



## ASX: TER

### Equity Research

4<sup>th</sup> July 2022

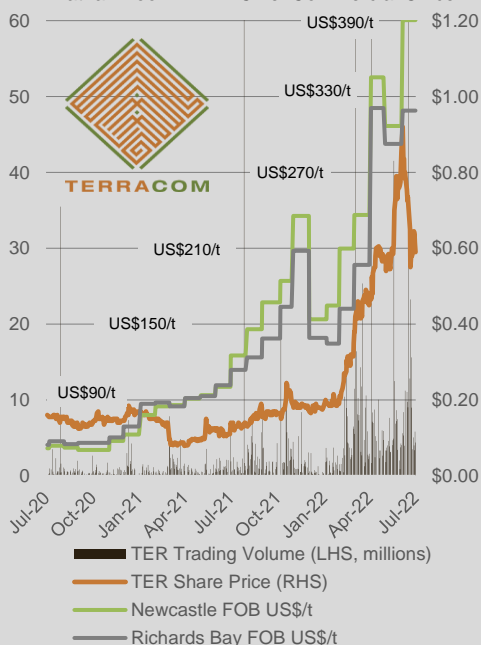
#### BUY

Share Price	\$0.59
Valuation	\$1.71
Price Target	\$1.45

52-Week Range	\$0.105 - \$0.945
Shares Outstanding	797.8m
Options & Warrants	1.7m
Market Capitalisation	A\$470.7m
Cash (30 Jun 2022 estimated)	A\$109.7m
Debt including Prepayment (30 Jun 2022 estimated)	A\$131.7m
Enterprise Value	A\$492.7m

#### Board and Management

Craig Ransley	Executive Chairman
Danny McCarthy	Managing Director
Matthew Hunter	Non-Executive Director
Glen Lewis	Non-Executive Director
Shane Kyriakou	Non-Executive Director
Graeme Campbell	Independent NED
Mark Lochtenberg	Independent NED
Craig Lyons	Independent NED
Megan Etccl	Chief Financial Officer
Nathan Boom	Chief Commercial Officer



TerraCom Limited (ASX: TER) is an emerging company originating as a resource explorer with a large portfolio of operating assets in Australia and South Africa. TerraCom is currently enacting a growth strategy towards delivering a mid-tier diversified operating and trading business and have a global focus on the development of a high yielding diversified asset portfolio for investors.

## TerraCom Limited

### Update – Bolted from the gate, and clearing hurdles

We initiated coverage of TerraCom Limited (ASX:TER) on 7 March 2022 with a Buy rating and positive outlook for the future. At the time the current share price was A\$0.42, with our valuation and price target set at A\$0.87 and A\$1.30 respectively. At that stage the company had A\$12.4m in Cash and A\$202m in estimated debt.

It has been just over three months and TER has cemented its position as a significant coal company underpinned by strong production and exports, with operations focused in Australia and South Africa.

Since our initiation report, the company has delivered the following:

- Fully repaid the Euroclear Bond;
- Implemented a 40-70% NPAT dividend policy;
- Fully sold its Blair Athol (BA) coal until October 2022 with BA remaining on track for coal sales in FY 2022 of ~2.3mt;
- In consideration of the outstanding Convertible Bond, issued 39.91m shares for ~A\$27.8m consideration; and
- Secured a long term off-take agreement of up to 1.25mt of coal over 13 cargoes from the Blair Athol operation for the period of August 2022 to August 2023.

In addition to the excellent operational performance of TER, a number of key factors have also been in the company's favour: 1. macroeconomic factors 2. increased production and 3. rising coal and energy prices which have translated into significant cashflow and positive sentiment for the sector.

A significant shock to the share price and our valuation was the recent announcement of the update to the Queensland royalty regime which in effect added 3 additional taxation tiers to the coal royalty, being, 20% for prices above A\$175/t, 30% for prices above A\$225/t, and 40% for prices above A\$300/t. The net effect of this change, on our numbers, was an additional A\$289m of royalty being paid by TerraCom through the life of its Blair Athol project.

Scenario / Item	Unit	Base Case	Expansion Case
		Proved + Probable	Proved + Probable + Measured
<b>Total Production ROM</b>	<b>Mt</b>	56.5	161.9
<b>Total Sales</b>	<b>Mt</b>	41.8	118.1
Total Revenue	A\$m	6,468	14,969
Total Opex	A\$m	2,894	7,291
Update QLD Royalty	A\$m	288.6	508.9
Ongoing Capex	A\$m	193.5	340.8
<b>Total Valuation</b>	<b>A\$m</b>	<b>1,365.8</b>	<b>2,127.7</b>
<b>Total/share</b>	<b>A\$</b>	<b>1.71</b>	<b>2.67</b>

**TER Valuation:** The first half of 2022 calendar year was, and remains, a watershed year for TER with the company becoming an established and significant producer, significant increases in forward curves on coal prices, both out of Australia and South Africa, the announcement of a company dividend policy and the significant reduction in corporate debt and increase in cash position. On our numbers the increase in the Queensland royalty does have a significant impact on revenues and share price, however, this is more than offset by the increase in revenues generated by the company.

Our initiation report had a valuation of A\$0.87/share and a price target of A\$1.30/share. In line with improved coal prices, reduction in debt and factoring in the new Queensland coal royalty, our revised valuation comes to A\$1.71/share representing a 2.9x uplift to the current share price. Considering the weakness of the equity markets, we have applied a 15% discount factor to derive a price target of \$1.45/share.

## FINANCIAL SUMMARY

TOTAL TER CASHFLOW		Quarterly	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27
Exchange Rates																							
AUD/USD	x		0.6915	0.6866	0.6899	0.6932	0.6928	0.6918	0.6908	0.6899	0.6889	0.6869	0.6849	0.6828	0.6808	0.6788	0.6767	0.6747	0.6726	0.6706	0.6686	0.6665	0.6645
ZAR/USD	x		0.0618	0.0616	0.0610	0.0605	0.0600	0.0595	0.0585	0.0579	0.0573	0.0573	0.0573	0.0573	0.0573	0.0573	0.0573	0.0573	0.0573	0.0573	0.0573	0.0573	0.0573
Prices																							
Australia	A\$/t		390.9	359.1	335.5	303.8	292.8	283.4	273.4	193.2	194.0	194.9	190.0	189.5	190.6	191.7	191.0	190.6	191.7	192.9	193.5	193.2	194.2
South Africa Export	A\$/t		235.7	223.6	212.9	204.8	202.2	198.8	192.5	188.5	183.1	175.8	170.8	172.6	166.0	164.1	162.6	158.5	156.4	152.6	151.8	152.0	151.8
South Africa Internal / Eskom	A\$/t		49.1	49.5	49.1	48.7	48.6	48.5	48.0	47.8	47.6	47.9	48.3	48.7	49.1	49.5	49.9	50.3	50.7	51.1	51.5	51.9	52.4
Unit Costs																							
Australia (Includes Previous QLD Royalty)	A\$/t		82	82	82	82	82	82	82	82	82	82	82	82	82	82	82	82	82	82	82	82	82
South Africa	A\$/t		48	48	48	48	48	48	48	48	48	48	48	48	48	48	48	48	48	48	48	48	48
Production																							
Blair Athol	000 t		670	670	670	670	670	670	670	670	670	670	670	670	670	670	670	670	670	670	670	670	670
New Clydesdale Colliery (NCC)	000 t		915	915	915	915	915	915	915	915	915	915	915	915	915	915	915	915	915	915	0	0	0
North Block Complex (NBC)	000 t		995	995	995	995	995	995	995	995	995	995	995	995	995	995	995	995	995	995	995	995	0
Ubuntu Colliery (NCC)	000 t		269	269	269	269	269	269	269	269	269	0	0	0	0	0	0	0	0	0	0	0	0
TOTAL ROM Coal Production	000 t		2,849	2,849	2,849	2,849	2,849	2,849	2,849	2,849	2,580	2,580	2,580	2,580	2,580	2,580	2,580	2,580	2,580	2,580	1,665	1,665	670
Sales																							
Blair Athol	000 t		572	572	572	572	572	572	572	572	572	572	572	572	572	572	572	572	572	572	572	572	572
New Clydesdale Colliery (NCC)	000 t		560	560	560	560	560	560	560	560	560	560	560	560	560	560	560	560	560	560	0	0	0
North Block Complex (NBC)	000 t		684	684	684	684	684	684	684	684	684	684	684	684	684	684	684	684	684	684	684	684	0
Ubuntu Colliery (NCC)	000 t		231	231	231	231	231	231	231	231	0	0	0	0	0	0	0	0	0	0	0	0	0
TOTAL Saleable Coal	000 t		2,047	2,047	2,047	2,047	2,047	2,047	2,047	2,047	1,816	1,816	1,816	1,816	1,816	1,816	1,816	1,816	1,816	1,256	1,256	572	572
Operating results																							
Revenue	A\$m		358	336	319	298	290	284	275	228	208	207	203	204	203	203	203	202	202	161	161	111	111
Operating Costs (inc. Previous QLD Royalty)	A\$m		118	118	118	118	118	118	118	118	107	107	107	107	107	107	107	107	107	80	80	47	47
Royalties (Updated QLD Royalty)	A\$m		0	32	27	19	19	19	19	6	6	6	6	6	6	6	6	6	6	6	6	6	6
General & Admin Costs & Other	A\$m		10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10
EBITDA	A\$m		230	209	191	170	162	156	147	100	92	90	87	87	86	87	86	85	86	72	72	54	54
Capex	A\$m		7	7	7	7	7	7	7	7	7	7	7	6	6	6	6	6	6	6	5	5	
Interest	A\$m		5	1	1	1	1	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Tax	A\$m		67	51	47	43	41	39	37	26	24	24	23	23	23	23	23	23	23	20	20	16	16
Cash Flow Available for Debt Service	A\$m		151	150	136	119	114	109	103	66	60	59	56	57	57	57	57	56	57	46	46	33	33
Opening Cash Balance	A\$m		19	110	184	296	410	439	545	645	708	629	685	738	790	756	813	870	927	892	938	984	1017
Blair Athol Prepayment	A\$m		90																				
Opening Debt Balance	A\$m		282	132	56	32	27	24	20	17	14	11	8	4	0	0	0	0	0	0	0	0	0
Repayments	A\$m		150	76	24	4	4	3	3	3	3	3	4	4	0	0	0	0	0	0	0	0	0
Closing Debt Balance	A\$m		132	56	32	27	24	20	17	14	11	8	4	0	0	0	0	0	0	0	0	0	0
Dividend Distribution	A\$m						81				135				92				91				63
Closing Cash Balance	A\$m		110	184	296	410	439	545	645	708	629	685	738	790	756	813	870	927	892	938	984	1017	987

TOTAL TER CASHFLOW		Yearly	FY2022	FY2023	FY2024	FY2025	FY2026	FY2027	FY2028	FY2029	FY2030	FY2031
Exchange Rates												
AUD/USD	x		0.691	0.691	0.517	0.690	0.691	0.692	0.664	0.664	0.664	0.664
ZAR/USD	x		0.061	0.061	0.046	0.061	0.061	0.060	0.057	0.057	0.057	0.057
Prices												
Australia	A\$/t		243	323	236	191	191	193	195	195	195	97
South Africa Export	A\$/t		59	211	191	171	160	152	151	151	151	151
South Africa Internal / Eskom	A\$/t		12	49	48	49	50	52	53	54	55	56
Unit Costs												
Australia (Includes Previous QLD Royalty)	A\$/t		82	82	82	82	82	82	82	82	82	82
South Africa	A\$/t		48	48	48	48	48	48	48	48	48	48
Production												
Blair Athol	000 t		2,683	2,680	2,680	2,680	2,680	2,680	2,680	2,680	2,680	1,340
New Clydesdale Colliery (NCC)	000 t		4,125	3,660	3,660	3,660	3,660	915	0	0	0	0
North Block Complex (NBC)	000 t		4,260	3,980	3,980	3,980	3,980	2,985	0	0	0	0
Ubuntu Colliery (NCC)	000 t		1,430	1,076	1,076	0	0	0	0	0	0	0
TOTAL ROM Coal Production	000 t		12,498	11,396	11,396	10,320	10,320	6,580	2,680	2,680	2,680	1,340
Sales												
Blair Athol	000 t		2,225	2,289	2,289	2,289	2,289	2,289	2,289	2,289	2,289	1,144
New Clydesdale Colliery (NCC)	000 t		2,564	2,239	2,239	2,239	2,239	560	0	0	0	0
North Block Complex (NBC)	000 t		2,975	2,735	2,735	2,735	2,735	2,052	0	0	0	0
Ubuntu Colliery (NCC)	000 t		1,056	923	923	0	0	0	0	0	0	0
TOTAL Saleable Coal	000 t		8,820	8,186	8,186	7,263	7,263	4,900	2,289	2,289	2,289	1,144
Operating results												
Revenue	A\$m		1014	1243	995	817	811	544	443	443	443	111
Operating Costs (inc. Previous QLD Royalty)	A\$m		511	473	461	428	428	253	187	187	187	47
Royalties (Updated QLD Royalty)	A\$m		0	97	49	23	23	23	23	23	23	6
General & Admin Costs & Other	A\$m		38	38	38	38	38	38	38	38	38	10
EBITDA	A\$m		466	732	495	351	345	252	218	218	218	54
Capex	A\$m		29	29	29	28	24	22	20	15	10	3
Interest	A\$m		13	3	2	1	0	0	0	0	0	0
Tax	A\$m		133	182	127	94	93	71	64	65	67	17
Cash Flow Available for Debt Service	A\$m		291	519	338	229	227	159	134	137	141	35
Opening Cash Balance	A\$m		3	110	439	629	756	892	987	1068	1150	1234
Opening Debt Balance	A\$m		233	132	24	20	17	14	11	8	4	0
Repayments	A\$m		255	108	13	11	0	0	0	0	0	0
Closing Debt Balance	A\$m		132	24	20	17	14	11	8	4	0	0
Dividend Distribution	A\$m		0	81	135	92	91	63	53	55	56	14
Closing Cash Balance	A\$m		110	439	629	756	892	987	1068	1150	1234	1256
Dividend Distribution												
Dividend amount	A\$m			81	135	92	91	63	53	55	56	14
Dividend per share	A\$			0.10	0.17	0.11	0.11	0.08	0.07	0.07	0.07	0.02

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**All currencies are in Australian dollars unless otherwise specified.**

## 1. Developments Post Initiation

Since our initiation, TerraCom has been very active both commercially and technically, below we summarise the key changes / updates we have factored into our model.

### Prepayment on Blair Athol Coal

On the 28<sup>th</sup> February 2022 TerraCom announced that it had signed a binding prepayment term sheet for US\$60 million and 600,000 tonnes of coal.

The key terms of the prepayment agreement were:

- Prepayment amount of US\$60 million;
- Coal sales off-take agreement for 600,000 tonnes, with pricing based on and linked to the API4 Index at the time of delivery. Delivery is during the period 1 June 2022 to 31 May 2023;
- Interest rate fixed at 8% per annum; and
- Prepayment repaid through the delivery of coal via the coal sales off-take agreement.

Prepayments to the total of US\$60m was paid to TER in April and May 2022 corresponding with payments to the Euroclear bond facility. Note we assume that interest is capitalised in this scenario.

Table 1.1 highlights the production/delivery and repayment schedule for the repay amount. It is important to highlight that since this coal has been prepaid, we have recognised this prepayment as a debt on the balance sheet and during the course of the delivery TER will reduce the outstanding debt amount.

Due the excellent current coal prices, on our numbers, TerraCom will fully repay the prepay facility by its third cargo, due in November 2022.

**Table 1.1 – US\$60m Prepay Facility Schedule**

	Jul-2022	Sep-2022	Nov-2022	Jan-2023	Mar-2023	May-2023
Tonnes	100,000	100,000	100,000	100,000	100,000	100,000
Price (US\$/t)	247	247	231	211	211	203
Total Sales (US\$m)	25	25	23	21	21	20
Opening Prepay Debt Balance (US\$m)	62.4	38.25	13.77			
Repayment from Sales of Coal (US\$m)	24.7	24.7	13.77			
Interest Payable (US\$m)	0.3	0.094	0			
Closing Prepay Debt Balance (US\$m)	37.99	13.68	0			

Source: Evolution Capital estimates

### Blair Athol off-take agreement

On the 16<sup>th</sup> June 2022 TerraCom announced that it had reached an off-take agreement of up to 1.25mt over 13 months with its long term Japanese trading partner.

The key terms of the prepayment agreement were

- One (1) cargo per month during the Off-take Term;
- Each cargo to deliver between 67,000 and 88,000 tonnes (+/- 10%), subject to the tonnage as nominated by the off-take partner;
- Total tonnes to be delivered between 0.78 and 1.25 million tonnes over the Off-take Term; and
- Pricing linked to the globalCOAL Newcastle Index.

Table 1.2 highlights our assumed delivery schedule, amounts and pricing. We have assumed that TER receives market prices based on our forward curves.

**Table 1.2 – Blair Athol Off-take Agreement**

	Aug-2022	Sep-2022	Oct-2022	Nov-2022	Dec-2022	Jan-2023	Feb-2023	Mar-2023	Apr-2023	May-2023	Jun-2022	Jul-2022	Aug-2022
Tonnes	88,000	88,000	88,000	88,000	88,000	88,000	88,000	88,000	88,000	88,000	88,000	88,000	88,000
Price US\$/t	359	359	335	335	335	304	304	304	293	293	293	283	283
Total Sales US\$m	31.6	31.6	29.5	29.5	29.5	26.7	26.7	26.7	25.8	25.8	25.8	24.9	24.9

Source: Evolution Capital estimates

### Proposed Coal Royalty Increase in Queensland

On the 21<sup>st</sup> of June 2022 Queensland Treasurer, Cameron Dick, released the updated state budget. Most relevant for TerraCom was the proposed coal royalty increases for all projects operating in Queensland. The new scheme would see three new tiers added to the coal royalty system, which is currently capped at 15% for prices above \$150 per tonne.

From 1 July 2022, new tiers would apply of 20% for prices above \$175 per tonne, 30% for prices above \$225 per tonne, and 40% for prices above \$300 per tonne.

Existing royalty:

- 7% for prices up to and including A\$100/t,
- 12.5% for prices between A\$100/t – A\$150/t,
- 15% for prices above A\$150/t,

Additional new tiers:

- 20% for prices above A\$175/t,
- 30% for prices above A\$225/t,
- 40% for prices above A\$300/t,

By way of example. If the average price received is above A\$225/t:

- If the average price is more than \$100 but not more than \$150;
  - First \$100 – 7% of value
  - Balance – 12.5% of value
- If the average price is \$175
  - First \$100 – 7% of value
  - Next \$50 – 12.5% of value
  - Next \$25 – 20% of value
- If the average price is \$225
  - First \$100 – 7% of value
  - Next \$50 – 12.5% of value
  - Next \$25 – 20% of value
  - Next \$50 – 30% of value
- If the average price is above \$225
  - First \$100 – 7% of value
  - Next \$50 – 12.5% of value
  - Next \$25 – 20% of value
  - Next \$50 – 30% of value
  - Reminder – 40% of value

According to TerraCom, the operating costs provided in the company's ASX announcements are inclusive of the Existing Royalty Regime, however we have factored in the updated royalty costs into our model which are applicable only to Blair Athol and not the South African assets. The increased costs to the Blair Athol project due to the updated royalty comes to A\$288.6m over the life of the project.

## 2. TER Valuation

### TER Valuation

Table 2.1 is our risked sum-of-the-parts valuation of TER. This underpins our Base Case of A\$1.71/share and Expansion Case of A\$2.67/share respectively, representing a 2.9x uplift to the current share price.

The valuation consists of:

1. Production of Reserves and Resources encompassing Blair Athol, New Clydesdale Colliery, North Block Complex and Ubuntu Colliery;
2. Measured development case encompassing all producing assets;
3. Risked NPV's of all other TER Coal assets; and
4. Net cash position, corporate and overhead costs.

**Table 2.1 – TER Valuation Summary**

Scenario / Item	Unit	Base Case	Expansion Case
		Proved + Probable	Proved + Probable + Measured
Operations			
ROM Coal Production AUS	Mt	22.1	47.9
ROM Coal Production SA	Mt	34.4	114.0
<b>Total ROM</b>	<b>Mt</b>	<b>56.5</b>	<b>161.9</b>
Total Coal Sales AUS	Mt	18.9	40.9
Total Coal Sales SA	Mt	22.9	77.2
<b>Total Sales</b>	<b>Mt</b>	<b>41.8</b>	<b>118.1</b>
Run Rate (ROM)			
Blair Athol	Mtpa	2.8	2.8
New Clydesdale Colliery	Mtpa	3.7	3.7
North Block Complex	Mtpa	4.0	4.0
Ubuntu Colliery	Mtpa	1.1	1.1
Commodity Prices*			
AUS Coal to market	p/t	191.5	191.5
SA coal to market (Internal)	p/t	52.1	52.1
SA coal to market (External)	p/t	162.2	162.2
USD / AUD Exchange rate		0.67	0.67
USD / ZAR Exchange rate		0.06	0.06
Revenue, Opex, Royalty & Capex			
Total Revenue	A\$m	6,468	14,969
Total Opex**	A\$m	2,894	7,291
Update QLD Royalty	A\$m	289	509
Ongoing Capex	A\$m	193	341
NPV's			
Blair Athol NPV	A\$m	952	1,364
South Africa NPV (see note)	A\$m	325	769
Springsure (AUS)***	A\$m	22	22
Hughenden (AUS)***	A\$m	161	161
Clyde Park (AUS)***	A\$m	102	102
Kangala (SA)**	A\$m	8	8
NCC (SA)**	A\$m	6	6
NBC (SA)**	A\$m	4	4
Ubuntu & Berenice (SA)***	A\$m	5	5
<b>TOTAL</b>	<b>A\$m</b>	<b>1,584</b>	<b>2,442</b>
Corporate and Overhead	A\$m	(197)	(292)
Cash (at 30 Jun 2022)****	A\$m	109.7	109.7
Debt (at 30 Jun 2022)****	A\$m	(131.7)	(131.7)
<b>Total NPV</b>	<b>A\$m</b>	<b>1,365.8</b>	<b>2,127.7</b>
<b>Total per share</b>	<b>A\$/share</b>	<b>1.71</b>	<b>2.67</b>

Source: Evolution Capital estimates.

Note: South African asset NPVs are 49% of the total value of South Africa business

\* 5 Year Average

\*\* Includes previous QLD Royalty

\*\*\* Resource Upside

\*\*\*\* Estimate of position at end June 2022

The total risked sum of the parts is \$1,365.8m or A\$1.71/share.

We view that the Australian market is factoring a discount to TER due to the current political climate towards thermal coal, particularly with the significant announcement regarding the modification of the Queensland royalty regime. This represents a significant opportunity for buyers to get into a company with substantial production, upcoming dividend and a currently low valuation. We view that, as TER continues to perform well, this discount will dissipate.

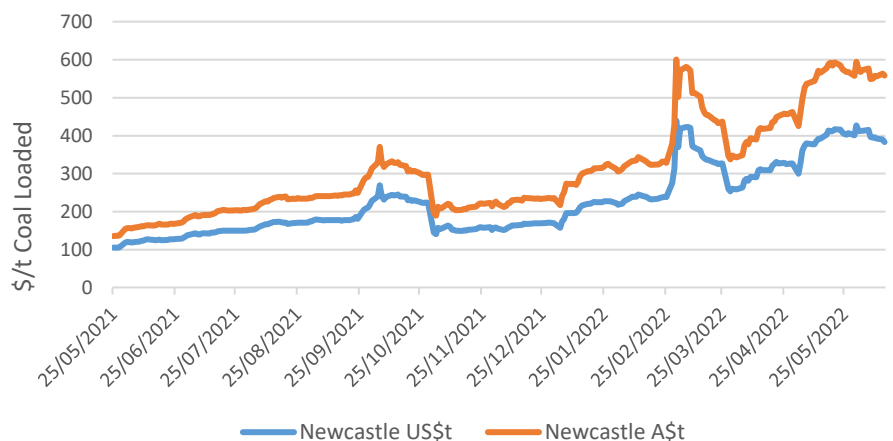
We have modeled the development cases highlighted above based on the scenarios discussed further in this note.

### Revised Commodity Outlook

Figure 2.1 highlights the Newcastle coal index, which forms the benchmark for TER sales from Blair Athol. It is only fairly recently, start 2022, that the price has made significant gains, reaching a previous peak of just over A\$600/tonne in February 2022 and now sitting at ~A\$550/tonne.

Blair Athol thermal coal generally has a lower energy value than the Newcastle Index (~5,500kcal/kg v 6,000kcal/kg). Consequently we assume that TER receive 15% discount to the index.

**Figure 2.1 – Newcastle Thermal Coal Price \$/t**

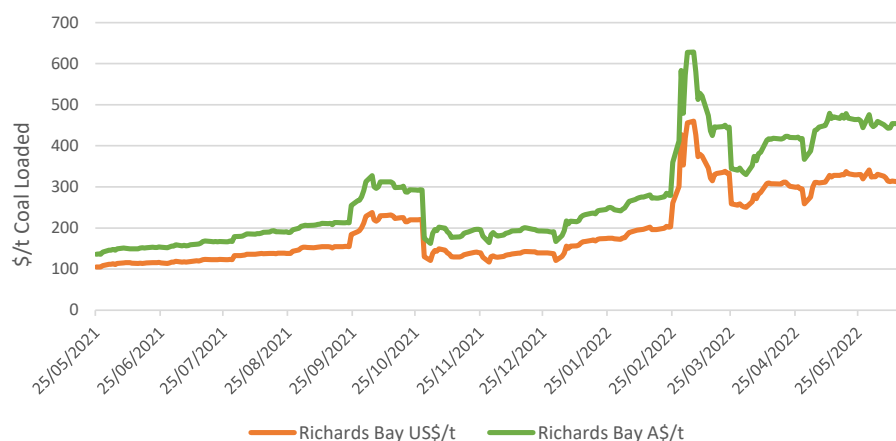


Source: Bloomberg (25/06/2022)

Figure 2.2 highlights the Richards Bay coal index, which forms the benchmark for TER's export sales from its South African operations. Like with the Newcastle coal index It is only fairly recently, beginning 2022 that the price has made significant gains, reaching peak of ~A\$620/tonne in February 2022 and now sitting above A\$450/tonne.

TER's operations in South Africa are focused on producing coal for domestic power consumption with contracts secured with Eskom, the South African public utility and largest producer of electricity in Africa. On our numbers export coal forms ~23%, of TER's African operations. Historically exports in South Africa were reduced due to Transnet (South Africa government owned rail provider) not providing the raiing capacity required to producers. If this was to normalise TER would have the ability to increase export volumes.

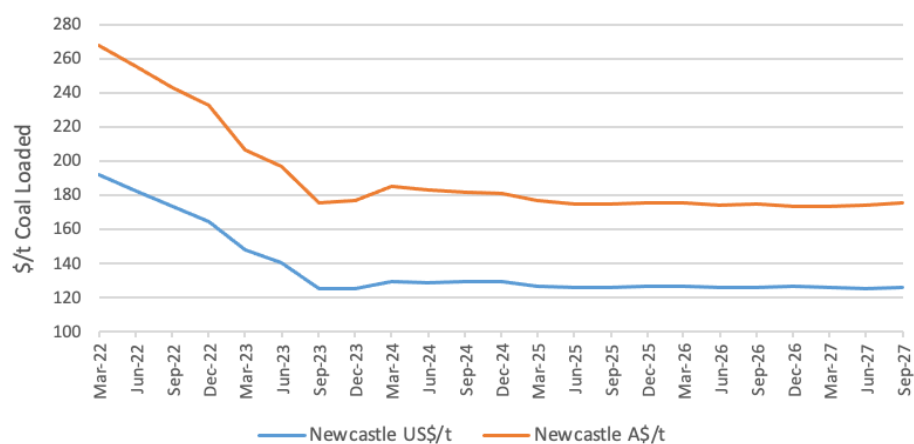
**Figure 2.2 – Richards Bay Thermal Coal Price \$/t**



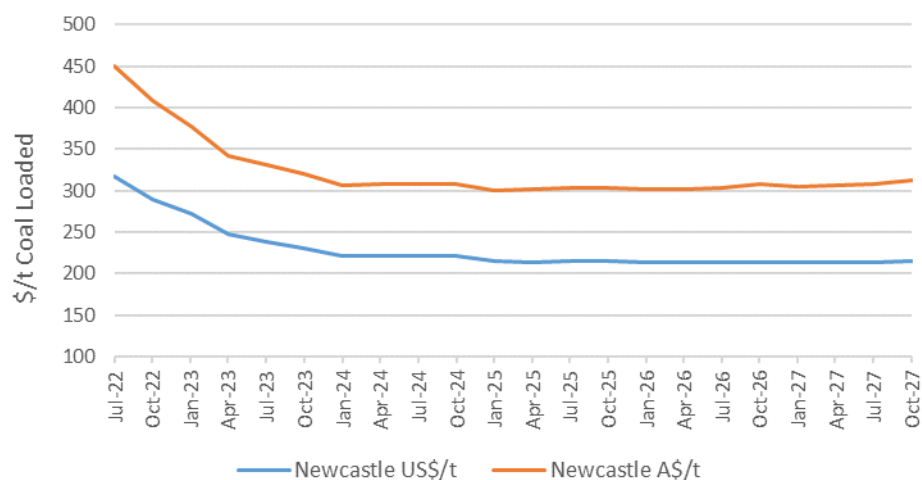
Source: Bloomberg (25/06/2022)

As highlighted in Figure 2.3, the performance and outlook for Newcastle Futures has been outstanding. The first graph highlights the prices used in our initiation note (~A\$170/tonne) while the second graph demonstrates the updated Newcastle Futures price used (~A\$300/tonne).

**Figure 2.3 – Newcastle Futures Thermal Coal Price \$/t**



Source: Bloomberg March 2022.

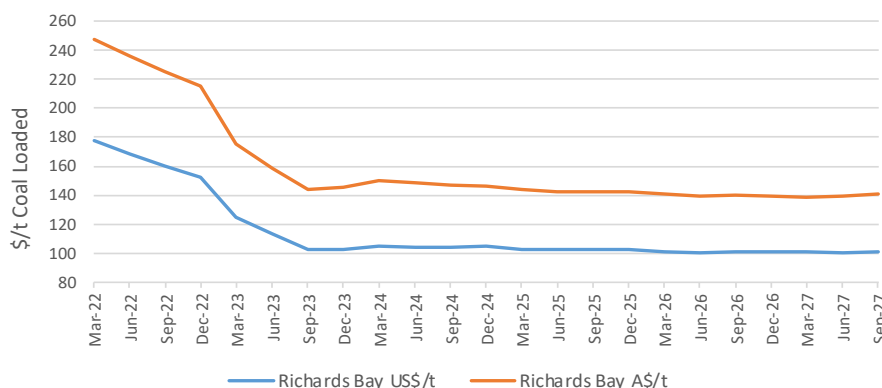


Source: Bloomberg June 2022.

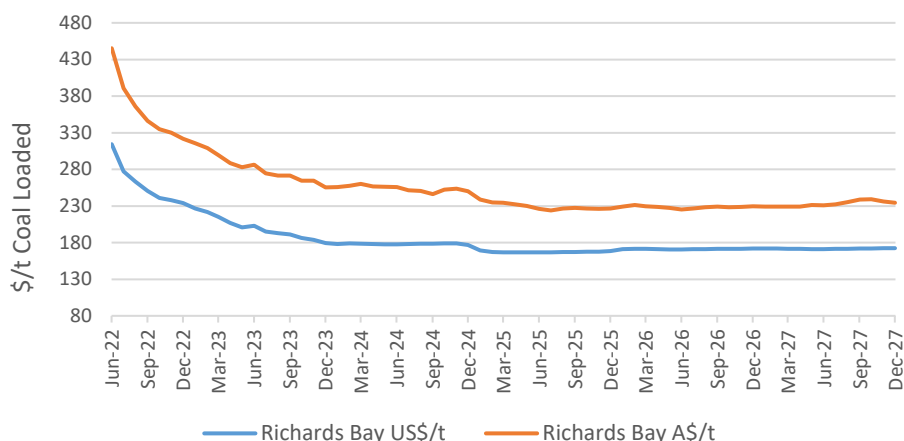


As highlighted in Figure 2.4, the performance and outlook for Richards Bay Futures has also been outstanding. The first graph highlights the prices used in our initiation note (~A\$140/tonne) with the second graph demonstrating the updated Newcastle Futures price used (~A\$230/tonne).

**Figure 2.4 – Richards Bay Futures Thermal Coal Price \$/t**



Source: Bloomberg March 2022.



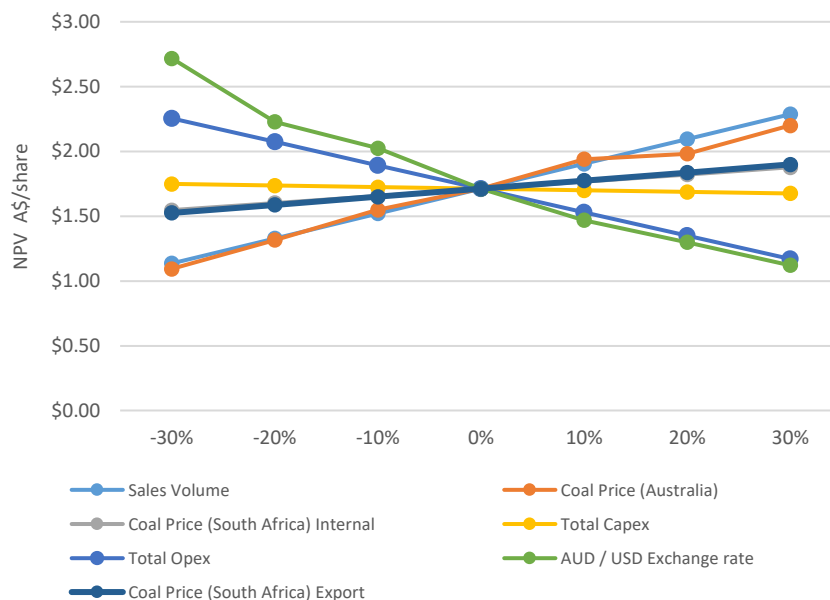
Source: Bloomberg June 2022

Our analysis incorporates a flat 15% discount on the selected export coal price due to quality of the thermal coal v Benchmark. Also, due to the recent severity of fluctuations of the forward curves we have adjusted the long term coal prices to longer term historical averages of the index at ~US\$215/t. Note, as these discounts change so will revenue and value received by TER.

### Sensitivity Analysis on Reserves and Resources Case

Figure 2.5 highlights the sensitivity of the TER share price on the ROM base production case (56.5Mt) with higher/lower Australian & South African international & domestic coal prices, reduced and increased capex, opex & volumes produced and variances in AUD/USD and ZAR/USD exchange rates.

The base valuation comes in at \$1,365.8m, or A\$1.71/share. As shown Figure 2.5 TER's valuation is most sensitive to AUD/USD exchange rate, operating costs and the Australian export coal price received. Positively we see that capital expenditure variations have a minimal impact on the company's share valuation.

**Figure 2.5 – Reserves and Resources Case Sensitivity Analysis**


Source: Evolution Capital estimates

Table 2.2 highlights the change in NPV for movements on each variable.

**Table 2.2 – Reserves and Resources Case Sensitivity Analysis**

Movement	-30%	-20%	-10%	0%	10%	20%	30%
<b>Sales Volume</b>							
Mt	29.2	33.4	37.6	41.8	45.9	50.1	54.3
NPV A\$m	907.1	1060.0	1212.9	1365.8	1518.7	1671.6	1824.5
NPV cps	1.14	1.33	1.52	1.71	1.90	2.10	2.29
<b>Coal Price (Australia)</b>							
A\$/t	134.0	153.2	172.3	191.5	210.6	229.8	248.9
NPV A\$m	872.4	1050.2	1236.1	1365.8	1547.2	1580.7	1755.4
NPV cps	1.09	1.32	1.55	1.71	1.94	1.98	2.20
<b>Coal Price (South Africa) Internal</b>							
A\$/t	36.5	41.7	46.9	52.1	57.3	62.5	67.7
NPV A\$m	1234.0	1277.9	1321.9	1365.8	1409.8	1453.7	1497.7
NPV cps	1.55	1.60	1.66	1.71	1.77	1.82	1.88
<b>Coal Price (South Africa) Export</b>							
A\$/t	113.5	129.7	145.9	162.2	178.4	194.6	210.8
NPV A\$m	1216.9	1266.5	1316.2	1365.8	1415.5	1465.1	1514.8
NPV cps	1.53	1.59	1.65	1.71	1.77	1.84	1.90
<b>Total Capex</b>							
A\$/m	135.4	154.8	174.1	193.5	212.8	232.2	251.5
NPV A\$m	1394.9	1385.2	1375.5	1365.8	1356.2	1346.5	1336.8
NPV cps	1.75	1.74	1.72	1.71	1.70	1.69	1.68
<b>Total Opex</b>							
A\$/m	2026	2315	2605	2894	3184	3473	3762
NPV A\$m	1798.6	1654.3	1510.1	1365.8	1221.6	1077.3	933.1
NPV cps	2.25	2.07	1.89	1.71	1.53	1.35	1.17
<b>AUD / USD Exchange rate</b>							
AUD / USD	0.47	0.54	0.61	0.67	0.74	0.81	0.88
NPV A\$m	2168.3	1777.9	1615.4	1365.8	1172.6	1036.2	894.6
NPV cps	2.72	2.23	2.02	1.71	1.47	1.30	1.12
<b>ZAR / USD Exchange rate</b>							
ZAR / USD	0.040	0.046	0.052	0.058	0.064	0.069	0.075
NPV A\$m	1234.0	1277.9	1321.9	1365.8	1409.8	1453.7	1497.7
NPV cps	1.55	1.60	1.66	1.71	1.77	1.82	1.88

Source: Evolution Capital estimates

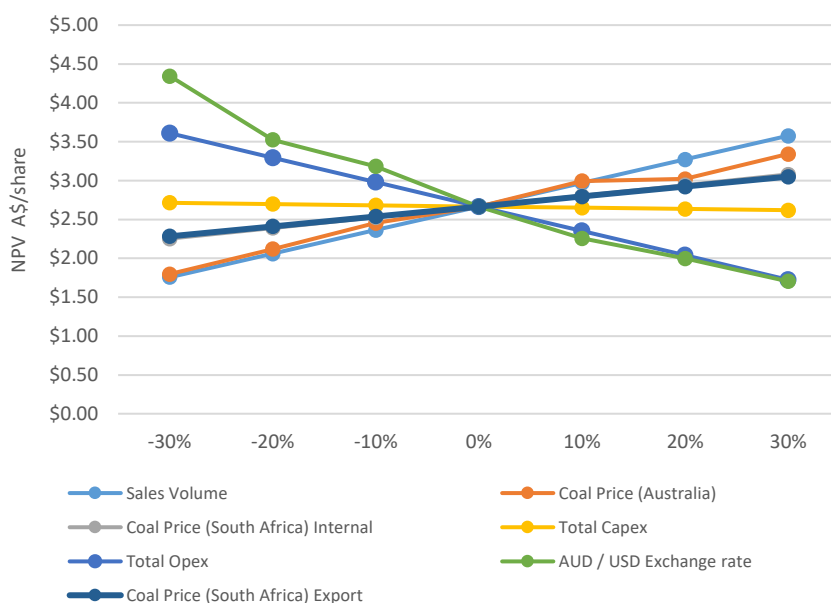
### Sensitivity Analysis on Reserves, Resources & Measured Case

Figure 2.6 highlights the sensitivity of the TER share price on the expansion production case (161Mt) with higher/lower Australian & South African

international & domestic coal prices, reduced and increased capex, opex & volumes produced and variances in AUD/USD - ZAR/USD exchange rates.

The expansion valuation comes in at \$2,127.7m, or A\$2.67/share. As shown Figure 2.6 TER's valuation is most sensitive to AUD/USD exchange rate, operating costs and the Australian export coal price received. Positively we see that capital expenditure variations have a minimal impact on the company's share valuation.

**Figure 2.6 – Reserves, Resources & Measured Case Sensitivity Analysis**



Source: Evolution Capital estimates.

Table 2.3 highlights the change in NPV for movements on each variable.

**Table 2.3 – Reserves, Resources & Measured Case Sensitivity Analysis**

Movement	-30%	-20%	-10%	0%	10%	20%	30%
<b>Sales Volume</b>							
MT	82.7	94.5	106.3	118.1	129.9	141.7	153.5
NPV A\$m	1402.6	1644.3	1886.0	2127.7	2369.4	2611.1	2852.8
NPV cps	1.76	2.06	2.36	2.67	2.97	3.27	3.58
<b>Coal Price (Australia)</b>							
A\$/t	134.0	153.2	172.3	191.5	210.6	229.8	248.9
NPV A\$m	1433.5	1692.1	1959.0	2127.7	2390.0	2410.3	2665.9
NPV cps	1.80	2.12	2.46	2.67	3.00	3.02	3.34
<b>Coal Price (South Africa) Internal</b>							
A\$/t	36.5	41.7	46.9	52.1	57.3	62.5	67.7
NPV A\$m	1798.3	1908.1	2017.9	2127.7	2237.5	2347.4	2457.2
NPV cps	2.25	2.39	2.53	2.67	2.80	2.94	3.08
<b>Coal Price (South Africa) Export</b>							
A\$/t	113.5	129.7	145.9	162.2	178.4	194.6	210.8
NPV A\$m	1821.9	1923.8	2025.8	2127.7	2229.7	2331.6	2433.6
NPV cps	2.28	2.41	2.54	2.67	2.79	2.92	3.05
<b>Total Capex</b>							
A\$/m	238.5	272.6	306.7	340.8	374.8	408.9	443.0
NPV A\$m	2166.0	2153.3	2140.5	2127.7	2115.0	2102.2	2089.4
NPV cps	2.71	2.70	2.68	2.67	2.65	2.63	2.62
<b>Total Opex</b>							
A\$/m	5104	5833	6562	7291	8020	8749	9478
NPV A\$m	2878.7	2628.4	2378.1	2127.7	1877.4	1627.1	1376.8
NPV cps	3.61	3.29	2.98	2.67	2.35	2.04	1.73
<b>AUD / USD Exchange rate</b>							
AUD / USD	0.47	0.54	0.61	0.67	0.74	0.81	0.88
NPV A\$m	3465.1	2812.6	2540.4	2127.7	1801.1	1595.3	1359.7
NPV cps	4.34	3.53	3.18	2.67	2.26	2.00	1.70
<b>ZAR / USD Exchange rate</b>							
ZAR / USD	0.040	0.046	0.052	0.058	0.064	0.069	0.075
NPV A\$m	1798.3	1908.1	2017.9	2127.7	2237.5	2347.4	2457.2
NPV cps	2.25	2.39	2.53	2.67	2.80	2.94	3.08
	82.7	94.5	106.3	118.1	129.9	141.7	153.5
	1402.6	1644.3	1886.0	2127.7	2369.4	2611.1	2852.8

Source: Evolution Capital estimates

### 3. TerraCom Assets

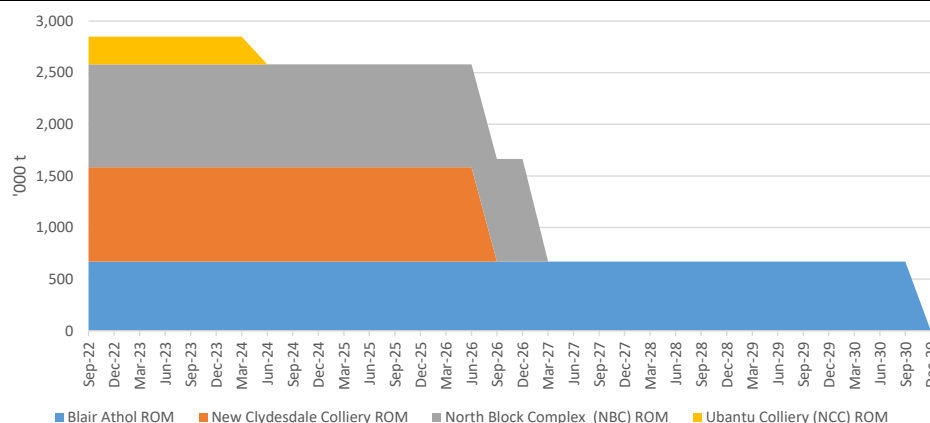
#### TER Base Case

The TerraCom base case assumes that the company is successful in developing its Proved & Probable Reserves. The base case delivers production of:

Scenario / Item July 2022 Onwards	Unit	Base Case
<b>Operations</b>		
Blair Athol ROM	'000 t	22,110
New Clydesdale Colliery ROM	'000 t	14,640
North Block Complex (NBC) ROM	'000 t	17,910
Ubuntu Colliery (NCC) ROM	'000 t	1,883
<b>Total production</b>	<b>'000 t</b>	<b>56,543</b>

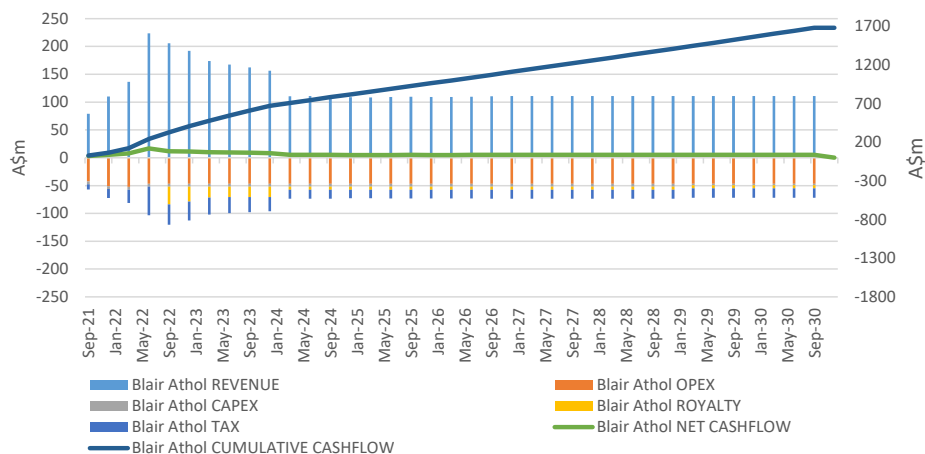
In the Base Case scenario, we assume that a total of \$2.89b of opex and \$193m of capex is spent over the production life of TER's assets. The assets produced in this scenario are Blair Athol, New Clydesdale Colliery, North Block Complex and Ubuntu Colliery.

**Figure 3.1 – TER Base Case Production**



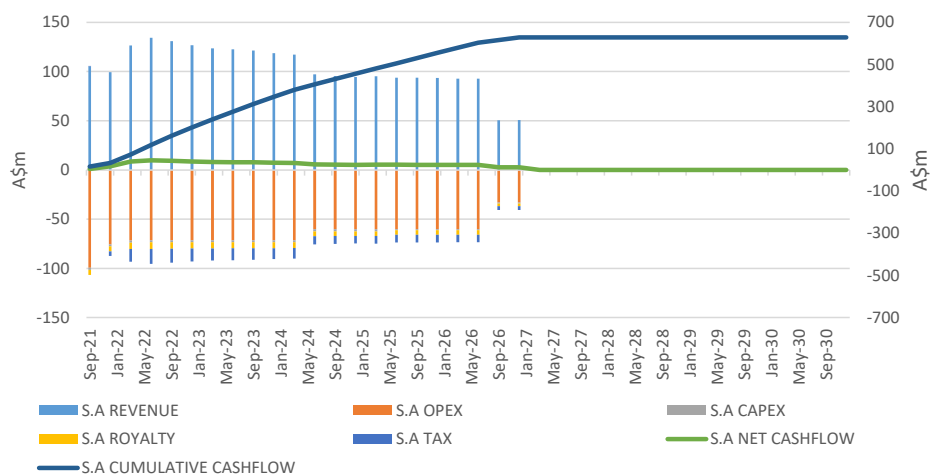
Source: Evolution Capital estimates

**Figure 3.2 – TER Blair Athol Base Case Cashflow**



Source: Evolution Capital estimates

**Figure 3.3 – TER South Africa Base Case Cashflow**



Source: Evolution Capital estimates

As shown in Figures 3.1, 3.2 and 3.3, if TER continues at steady rate production it will exhaust its South African assets by early 2027 with Blair Athol finishing by 2030 year end.

## Corporate Tax & Royalty Rates

TER is subject to two separate tax and royalty regime's. In South Africa the maximum royalty for coal is 7.5%, we assume 5%. In Australia the royalty rate for coal is calculated by reference to the average price per tonne of the coal sold, by a producer in relation to a particular mining operation. As mentioned previously, this has recently changed with the changes reflected below as follows:

Existing royalty:

- 7% for prices up to and including A\$100/t,
- 12.5% for prices between A\$100/t – A\$150/t,
- 15% for prices above A\$150/t,

Additional new tiers:

- 20% for prices above A\$175/t,
- 30% for prices above A\$225/t,
- 40% for prices above A\$300/t,

Corporate tax rates for applied are 30% for Australia and 28% for South Africa.

## Financial Position

### Cash

On our estimates TER has \$109m in cash at the end of June 2022.

### Debt

Since Initiation TER has significantly reduced its debt position from an estimated A\$202m to A\$131.7m as per our estimates as at end of June 2022.

The outstanding debt are loans due to Standard bank of South Africa and State bank of India.

This debt amount also incorporates the US\$60m prepay (~A\$90m).

In our view this debt position can be easily managed by TerraCom going forward.

## 4. Investment Risks

TER is exposed to a number of risks including:

- **Material Business Risks:** The international scope of TerraCom's operations, the nature of the thermal coal industry and external economic factors mean that a range of factors may impact results. Material macro-economic risks that could impact the Company's results and performance include Coal commodity prices, exchange rates and global factors affecting capital markets and the availability of financing.
- **Technical Risk:** Thermal coal exploration and production is speculative by nature and therefore carries a degree of risk associated with the discovery of volumes in commercial quantities. Exploration activity may be adversely influenced by a number of different factors including, amongst other things, new subsurface geological and geophysical data, drilling results including the presence, prevalence and composition of underlying resource, force majeure circumstances, drilling cost overruns for unforeseen subsurface operating conditions or unplanned events or equipment difficulties, changes to resource estimates, lack of availability of mining equipment and other integral exploration equipment and services
- **Operational Risk:** Successful production operations are still subject to a range of risks and uncertainties. These risks and uncertainties in part relate to the estimated quantities of coal that may potentially be recovered. They also relate to the costs involved of asset development and subsequent production, which are subject to a range of qualifications, assumptions and limitations. They also relate to the timing of project development and subsequent production, which is subject to a range of factors many of which are not within TerraCom's control.
- **Government and Regulator Risk:** TerraCom's rights, obligations and commercial arrangements through all stages of the coal lifecycle (exploration, development, production) in permits are commonly defined in agreements entered into with the relevant country's Government as well as in the Country's petroleum, tax and emission related legislation and other laws. These agreements and laws are at risk of amendment by a Government which accordingly could materially impact on TerraCom's rights and commercial arrangements adversely. Furthermore, due to the evolving nature of exploration work programs (as new technical data becomes available) and due to the fluctuating availability of mining equipment and services, TerraCom's may seek to negotiate variations to permit agreements in particular in relation to the duration of the exploration phase in the permit and the work program commitments.
- **Environmental Risks:** Coal operations have inherent risks and liabilities associated with ensuring operations are carried out in a manner that is responsible to the environment. Although TerraCom operates within the prevailing environmental laws and regulations, such laws and regulations are continually changing and as such, TerraCom could be subject to changing obligations or unanticipated environmental incidents that, as a result, could impact costs, provisions and other facets of TerraCom's operations
- **Resource Risk:** all resource estimates are expressions of judgement based on knowledge, experience and industry practice. Estimates, which were valid when originally calculated may alter significantly when new information or techniques become available. In addition, by their very nature, resource estimates are imprecise and depend to some extent on interpretations, which may prove to be inaccurate.
- **Commodity Price Risk:** the revenues TerraCom will derive mainly through the sale of Coal exposing the potential income to thermal coal price risk. The price of coals fluctuate and are affected by many factors beyond the control of TerraCom. Such factors include supply and

demand fluctuations, technological advancements and macro-economic factors.

- **Exchange Rate Risk:** The revenue TerraCom derives from the sale of coal exposes the potential income to exchange rate risk. International prices of coal as well some of the costs base are denominated in United States dollars, whereas the financial reporting currency of TerraCom is the Australian dollar, exposing the company to the fluctuations and volatility of the rate of exchange between the USD and the AUD and the ZAR as determined by international markets.
- **Management and Labour Risk:** an experienced and skilled management team is essential to the successful development and operation of coal projects.

#### Evolution Capital Pty Ltd

Level 6, 1 Castlereagh Street  
Sydney, NSW 2000  
Tel: +61 2 8379 2961  
[www.eveq.com](http://www.eveq.com)

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