

3 November 2011

**RECOMMENDATION**

**BUY**

**VALUATION**

**\$0.84 per share**

12 month volume	208.6m
12 month share low	A\$0.18
12 month share high	A\$0.60

Market Risk	High
Liquidity Risk	Mod
Infrastructure Risk	Low
Country Risk	High

IRESS & DJC Research

**ISSUED CAPITAL**

ASX	UNV
Share price	\$0.22
Mkt cap <sup>1</sup>	\$44.8m
Ordinary shares on issue	203.7m
Unlisted Options <sup>2</sup>	26.6m

<sup>1</sup> Undiluted Source: IRESS  
<sup>2</sup> Various dates and strike prices

**DIRECTORS**

Dr Tony Harwood	Chairman
Tony Weber	CEO
Henry Bonsma	Director
Shammy Luvhengo	Director
John Hopkins	Director

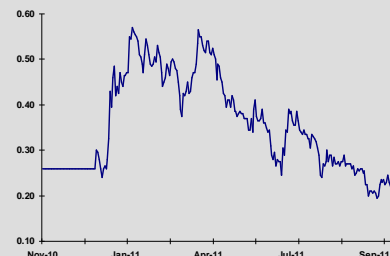
Source: UNV

**MAJOR SHAREHOLDERS**

Maple Leaf International	9.8%
JP Morgan Nominees	5.4%
Geoff Tarrant	5.3%
HSBC Custody Nominees	5.0%
Citicorp Nominees	2.8%

Source: UNV

**12 MONTH PERFORMANCE**



Source: IRESS

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# Universal Coal plc (UNV)

## September Quarterly Update

UNV is an ASX listed, South African focused coal exploration and development company holding interests in three thermal coal projects in the Witbank Coalfield and three coking coal projects in the Limpopo Coalfield, with ownership structures varying from 50% to 70.5% on a staged earn-in basis. UNV is aiming to achieve first coal production from its thermal coal project at Kangala followed by the successive development of the Roodekop and Brakfontein thermal coal projects, assuming positive feasibility study outcomes. UNV therefore aims to become a mid-tier, coal mining company in Southern Africa producing a diversified product range of export and domestic thermal and coking coal.

**Key Points**

- The Combined Berenice / Cygnus coking coal project resource has been vastly increased to 1.32 billion tonnes, of which 402.4Mt (30%) is in the measured and indicated categories. Of this amount, and after taking into account geological losses, UNV estimate mineable resources of 479Mt, chiefly composed of a middling product and a smaller percentage of high grade coking coal. As a result of the resource upgrade, UNV interest in the project has risen to 40% from 22%.
- Large diameter core quality analysis will be interpreted during the December quarter in order to determine more accurate yields of the various products.
- Consistent with UNV's growth strategy, UNV has entered into a farm-in agreement over the Donkin Project, located adjacent to their existing Somerville Project. The Donkin Project hosts an existing resource of 42.4Mt
- The Kangala optimisation studies to the BFS continued during the quarter and will now likely be completed during 1Q2012. UNV are in discussions with neighbouring third parties which could have a material influence on the development strategy of the project. We have made changes to the timing with respect to capital expenditure and production from Kangala, rolling each forward a quarter to reflect the delay.
- Roodekop is now in feasibility and the Brakfontein Project will undergo resource modelling during the December quarter.
- We have updated our valuation with a 10% increase, to \$0.84 from \$0.76, chiefly off the back of the increased resources at Berenice / Cygnus, which out-weigh the reduction in peer group EV / resource tonne multiple, that we use to assign value to UNV's coking coal projects.
- We maintain our Buy recommendation as a result, anticipating a re-rating in 2012 as Kangala approaches production and more news emerges on UNV's coking coal assets.

Updated UNV JORC Resource Inventory

<b>Project</b>	<b>Measured Millions of tonnes</b>	<b>Indicated Millions of tonnes</b>	<b>Inferred Millions of tonnes</b>	<b>Total Millions of tonnes</b>
<b>Thermal Coal (Witbank)</b>				
Kangala <sup>1,4</sup>	48.7	4.4	70.9	124.0
Roodekop <sup>2,5</sup>	67.2	15.6		82.8
Brakfontein <sup>3,4</sup>		96.6	29.0	125.6
<b>Total Thermal coal<sup>4,6</sup></b>	<b>115.9</b>	<b>116.6</b>	<b>99.9</b>	<b>332.4</b>
<b>Coking Coal (Limpopo)</b>				
Berenice <sup>5</sup> – Cygnus <sup>5</sup>	7.9	394.5	922.0	1324.4
Somerville <sup>5</sup>			274.0	274.0
<b>Total Coking Coal<sup>7</sup></b>	<b>7.9</b>	<b>394.5</b>	<b>1,196.0</b>	<b>1,598.4</b>
<b>Total<sup>8</sup></b>	<b>123.8</b>	<b>511.1</b>	<b>1,295.9</b>	<b>1,930.8</b>

Fig 1. UNV Total Resource Inventory

Source: UNV

Note : The tonnages in the above table represent 100% of the resource. Attributable tonnes for Roodekop and Brakfontein could be up to 74%, whilst the Kangala Resources are set at 70.5%. UNV are earning up to 50% in the Coking coal projects, with the option of purchasing an additional 24% for a total of up to 74%.

Project Updates

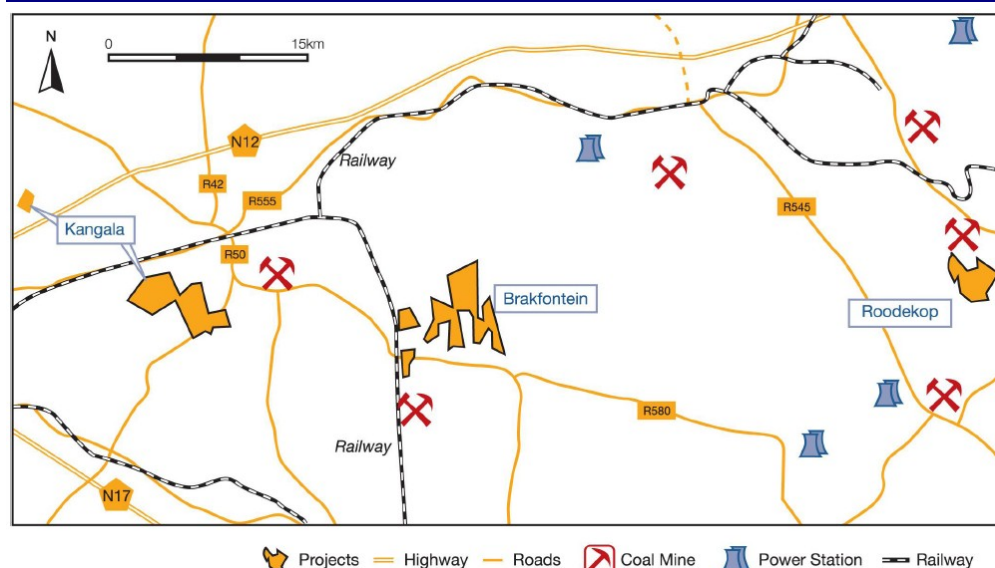


Fig 2. Location of UNV Thermal Coal Projects and infrastructure

Source: UNV

## Thermal Coal Projects

### Kangala Thermal Coal Project (UNV 70.5%)

UNV's three thermal coal projects are all located in the Witbank Coalfield east of Johannesburg and consist of Kangala, Brakfontein and Roodekop as the field is traversed from west to east.

At Kangala, UNV has continued to progress their BFS to optimise the economics and improve the level of engineering and estimate accuracy. UNV has also progressed discussions with the local domestic power utility (Eskom) regarding a thermal coal off-take agreement and UNV envisage entering into an MOU with Eskom during the December quarter.

Adjacent to the proposed Kangala Open Pit, completed drilling is aimed at transferring 69Mt of Inferred resources into the Measured category for inclusion in the next phase of mine development. A total of 42 holes for 2,461m were completed. A resource update is anticipated for the March quarter 2012.

Most significantly for the project, UNV are involved in discussions with third parties in the vicinity of Kangala with the aim of enhancing the project returns and have therefore delayed the start of the initial mining and box cut development until those discussions are finalised and the feasibility study can incorporate those initiatives.

This is later than we had anticipated in our '*Initiating Coverage*' note (11/07/11) but given that UNV may be able to significantly affect the development of the project through discussions with third parties, we agree with the strategy.

We made adjustments in our model accordingly.

**December quarter activities:** UNV intend to finalise the BFS optimisation study and conclude the off-take discussions for domestic thermal coal production.

### Roodekop Thermal Coal Project (UNV 50%)

The mining right for Roodekop was lodged in July 2011 with NEMA and Water Use Licence applications are to be lodged by December 2011. UNV commenced a feasibility study for Roodekop which will continue throughout the December quarter and UNV have ceased all exploration work on the project until completion of this study.

**December quarter activities:** Continuation of the feasibility study and progress regulatory applications.

### Brakfontein Thermal Coal Project (UNV 50%)

Final analysis of the coal drilling at Brakfontein was received and sent off to Gemecs for resource modelling.

**December quarter activities:** The resource update is scheduled for the December quarter and lodgement of the Mining Right application will be made once the provisional evaluation of the recent drilling has been completed.

### Coking Coal Projects

UNV's coking coal projects are located in the Limpopo Coalfield in the north of South Africa, close to the borders of Botswana and Zimbabwe. After the recent acquisition of the Cygnus Project, UNV now have three properties with total resources of 491.5Mt that are all in the Inferred resource category.

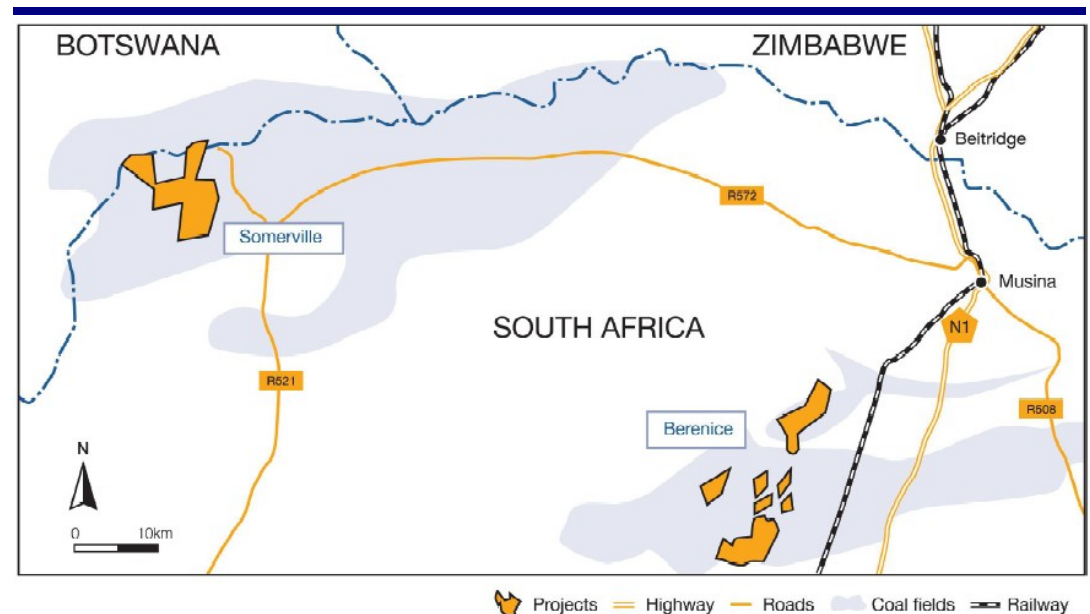


Fig 3. Location of the UNV coking Coal Projects

Source: UNV

### Berenice / Cygnus Coking Coal Project

UNV announced a resource upgrade for the combined coking coal project during the September quarter

The previous resource of 217.5Mt was increased to over 1.2Bt including 258.2Mt in the indicated category and then further upgraded during October to 1.3Bt including 7.9Mt in the Measured and 394.5Mt in the Indicated categories. UNV estimate that after geological losses, approximately 480Mt is amenable to open cast mining, from three potentially commercial sub-zones, namely the S6, S8 and S12, having thicknesses of 3.85m, 3.80m and 1.88m respectively.

Preliminary testwork on the low density fraction (CF 1.40g/cm<sup>3</sup>) from the three sub-zones suggests that theoretical coal product yield from the combined zones could be between 43% and 55% composed primarily of middling product with an estimated 16% yield of high quality primary coking coal product.

These preliminary results were diagnosed from relatively thick diameter diamond drill core and further testing from larger diameter core may lift the coking coal yields slightly. UNV envisage making further announcements on the yield and coal quality characteristics during the December quarter as the large diameter twin-hole drilling and analysis was completed during the September quarter.

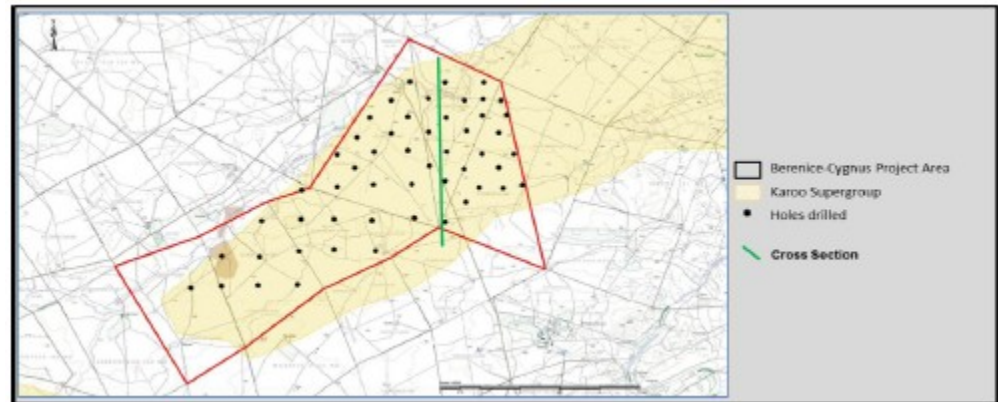


Fig 4. Drill hole locations at Berenice/Cygnus Project

Source: UNV

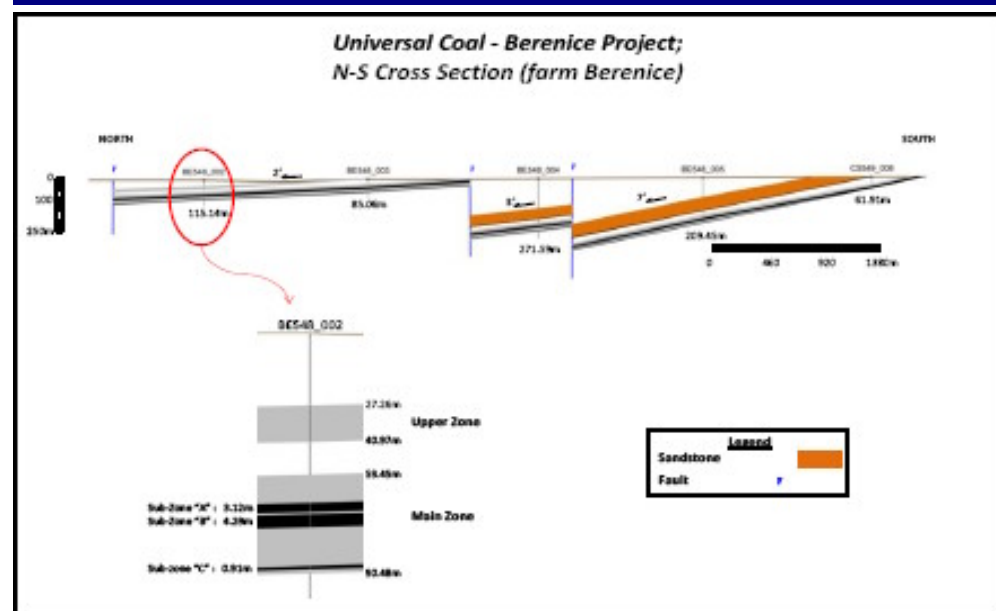


Fig 5. North-South cross section through Berenice/Cygnus Project

Source : UNV

**December quarter activities:** Reporting of all outstanding coking coal analytical results during November and continuation of the Scoping study that commenced in October.

### Peer Companies in Southern Africa

Average EV / Resource tonne (ex-UNV) for the peer group has fallen from \$0.17 to just \$0.11 on the recent turmoil in equity markets as a result of the European debt crisis and the removal of Riversdale from the peer group after its successful takeover. Producing companies command higher EV/resource t multiples by a factor of 3 to 5 times those of explorers.

Company	Code	Resource Size (Mt)	Reserves (Mt)	Thermal / Coking (T / C)	MCAP (\$m)	Net Cash (\$m)	EV (\$m)	EV / Resources t \$
Coal of Africa	CZA	2036.6	370	T / C	441.8	-31.5	473.3	0.23
Continental Coal	CCC	560	43	T	74.5	-11.5	86.0	0.15
African Energy	AFR	2730	-	T	111.0	14.4	96.6	0.04
Universal Coal	UNV	990.8	-	T / C	36.4	9.5	26.9	0.03
Aviva Corporation	AVA	1297	895	T	24.9	5.6	19.2	0.01
Xceed Resources	XCD	55	-	T	7.2	10.0	0.0	-
<b>Average (ex-UNV)</b>								<b>0.11</b>

Fig 6. Peer Group Comparison – ASX Listed South Africa Region Coal Companies

Source: DJC

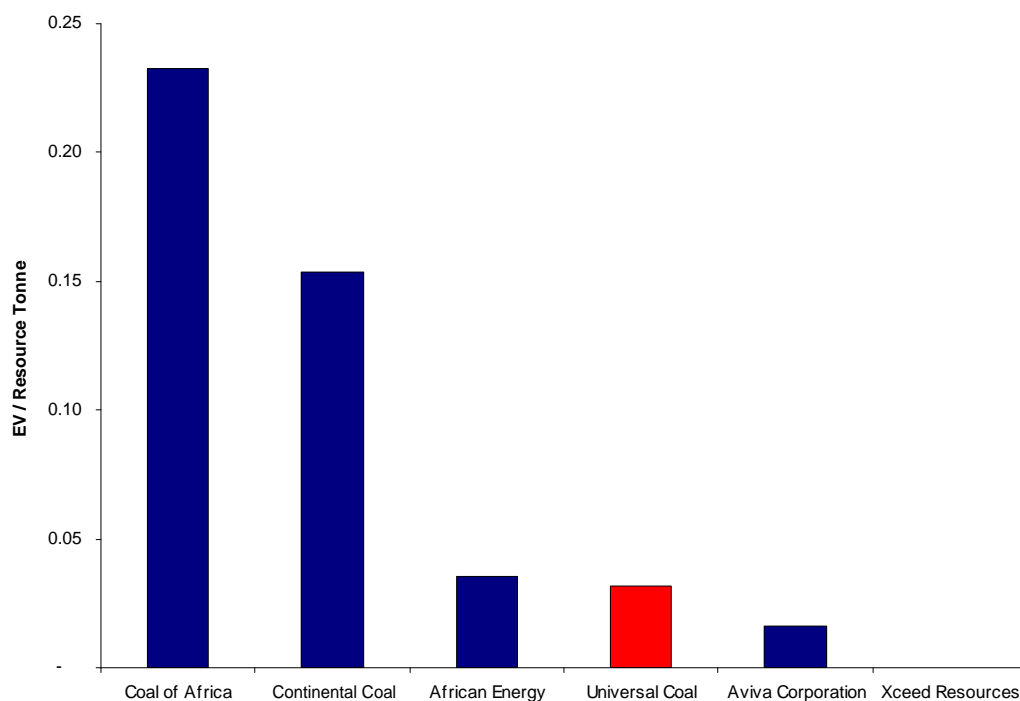


Fig 7. EV / Resource tonne peer comparison

Source: DJC

## Valuation and Recommendation

As per our Initiating Coverage report, we base our valuation on UNV using DCF analysis on each of UNV's three major thermal coal projects in the Witbank plus a peer average EV / resource tonne metric placed on their coking coal exploration assets in the northern part of the country.

The resource tonnages attributable to UNV (at 70.5% for Kangala and 50% for the other projects), total 990.8Mt (see below). Attributable resources for UNV has increased by 553.4Mt, or 126%, from 437.4Mt in July 2011, off the back of the increases from the combined Berenice/Cygnus coking coal project.

### Attributable Resource Tonnes

	Equity	At 100%	Attrib T
Kangala	71%	124	87.4
Roodekop	50%	82.8	41.4
Brakfontein	50%	125.6	62.8
Berenice/Cygnus	50%	1324.4	662.2
Somerville	50%	274	137.0
<b>Total</b>		<b>1930.8</b>	<b>990.8</b>

**Fig 8. Attributable resources based on Equity position**

Source: UNV / DJC

Due to the delay in the initial mining and box cut development at Kangala resulting from the on-going discussions with third parties aimed at optimising the resource development, we have made adjustments to the cashflow forecasts in our model in terms of the commencement of CAPEX spend and mining, rolling these forward one quarter to 1Q2012 and 2Q2012 respectively. We also roll forward our NPV calculations by one quarter to derive an updated sum-of-parts valuation.

**Our sum-of-parts valuation for UNV has increased 10.5% from \$0.76 to \$0.84 chiefly from the increased resources in the coking coal assets which out-weighed the reduction in peer group EV/t multiples. Our valuation totals \$212.7m, up from \$191.7m.**

	Estimated Discounted A\$m	Est. A\$ per share
Kangala (NPV 12%)	41.8	0.16
Roodekop (NPV 25%)	33.0	0.13
Brackfontein (NPV 25%)	56.9	0.22
Exploration	76.3	0.30
Cash	9.5	0.04
Options	7.8	0.03
Tax Losses	2.5	0.01
Corporate -	15.0 -	0.06
<b>Total</b>	<b>212.7</b>	<b>0.84</b>

**Fig 9. Sum-of-parts Valuation for UNV**

Source: DJC

**We maintain our Buy Recommendation on UNV in anticipation of production from Kangala, which would be a re-rating catalyst in our view, and further developments on the coking coal assets.**

## Universal Coal Ltd

**\$0.22**

PROFIT AND LOSS (FY)	(\$m)	2010a	2011e	2012f	2013f	2014f
<b>Sales revenue</b>		0.0	0.0	0.0	86.5	117.9
Other revenue		0.2	0.6	0.2	0.9	2.0
Total Revenue		0.2	0.6	0.2	87.4	119.9
Direct Operating Costs		0.0	-5.3	0.0	-20.8	-30.5
Corporate / Administration		-3.3	-2.9	-3.0	-3.0	-3.0
<b>EBITDA</b>		<b>-3.1</b>	<b>-7.5</b>	<b>-2.8</b>	<b>63.6</b>	<b>86.4</b>
Depreciation & Amortisation		0.0	0.0	0.0	-4.6	-6.8
Exploration written off		0.0	0.0	0.0	0.0	0.0
Other		-1.9	0.0	0.0	-0.9	-5.5
<b>EBIT</b>		<b>-5.0</b>	<b>-7.5</b>	<b>-2.8</b>	<b>58.1</b>	<b>74.2</b>
Interest Expense (benefit)		0.0	0.0	3.0	5.7	4.5
Abnormals		0.0	0.0	0.0	0.0	0.0
<b>Profit before Tax</b>		<b>-5.0</b>	<b>-7.5</b>	<b>-5.7</b>	<b>52.4</b>	<b>69.6</b>
Tax expense		0.0	0.0	0.0	15.2	20.2
<b>NPAT</b>		<b>-5.0</b>	<b>-7.5</b>	<b>-5.7</b>	<b>37.2</b>	<b>49.4</b>
DJC Adjusted NPAT		-6.4	-7.5	-5.7	37.2	49.4

CASH FLOW STATEMENT (FY)	(\$m)	2010a	2011e	2012f	2013f	2014f
<b>Cash Flows from Operations</b>		<b>-3.1</b>	<b>-5.3</b>	<b>0.0</b>	<b>65.7</b>	<b>87.4</b>
Interest received		0.0	0.4	0.7	2.6	5.1
Investment income		0.0	0.0	0.0	0.0	0.0
Tax and Other		-0.6	0.2	0.0	-16.8	-21.5
<b>Net cash from operating activities</b>		<b>-3.7</b>	<b>-4.7</b>	<b>0.7</b>	<b>51.4</b>	<b>71.1</b>
Property, plant & equipment		0.0	0.0	-61.5	-49.6	-4.3
Exploration and Development		0.0	0.0	0.0	0.0	0.0
Investments		-0.9	-0.6	0.0	0.0	0.0
<b>Net cash from investing activities</b>		<b>-0.9</b>	<b>-0.6</b>	<b>-61.5</b>	<b>-49.6</b>	<b>-4.3</b>
Equity Raised		4.0	21.9	25.0	0.0	0.0
Proceeds from borrowings		0.0	0.0	36.9	49.6	0.0
Repayment of borrowings		0.0	0.0	0.0	15.0	15.0
Dividends paid		0.0	0.0	0.0	0.0	0.0
Other costs		0.0	3.4	0.0	0.0	0.0
<b>Net cash from financing activities</b>		<b>4.0</b>	<b>18.5</b>	<b>61.9</b>	<b>34.6</b>	<b>-15.0</b>
<b>Net change in cash</b>		<b>-0.6</b>	<b>13.3</b>	<b>1.1</b>	<b>36.4</b>	<b>51.8</b>
<b>Cash at end of period</b>		<b>0.3</b>	<b>13.6</b>	<b>14.7</b>	<b>51.1</b>	<b>102.9</b>

BALANCE SHEET (FY)	(\$m)	2010a	2011e	2012f	2013f	2014f
Cash		0.3	13.6	14.7	51.1	102.9
Other		0.8	0.0	0.0	0.0	0.0
<b>Total current assets</b>		<b>1.1</b>	<b>13.6</b>	<b>14.7</b>	<b>51.1</b>	<b>102.9</b>
Property Plant & Equipment		0.0	0.0	61.5	106.6	104.0
Exploration & development		0.0	0.0	0.0	0.0	0.0
Other		10.0	11.4	11.4	11.4	11.4
<b>Total non-current assets</b>		<b>10.0</b>	<b>11.4</b>	<b>72.9</b>	<b>118.0</b>	<b>115.4</b>
<b>Total Assets</b>		<b>11.1</b>	<b>25.0</b>	<b>87.6</b>	<b>169.1</b>	<b>218.3</b>
Payables		0.2	2.1	0.4	2.9	4.0
Borrowings		0.0	0.0	0.0	0.0	0.0
Other		0.0	0.0	0.0	0.0	0.0
<b>Total current liabilities</b>		<b>0.2</b>	<b>2.1</b>	<b>0.4</b>	<b>2.9</b>	<b>4.0</b>
Non-current debt		0.0	0.0	36.9	71.6	56.6
Other		0.0	0.0	0.0	0.0	0.0
<b>Total non-current liabilities</b>		<b>0.0</b>	<b>0.0</b>	<b>36.9</b>	<b>71.6</b>	<b>56.6</b>
<b>Total Liabilities</b>		<b>0.2</b>	<b>2.1</b>	<b>37.3</b>	<b>74.4</b>	<b>60.6</b>
<b>Net Assets</b>		<b>10.9</b>	<b>22.9</b>	<b>50.4</b>	<b>94.6</b>	<b>157.7</b>

Key Assumptions		FY 12	FY 13	FY 14	FY 15	FY 16
B Grade SA Coal	A\$/t	75.63	77.9937	80.357	80.357	80.357
Export Thermal	A\$/t	94.12	90.8088	87.5	87.5	87.5
Domestic Thermal	A\$/t	25.88	26.6912	27.5	27.5	27.5

Resources and Reserves	Equity	100% Tonnes	Attrib Tonnes
<b>Current Resources</b>			
Kangala	70.5%	124.0	87.4
Roodekop	50.0%	82.8	41.4
Brakfontein	50.0%	125.6	62.8
Berenice/Cygnus	50.0%	1,324.4	662.2
Somerville	50.0%	274.0	137.0
<b>Total</b>		<b>1,930.8</b>	<b>990.8</b>

Top Shareholders *	m shs	%
Maple Leaf International	28.55	9.80%
JP Morgan Nominees	26.27	5.40%
Geoff Tarrant	19.33	5.30%
HSBC Custody Nominees	10.75	5.00%
Citicorp Nominees	9.08	2.80%

RATIOS		2010a	2011e	2012f	2013f	2014f
Number of shares	m	32.3	203.0	254.5	278.5	278.5
EPS	cps	-0.20	-0.04	-0.02	0.13	0.18
PER	x	na	na	na	1.6	1.2
EPS growth	%	na	na	na	na	25%
FCFPS	cps	-0.10	-0.03	-0.24	0.06	0.30
P/FCF		-2.3	-8.5	-0.9	3.8	0.7
EBITDA Margin	%	na	na	na	0.7	0.7
EBIT Margin	%	na	na	na	0.7	0.6
DPS	cps	0.00	0.00	0.00	0.00	0.00
Divided Yield	%	0	0	0	0	0
ROA	%	-0.46	-0.33	-0.11	0.39	0.31

BOARD	
Executive Chairman	Anthony Harwood
Chief Executive Officer	Tony Weber
Non-Executive Director	Hendrik Bonsma
Non-Executive Director	John Hopkins
Non-Executive Director	Shammy Luvhengo

VALUATION	A\$m	A\$ps
<b>DCF Sum of Parts -</b>		
Kangala (NPV 12%)	\$ 41.8	\$ 0.16
Roodekop (NPV 25%)	\$ 33.0	\$ 0.13
Brackfontein (NPV 25%)	\$ 56.9	\$ 0.22
Exploration	\$ 76.3	\$ 0.30
Cash	\$ 9.5	\$ 0.04
Options	\$ 7.8	\$ 0.03
Tax Losses	\$ 2.5	\$ 0.01
Corporate	-\$ 15.0	-\$ 0.06
<b>Total</b>	<b>\$ 212.7</b>	<b>\$ 0.84</b>

## Disclosure Disclaimer

RCAN0998

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The recommendation made in this report is valid for four weeks from the stated date of issue. If in the event another report has been constructed and released on **Universal Coal Limited**, the new recommendation supersedes this and therefore the recommendation in this report will become null and void.

## Recommendation Definitions

SPECULATIVE BUY – 10% out-performance, but high risk

ACCUMULATE – 10% or more out-performance, buy on share price weakness

HOLD – 10% underperformance to 10% over performance

SELL – 10% or more underperformance

Period: During the forthcoming 12 months, at any time during that period and not necessarily just at the end of those 12 months.

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