



## **Malabar Resources Ltd (Unlisted)**

### **A\$250m in equity secured for the Maxwell mine, with New Hope Corporation emerging as a 15% shareholder**

- Our June 2022 report presented an overview and valuation of Malabar Resources Ltd. This was prepared prior to the successful completion of a major equity issue in July. This update describes the equity raise and the impact it has on our valuation per share for Malabar.
- Malabar's Maxwell and Spur Hill projects are located in the Upper Hunter coalfield of NSW and represent some of the last coking coal-dominated deposits of size. The Maxwell long wall mine is now fully permitted for the production of 3-3.6Mtpa expanding to 5.5-6.5Mtpa within a few years. Construction of the mine commenced in May 2022.
- Key to the success of the Maxwell mine was the acquisition of the plant and infrastructure from the former Drayton mine (with a \$300m replacement value, it is estimated). This results in a capital intensity around half of the sector average.
- Cash costs are forecast to be very competitive: well within the first cost quartile for thermal coal and with high margins forecast for a semi-soft coking coal product.
- The combined Maxwell and Spur Hill Mineral Resource is an impressive 1.4Bn tonnes. Maxwell Ore Reserves alone currently total some 144mt within 4 seams so sufficient to support a +20-year mine life at a production rate of around 6mtpa (product). We see potential for an additional 20 years of mine life from other seams.
- At steady state around 75% of the mine's production (by volume) will be semi-soft coking coal, a well-regarded Hunter blending coal which should be eagerly sought by steelmakers. High energy, low ash and low sulphur thermal coal will be a by-product.
- The project has access to world class transport infrastructure and a skilled workforce. With its low-cost structure, long mine life and with expansion options, we judge the project to be truly Tier 1 in status.
- In our June report we had estimated that the company would raise \$165m in new equity. Taking advantage of strong demand and the introduction of ASX-listed coal miner New Hope Corporation as a 15% cornerstone, the Malabar board decided to increase the equity component to \$250m. This, together with the presence of New Hope and its very strong balance sheet, may present opportunities to assist with the development of the Maxwell project.
- The additional \$85m in equity provides the company with a great deal of flexibility and enables the funding of the early-stage Whynot thermal coal development. This project should have very attractive economics given current thermal coal prices, driven by the global energy crisis.
- The additional equity raised has seen a reduction in our estimated NPV<sub>8</sub>/share with dilution from an increased number of shares. This is partly offset by a discount we had applied to the go-ahead of the Whynot mine. Our valuation for Malabar diluted by the recent equity issue is now A\$5.95/share.



## July equity raise of A\$250m now fully funds the Maxwell project.

On 21 July 2022, Malabar Resources secured final funding for the construction of its Maxwell Underground Metallurgical Coal Mine. The funding includes debt facilities of c. \$250 million and equity of c. \$250 million. The equity was raised at \$1.25 per share from a combination of exercise of options and placement.

\$94.4 million of the equity was provided by New Hope Corporation Limited. This investment will result in New Hope acquiring a 15 per cent interest in Malabar. This level of investment provides New Hope with the ability to appoint a director to Malabar's board.

Construction of the Maxwell Underground Mine began in May 2022, with first coal expected to be produced in early 2023.

## New Hope - background

New Hope Corporation (ASX: NHC) is a coal mining company whose primary asset is the Bengalla thermal coal mine situated in the Hunter Valley, NSW. NHC owns an 80% equity share in Bengalla with the remaining 20% owned by Taipower. Washington H. Soul Pattinson (ASX: WHSP) owns 37% of NHC.

The Bengalla mine is an open-cut thermal coal mine producing Newcastle benchmark 6000kcal and 5500kcal quality coal for export markets. The mine is approved to produce up to 15mtpa ROM until 2039, with current production rates of ~12.5mtpa planned to increase to 13.4mtpa over the next 2 years in response to current strong demand conditions.

NHC also owns the New Acland coal mine in the Darling Downs region of Queensland currently on care and maintenance pending the receipt of approvals for the Stage 3 expansion.

NHC has investments in a bulk handling port in Brisbane, a cattle grazing operation (primarily on rehabilitated mine land) and an oil and gas business (Bridgeport Energy) which has tenements in the Cooper, Surat and Otway basins and currently produces ~1100bopd.

Following the acquisition of 15% of Malabar, NHC commented that the Company's investment:

- aligns with the Company's strategy to invest its surplus cash into coal assets that are low on the cost curve with long life approvals;
- adds meaningful equity tonnes at an attractive entry price investing alongside well respected founders who have a strong track record of developing coal projects and companies;
- diversifies the Company's asset base by providing exposure to metallurgical coal mined by low impact, underground methods;
- facilitates delivery of a project with strong technical and operational foundations and the ability to unlock value with the use of significant established infrastructure; and
- provides attractive investment returns over the life of the project with additional upside return opportunities from diversified enterprises including exploration and agricultural assets and the future development of an approved 25MW solar farm.



## FINANCIAL SUMMARY

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FINANCIAL SUMMARY							Malabar Resources Limited							
Share Price*	A\$/sh						1.25							
Shares on Issue	m						504							
Market Cap (A\$m)	A\$m						629							
Net Debt / (Cash) (A\$m)	A\$m						(272)							
Enterprise Value (A\$m)	A\$m						357							
Profit & Loss		Units	Jun-23e	Jun-24e	Jun-25e	Jun-26e	Jun-27e	Per Share Data		Jun-23e	Jun-24e	Jun-25e	Jun-26e	Jun-27e
Sales and Other Income	A\$m	4	184	419	504	746	Shares Out (m)		504	504	504	504	504	
Expenses	A\$m	-	(108)	(225)	(283)	(387)	EPS (¢)		(1.9¢)	4.4¢	16.6¢	19.5¢	36.7¢	
<b>EBITDA</b>	A\$m	<b>4</b>	<b>76</b>	<b>195</b>	<b>221</b>	<b>359</b>	Dividend (¢)		-	-	-	10.0¢	18.8¢	
D&A	A\$m	(1)	(17)	(45)	(50)	(65)	Payout Ratio (%)		0%	0%	0%	51%	51%	
<b>EBIT</b>	A\$m	<b>3</b>	<b>60</b>	<b>150</b>	<b>171</b>	<b>294</b>	Book Value (A\$/share)		0.65	0.65	0.93	1.02	1.37	
Interest	A\$m	(13)	(28)	(30)	(30)	(30)	Operating Cash Flow (A\$/share)		(0.01)	0.05	0.32	0.28	0.62	
Tax	A\$m	-	(9)	(36)	(42)	(79)	Free Cash Flow (A\$/share)		(0.40)	(0.22)	0.24	(0.31)	0.56	
<b>NPAT</b>	A\$m	<b>(10)</b>	<b>22</b>	<b>84</b>	<b>98</b>	<b>185</b>	EBITDA (A\$/share)		0.01	0.15	0.39	0.44	0.71	
Cashflow		Units	Jun-23e	Jun-24e	Jun-25e	Jun-26e	Jun-27e	Valuation Metrics		Jun-23e	Jun-24e	Jun-25e	Jun-26e	Jun-27e
Cash From Operations	A\$m	4	76	195	221	359	P/E (x)		(66.1)x	28.7x	7.5x	6.4x	3.4x	
Interest	A\$m	-	-	(30)	(30)	(30)	Dividend Yield (%)		0.0%	0.0%	0.0%	8.0%	15.0%	
Tax	A\$m	-	-	-	-	-	EV / Sales		85.1x	1.9x	0.9x	0.7x	0.5x	
Working Capital	A\$m	(10)	(50)	(1)	(50)	(15)	EV / EBITDA		85.1x	4.7x	1.8x	1.6x	1.0x	
<b>Net Cash From Operations</b>	A\$m	<b>(6)</b>	<b>26</b>	<b>163</b>	<b>140</b>	<b>313</b>	EV / EBIT		110.6x	6.0x	2.4x	2.1x	1.2x	
Capex	A\$m	(194)	(135)	(42)	(295)	(27)	FCF Yield (%)		-31.8%	-17.4%	19.0%	-24.9%	45.0%	
Exploration	A\$m	-	-	-	-	-	Operating Metrics (%)		Jun-23e	Jun-24e	Jun-25e	Jun-26e	Jun-27e	
Acquisitions / Investments	A\$m	(0)	(1)	(1)	(2)	(3)	EBITDA Margin		n/a	n/a	46%	44%	48%	
<b>Free Cash Flow</b>	A\$m	<b>(200)</b>	<b>(109)</b>	<b>120</b>	<b>(157)</b>	<b>283</b>	EBIT Margin		n/a	n/a	36%	34%	39%	
Borrowings	A\$m	240	-	-	-	-	Net Profit Margin		n/a	n/a	20%	20%	25%	
Equity	A\$m	250	-	-	-	-	ROIC		n/a	n/a	33%	24%	43%	
Dividend	A\$m	-	-	-	(50)	(94)	Return on Assets		n/a	n/a	10%	11%	17%	
<b>Net Increase / (Decrease) in Cash</b>	A\$m	<b>290</b>	<b>(109)</b>	<b>120</b>	<b>(207)</b>	<b>189</b>	Return on Equity		n/a	n/a	18%	19%	27%	
							Effective Tax Rate		n/a	n/a	30%	30%	30%	
Balance Sheet		Units	Jun-23e	Jun-24e	Jun-25e	Jun-26e	Jun-27e	Key Assumptions		Jun-23e	Jun-24e	Jun-25e	Jun-26e	Jun-27e
Cash	A\$m	306	196	316	109	298	Semi-Soft Coking Coal (US\$/t)		130	130	130	130	130	
Receivables	A\$m	1	15	34	41	61	Thermal Coal (US\$/t)		125	125	125	95	95	
Inventory	A\$m	-	18	42	50	74	AUDUSD		0.75	0.75	0.75	0.75	0.75	
PP&E	A\$m	290	409	406	651	614	Coal Sold (mt)		-	1.0	2.5	3.2	5.0	
Other	A\$m	36	36	36	36	36	Cost of Coal FOB (A\$/t prod)		-	100.0	65.0	65.0	55.1	
<b>Assets</b>	A\$m	<b>633</b>	<b>674</b>	<b>834</b>	<b>887</b>	<b>1,083</b>	Valuation		A\$m	Equity	Risk	A\$m	A\$/share	
Creditors	A\$m	1	15	34	41	61	Maxwell Mine - Stage 1 & 2		2,423	100%	100%	2,423	4.81	
Borrowings	A\$m	268	297	297	297	297	Whynot		107	100%	100%	107	0.21	
Other	A\$m	37	37	37	37	37	Spur Hill		679	100%	25%	170	0.34	
<b>Liabilities</b>	A\$m	<b>306</b>	<b>348</b>	<b>368</b>	<b>374</b>	<b>394</b>	Other Assets		110	100%	100%	110	0.22	
<b>Net Assets</b>	A\$m	<b>327</b>	<b>326</b>	<b>467</b>	<b>513</b>	<b>688</b>	Corporate Costs		(88)	100%	100%	(88)	(0.17)	
							Net Cash (Debt)		272	100%	100%	272	0.54	
Liquidity & Leverage		Units	Jun-23e	Jun-24e	Jun-25e	Jun-26e	Jun-27e	<b>Total</b>	<b>3,504</b>			<b>2,994</b>	<b>5.95</b>	
Borrowings	A\$m	268	297	297	297	297	WACC						<b>8.0%</b>	
Net Debt / (Cash)	A\$m	(38)	100	(20)	188	(1)	FPO Shares						504	
Gearing: Net Debt / (Net Debt + Equity)	%	-13%	23%	-4%	27%	0%	Performance Rights & Options						-	
Net Debt / EBITDA	x	(9.0)x	1.3x	(0.1)x	0.9x	(0.0)x	<b>Fully Diluted SOI</b>						<b>504</b>	
EBIT Interest Cover	x	n/a	n/a	n/a	5.6x	9.7x								

\*pricing of the July 2022 equity raise

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Dr Chris Baker, an authorised representative of BSCP, certifies that the advice in this report reflects his honest view of the company. He has 29 years investment experience in wholesale capital markets. He worked as a mining analyst for brokers BZW and UBS for 11 years and has a further 16 years' experience as a mining analyst and portfolio manager with Colonial First State and Caledonia Investments. He now provides independent financial advice on a part time basis. He may own securities in companies he recommends but will declare this when providing advice. He does not own shares in Malabar. He is remunerated by BSCP but is not paid a specific fee for providing this report. BSCP, its directors and consultants may own shares and options in Malabar and may, from time to time, buy and sell the securities of Malabar.

### BSCP received fees associated with the recent fund raising by Malabar



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CAPITAL PARTNERS

#### **Appendix 1**

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