

# ALTO CAPITAL RESEARCH UPDATE

Phone: (08) 9223 9888  
Fax: (08) 9221 0488  
Email: info@altocapital.com.au  
Website: www.altocapital.com.au



## Company Update

19<sup>th</sup> April 2013

# Intra Energy Corp Limited (IEC)

Price: 14.0¢

## Speculative Buy

Mkt Cap: \$38.5m

### Summary Information:

#### Capital Structure:

Share Price	\$0.14
Ord Shares*	275.0
<b>Market Capitalisation</b>	<b>\$38.5</b>
Cash est* (Mar 2013)	\$7.8m
Debt est* (Mar 2013)	<b>\$2.5m</b>

**Enterprise Value** **\$33.2m**

Unlisted Options 13.10m

52 week Low/High 12.0¢ / 30.0¢

\* pro-forma for 2:15 right issue

#### Directors:

Executive Chairman	Graeme Robertson
Executive Director	David Mason
Executive Director	Jonathan Warrand
Non-Exec Director	Bill Paterson
Non-Exec Director	Gideon Nasari

#### Major Shareholders:

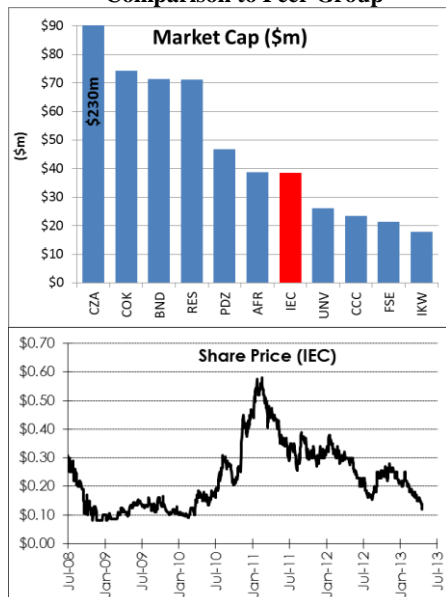
Aspac Mining Limited & Assoc.	26.9%
Mara Superannuation & Assoc.	8.7%
Lujeta Pty Ltd	6.3%
RBC Dexia Investor Services	5.8%

Top 20 Shareholders hold 63% of the issued stock

Resource*	Tan-coal	Tanza-coal	Total
Measured	55mt		55mt
Indicated	112mt	75mt	187mt
Inferred	256mt	25mt	71mt
<b>Total</b>	<b>423mt</b>	<b>100mt</b>	<b>523mt</b>

\*Intra equity share 70%

#### Comparison to Peer Group



### Summary:

Intra Energy Corp Limited is an Australian company, headquartered in Sydney, New South Wales, focused on the development and production of thermal coal projects in Eastern Africa (Tanzania and Malawi).

Highly regarded Board and management team, with multi decade experience in the global coal industry. Executive Chairman Graeme Robertson was instrumental in the development of the 1.2GW Paiton coal fired power plant in Indonesia, and was Managing Director of New Hope Corporation.

The company has a three pronged growth strategy: 1) Production and coal sales to regional industrial users, 2) Production and coal supply to coal fired power stations, and 3) Exports.

We have maintained our **Speculative Buy** recommendation on IEC, however have not included a price target due to current volatility in the resources sector.

### Key Points:

- IEC has been mining and selling coal from its 70% owned Tancoal operation since 2011. Coal sales are currently averaging ~30,000t per quarter, which is around 33% of mining capacity.
- Coal is transported to three stockpile locations at Kitai and Kiwira (both in Tanzania) and Chipoka in Malawi, from which it is sold to customers.
- Sale of coal to regional industrial users has proven slower and harder than initially expected, with poor local infrastructure a major issue. Sales to regional industrial users is unlikely to be a company maker, with maximum sales not expected to exceed 500,000tpa.
- Company signed 2 MOU's to develop a 200MW and a 120MW coal fired power station in Tanzania and Malawi, respectively. Rule of thumb is 3,500t of coal required per MW of power, therefore 700,000tpa and 420,000tpa required for the above power stations.
- IEC is not a short-term story, the real value will be generated from coal sales to the yet to be constructed coal fired power stations which are currently under negotiation, and forecast to come on stream in 2017 – 2018.
- Announced a fully underwritten 2 for 15 non-renounceable rights issue priced at 14¢ to raise \$4.5m before fees. Raising to fund the on-going Tancoal mine expansion, the purchase of mining equipment for the new Malcoal Mine, and to complete a BFS for the power station developments in Tanzania and Malawi.

## Small Scale Regional Sales

### Selling coal since 2011

Intra began mining and selling coal from its 70% owned Tancoal Ngaka mine during the September quarter 2011, with approximately 85,000t sold to the end of December 2012. Mining from the Nkhachira mine in Malawi has only just commenced, and is expected to ramp-up over the next several quarters.

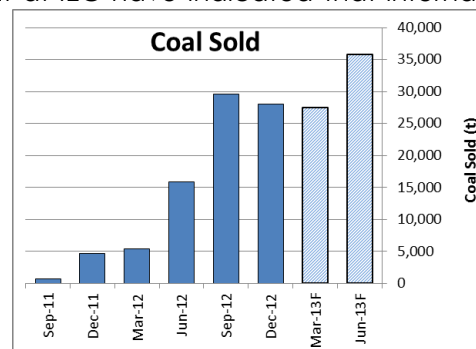
Sales of coal into the local regional markets has proven to be much slower and harder than initially expected, with poor local infrastructure, wet season conditions, and various other items effecting sales.

### Currently selling ~30,000t coal per quarter

Current coal sales are running at approximately 30,000t per quarter (120,000tpa), and we estimate sales will increase to around 60,000t per quarter (240,000tpa) by the end of 2013. However management at IEC have indicated that internal estimates are for approximately 90,000t per quarter (360,000tpa) by year end.

### Mining capacity in excess of 360,000tpa

Production of coal from the Ngaka and Nkhachira mines is not the issue, with mining capacity in excess of 360,000tpa. The issue appears to be finding enough suitable buyers for the coal, and then delivering the coal to a location the end buyers can access to take delivery of the coal.



IEC currently deliver coal to three main stockpiles, Kitai (Tanzania), Kiwira (Tanzania), and Chipoka (Malawi) for sale to domestic industrial users.

Coal sales to regional industrial users was never going to be a company maker, with sales probably limited to under 500,000tpa. However the process has enabled the company to show governments that it has the capacity to develop coal mining operations and has provided IEC with a good understanding of the geology at the Ngaka deposit, which will come in handy when the proposed 200MW power station comes on line requiring ~700,000tpa of coal.

**We estimate the group needs to sell around 45,000t - 50,000t of coal per quarter to break even at the corporate level (before exploration expenses).**

## Coal Fired Power Stations

### Supply to coal fired power stations the future for IEC

Supplying coal to coal fired power stations in Eastern Africa is the future for IEC, as this will provide the company with large, long-term stable coal customers, with a rule of thumb being approximately 3,500tpa per net MW of capacity.

### Executed 2 MOU's to develop coal fired power stations

Intra is well advanced along this line having executed two MOU's to develop coal fired power stations, one each in Tanzania and Malawi.

### Ngaka PPA agreement expected within two months

The Tanzanian MOU (Project Ngaka) was executed in March 2012 (extended and amended in March 2013) with TANESCO (Tanzania Electric Supply Company) to develop a mine mouth 200MW power station at its Ngaka project.

Prefeasibility studies (engineering grid studies, preliminary design work, and costings) are close to completion with the PPA (Power Purchase Agreement) term-sheet expected within the next two months.

Time Table: Apr/May sign PPA  
 May/Aug source required capital  
 Mid 2014 commence construction  
 2017 commence operations

IEC recently estimated project costs of between US\$420 - \$470 million.

## Coal Fired Power Stations (cont.)

**Malawi MOU was recently signed for a 120MW coal fired power station**

The Malawi MOU (Project Pamodzi) was executed with the Malawi government in March 2013 for the construction and operation of a 120MW (net) coal fired power station at Chipoka, to be supplied from IEC's Malcoal Mine in Malawi.

Engineering studies for environmental assessment/permitting, prefeasibility grid connection and economic assessments are near completion.

Time Table: Mid – late 2013 sign PPA  
 Late 2013 source required capital  
 Late 2014 commence construction  
 2017 commence operations

### Rough Rule of Thumb

3,500tpa of coal required per 1MW (net) of capacity  
 Capital cost of \$2,500 - \$3,000 per kW of capacity (\$2.5 – \$3.0m per MW)  
 Power sale price 10¢ kwh = ~\$100m revenue at 120MW net capacity

### Thoughts

**Potential 1.1mtpa in long-term customers if 320MW is developed**

If IEC can bring its plans to fruition regarding the construction of two coal fired power plants with a combined capacity of 320MW, it will have reliable, long-term customers for ~1.1mtpa of coal.

However there are a number of hurdles yet to overcome.

**Requirement to find potential equity investors**

- Signing of a PPA agreement for Ngaka is vitally important as it will determine potential profitability of the project (we expect ~10¢ kwh).
- Need to find potential equity investors for the project as power stations are very capital intensive projects; and assuming an 80/20 debt to equity funding model, Ngaka will require close to US\$100m in equity funding using IEC's estimate of a US\$470m project cost.
- IEC's forecast capital costs of US\$420 - \$470 million for its 200MW Ngaka project may be on the low side, and could be closer to US\$500 - \$600 million.
- IEC will not see a benefit in regards to coal sales to the planned power stations for at least 4 years (2017), when the first plant commences operation.

## 2 for 15 Non-renounceable Rights Issue

**Raising \$4.5m**

Announced a fully underwritten 2 for 15 non-renounceable rights issue priced at 14¢ to raise approximately \$4.5m before fees. Funds raised will be used to fund on-going Tancoal mine expansion, the purchase of mining equipment for the new Malcoal mine, and to complete a BFS for power station developments in Tanzania and Malawi.

**Fully underwritten by management**

The offer is being fully underwritten by current management and an associate of an existing shareholder, which should provide some comfort to the market that management have confidence in the company's future and strategic direction.

### Use of Funds

Mining Equipment and Logistics	\$1.8m
Power Project BFS (Tanzania & Malawi)	\$1.9m
Geology and JORC study at Malawi	\$0.6m
Cost of Offer	\$0.2m
<b>Total</b>	<b>\$4.5m</b>

## Recommendation

### **Speculative Buy**

We have maintained our **Speculative Buy** recommendation on IEC, however have not included a price target due to the current volatility and uncertainty within the resources sector.

IEC has seen its share price fall ~40% over the last 12 months, which taken by itself looks awful, however of the 36 coal stocks we follow on the ASX the average fall over the same period was ~60%.

### **Not a short-term story**

IEC is not a short-term story, with the real value to be generated from coal sales to the yet to be constructed coal fired power stations – which are not forecast to come on stream until 2017 – 2018.

---

## Final Thoughts

### **Highly regarded management team**

IEC has a very highly regarded Management team, with extensive experience in developing coal projects.

The Executive Chairman is the group's largest shareholder with over 25% of the outstanding shares, with the vast majority of these shares having been purchased at prices significantly higher than current levels.

The fact the management team are underwriting the current rights issue, provides some comfort in the future of the company. It is always a positive signal when management are willing to risk their capital along with shareholders.

Signing of the PPA for the Ngaka power station should provide the market with some confidence that IEC is advancing its goal of supplying coal under long-term contracts to coal fired power stations.

### **Many hurdles yet to be achieved to reach its goal of becoming a substantial coal producer in Eastern Africa**

The company still has a long way to go to achieve its goals, with the task of finding suitable investors willing to provide the required funding for the equity proportion of the power stations considered a major task.

IEC is not alone in experiencing a major decline in its share price over the last 12 - 18 months, with over 95% of resource stocks trading lower than 12-months ago. The vast majority of IEC's peers are down over 60% from 12-months ago, with some down over 80%.

### **Investors in IEC will require patience**

IEC is not a short-term story, with a market re-rating probably not likely until development of the coal fired power plants are further advanced. Our key hurdles are:

- 1) Signing of PPA agreement with TANESCO
- 2) Source equity/debt funding for Ngaka project
- 3) Commencement of construction
- 4) Commissioning of project

Carey P. Smith  
Research Analyst

Phone: 08 9223 9838  
Mobile: 0432 659 410  
E-mail: carey@altocapital.com.au

---

## Investment Managers

Stockley Davis  
Corporate Manager  
Phone: +618 9223 9835  
stockley@altocapital.com.au

Shane Wee  
Director  
Phone: +618 9223 9868  
shane@altocapital.com.au

Maciej Rosiewicz  
Investment Manager  
Phone: +618 9223 9830  
maciej@altocapital.com.au

Chris McGrath  
Investment Manager  
Phone: +618 9223 9822  
chris@altocapital.com.au

James Robinson  
Authorised Representative  
Phone: +618 6460 4960  
james@cicerocorporate.com.au

Adam Belton  
Director  
Phone: +618 9223 9818  
adam@altocapital.com.au

Peter Hayes  
Investment Manager  
Phone: +618 9223 9836  
peterh@altocapital.com.au

Brett Schreuders  
Investment Manager  
Phone: +618 9223 9825  
brett@altocapital.com.au

Ian Leete  
Authorised Representative  
Phone: 0415 707 065  
ian@altocapital.com.au

Carey Smith  
Research Analyst  
Phone: +618 9223 9838  
carey@altocapital.com.au

Craig Brown  
Director  
Phone: +618 9223 9828  
craig@altocapital.com.au

Alan Lawson  
Investment Manager  
Phone: +618 9223 9878  
alan@altocapital.com.au

Cameron Bolton  
Investment Manager  
Phone: +618 9223 9832  
cameron@altocapital.com.au

Mathew Walker  
Authorised Representative  
Phone: +618 6460 4960  
mathew@cicerocorporate.com.au

Andrea McIntosh  
Administration Manager  
Phone: +618 9223 9887  
Andrea@altocapital.com.au

---

## Research Disclaimer/Disclosure

### Important Information

**1. Disclosure:**

The author of this publication, Alto Capital, its Directors, Advisers, Associates and Employees from time to time may hold shares in the securities mentioned in this Research document and therefore may benefit from any increase in the price of those securities. Alto Capital and its Advisers may earn brokerage, fees, commissions, other benefits or advantages as result of a transaction arising from any advice mentioned in publications to clients. Detailed disclosures are made below if applicable.

**2. Disclosure of Interest:**

Alto Capital, its Directors, Advisers, Associates and Employees at the time of releasing this report have a holding of 5,293,447 shares in the company subject of this report.

**3. Benefits:**

Nil

**4. Associations / relationships**

Alto Capital discloses that it has the following relationship with the issuer subject of this report:

- (a) Alto assisted the company with a placement in July 2011 and received stamping fees of \$5400 + GST
- (b) Alto assisted the company with a placement in February 2011 and received stamping fees of \$30,000 + GST.

**5. Assistance provided by product issuer**

The issuer provided assistance by providing factual publically available information.

**6. Who authorised the Report**

Craig Brown

**7. Reasons for opinions/ recommendations**

The reasons for opinions are set out in the body of the report. See [Recommendation](#).

**Disclaimer:** Alto Capital believes that any information or advice (including any financial product advice) contained in this document is accurate when issued. Alto Capital however, does not warrant its accuracy or reliability. Alto has reviewed this research report prior to its release and believes that the reporting is not biased and the report is reasonably based. To the extent permitted by law, Alto Capital, its officers, agents and employees exclude all liability whatsoever, in negligence or otherwise, for any loss or damage caused in relation to this publication.

**Warning:** Any financial product advice contained in this document is unsolicited general information only. Do not act on this advice without first consulting your Adviser to determine whether the advice is appropriate for your investment objectives, financial situation and particular needs.

**Important Information:** No part of this publication should be reproduced, copied, transmitted or distributed without the specific written permission of Alto Capital. To obtain such permission please contact the author of the publication on the email address above. Modification of the publication is a violation of Alto Capital's proprietary rights.

**Product Disclosure Statements (PDS):** If applicable, you should obtain the PDS relating to the relevant product mentioned in this publication. This contains details of the terms, conditions, risks and pricing of the product. You should consider the contents before making any decision about whether to acquire the product.