

EARNINGS REVIEW

Sakari Resources (SAKR.SI)

Neutral

Equity Research

Below expectations: higher costs, lower volumes drag profit down

What surprised us

1Q12 net profit of US\$14 mn (-65% yoy, -80% qoq) was only 8% of our FY12E estimate and 7% of Bloomberg consensus. Earnings were dragged down by US\$7mn of one offs, and on an adjusted basis, core PBT was 10% of our FY12E forecasts. While we expect subsequent quarters to be stronger on lower costs and higher production volumes (partly offset by lower ASPs), we think our full-year original estimate may still not be achievable. Cash costs surged higher than our expectations, driven by a higher strip ratio at the Jembayan mine of 15X, as company is developing two new pits in the 1H12. However, we think the strip ratio may decline and reach company's longer-term average of 12X by the end of year. Blended ASPs of US\$94/t compares with our full year expectations of US\$92.3/t; however, we note that falling spot coal prices may result in declining ASPs in subsequent quarters. The company has locked in prices for 35% of 2012 volumes for FY12 and the remaining contracts are largely index linked (14% will be sold in spot market). Production volumes are also tracking below expectations, but the company maintains its full year guidance as development work done in 1Q12 will result in higher volumes in subsequent quarters.

What to do with the stock

We reduce our 2012E/13E/14E EPS by 17%/7%/7% largely driven by higher costs and lower ASPs. As such, we also reduce our 2013E Director's Cut based 12-month TP to S\$2.20 (prior S\$2.35). Sakari is trading at 2012E/13E EV/EBITDA of 6.7X/5.3X, which compares with sector average of 6.2X/5.8X. We maintain our Neutral rating on the stock. Key risks: higher/lower than expected coal prices/ production volumes, regulatory uncertainty.

Sakari's 1Q12 results

	1Q12	1Q11	YoY growth	4Q11	QoQ growth
Revenues	189	226	-16%	313	-40%
Gross profit	38	73	-48%	106	-64%
Operating profit	25	61	-59%	86	-71%
Pre-tax profit	19	59	-68%	97	-81%
Net profit	14	41	-65%	73	-80%

Company data.

INVESTMENT LIST MEMBERSHIP

Neutral

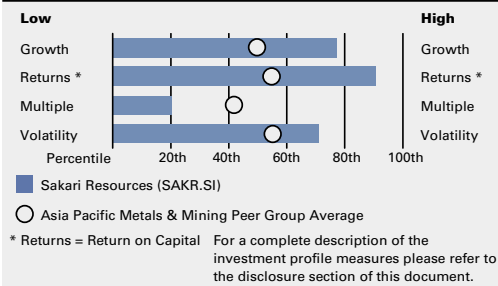
Coverage View: Neutral

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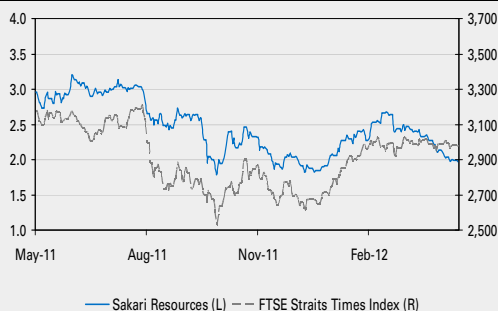
Investment Profile



Key data	Current
Price (\$)	1.97
12 month price target (\$)	2.20
Market cap (\$ mn / US\$ mn)	2,233.2 / 1,804.9
Foreign ownership (%)	--

	12/11	12/12E	12/13E	12/14E
EPS (\$) New	0.16	0.14	0.18	0.23
EPS revision (%)	0.0	(16.9)	(7.2)	(7.4)
EPS growth (%)	103.2	(12.9)	32.2	27.2
EPS (dil) (\$) New	0.17	0.14	0.18	0.23
P/E (X)	10.0	11.4	8.7	6.8
P/B (X)	2.9	2.6	2.3	2.0
EV/EBITDA (X)	7.9	6.7	5.3	4.2
Dividend yield (%)	6.3	5.2	6.9	8.8
ROE (%)	33.0	23.8	28.3	31.9
CROCI (%)	23.7	20.6	23.6	26.1

Price performance chart



Share price performance (%)	3 month	6 month	12 month
Absolute	(16.5)	(17.6)	(33.2)
Rel. to FTSE Straits Times Index	(18.5)	(21.0)	(28.7)

Source: Company data, Goldman Sachs Research estimates, FactSet. Price as of 4/30/2012 close.

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Sakari Resources: Summary Financials

Profit model (\$ mn)	12/11	12/12E	12/13E	12/14E	Balance sheet (\$ mn)	12/11	12/12E	12/13E	12/14E
Total revenue	1,013.6	1,080.6	1,253.9	1,434.9	Cash & equivalents	155.2	116.2	143.8	197.6
Cost of goods sold	(696.7)	(796.5)	(892.5)	(987.7)	Accounts receivable	100.3	148.0	171.8	196.6
SG&A	(57.2)	(54.0)	(62.7)	(71.7)	Inventory	18.3	44.4	51.5	59.0
R&D	0.0	0.0	0.0	0.0	Other current assets	43.8	43.8	43.8	43.8
Other operating profit/(expense)	0.6	0.6	0.6	0.6	Total current assets	317.6	352.5	410.9	496.9
EBITDA	307.6	281.9	353.4	432.8	Net PP&E	769.9	818.1	864.1	905.1
Depreciation & amortization	(47.3)	(51.2)	(54.0)	(56.7)	Net intangibles	84.5	0.0	0.0	0.0
EBIT	260.3	230.7	299.4	376.1	Total investments	0.0	0.0	0.0	0.0
Interest income	0.0	1.6	1.2	1.4	Other long-term assets	15.3	15.3	15.3	15.3
Interest expense	(13.4)	(13.1)	(10.9)	(9.0)	Total assets	1,187.3	1,185.8	1,290.3	1,417.3
Income/(loss) from uncons. subs.	0.0	0.0	0.0	0.0	Accounts payable	155.3	174.6	195.6	216.5
Others	0.0	0.0	0.0	0.0	Short-term debt	0.1	0.0	0.0	0.0
Pretax profits	246.9	219.1	289.6	368.5	Other current liabilities	23.3	23.3	23.3	23.3
Income tax	(65.8)	(61.4)	(81.1)	(103.2)	Total current liabilities	178.6	197.9	218.9	239.8
Minorities	0.0	0.0	0.0	0.0	Long-term debt	283.8	200.0	200.0	200.0
Net income pre-preferred dividends	181.1	157.8	208.5	265.4	Other long-term liabilities	93.9	93.9	93.9	93.9
Preferred dividends	0.0	0.0	0.0	0.0	Total long-term liabilities	377.7	293.9	293.9	293.9
Net income (pre-exceptionals)	181.1	157.8	208.5	265.4	Total liabilities	556.3	491.7	512.8	533.6
Post-tax exceptionals	9.2	0.0	0.0	0.0	Preferred shares	0.0	0.0	0.0	0.0
Net income	190.3	157.8	208.5	265.4	Total common equity	631.0	694.1	777.5	883.6
EPS (basic, pre-exception) (\$)	0.16	0.14	0.18	0.23	Minority interest	0.0	0.0	0.0	0.0
EPS (basic, post-exception) (\$)	0.17	0.14	0.18	0.23	Total liabilities & equity	1,187.3	1,185.8	1,290.3	1,417.3
EPS (diluted, post-exception) (\$)	0.17	0.14	0.18	0.23	BVPS (\$)	0.56	0.61	0.69	0.78
DPS (\$)	0.10	0.08	0.11	0.14					
Dividend payout ratio (%)	60.0	60.0	60.0	60.0					
Free cash flow yield (%)	7.3	3.0	8.5	11.8					
Growth & margins (%)	12/11	12/12E	12/13E	12/14E	Ratios	12/11	12/12E	12/13E	12/14E
Sales growth	37.6	6.6	16.0	14.4	CROCI (%)	23.7	20.6	23.6	26.1
EBITDA growth	65.5	(8.4)	25.4	22.5	ROE (%)	33.0	23.8	28.3	31.9
EBIT growth	76.3	(11.4)	29.8	25.6	ROA (%)	16.7	13.3	16.8	19.6
Net income growth	115.7	(17.1)	32.2	27.2	ROACE (%)	25.2	21.6	26.7	31.5
EPS growth	114.8	(17.1)	32.2	27.2	Inventory days	10.4	14.4	19.6	20.4
Gross margin	31.3	26.3	28.8	31.2	Receivables days	38.5	41.9	46.5	46.8
EBITDA margin	30.3	26.1	28.2	30.2	Payable days	82.6	75.6	75.7	76.1
EBIT margin	25.7	21.4	23.9	26.2	Net debt/equity (%)	20.4	12.1	7.2	0.3
					Interest cover - EBIT (X)	19.4	19.9	30.8	49.7
Cash flow statement (\$ mn)	12/11	12/12E	12/13E	12/14E	Valuation	12/11	12/12E	12/13E	12/14E
Net income pre-preferred dividends	181.1	157.8	208.5	265.4	P/E (analyst) (X)	10.0	11.4	8.7	6.8
D&A add-back	47.3	51.2	54.0	56.7	P/B (X)	2.9	2.6	2.3	2.0
Minorities interests add-back	0.0	0.0	0.0	0.0	EV/EBITDA (X)	7.9	6.7	5.3	4.2
Net (inc)/dec working capital	26.5	(54.5)	(9.8)	(11.4)	EV/GCI (X)	2.4	1.7	1.6	1.4
Other operating cash flow	0.0	0.0	0.0	0.0	Dividend yield (%)	6.3	5.2	6.9	8.8
Cash flow from operations	251.6	154.4	252.7	310.7					
Capital expenditures	(82.5)	(99.4)	(100.0)	(97.7)					
Acquisitions	4.2	0.0	0.0	0.0					
Divestitures	0.0	0.0	0.0	0.0					
Others	12.7	84.5	0.0	0.0					
Cash flow from investments	(65.5)	(14.8)	(100.0)	(97.7)					
Dividends paid (common & pref)	(114.2)	(94.7)	(125.1)	(159.2)					
Inc/(dec) in debt	(29.3)	(83.9)	0.0	0.0					
Common stock issuance (repurchase)	31.1	0.0	0.0	0.0					
Other financing cash flows	0.8	0.0	0.0	0.0					
Cash flow from financing	(111.7)	(178.5)	(125.1)	(159.2)					
Total cash flow	74.4	(39.0)	27.6	53.8					

Note: Last actual year may include reported and estimated data.

Source: Company data, Goldman Sachs Research estimates.

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Disclosure Appendix

Reg AC

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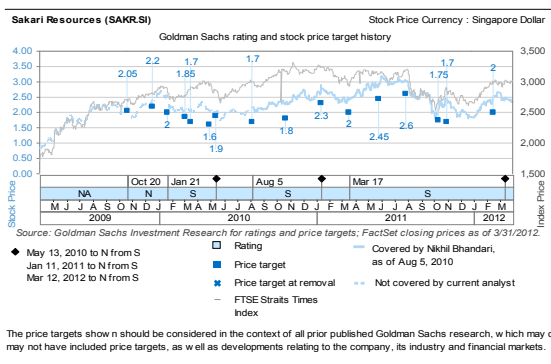
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Price target and rating history chart(s)



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