

UBS Investment Research

First Read: Sakari Resources

Weak Q1 reflected in share price but expect downgrades

■ Net profit declines 65%

Sakari reported a 65% YoY decline in net profit on account of higher fuel costs, production pressure from torrential rains and temporary pre-stripping costs at the Jembayan concession. The result is 9% and 7% of our and consensus' full-year estimates respectively, so expect the Street to downgrade, while we remain 21% below forecasts (see Share Prices Reflect Current Weakness [12 April 2012]).

■ Temporary pre-stripping costs

Management is opening up two new pits at the Jembayan concession, which will entail abnormal overburden removal costs in H112. This is similar to costs associated with the Sebuku mine last year following the production approval at the Northern Leases. The abnormal costs are temporary in nature, as we expect Jembayan to experience a material margin expansion in H212. Cash costs increased 54% YoY to US\$61/t in Q1 and should normalise back down to mid-40s by year end, while Jembayan production declined 40% YoY to 1.5mt.

■ Weak Q1 is in the price

Sakari's share price has given up most of the 40% Q1 gain given a market anticipation of weak Q1 results. However, we think downside is limited and that buying interest to resume below S\$2/share, post consensus' earnings downgrades.

■ Valuation

Our Buy-rating and S\$2.55 price target is based on a 13.9x target PE.

Highlights (US\$m)	12/10	12/11	12/12E	12/13E	12/14E
Revenues	737	1,014	979	1,097	1,151
EBIT (UBS)	139	260	228	214	103
Net Income (UBS)	88	177	158	148	67
EPS (UBS, US\$)	0.08	0.16	0.14	0.13	0.06
Net DPS (UBS, US\$)	0.04	0.07	0.09	0.08	0.04
Profitability & Valuation	5-yr hist av.	12/11	12/12E	12/13E	12/14E
EBIT margin %	25.2	25.6	23.2	19.5	8.9
ROIC (EBIT) %	32.1	34.7	31.7	32.3	16.6
EV/EBITDA (core) x	8.7	8.0	7.3	7.1	11.9
PE (UBS) x	18.7	12.9	11.5	12.3	27.2
Net dividend yield %	3.5	3.5	5.3	5.0	2.2

Source: Company accounts, Thomson Reuters, UBS estimates. (UBS) valuations are stated before goodwill, exceptional and other special items. Valuations: based on an average share price that year, (E): based on a share price of S\$1.99 on 27 Apr 2012 23:38 SGT

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Global Equity Research

Indonesia

Coal

12-month rating **Buy**
Unchanged

12m price target S\$2.55/US\$2.06
Unchanged

Price S\$1.99/US\$1.60

RIC: SAKR.SI BBG: SAR SP

30 April 2012

Trading data (local/US\$)

52-wk range	S\$3.20-1.79/US\$2.60-1.36
Market cap.	S\$2.25bn/US\$1.81bn
Shares o/s	1,131m (ORD)
Free float	54%
Avg. daily volume ('000)	7,151
Avg. daily value (m)	S\$17.0

Balance sheet data 12/12E

Shareholders' equity	US\$0.68bn
P/BV (UBS)	2.7x
Net Cash (debt)	(US\$0.02bn)

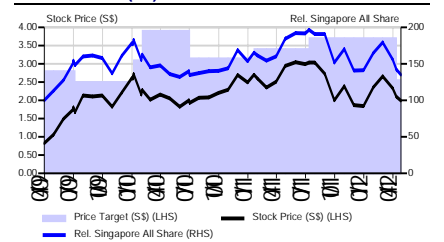
Forecast returns

Forecast price appreciation	+28.1%
Forecast dividend yield	5.3%
Forecast stock return	+33.4%
Market return assumption	6.6%
Forecast excess return	+26.8%

EPS (UBS, US\$)

	12/12E	12/11	12/14E
	UBS	Cons.	Actual
H1E	0.06	-	0.07
H2E	0.08	-	0.09
12/12E	0.14	0.19	
12/13E	0.13	0.24	

Performance (S\$)



Source: UBS

www.ubs.com/investmentresearch

This report has been prepared by UBS Securities Pte. Ltd. (Reg. No. 198500648C)

ANALYST CERTIFICATION AND REQUIRED DISCLOSURES BEGIN ON PAGE 5.

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Sakari Resources Ltd

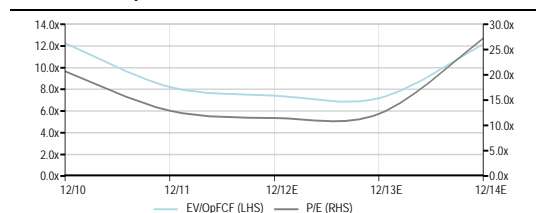
Income statement (US\$m)	12/07	12/08	12/09	12/10	12/11	12/12E	% ch	12/13E	% ch	12/14E	% ch
Revenues	251	585	748	737	1,014	979	-3.4	1,097	12.0	1,151	4.9
Operating expenses (ex depn)	(211)	(372)	(482)	(559)	(707)	(720)	2.0	(848)	17.7	(1,008)	18.9
EBITDA (UBS)	44	219	267	178	307	259	-15.7	250	-3.6	143	-42.5
Depreciation	(5)	(24)	(25)	(38)	(47)	(31)	-33.9	(36)	14.5	(41)	13.9
Operating income (EBIT, UBS)	40	196	242	139	260	228	-12.3	214	-6.1	103	-52.0
Other income & associates	0	0	0	0	0	0	-	0	-	0	-
Net interest	(1)	(15)	(23)	(14)	(13)	(11)	-14.9	(11)	0.0	(11)	0.0
Abnormal items (pre-tax)	0	0	(40)	0	13	0	-	0	-	0	-
Profit before tax	39	181	179	126	259	216	-16.6	202	-6.4	91	-54.9
Tax	(10)	(57)	(85)	(37)	(69)	(58)	-15.5	(55)	-6.4	(25)	-54.9
Profit after tax	29	124	94	88	190	158	-17.0	148	-6.4	67	-54.9
Abnormal items (post-tax)	0	0	0	0	0	0	-	0	-	0	-
Minorities / pref dividends	0	0	0	0	0	0	-	0	-	0	-
Net income (local GAAP)	29	124	94	88	190	158	-17.0	148	-6.4	67	-54.9
Net Income (UBS)	29	124	134	88	177	158	-10.9	148	-6.4	67	-54.9
Tax rate (%)	26	31	48	30	27	27	1.3	27	0.0	27	0.0
Pre-abnormal tax rate (%)	26	31	39	30	28	27	-3.8	27	0.0	27	0.0
Per share (US\$)	12/07	12/08	12/09	12/10	12/11	12/12E	% ch	12/13E	% ch	12/14E	% ch
EPS (local GAAP)	0.03	0.12	0.08	0.08	0.17	0.14	-17.0	0.13	-6.4	0.06	-54.9
EPS (UBS)	0.03	0.12	0.12	0.08	0.16	0.14	-10.9	0.13	-6.4	0.06	-54.9
Net DPS	0.02	0.06	0.07	0.04	0.07	0.09	19.8	0.08	-6.4	0.04	-54.9
Cash EPS	0.03	0.15	0.14	0.11	0.20	0.17	-15.7	0.16	-2.9	0.09	-41.5
BVPS	0.30	0.37	0.42	0.46	0.56	0.60	7.0	0.65	8.5	0.65	0.1
Balance sheet (US\$m)	12/07	12/08	12/09	12/10	12/11	12/12E	% ch	12/13E	% ch	12/14E	% ch
Net tangible fixed assets	292	567	704	741	778	754	-3.1	720	-4.5	683	-5.2
Net intangible fixed assets	298	55	80	78	76	76	0.0	76	0.0	76	0.0
Net working capital (incl. other assets)	(33)	(63)	(14)	18	(10)	(53)	454.5	(62)	17.0	(67)	8.1
Other liabilities	(70)	(70)	(152)	(93)	(94)	(94)	0.0	(94)	0.0	(94)	0.0
Operating invested capital	487	489	617	744	751	684	-9.0	641	-6.2	598	-6.7
Investments	2	3	5	12	9	9	0.0	9	0.0	9	0.0
Total capital employed	489	492	622	756	760	692	-8.9	650	-6.1	607	-6.6
Shareholders' equity	304	376	472	524	631	675	7.0	733	8.5	734	0.1
Minority interests	0	0	0	0	0	0	-	0	-	0	-
Total equity	304	376	472	524	631	675	7.0	733	8.5	734	0.1
Net debt / (cash)	185	117	150	232	129	17	-86.8	(83)	-	(127)	52.5
Other debt-deemed items	0	0	0	0	0	0	-	0	-	0	-
Total capital employed	489	492	622	756	760	692	-8.9	650	-6.1	607	-6.6
Cash flow (US\$m)	12/07	12/08	12/09	12/10	12/11	12/12E	% ch	12/13E	% ch	12/14E	% ch
Operating income (EBIT, UBS)	40	196	242	139	260	228	-12.3	214	-6.1	103	-52.0
Depreciation	5	24	25	38	47	31	-33.9	36	14.5	41	13.9
Net change in working capital	1	39	(48)	(52)	29	159	445.5	57	-64.4	27	-52.6
Other (operating)	(4)	(6)	0	0	0	0	-	0	-	0	-
Operating cash flow (pre tax/interest)	42	252	219	126	336	418	24.4	306	-26.8	170	-44.4
Net interest received / (paid)	0	(15)	(23)	(14)	(13)	(11)	-14.9	(11)	0.0	(11)	0.0
Dividends paid	(17)	(59)	(81)	(44)	(80)	(96)	19.75	(90)	-6.39	(41)	-54.92
Tax paid	(9)	(57)	(85)	(37)	(69)	(58)	-15.5	(55)	-6.4	(25)	-54.9
Capital expenditure	(29)	(81)	(150)	(113)	(84)	(140)	66.7	(50)	-64.3	(50)	0.0
Net (acquisitions) / disposals	(296)	17	(3)	0	(1)	0	-	0	-	0	-
Other	(1)	5	(25)	22	3	0	-	0	-	0	-
Share issues	101	0	0	2	0	0	-	0	-	0	-
Cash flow (inc)/dec in net debt	(209)	63	(149)	(58)	92	112	22.5	100	-10.7	44	-56.4
FX / non cash items	6	5	116	(25)	12	(1)	-	0	-	0	-
Balance sheet (inc)/dec in net debt	(204)	68	(33)	(83)	104	112	7.5	100	-10.2	44	-56.4
Core EBITDA	44	219	267	178	307	259	-15.7	250	-3.6	143	-42.5
Maintenance capital expenditure	(3)	(8)	(15)	(11)	(8)	(14)	66.7	(5)	-64.3	(5)	0.0
Maintenance net working capital	0	2	(2)	(3)	1	8	445.5	3	-64.4	1	-52.6
Operating free cash flow, pre-tax	42	213	249	164	300	253	-15.7	247	-2.1	140	-43.5

Source: Company accounts, UBS estimates. (UBS) valuations are stated before goodwill, exceptionals and other special items. Note: For some companies, the data represents an extract of the full company accounts.

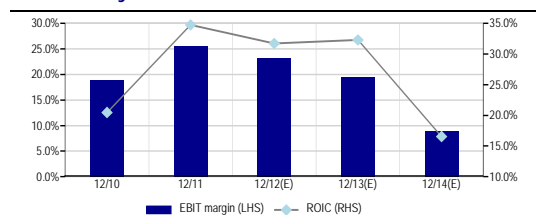
Company profile

Incorporated in 1995, Straits Asia Resources (Straits Asia) began mining its Sebuku coal mine in Indonesia in 1997. It was listed on the Singapore Stock Exchange in November 2006. The company acquired the Jembayan mine in East Kalimantan in late 2007. It is 46% owned by Thai energy conglomerate, PTT International. The company has customers in many markets, including North Asia, Europe and the US.

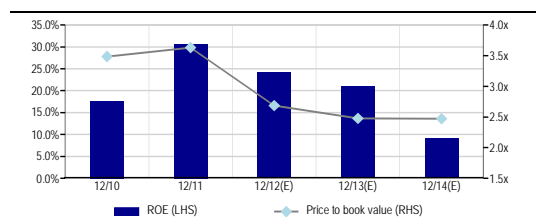
Value (EV/OpFCF & P/E)



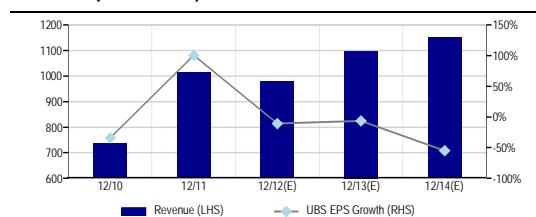
Profitability



ROE v Price to book value



Growth (UBS EPS)



Valuation (x)	5Yr Avg	12/10	12/11	12/12E	12/13E	12/14E
P/E (local GAAP)	19.3	20.7	12.0	11.5	12.3	27.2
P/E (UBS)	18.7	20.7	12.9	11.5	12.3	27.2
P/CEPS	15.1	14.4	10.2	9.6	9.9	16.9
Net dividend yield (%)	3.5	2.4	3.5	5.3	5.0	2.2
P/BV	3.6	3.5	3.6	2.7	2.5	2.5
EV/revenue (core)	2.7	2.7	2.4	1.9	1.6	1.5
EV/EBITDA (core)	8.7	11.3	8.0	7.3	7.1	11.9
EV/EBIT (core)	10.1	14.4	9.5	8.3	8.3	16.6
EV/OpFCF (core)	9.2	12.3	8.2	7.4	7.2	12.2
EV/op. invested capital	3.3	3.0	3.3	2.6	2.7	2.7

Enterprise value (US\$m)	12/10	12/11	12/12E	12/13E	12/14E
Average market cap	1,831	2,296	1,816	1,816	1,816
+ minority interests	0	0	0	0	0
+ average net debt (cash)	191	181	73	(33)	(105)
+ pension obligations and other	0	0	0	0	0
- non-core asset value	(12)	(9)	(9)	(9)	(9)
Core enterprise value	2,010	2,468	1,881	1,775	1,703

Growth (%)	5Yr Avg	12/10	12/11	12/12E	12/13E	12/14E
Revenue	41.8	-1.6	37.6	-3.4	12.0	4.9
EBITDA (UBS)	62.2	-33.4	72.8	-15.7	-3.6	-42.5
EBIT (UBS)	60.0	-42.4	86.3	-12.3	-6.1	-52.0
EPS (UBS)	53.7	-33.9	100.4	-10.9	-6.4	-54.9
Cash EPS	56.8	-20.2	77.0	-15.7	-2.9	-41.5
Net DPS	44.4	-46.3	84.1	19.8	-6.4	-54.9
BVPS	16.8	10.9	20.2	7.0	8.5	0.1

Margins (%)	5Yr Avg	12/10	12/11	12/12E	12/13E	12/14E
EBITDA / revenue	29.0	24.1	30.3	26.4	22.7	12.5
EBIT / revenue	25.2	18.9	25.6	23.2	19.5	8.9
Net profit (UBS) / revenue	16.0	12.0	17.5	16.1	13.5	5.8

Return on capital (%)	5Yr Avg	12/10	12/11	12/12E	12/13E	12/14E
EBIT ROIC (UBS)	32.1	20.5	34.7	31.7	32.3	16.6
ROIC post tax	-	14.4	25.0	23.2	23.6	12.1
Net ROE	26.5	17.7	30.7	24.2	21.0	9.1

Coverage ratios (x)	5Yr Avg	12/10	12/11	12/12E	12/13E	12/14E
EBIT / net interest	19.5	10.2	19.4	20.0	18.8	9.0
Dividend cover (UBS EPS)	1.9	2.0	2.2	1.6	1.6	1.6
Div. payout ratio (% UBS EPS)	52.2	49.4	45.4	61.0	61.0	61.0
Net debt / EBITDA	0.8	1.3	0.4	0.1	NM	NM

Efficiency ratios (x)	5Yr Avg	12/10	12/11	12/12E	12/13E	12/14E
Revenue / op. invested capital	1.2	1.1	1.4	1.4	1.7	1.9
Revenue / fixed assets	1.0	0.9	1.2	1.2	1.3	1.5
Revenue / net working capital	NM	NM	NM	NM	NM	NM

Investment ratios (x)	5Yr Avg	12/10	12/11	12/12E	12/13E	12/14E
OpFCF / EBIT	1.1	1.2	1.2	1.1	1.2	1.4
Capex / revenue (%)	13.7	15.4	8.3	14.3	4.6	4.3
Capex / depreciation	3.3	3.0	1.8	4.5	1.4	1.2

Capital structure (%)	5Yr Avg	12/10	12/11	12/12E	12/13E	12/14E
Net debt / total equity	35.2	44.4	20.4	2.5	(11.4)	(17.3)
Net debt / (net debt + equity)	26.0	30.7	16.9	2.5	(12.8)	(20.9)
Net debt (core) / EV	8.3	9.5	7.3	3.9	(1.9)	(6.2)

Source: Company accounts, UBS estimates. (UBS) valuations are stated before goodwill, exceptional and other special items.

Valuations: based on an average share price that year, (E): based on a share price of \$81.99 on 27 Apr 2012 23:38 SGT Market cap(E) may include forecast share issues/buybacks.

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■ Sakari Resources Ltd

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■ Statement of Risk

We believe the main risks to our earnings forecasts are fluctuations in the coal price, as the main revenue driver, and fluctuations in the oil price, which accounts for a major part of the company's COGS. Other operating factors that might affect earnings are operational disruptions as a result of adverse weather conditions or tight availability of mining equipment. Finally, acquisition is a major growth strategy for Sakari Resources. Whether management can create accretive value through acquisitions is another key to our earnings forecasts and valuation.

■ Analyst Certification

Each research analyst primarily responsible for the content of this research report, in whole or in part, certifies that with respect to each security or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about those securities or issuers and were prepared in an independent manner, including with respect to UBS, and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by that research analyst in the research report.

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UBS Investment Research: Global Equity Rating Allocations

UBS 12-Month Rating	Rating Category	Coverage ¹	IB Services ²
Buy	Buy	51%	34%
Neutral	Hold/Neutral	40%	35%
Sell	Sell	9%	15%
UBS Short-Term Rating	Rating Category	Coverage ³	IB Services ⁴
Buy	Buy	less than 1%	25%
Sell	Sell	less than 1%	17%

1:Percentage of companies under coverage globally within the 12-month rating category.

2:Percentage of companies within the 12-month rating category for which investment banking (IB) services were provided within the past 12 months.

3:Percentage of companies under coverage globally within the Short-Term rating category.

4:Percentage of companies within the Short-Term rating category for which investment banking (IB) services were provided within the past 12 months.

Source: UBS. Rating allocations are as of 31 March 2012.

UBS Investment Research: Global Equity Rating Definitions

UBS 12-Month Rating	Definition
Buy	FSR is > 6% above the MRA.
Neutral	FSR is between -6% and 6% of the MRA.
Sell	FSR is > 6% below the MRA.
UBS Short-Term Rating	Definition
Buy	Buy: Stock price expected to rise within three months from the time the rating was assigned because of a specific catalyst or event.
Sell	Sell: Stock price expected to fall within three months from the time the rating was assigned because of a specific catalyst or event.

KEY DEFINITIONS

Forecast Stock Return (FSR) is defined as expected percentage price appreciation plus gross dividend yield over the next 12 months.

Market Return Assumption (MRA) is defined as the one-year local market interest rate plus 5% (a proxy for, and not a forecast of, the equity risk premium).

Under Review (UR) Stocks may be flagged as UR by the analyst, indicating that the stock's price target and/or rating are subject to possible change in the near term, usually in response to an event that may affect the investment case or valuation.

Short-Term Ratings reflect the expected near-term (up to three months) performance of the stock and do not reflect any change in the fundamental view or investment case.

Equity Price Targets have an investment horizon of 12 months.

EXCEPTIONS AND SPECIAL CASES

UK and European Investment Fund ratings and definitions are: Buy: Positive on factors such as structure, management, performance record, discount; Neutral: Neutral on factors such as structure, management, performance record, discount; Sell: Negative on factors such as structure, management, performance record, discount.

Core Banding Exceptions (CBE): Exceptions to the standard +/-6% bands may be granted by the Investment Review Committee (IRC). Factors considered by the IRC include the stock's volatility and the credit spread of the respective company's debt. As a result, stocks deemed to be very high or low risk may be subject to higher or lower bands as they relate to the rating. When such exceptions apply, they will be identified in the Company Disclosures table in the relevant research piece.

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UBS Securities Pte. Ltd.: Andreas Bokkenheuser; Anubhav Gupta.

Company Disclosures

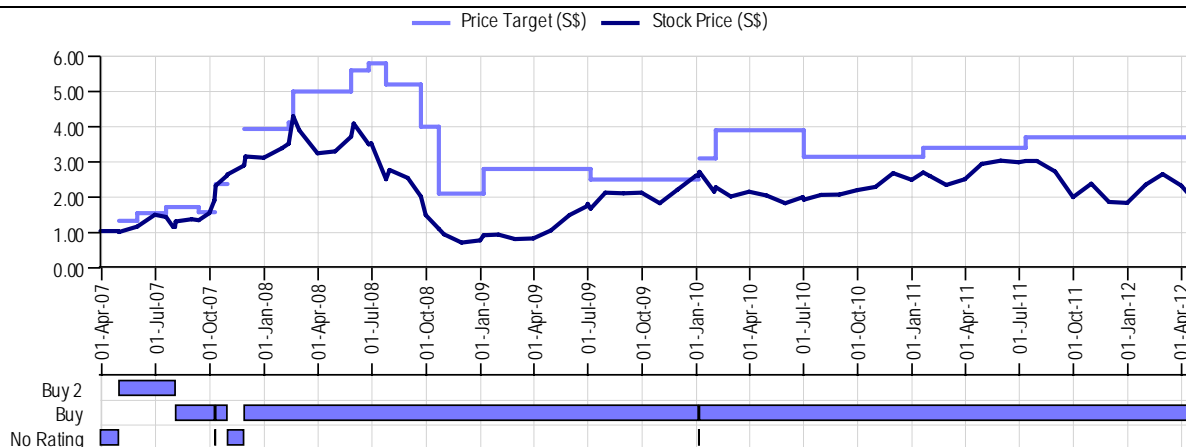
Company Name	Reuters	12-mo rating	Short-term rating	Price	Price date
Sakari Resources Ltd	SAKR.SI	Buy	N/A	S\$1.99	27 Apr 2012

Source: UBS. All prices as of local market close.

Ratings in this table are the most current published ratings prior to this report. They may be more recent than the stock pricing date

Unless otherwise indicated, please refer to the Valuation and Risk sections within the body of this report.

Sakari Resources Ltd (\$\$)



Source: UBS; as of 27 Apr 2012

Note: On August 4, 2007 UBS revised its rating system. (See 'UBS Investment Research: Global Equity Rating Definitions' table for details). From September 9, 2006 through August 3, 2007 the UBS ratings and their definitions were: Buy 1 = FSR is > 6% above the MRA, higher degree of predictability; Buy 2 = FSR is > 6% above the MRA, lower degree of predictability; Neutral 1 = FSR is between -6% and 6% of the MRA, higher degree of predictability; Neutral 2 = FSR is between -6% and 6% of the MRA, lower degree of predictability; Reduce 1 = FSR is > 6% below the MRA, higher degree of predictability; Reduce 2 = FSR is > 6% below the MRA, lower degree of predictability. The predictability level indicates an analyst's conviction in the FSR. A predictability level of '1' means that the analyst's estimate of FSR is in the middle of a narrower, or smaller, range of possibilities. A predictability level of '2' means that the analyst's estimate of FSR is in the middle of a broader, or larger, range of possibilities. From October 13, 2003 through September 8, 2006 the percentage band criteria used in the rating system was 10%.

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