$23.7m in FY2014 and ~\$50m/yr from FY2015 – market cap is \$86.7m.

IEC is focused on production from two coalfields in Tanzania: Ngaka and Songwe-Kiriwa (left). Both areas are close to Lake Nyasa (also called Lake Malawi) and the Mbeya industrial region. It also has several less advanced projects in the area (right). The Mbalawala Coal Mine (Ngaka Project) started production in August 2011.

Figure 1 - Intra Energy, Tanzanian Coal Projects



SOURCE: BELL POTTER SECURITIES, INTRA ENERGYCORP (FORMERLY ATOMIC RESOURCES)

IEC is ramping up coal production and should achieve its first net profit, of ~A\$23.8m, in FY2014.

From FY2015, base case NPAT from domestic coal is ~A\$50m/yr

Twelve-month share price target is A\$0.55/share based on Stage 1 production of 0.5mtpa, with mid-term upside to +\$1.50/share if the power generation strategy (Stage 2) comes to fruition.

Broad three-stage timetable: Domestic coal supply in TZ from 2011, power generation as soon as 2013 and coal export in 2015-2016, potentially including projects in Asia.

Valuation

We have used the DCF method, based on company guidance as to costs and production, and a long term thermal coal price of US\$90/t (less 33% for domestic supply rather than export). Equity NPV₈ for **Stage 1a** production of up to 360kt/yr of thermal coal from Mbalawala (ramp-up period starting 3Q11) is A\$71m, risked at -10%.

Expanding to 500kt/yr by including **Stage 1b**, Songwe-Kiriwa from 1H12 (full run rate in 2013, execution risk -30%) increases NPV₈ to \$119m, or \$128m including cash and corporate. **Stage 1 is the basis of our 12-month price target of \$0.55/share.**

Increasing production in **Stage 2** to 3.5mt/yr, to supply domestic power stations, adds significant value: risked (-50%) NPV₈ is \$363m, for NAV of \$372m or \$1.53/share diluted. This does not include upside from power station construction or electricity generation.

At spot thermal coal price of ~US\$120/t FOB and AU/US at the current 1.05, NAV with both Stages 1 and 2 in operation increases to \$439m, for a "What If" valuation of \$1.80/share. It is difficult to value the power generation potential. At an anticipated output of 120MW at \$0.12kWh with 50% utilisation from 1H14, we have added a conservative \$35m to the "What If". The long term **Stage 3** strategy of coal export (additional 1.5mtpa) remains as potential upside for future valuations.

Market Drivers and Risks

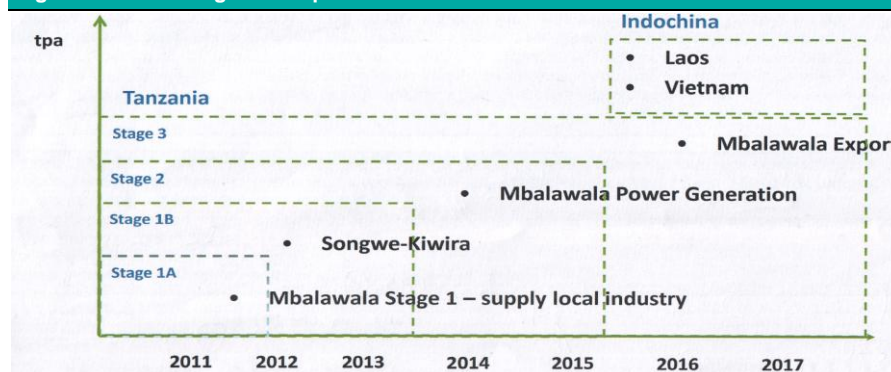
Upside: Tanzania and adjoining countries present a ready market for coal and power. Intra Energy has the local knowledge needed to acquire new projects and expand. The project pipeline holds potential coal exports from Laos and Vietnam. Graeme Robertson and the Board have a strong track record of developing bulk commodity projects (mining, export).

Downside: In the near-term the situation in Tanzania is unclear in terms of the electricity transmission grid, and the supply and demand mechanics of coal (for industrial use and power generation). Domestic power stations to buy IEC's Stage 2 coal output are yet to be constructed. Tanzania presents the usual challenges of a developing country.

Potential share price catalysts

- Successful capacity ramp-up at Mbalawala.
- Announcement of sales offtake agreements for the coal, from industrial users.
- Further development of the power generation strategy – IEC builds its own capacity or coal is sold to third-party providers.
- Adding to the resource base at Mbalawala and Songwe-Kiriwa, and exploration/acquisition of other project areas.

Figure 2 - Three-stage development schedule



SOURCE: INTRA ENERGY

Intra Energy Corporation Limited (IEC)

as at 6 September 2011

Recommendation

Spec Buy

Price

\$0.375

Target (12 months)

\$0.55

Table 1 - Financial summary

Intra Energy Corporation (IEC)						Share price:	\$ 0.38				
As at						6/09/2011	Market Cap:	\$ 86.7			
						Recom:	Spec Buy				
PROFIT AND LOSS						VALUATION DATA					
Y/e June 30	2010a	2011a	2012e	2013e	2014e	Y/e June 30	2011a	2012e	2013e	2014e	
Sales revenue	0.08	0.38	9.69	32.04	141.19	Net profit adj (\$m)	-6.7	-4.6	-0.7	23.7	
EBITDA	-7.84	-6.97	-3.97	2.80	65.33	EPS (c)	-3.1	-2.0	-0.3	10.1	
Depreciation	0.01	0.03	1.32	2.68	6.04	EPS growth (%)	n/a	n/a	n/a	n/a	
EBIT	-6.98	-7.86	-5.29	0.12	59.29	P/E ratio (x)	n/a	n/a	n/a	5.4	
Net Interest Expense	0.08	0.38	0.00	0.30	0.29	CFPS (c)	-3.2	-1.6	1.1	26.7	
Pre-tax profit	-6.98	-7.86	-5.29	0.12	59.29	Price/CF (x)	-11.9	-23.1	32.7	1.4	
Tax	0.00	0.00	0.00	0.00	17.12	DPS (c)	0	0	0	0	
Equity Net Profit	-5.26	-6.36	-4.61	-0.70	23.72	Yield (%)	0	0	0	0	
Adjustments	0.00	-0.38	0.00	0.00	0.00	Franking (%)	0	0	0	0	
BP adj profit	-5.26	-6.74	-4.61	-0.70	23.72	EV/EBITDA	-8.8	-18.7	29.2	1.0	
One-off items	0.00	0.00	0.00	0.00	0.00	EBITDA margin (%)	n/a	-41.0	8.8	46.4	
Reported net profit	-5.26	-6.74	-4.61	-0.70	23.72	12 month valuation per share:				0.55	
						A\$ Target price (12 mth):				0.55	
						Total Return (including yield)				47%	
CASHFLOW						PROFITABILITY RATIOS					
Y/e June 30	2010a	2011a	2012e	2013e	2014e	Y/e June 30	2011a	2012e	2013e	2014e	
Receipts from customers	0.00	0.00	9.69	31.75	140.90	EBITDA/sales (%)	n/a	-41	9	46	
Payments to suppliers	0.00	-4.62	-10.72	-26.25	-72.87	EBIT/sales (%)	n/a	-55	0	42	
Net interest	0.00	0.38	-0.34	0.30	0.29	Return on assets (%)	-26	-23	0	48	
Tax paid	0.00	0.00	0.00	0.00	-9.38	Return on equity (%)	-24	-21	0	50	
Other	-3.37	0.00	-2.55	-0.47	9.34	Return on funds empl'd (%)	-106	-28	-7	-9	
Operating cashflow	-3.37	-4.24	-3.92	5.32	68.29	Dividend cover (x)	0	0	0	0	
Capex	0.00	-2.65	-4.49	-9.66	-46.53	Effective tax rate (%)	0	0	0	-29	
Exploration, acquisitions	-0.76	-3.80	-10.10	-3.00	-3.00	EXPLORATION AND CORPORATE SPENDING					
Asset sales	0.00	0.00	0.00	0.00	0.00	Y/e June 30	2011a	2012e	2013e	2014e	
Other	0.00	0.02	-1.00	0.00	0.00	Exploration costs (\$m)	3.2	2.6	3.0	3.0	
Investing cashflow	-0.76	-6.43	-15.58	-12.66	-49.53	Corporate costs	1.7	2.1	2.0	2.0	
Change in borrowings	0.00	0.00	0.00	0.00	0.00	Ratio % Exploration/(Expl + Corp)	66	56	60	60	
Equity raised	4.80	36.10	6.35	0.00	0.00	Cash burn rate (yrs remaining)	8	5	2	8	
Dividends paid	0.00	0.00	0.00	0.00	0.00	VALUATION (RISK ADJUSTED, UNDILUTED)					
Other	-0.33	-1.08	0.00	0.00	0.00						
Financing cashflow	4.47	35.02	6.35	0.00	0.00						
Net change in cash	0.34	24.35	-13.15	-7.34	18.76	Drilling (m)	n/a	n/a	n/a	n/a	
Cash at end of period	1.09	25.42	12.27	4.94	23.69						
BALANCE SHEET											
Y/e June 30	2010a	2011a	2012e	2013e	2014e	Base		What If			
Cash	1.09	25.42	12.27	4.94	23.69	Ngaka Coal Project, Stage 1a	0.34	0.40	0.40		
Receivables	0.33	0.18	0.00	0.00	0.00	Songwe-Kiwira Coal, Stage 1b	0.23	0.28	0.28		
Inventories	0.00	0.18	0.00	0.00	0.00	Tanzania Coal, Stage 2	1.17	1.20	1.20		
Investments	0.00	0.03	0.00	0.00	0.00	Power generation strategy		0.17	0.17		
Other	0.06	0.05	0.05	0.05	0.05	Cash	0.08	0.07	0.07		
Current assets	1.48	25.68	12.32	4.99	23.74	Corporate	0.03	0.03	0.03		
PPE	0.15	3.34	6.50	13.48	53.97	Total	1.78	2.10	2.10		
Investments	2.40	2.40	1.72	1.72	2.82	PRODUCTION PROFILE					
Intangibles	0.00	0.00	0.00	0.00	0.00	Base Case Production Mt	2011a	2012f	2013f	2014f	
Other	0.00	0.00	0.00	0.00	0.00	Mbalawala Coal Project	0.0	0.1	0.2	0.9	
Non-current assets	2.55	5.06	10.82	10.82	64.29	Songwe-Kiwira Coal Project	0.0	0.0	0.2	0.9	
Total assets	4.03	30.74	23.14	25.79	88.04	Total	0.0	0.1	0.4	1.8	
Payables	0.71	0.17	1.46	1.46	0.50	RESOURCES					
Debt	0.00	0.00	0.00	0.00	0.00						
Provisions	0.07	0.07	0.04	0.04	0.04	Tonnage	Ash	IM	Calorific		
Other	0.00	0.00	0.00	0.00	0.00	Mt	%	%	kcal/kg		
Total liabilities	0.78	1.50	0.83	2.36	13.70	Ngaka Coal Project (Mbalawala)	251	20	2.8	6,257	
Shareholders' equity	0.56	32.85	25.42	26.54	84.24	Songwe-Kabulo Project	74.7	32	3.5	n/a	
Minorities	-2.68	3.61	3.11	3.11	9.91	ASSUMPTIONS					
Total equity	3.24	29.23	22.32	23.43	74.33	Y/e June 30	2011f	2012f	2013f	2014f	
						A\$	1.00	1.07	0.98	0.94	
						Thermal Coal (US\$/t)	112	120	118	113	
W/A diluted shares on issue	136.5	248.2	244.3	244.3	244.3						

SOURCE: BELL POTTER SECURITIES ESTIMATES

Recommendation structure

Spec Buy: Expect >30% total return on a 12 month view but carries significantly higher risk than its sector

Buy: Expect >15% total return on a 12 month view

Accumulate: Expect total return between -5% and 15% on a 12 month view

Hold: Expect total return between -5% and 5% on a 12 month view

Reduce: Expect total return between -15% and -5% on a 12 month view

Sell: Expect <-15% total return on a 12 month view

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