Atrum Coal NL (ATU.AX)

Building the world's largest and highest grade anthracite deposit

Emerging Producer – ATU's flagship project Groundhog North (100% ATU) is a 600mt high grade/ultra high grade anthracite resource in British Columbia, Canada. An optimised PFS released in Oct-14 proposed a 5.4mtpa (ROM) underground operation producing 3.2mtpa of saleable product at an all-in cash cost of US$86/t FOB over a 38 year mine life. With project financing underway and first production & sales expected in 2015, the year ahead marks a significant turning point for the company.

Funding Pathways - Capex estimates for the project are US$596m (US$171m drawdown to positive cashflow) with the current schedule targeting first coal sales in H2 2015. The development strategy is intended to provide easy, quick entry into the anthracite seams and a phased development via small scale (250ktpa) mining at a Capex of US$58m aimed at conservatively managing funding and operational risk. Capital requirements will be funded via the sale of a minority stake in Groundhog North (1H 2015 expected completion) in conjunction with equipment leasing/debt facilities.

Offtake & Anthracite Markets – Offtake negotiations have progressed with recent MOU's signed with major Japanese steel producing conglomerates. Security of supply is a central issue for end-users, and with regards to anthracite this is a notable uncertainty given the countries presently supplying the bulk of sea-borne trade. We believe the project will obtain significant interest on this basis given the long-life of the operations.

Catalyst Watch – Key catalysts over the year ahead include offtake, finalisation of project financing, bulk sample and small scale mining permitting and an updated global JORC resource.

Buy, Target Price A$3.86/share – The current share price represents attractive value vs our target price of $3.86/share (set at 0.75xNPV). Our modelling derives a more conservative valuation relative to the SPFS, and we include a 75% risk weighting to account for the early stage of the project and typical hurdles remaining to proceed into production. With the stock trading at a significant discount to our target price we rate the stock a Buy.

05 May 2015

BUY	
Price (29 April 15)	A$1.14
Target Price	A$3.86
Expected share price return	201.6%
Expected dividend yield	0.0%
Expected total return	**238.8%**
Market Cap	A$194m

Share Price Performance

Major Shareholders

Lenark Pty Ltd	21.5%
Russell Moran	19.0%
Gino D'Anna	7.0%

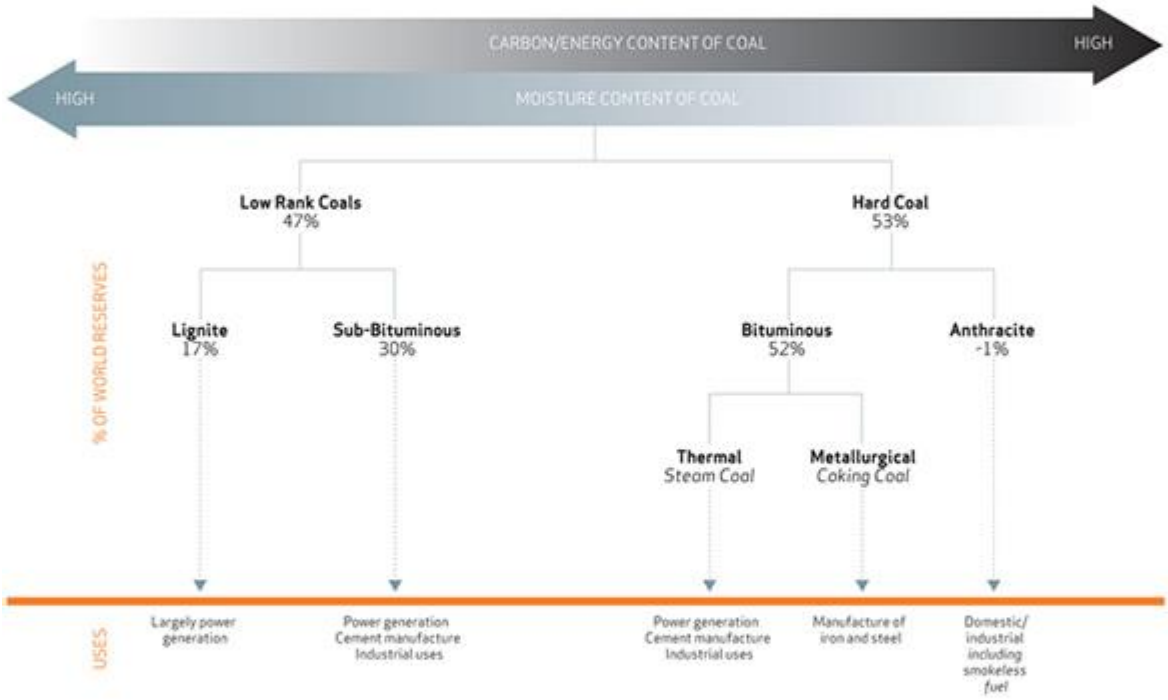
LemSec Contact

Nick Kelso
Phone: 0404 003 613
Email: nickk@lemsec.com.au

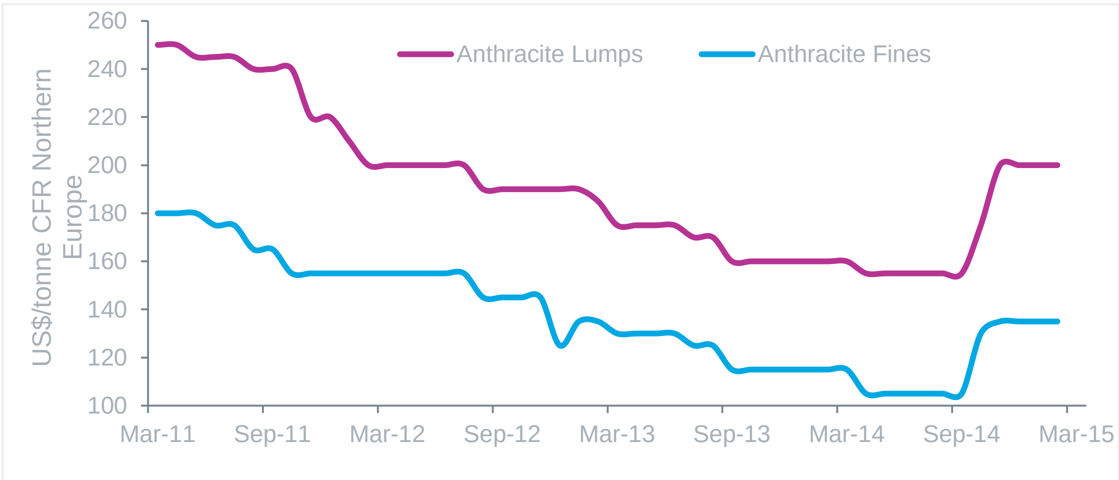
ANTHRACITE SNAPSHOT

Atrum is a developer of metallurgical coal projects with a specific focus on anthracite. Anthracite is the highest rank coal by energy content and is considered the cleanest burning of all coal types.

Source: World Coal Association



Anthracite prices have strengthened since mid 2014 despite broader weakness in commodities, reflecting declining exports from the Ukraine following conflict in the area and subsequent production outages.



Source: Resource Net

LeMessurier Securities Pty Ltd
AFS Licence 296877 | ABN 43 111 931 849
Suite 6.05, 50 Clarence Street
Sydney NSW 2000
PO Box 4249
Sydney NSW 2001
E hello@lemsec.com.au
W lemsec.com.au

Latest benchmark price data CFR Northern Europe (Resource Net, as at Mar-15) is as follows (max 3/5% volatilities, 1.2/1.3% sulphur):

- Anthracite Lumps (25/100mm) = US$190-210/t (typically used as a metallurgical coke replacement)
- Anthracite Fines (0-10mm) = US$130-140/t (typically used as fuel in ore sintering & pelletizing applications)

GROUNDHOG NORTH UNDERGROUND

Groundhog North Underground is Atrum's flagship project, situated in the Bowser Basin in British Columbia, Canada. Details of an optimized PFS were released in Oct-14 which outlined a 5.4mtpa (ROM) underground operation producing 3.2mtpa of saleable product at a cash cost of US$86/t FOB over a 38 year mine life.

Source: Company Reports

The PFS derived a post-tax NPV of A$1.7bn predicated on an average sales price across all products of $186/t FOB. The Groundhog North Underground PFS assumes production of 52% lumps / 48% fines.

Atrum believe the Groundhog North product will achieve a premium to benchmark pricing given the product is expected to contain lower ash & sulphur (10% & 0.6% respectively) relative to benchmark product. Atrum is also expects to be able to produce specialty products for use in the recarburiser market, synthetic graphite substitution and filtration media, amongst others, which can fetch prices in excess of $10,000/t in some cases. These potential high value products represent upside not modelled in our valuation.

With seaborne export anthracite markets presently dominated by politically unstable regions, a key strategic advantage of Groundhog North is the location on the West Coast of Canada. This was reflected in recent offtake negotiations which resulted in MOU's signed with major Japanese steel producing conglomerates. Security of supply is a central issue for end-users, and with regards to anthracite this is a notable uncertainty given the countries presently supplying the bulk of sea-borne trade. We believe the project will obtain significant interest on this basis particularly given the long-life of the operations.

INFRASTRUCTURE

The Groundhog project is situated approximately 150km from the Port of Stewart where it has secured a (non take-or-pay) contract for 3mpta export capacity at Stewart Bulk Terminal and an MOU for an additional 5Mtpa at Stewart World Port. Multiple routes to port are available via road/rail.

Source: Company Reports

Operating costs in the optimized PFS incorporate transport via road, trucking product via a dedicated 130km unsurfaced haul road joining a further 90km of sealed highway to port. Potential for a dedicated rail option to Stewart Port represents an opportunity to lower operating costs, and further enhance the competitiveness of the operation relative to other global metallurgical coal producers.

KEY CATALYSTS

Offtake – Progress Towards Binding Sales Agency Agreement

Non-binding MOU's have been signed to negotiate Sales Agency Agreements with competing confidential parties including three of Japan's seven "Sogo shosha" (Japanese general trading companies) with combined annual revenues of more than A$230 billion and more than 195,000 employees. The seven "Sogo shosha" in Japan are Mitsui, Sumitomo, Mitsubishi, Toyota, Itochu, Marubeni and Sojitz.

The MOUs are a key step in executing a minority equity sell-down in the Groundhog North Mining Complex to fund development of the first mine in the Groundhog Coalfield.

Pricing assumptions represent a key area of uncertainty given the opaque nature of the market for anthracite coal. As such, further progress on offtake negotiations represents a key catalyst for the company in terms of firming up visibility in the economics underlying Groundhog North Underground.

Funding – Minority Equity Sell-Down

Atrum has outlined funding plans for the development of Groundhog North Underground via a sell-down in project equity in the first half of 2015. The development strategy is intended to provide easy, quick entry into the anthracite seams and a phased development via small scale mining aimed at conservatively managing funding and operational risk. Capital requirements will be funded via the sale of a minority stake in Groundhog North (1H 2015 expected completion) in conjunction with leasing/debt facilities. While overall capex requirements are US$596m (US$171m drawdown to positive cash flow), only US$58m is budgeted to the commencement of small scale mining in 2015.

The finalization of the sell-down in project equity would not only provide funding for capex, but in addition would mark a vote of confidence in the project with read-through on valuation. Delivery of this milestone in the first half of 2015 represents a key near-term catalyst to watch.

Funding – $100M Equipment Finance Deal

Atrum has announced today that it has signed a $100 million agreement for equipment finance with China Coal Technology & Engineering Group Corp (CCTEG) for the supply and finance of underground anthracite mining equipment. CCTEG is one of China's largest state-owned enterprises, generating in excess of US$7B revenue from the manufacture and sale of specialised coal mining equipment and operating coal mines. We believe this agreement will assist the Atrum with the equity sell-down.

SHARE STRUCTURE

Atrum has 162,324,242 shares on issue, a small amount considering what the company has achieved since listing in July 2012. Management control about 50% of the share register and have continued buying stock on market since listing

VALUATION & TARGET PRICE

Our target price of A$3.86/share and Buy rating is predicated upon DCF analysis. Our target price is set using a 0.75x NPV multiple.

NPV

Our NPV is derived from DCF methodology using a 10% WACC and pricing assumptions as per the PFS.

NPV (Post-Tax)	US$m	Equity	Risk	US$/share
Groundhog North	1,113	100%	75%	3.15
Exploration & Investments	50	100%	100%	0.19
Corporate G&A	(100)			(0.38)
Net Cash (Debt)	2			0.01
TOTAL	**1,065**			**2.97**
AUDUSD				0.77
NPV / Share in Quoted Currency				**3.86**
WACC				10%
Shares On Issue, fully diluted (m)				265

Our fully diluted share count incorporates an allowance for $100m of equity raised at A$1.20/share.

We derive an NPV of ~$3.86/share. With the stock trading at a significant discount to our NPV, we see sufficient potential upside to warrant a Buy rating.

Cash Flow Summary

CASH FLOWS			2015	2016	2017	2018
Receipts from customers		US$m	-	58.1	185.9	403.9
Payments to suppliers & employees		US$m	-	($37.7)	($117.7)	($193.5)
Cash Flow From Operations		US$m	-	20.4	68.3	210.4
Royalties	**1.0%**	US$m	-	($0.6)	($1.9)	($4.0)
Other		US$m				
Net Operating Cash Flow		US$m	-	19.8	66.4	206.4
Sustaining Capex	(15)	US$m	-	($15.0)	($15.0)	($15.0)
Project Capex		US$m	($160.0)	($198.0)	($60.0)	($48.0)
Exploration	(10)	US$m	-	($10.0)	($10.0)	($10.0)
Free Cash Flow (Pre-Tax)		US$m	($160.0)	($203.2)	($18.6)	133.4
D&A	(30)	US$m		($13.2)	($15.4)	($17.3)
EBIT		US$m	-	6.6	51.0	189.0
Cash Corporate Tax		US$m	-	($2.0)	($15.3)	($56.7)
Free Cash Flow (Post-Tax)		US$m	($160.0)	($205.2)	($33.9)	76.6
NPV (Post-Tax)	10%	US$m	1,112.8	1,384.0	1,727.6	1,934.3

DIRECTORS & SENIOR MANAGEMENT

James Chisholm – Executive Chairman

Mr Chisholm is a qualified engineer who has worked in the engineering and mining sectors for the past 28 years, initially in engineering, then management, then M&A roles. He co-founded The Chairmen1 Pty Ltd (which is the largest shareholder of Guildford Coal Limited ASX: GUF), Ebony Iron Pty Ltd (now part of Strategic Minerals Plc, AIM: SML), Fertoz Limited (ASX: FTZ) and Ebony Coal Limited. Mr Chisholm brings to Atrum Coal an extensive network of contacts, opportunities and experience in mining.

Russell Moran – Executive Director

Mr Moran has a background in strategic business development in the mining, engineering and oil & gas sectors. He has been involved in the inception and development of a number of private and public exploration companies across a variety of commodities, both in Australia and abroad. Mr Moran is also Chairman of Canadian coking coal explorer Kuro Coal Limited (ASX:KCO) and Director of Australia based Ebony Coal Limited which is developing thermal coal and shale oil projects in Queensland and the Northern Territory.

Gino D'Anna – Executive Director / Company Secretary

Mr D'Anna has an extensive background in strategic corporate advisory, mergers and acquisitions and initial and secondary capital markets, including debt, equity and hybrid instruments. He has been on the board of and advisor to a number of junior and mid-tier exploration and development companies both in the natural resources sector and in the manufacturing, labour and insurance / financial sector. Mr D'Anna is currently a Director of Canadian coking coal explorer Kuro Coal Limited (ASX: KCO) and is also Director of a private copper exploration company. Mr D'Anna has experience in uranium, iron ore, copper, gold and anthracite exploration and development.

Steven Boulton – Non-Executive Director

Mr Boulton has more than 30 years' experience in the infrastructure sector including 12 years as Chief Executive Officer of both funds management and stock exchange listed infrastructure businesses based in Australia and New Zealand. He has held Executive Chairman and Director roles in the ports, electricity, gas, water, airports and rail sectors, with assets located in Australia, New Zealand, United States, United Kingdom and Europe.

Mr Boulton's most recent role was Chief Executive of Hastings Funds Management, which was accountable for approximately $7 billion of funds invested globally in the infrastructure and utility sectors. Steve holds a Bachelor of Business degree and a Master of Technology Management from Griffith University in Queensland. Steve is a Fellow of both the Australian Institute of Company Directors and the Australian Institute of Management.

Cameron Vorias – Non-Executive Director

Mr Vorias has over 25 years' experience of both metaliferous, coal mining operations and projects. He is currently Managing Director and CEO of Sojitz Coal Mining Pty Ltd, primarily involved in the management and development of a large open-cut coal mine with multiple project pipelines. Previous roles include director of numerous companies including Peabody Energy Australia Pty Ltd and New Hope Corporation Limited.

RISKS

There are a number of risks to our investment view which include the price of metallurgical coke, which is known for its volatility. Macroeconomic factors such as economic growth in China may turn out to be substantially weaker than broadly anticipated, which could impact demand and hence prices for steel, coke and anthracite.

Atrum's project remains in the early phases of development and as such uncertainty with regards to the achievement of current operating estimates is substantial. Construction & operating costs may turn out to be materially different to those anticipated which could negatively impact our valuation and earnings estimates.

If the impact on the company from any of these factors proves to be more or less negative than we anticipate, the stock could have difficulty achieving our financial estimates and price target.

IMPORTANT DISCLOSURES

LemSec has prepared this report by way of general information. This document contains only general securities information. The information contained in this report has been obtained from sources that were accurate at the time of issue. The information has not been independently verified. LemSec does not warrant the accuracy or reliability of the information in this report.

In preparing the report, LemSec did not take into account the specific investment objectives, financial situation or particular needs of any specific recipient. The report is published only for informational purposes and is not intended to be advice. This report is not a solicitation or an offer to buy or sell any financial product. LemSec is not aware whether a recipient intends to rely on this report and is not aware of how it will be used by the recipient. Investors must obtain personal financial advice from their own investment adviser to determine whether the information contained in this report is appropriate to the investor's financial circumstances. Recipients should not regard the report as a substitute for the exercise of their own judgment.

The views expressed in this report are those of the analyst/s named on the cover page. No part of the compensation of the analyst is directly related to inclusion of specific recommendations or views in this report. The analyst/s receives compensation partly based on LemSec revenues, including any investment banking and proprietary trading revenues, as well as performance measures such as accuracy and efficacy of both recommendations and research reports.

LemSec believes that the information contained in this document is correct and that any estimates, opinions, conclusions or recommendations are reasonably held or made at the time of its compilation in an honest and fair manner that is not compromised. However, no representation is made as to the accuracy, completeness or reliability of any estimates, opinions, conclusions or recommendations (which may change without notice) or other information contained in this report. To the maximum extent permitted by law, LemSec disclaims all liability and responsibility for any direct or indirect loss that may be suffered by any recipient through relying on anything contained in or omitted from this report. LemSec is under no obligation to update or keep current the information contained in this report and has no obligation to tell you when opinions or information in this report change.

LemSec and its directors, officers and employees or clients may have or had interests in the financial products referred to in this report and may make purchases or sales in those the financial products as principal or agent at any time and may affect transactions which may not be consistent with the opinions, conclusions or recommendations set out in this report. LemSec and its Associates may earn brokerage, fees or other benefits from financial products referred to in this report. Furthermore, LemSec may have or have had a relationship with or may provide or has provided investment banking, capital markets and/or other financial services to the relevant issuer or holder of those financial products.

Specific disclosure: The analyst/s, LemSec and/or associated parties may have beneficial ownership or other interests in financial products issued by the Company at the time of this report. Diligent care has been taken by the analyst/s to maintain an honest and fair objectivity in writing the report and making the recommendation.

LeMessurier Securities Pty Ltd
AFS Licence 296877 | ABN 43 111 931 849
Suite 6.05, 50 Clarence Street
Sydney NSW 2000
PO Box 4249
Sydney NSW 2001
E hello@lemsec.com.au
W lemsec.com.au