

Universal Coal plc (ASX: UNV)**BUY**

Sector: Coal

Target: \$1.00

COMPANY STATISTICS

Share Price	\$0.22
Valuation (Net Asset Value)	\$1.01
12 Month Range	\$0.18 – \$0.57
Market Cap (diluted)	\$49m
Issued Shares	204m
Options (Various)	27m
Cash Balance (30-Sep-11)	\$9.7m
Debt (30-Sep-11)	Nil
Top Shareholders	
G Tarrant	16%
Shellbright Ltd	5.7%
N McMahon	5.3%
Directors	
Dr. Antony Harwood (Chairman)	
Tony Weber (CEO)	
Hendrick Bonsm (Director)	
S. Luvhengo (Director)	
John Hopkins (Director)	

SHARE PRICE PERFORMANCE

Source: ASX

BERENICE BASE CASE SCENARIO

Capex	US\$290m	(100%
Capacity	10 Mtpa	
Coal Type	Production	Yield
Coking Coal	2 Mtpa	20%
Thermal Coal	2 Mtpa	20%
Eskom Coal	1 Mtpa	10%

Financials & Valuation of Berenice/Cygnat

Revenue	\$605m	p.a.
EBITDA	\$285m	
UNV Equity (50%)	\$143m	
Cash Flow/share	\$0.62	Pre-dilution for Capex 50% Equity only
Mkt Cap'n/tonne	\$0.066/t	

These numbers consider Berenice only, and not other more advanced thermal coal projects. It assumes only 50% equity, though it can increase to 74% on commercial terms to be negotiated.

Analyst:

Rod Buckton

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rod.buckton@canaccordbgf.com**THE MARKET HAS NOT WOKEN UP TO UNV's COKING COAL POTENTIAL**

Investment perspective: The market is awaiting further news on the quality and yields of the coking coal at the Berenice/Cygnat metallurgical coal project in the Limpopo province, South Africa. It already promises to be much more significant than the three advanced thermal coal projects that offer near term production potential. We have run a few scenarios to evaluate the potential at Berenice to better set our range of expectations ahead of the release.

Our conclusion is simple, even without being too optimistic; Berenice is a game changer for UNV. The earning potential for UNV is EBITDA of \$143m p.a. This dwarfs any potential earnings from pre-existing projects. Clearly, the market has not picked up on this potential yet.

The resources at Berenice/Cygnat of over 1.3 Bt are within 30 km of existing rail and offer considerable potential for exports and domestic sales. Preliminary analyses indicate semi-soft coking properties with high swells and fluidity. We await the full results of the washability testing and resource upgrade. Through Berenice, UNV is well placed to become a significant player in the growth of a metallurgical coal export industry in South Africa, where there is an increasing focus on metallurgical coal and exports are expected to increase as rail capacity moves into balance with existing port capacity.

This emerging but often overlooked South African coal company now has 1.97 Bt of coal resources under management and equity resources of 722 Mt, with the ability to increase its project equity to 74%. The three thermal coal projects in the Witbank offer up to 6 Mtpa of saleable domestic and export sales with the Roodekop and Kangala Projects tagged for early development in 2013. At current prices UNV is trading near the bottom of its range and at a significant discount to our current valuation of \$1.01 per share. It offers a compelling investment opportunity.

Metallurgical Coal Projects – 1.343 Bt JORC

The Company currently has a 40% interest in the Berenice/Cygnat Project, increasing to 50%, with a further option to move to 74%. Total JORC resources at Berenice/Cygnat are now 1.324 Bt including 401.4 Mt in the Measured and Indicated category, with 479 Mt identified as potentially amenable to open pit mining. Additional resources of 274 Mt at Somerville and 42.4 Mt at Donkin in the Tuli Coalfield are yet to be properly assessed. The Company has targeted a potential 800-1000 Mt resource at Somerville, which could significantly upgrade our numbers.

Berenice Scenario Analysis – 10 Mtpa ROM

The table on page three provides a range of scenarios; 5, 10 and 15 Mtpa, with coking coal yields of 16%, 20% and 25% but constant yields on the other thermal products. We have adopted the 10 Mtpa rate and 20% coking coal yield as the Base Case, summarized in the table opposite.

The Base Case shows that UNV could earn EBITDA of \$143m for a 50% interest, placing it on a very low multiple of only 0.35x. This leaves significant room for upside share price movement even considering there will be dilution for an equity component of financing.

Analysis on an asset basis, considering a 50% equity Berenice resource of 1.324 Bt alone and ignoring all other projects and cash, gives a market capitalisation of only 6.6¢ per tonne of coal in situ. This is exceptionally cheap when compared to other emerging coal stocks. There remains further upside potential if the coking coal yield exceeds 20% and if UNV can lift its interest to 74% on favourable terms.

BERENICE PROJECT – SCENARIO ANALYSIS

Berenice is not yet in feasibility but some indicative metrics and cash margins can be deduced. A Scoping Study by DRA Mining is about to commence to be followed by a Bankable Feasibility Study in H2 2012.

The low average coking coal yield of around 16% from previous analyses is expected to be improved in the analyses from the large diameter cores expected to be released by mid-November. It is expected that a larger percentage of the friable coking coal was lost in the earlier narrow diameter diamond drilling.

Figure 1: Coal Analysis – Small Diameter Cores

	Yield	FSI (CSN)	Roga	IM (%)	Ash (%)	VM (%)	S (%)	P (%)	CV (MJ/kg)
Coking	16.0%	5-9	70-90	2.1	12.00	35.10	1.04	0.010	29.90
Thermal (23.7 cutoff)	27.4%			1.91	27.60	30.20	1.50	0.010	23.77
Thermal (21.0 cutoff)	39.2%			1.91	34.10	27.70	1.60	0.008	21.25

Source: Company reports

Scenario

We have modeled the project at three scales; 5, 10 & 15 Mtpa ROM and at three coking coal yields, 16%, 20% (Base case) and 25%. The thermal fraction was assumed to be 30% in all cases with a split 20%/10% for the two products, a 22.6MJ/kg export product and a 21MJ/kg Eskom product.

In reality, the thermal fraction will vary between 27.4% and 39.2% according to the analyses. That is, 27.4% of a 23.7MJ/kg thermal coal could be produced.

Coal prices for metallurgical coal vary widely according to characteristics, so a \$200/t nominal semi-soft coal price, and a US\$90/t thermal price for the 22.6MJ export coal, is assumed for the exercise.

With indicative cash costs of \$80/t for product coal for the base case, there is potential for large margins on coking coal sales. The low yields and the relatively low price for thermal fractions brings the total product average cash margins down to between \$47.61/t to \$66.82/t, with the base case (10 Mtpa ROM, 20% coking coal fraction) producing a margin of \$57.00/t.

This exercise is indicative only, and shows the sensitivity of the hypothetical project towards only two variables, throughput and yield. The important takeaway is that the project shows potential for substantial cash margins in a variety of configurations.

It is expected that the full washability testing of the coking coal fraction will provide a better understanding of the product pricing point for this type of coal when the full analysis is available shortly.

Figure 2: Berenice Project – Scenario Analysis

Berenice Project	Yields				Product (Mt)			Financials					Average Coking Cash Margin (\$/t)	Average Product Cash Margin (\$/t)	
	ROM (Mt)	Coking Yld	Thermal Yld	Eskom	SSCC	Export Thermal	Export Eskom	Capex (\$m)	Mine Cash Costs (\$/t)	Rail / Port (\$/t)	FOB Cash Costs (\$/t)	Revenue (\$m)			EBITDA (\$m)
Case 1	15	16%	20%	10%	2.40	3.00	1.50	380	30.0	45.0	75.0	\$787.50	382.50	125.00	\$55.43
	15	20%	20%	10%	3.00	3.00	1.50	390	30.0	45.0	75.0	\$907.50	457.50	125.00	\$61.00
	15	25%	20%	10%	3.75	3.00	1.50	400	30.0	45.0	75.0	\$1,057.50	551.25	125.00	\$66.82
Case 2	10	16%	20%	10%	1.60	2.00	1.00	280	35.0	45.0	80.0	\$525.00	237.00	120.00	\$51.52
	Base	10	20%	20%	2.00	2.00	1.00	290	35.0	45.0	80.0	\$605.00	285.00	120.00	\$57.00
Case 3	10	25%	20%	10%	2.50	2.00	1.00	300	35.0	45.0	80.0	\$705.00	345.00	120.00	\$62.73
	5	16%	20%	10%	0.80	1.00	0.50	230	40.0	45.0	85.0	\$262.50	109.50	115.00	\$47.61
	5	20%	20%	10%	1.00	1.00	0.50	240	40.0	45.0	85.0	\$302.50	132.50	115.00	\$53.00
	5	25%	20%	10%	1.25	1.00	0.50	250	40.0	45.0	85.0	\$352.50	161.25	115.00	\$58.64

Semi-Soft Coking = \$200

Export Thermal (22.6MJ/kg) = \$90.0

Eskom (21MJ/kg) = \$25.00

Source: Company reports, CanaccordBGF estimates

SUMMARY OF METALLURGICAL PROJECTS & OPTIONS

Berenice/Cygnus Project, Soutspansberg Coalfield, South Africa

Export metallurgical and thermal coal (UNV 40%, earn in to 50%, option to acquire 74% - BEE partner Berenice, Bono Lithihi, BEE Partner Cygnus, Solar Spectrum)

Snapshot

The Limpopo Province of northern South Africa, bordering on Botswana, Zimbabwe and Mozambique offers South Africa's best coking coal prospects with CoAL and others proposing projects. Generally South African coals exhibit good thermal properties but lack the plasticity when heated indicative of coking coals. The Limpopo Province contains the Pafuri, Soutspansberg and Tuli Coalfields, but there is currently only one mine operating.

Universal is farming in to this project with options to earn up to 74% with current ownership at 40%. The Berenice Project consists of seven Prospecting Rights held by Bono Lithihi Investments Group in the Soutspansberg Coalfield. The Soutspansberg Coalfield has received little exploration to date with only stratigraphic drilling and regional drilling by the RSA Geological Survey.

The Berenice Metallurgical Coal Project is located in the Soutspansberg coalfield, which is situated north of the Soutspansberg mountain range in South Africa's Limpopo province. The prospect is 30km west of the main railway line serving Musina and 60km SW of Musina.

JORC compliant gross coal resources at Berenice total 1324.4 Mt (UNV equity 529.8Mt) and the in situ mineable open cut coal resources are estimated to be 479 Mt.

The Scoping Study will start in Q4 2011 and the BFS to start in H2 2012.

Somerville/Donkin Project, Limpopo coalfield, Tuli Coalfield, South Africa

Metallurgical and thermal coal (UNV 40%, earn in to 50%, option to acquire 74% - BEE partner, Bono lithihi)

Snapshot

Somerville is located in the Tuli block of the Limpopo coalfield, northwest of the Soutpansberg coalfield, some 90km west of Musina and the railway. The deposit is adjacent to the South Africa-Botswana border on the Limpopo River. CoAL's Makhado project is 60 km to the east. The area was explored in the 1970's by Southern Sphere with eleven holes drilled in blocks adjacent to Somerville.

The Somerville Coal Project has an inferred JORC resource of 274Mt in three coal zones (Top, Middle, Bottom) with coal plies varying in width between 1.28m and 3.24m within mudstone plies. The coal resource has to date been confined to the Princess Royal and Somerville farms, but the company is targeting a total resource of 800-1000 Mt with Ratho 1MS expected to have the greatest potential.

The recent acquisition of the Donkin property with JORC resources of 42.4Mt has provided an additional target. JORC compliant gross coal resources at Somerville Project total 316 Mt (equity 126.4 Mt).

The coal zones are shallow in Somerville farm and dip to the north-east at approximately 1 in 38 indicating a depth of 350m near the river. Apart from resources amenable to open cut mining, most of the in situ coal resources would be underground mining only.

The coal quality data indicates a moderate energy, high ash and sulphur coal but no washability data is available or coal product modelling analysis has been carried out.

No studies have yet commenced and this project is on the back-burner. It is expected the coal will be roughly the same quality as at Berenice but will be largely an underground play with little open cut potential.

COAL MINING IN SOUTH AFRICA

Mining has long been integral to the development and advancement of South Africa's economy and has contributed largely in making its economy the strongest on the continent.

South Africa's mining industry is the country's largest employer, with around 460,000 employees and a further 400,000 employed by the suppliers of goods and services to the industry.

South Africa is the sixth largest holder of coal in the world with 31 billion tonnes of recoverable coal reserves. Although most of the coal is consumed by the South African energy sector, with 77% of the country's primary energy needs provided by coal, around 64 million tonnes of coal was exported via Richard's Bay Coal Terminal in 2010. Europe has been the main market until recently, when exports to Asia increased rapidly and are now over 50% of total volume driven mainly by growth in demand in India.

Coal production in South Africa is dominated by the majors with 8 mines accounting for 61% of the output. BHP Billiton Energy Coal South Africa; Anglo American Coal, Xstrata and Exxaro Resources Limited, are the largest producers with Sasol and Total also significant producers.

Production is split about 50/50 between open cut and underground mines. Thermal coal is South Africa's main export coal, with anthracite having to be imported, due to dwindling reserves.

The South African coal sector has undergone a number of mergers and acquisitions and name changes over the last few years. Currently there are a number of ASX listed miners and explorers with a South Africa focus - Coal of Africa (CZA), Continental Coal (CCC), Resource Generation (RES), Firestone Energy (FSE), Xceed Resources (XCD) and ZYL Resources (ZYL).

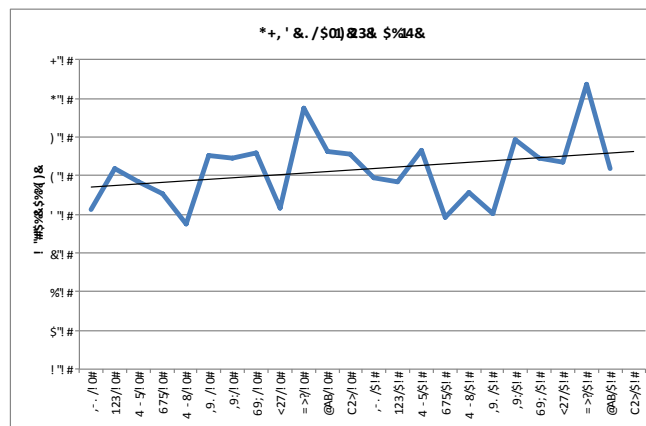
Universal Coal's Kangala, Roodekop and Brakfontein projects are located in South Africa's Mpumalanga province - a region traditionally rich in coal. For this reason it has attracted many large mining companies to establish mines in this area. 83% of the total amount of coal produced in South Africa is mined in Mpumalanga.

Coal is also mined in the provinces of Limpopo, Kwazulu-Natal and Free State and is concentrated around the towns of Lephalale, Witbank, Ermelo and Secunda. Universal has two projects in the Limpopo Province - Berenice and Somerville.

Most coal is exported via the Richards Bay Coal Terminal which has a 91Mtpa nameplate capacity and exported around 63Mt in 2010. While performance has been uneven, high local coal demand and rail congestion and reliability problems have restrained exports.

Infrastructure problems are being addressed and the Government is planning major infrastructure expenditure in less developed coal provinces such as Limpopo.

Figure 3: Coal Exports – Richards Bay Coal Terminal



Source: TEX Report

CORPORATE & FINANCE

UNV currently has around \$9.7m in cash following the recent ASX listing. We consider this sufficient to compete the ongoing BFS on the thermal projects and the scoping study at Berenice.

BOARD & DIRECTORS

Dr Antony Harwood (Executive Chairman)

Tony Harwood is a mining executive with a background as an exploration and economic geologist with extensive global management experience, across a range of commodities, focusing primarily in Africa; moving from academia into consulting and consolidating a career in senior management and Board appointments.

In 2006, he was appointed President and CEO of Africo Resources Limited. The company was listed on the TSX and raised \$124 million. Prior to this, he was VP of Placer Dome Inc. (now Barrick Gold) and established Placer Dome in Africa, opening the Johannesburg regional office. During this time Placer acquired two mines and outlined over 17 million ounces of PGM resources through exploration before its take-over by Barrick Gold in 2006.

Tony has over 26 years' experience as a consultant and senior executive and has facilitated many international mining companies into Africa either to explore or acquire properties or companies. Tony is a non executive director of Adamus Resources (TSX/ASX) and Auryx Gold Corp. (TSX).

Tony Weber (Chief Executive Officer)

Tony Weber is a mining engineer with over 15 years' experience in mining with experience that covers project assessment, finance, development and operations. Tony was an executive director of Nkwe Platinum, an Australian listed Platinum developer. Prior to joining Nkwe Platinum in 2003, he worked for Anglo Platinum as Operations Manager at the 40-60 million tonne per annum Potgietersrus Platinum Mine and at the Gamsberg Feasibility Study for Anglo American Operations.

Previously, Tony worked at the New Clydesdale Colliery and the Greenside Colliery for GFSA and for a brief period at the Prosper Hanniel Colliery in Germany.

He has significant skills and experience in coordinating project feasibility studies and hands-on operational experience in the coal extraction industry.

Hendrik Bonsma (Non Executive Director)

Henri Bonsma is a qualified lawyer and businessman with interests throughout South Africa and has been actively investing in the South African mining industry for over a decade. Currently Henri is a Partner at Brink, Bonsma and de Bruyn, a Pretoria-based law firm, a director and co-shareholder of PBD Holdings, the largest producer of agricultural lime in South Africa and a director and co-shareholder of Motor Vision, a services company active in the contract mining and platinum industry.

In 2004, he initiated the reverse listing of Creditvision Venture Capital to the Venture Board of the JSE and in 2005 he initiated the reverse takeover of Verimark to list the company on the main board of the JSE. Between 2000 and 2007, he undertook numerous mining transactions including sales to Impala Platinum, Nkwe Platinum and Aquarius Platinum and the purchase of significant chrome deposits from Samancor and their subsequent sale to Chrome Corporation. Henri concluded several sale and purchase transactions of Vanadium, Iron Ore and Coal assets in South Africa.

He is largely responsible for advancing the Kangala Coal Project as well as sourcing additional projects for the company on a case by case basis.

Shammy Luvhengo (Non Executive Director)

Shammy is a qualified geologist who started his career with Exxaro Resources before moving into the investment world. Shammy worked for Investec Bank and Nedbank Capital, structuring and implementing project finance and BEE deals within the resources industry. Prior to joining Universal Coal, he worked at Nkwe Platinum Ltd as Head of Business Development and Investor Relations.

John Hopkins (Non Executive Director)

John Hopkins is a qualified and experienced lawyer and professional company director. He has been on the board or chairman of nearly 20 public listed companies since 1985 (both in Australia and Canada) and as such has been involved in the financing and development (and subsequent M & A activities) of many gold, base metal, energy (coal and oil and gas), mineral sands and other resource projects all over the world.

Previously, John spent 12 years as a partner of what was then a leading Perth law firm, during which time he was involved in a range of corporate, business and resource transactions for major national and international companies. He then went on to found his own law firm from which he retired in 1998.

He is currently chairman of ASX listed emerging gold producer Adamus Resources Ltd (ADU) and as such has overseen its last 4 years in making the transition from explorer to producer. John is also the Non-Executive Chairman of ASX listed Wolf Minerals Ltd (WLF). John is a Fellow of the Australian Institute of Company Directors.

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