

**Sakari Resources Ltd ----- Maintain NEUTRAL**
**1Q12 earnings – weaker than expected**
**EPS: ▼ TP: ◀▶**

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- SAKR reported a net profit of US\$14 mn, 8% of CS's full-year forecast before revision and below consensus estimate. Net profit declined 80% QoQ from a high base in 4Q11.
- The QoQ decline in net profit was due to 35% lower volume, 6% drop in ASP, and 15% rise in cash costs. Heavy rains at JBY mine during December led management to change its mine plan, and it opened two new pits in 1Q12 instead of 2Q12 as originally planned.
- Management maintained guidance on ASP and sales volume and guided for improving profit for remaining quarters. Higher sales volume and lower costs (as strip ratio at JBY normalise) should be more than enough to offset falling prices. Our forecast is cut by 15% with higher cost assumptions and slightly lower prices. Our forecast is now 24% below consensus.
- With our view of higher coal price in 2H12, we see floor to share price at 12x P/E or at S\$1.9/sh. Consensus downgrade is expected to put a cap on share price in the next few weeks. We maintain NEUTRAL with \$2.2/sh target price based on 8.5x P/E in FY13E.

\$100/t and rising freight rates in the past two weeks. As such, export volume to Asia from these distant countries is unsustainable into 2H12.

**Figure 1: SAKR's 1Q12 results**

US\$ mn	1Q12	1Q11	% YoY	4Q11	% QoQ
Sales	188.8	213.7	-12%	312.6	-40%
Gross profits	38.1	72.7	-48%	106.2	-64%
<i>Gross margins</i>	20%	34%		34%	
EBITDA	37.3	74.8	-50%	114.0	-67%
EBIT	21.9	62.0	-65%	100.2	-78%
Financial cost	3.2	3.3	n.m.	3.5	n.m.
EBT	18.7	58.6	-68%	96.7	-81%
Income tax	4.2	17.3	-76%	23.7	-82%
Extraordinary items	0.0	0.0	n.a.	0.0	n.a.
Net profit	14.5	41.4	-65%	73.0	-80%
Net profit before forex	14.5	40.5	-64%	73.1	-80%
Sales volume (mnt)	2.0	2.7	-25%	3.1	-35%
Production (mnt)	2.0	2.8	-30%	2.4	-19%
Jembayan	1.5	2.4	-40%	1.7	-13%
Sebuku	0.5	0.4	32%	0.8	-32%
P/L per tonne basis (US\$)					
ASP (US\$)	94.0	82.2	14%	99.8	-6%
Cash costs	62.7	46.1	36%	54.3	15%
Jembayan	67.5	47.2	43%	62.1	9%
Sebuku	42.5	38.5	10%	34.1	25%
Gross Profit	18.9	27.1	-30%	34.5	-45%
SG&A	6.6	4.6	44%	6.5	1%
EBITDA	18.5	27.9	-34%	37.0	-50%
Net profit	7.2	15.4	-54%	23.7	-70%

Source: Company data, Credit Suisse estimates.

**Our forecast cut 15% in FY12**

The follow-up conference call with management confirmed the same guidance of 11.5 mnt volume (9 mnt from JBY) with average ASP of \$85-90/t (\$94/t in 1Q12). Currently, SAKR is negotiating fixed price contracts based on \$115/t Japanese contracted price. Around 80% of its 2H12 volume remains unpriced. Our forecast is revised down 15% with cash cost raised to \$62/t (guided as low to mid \$60s/t and \$62.7/t in 1Q12). In our new forecast, we assume ASP of \$92/t and sales volume of 11.8 mnt. Our revised forecast is 24% below consensus estimate. Our earnings forecast is based on benchmark coal price of US\$113/t and US\$125/t in FY12 and FY13, respectively. With our view of higher coal price in 2H12, we see floor to share price at 12x P/E or at S\$1.9/sh. We maintain NEUTRAL with \$2.2/sh target price based on 8.5x P/E in FY13E.

Bbg/RIC	SAR SP / SAKR.SI	Price (30 Apr 12, S\$)	1.97		
Rating (prev. rating)	N (N)	TP (prev. TP S\$)	2.20 (2.20)		
Shares outstanding (mn)	1,137.02	Est. pot. % chg. to TP	12		
Daily trad vol - 6m avg (mn)	6.95	52-wk range (S\$)	3.20 - 1.79		
Daily trad val - 6m avg (US\$ mn)	12.5	Mkt cap (S\$/US\$ mn)	2,239.9/ 1,810.9		
Free float (%)	54.6	Performance	1M 3M 12M		
Major shareholders	PTT (45.4%)	Absolute (%)	(15.5) (15.1) (33.2)		
		Relative (%)	(14.4) (17.6) (26.9)		
Year	12/10A	12/11A	12/12E	12/13E	12/14E
Revenue (US\$ mn)	782	1,014	1,086	1,355	1,613
EBITDA (US\$ mn)	177.6	320.1	266.9	390.7	479.3
Net profit (US\$ mn)	88.2	190.3	146.7	233.8	298.4
EPS (US\$)	0.08	0.17	0.13	0.21	0.26
- Change from prev. EPS (%)	n.a.	n.a.	(15)	(7)	(7)
- Consensus EPS (US\$)	n.a.	n.a.	0.19	0.24	0.26
EPS growth (%)	(35.1)	114.8	(22.9)	59.4	27.6
P/E (x)	20.4	9.5	12.3	7.7	6.1
Dividend yield (%)	2.9	6.3	4.9	7.8	9.9
EV/EBITDA (x)	11.5	6.1	7.2	4.6	3.4
P/B (x)	3.4	2.9	2.7	2.2	1.9
ROE (%)	17.7	33.0	22.7	31.8	33.6
Net debt(cash)/equity (%)	44.4	20.4	17.5	(2.8)	(18.9)

Note1: ORD/ADR=20.00 Note2: Sakari Resources Limited, an investment holding company, engages in the exploration, mining, and marketing of coal. The company sells coal primarily to the power utilities in Asia and Europe. It also provides trading and management services.

**1Q12 profit below our forecast and consensus**

SAKR reported a net profit of US\$14 mn, below market consensus and 8.3% of our full-year forecast before revision. Its earnings include \$10 mn of extra expenses, part of which may not be repeated. The 80% decline in net profit QoQ is a result of 6% lower ASP, 35% lower volume, and 15% higher cash costs. As heavy rains affected existing pits at JBY mine, management decided to open two new pits in February, earlier than the original schedule of 2Q12. This has resulted in a high strip ratio at JBY (15x), lower volume, and higher costs. SBK mine performed in line with expectations.

**Coal market situation – expect a better 2H12**

Management expects coal price to improve in 2H12. Demand in Asia has been strong. However, the situation is now weak as low freight rate allows for arbitrage volume from South Africa, Columbia, and the US to enter Asian market. Management believes that this supply will eventually be driven out from the market with current coal price at