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Stock: GNC IN
Name: Gujarat NRE Coke
Price: Rs55.25
Market Cap (m): Rs27,767
Market Cap (m): US\$592
Current valuation (Sum of Parts): Rs101.00
12mth price target: Rs101.00
Recommendation: Outperform

Event

- **Coking coal prices settled at US\$209/t:** Energy Publishing reported that BHP settled Q3CY10 prices for its highest quality coking coal, Peak Downs and Saraji, at \$209 per metric ton to Japanese buyers. BHP also settled the price for its lower quality coking coal as follows, Gregory for \$190/t, North Park for \$195/t and Goonyella at \$205-206/t. These prices are higher than Q1 but lower than Q2 prices which had been settled at \$200/t and \$225/t, respectively.

Impact

- **Coking coal contract price better than expected:** Market was abuzz with expectation of US\$200-205/t. Also given the recent market sentiment and weak economic data combined with Japanese mills doing everything they can to negotiate a sub \$200/MT price, a price settlement above \$200/MT can be viewed as victory for coking coal producers and higher than the price feared a month ago. This outcome is consistent with recent gains in iron ore prices, triggered by the Chinese coming back to the market. Chinese steel mills had worked down their inventories during the summer months, as steel end demand stayed strong in China.
- **GNC - on track to meet 2Mnt coal production:** GNC management remains confident of achieving 2Mnt of ROM coal production for FY11 from its mines in Australia. It produced around 387kt in Q1 a bit lower due to unexpected shutdown of its longwall. To meet the shortfall, it is now planning to start working on Saturdays too. It remains on track to reach 6mtpa production by FY14.
- **Power plants to reduce cost:** GNC is adding 50MW of waste heat recovery based power plants. The first 15MW is expected by Dec-Jan this year. This should help reduce the conversion cost of coke quite considerably.
- **Coke production to be impacted due to flooding:** GNC's coke plants in Gujarat has been impacted by flooding and heavy rains, which will marginally impact the production and sales.

Action and recommendation

- **Maintain Outperform:** GNC stock has been languishing over the last 2-3 months due to concerns on the strength of steel market and its impact on coking coal demand. This settlement should alleviate some of these concerns and now the focus should rightly fully shift to the doubling of production and strong profit growth.

March		2010A	2011E	2012E	2013E
Total revenue	m	12,201	21,769	30,954	27,819
EBITDA	m	2,224	8,212	15,053	13,385
EBIT	m	640	6,865	13,455	11,545
EBIT growth	%	-80.9	973.2	96.0	-14.2
Recurring profit	m	279	4,947	10,851	8,799
Adjusted profit	m	-102	3,444	7,540	6,115
EPS rep		-0.25	6.26	13.77	11.16
EPS rep growth	%	nmf	nmf	119.8	-18.9
EPS adj		-0.20	6.26	13.71	11.12

EPS adj growth	%	nmf	nmf	118.9	-18.9
PE rep	x	nmf	8.8	4.0	5.0
PE adj	x	nmf	8.8	4.0	5.0
Total DPS		0.51	1.12	1.49	1.32
Total div yield	%	0.9	2.0	2.7	2.4
EV/EBITDA	x	19.6	5.6	3.1	3.5
GCFPS		0.00	0.00	0.00	0.00
PGCFPS	x	nmf	nmf	nmf	nmf
Net debt/equity	%	97.3	118.4	105.9	76.2
Price/book	x	2.4	2.1	1.5	1.3

*All values are in INR unless otherwise stated.

Source: Company data, Macquarie Research, Aug 2010.

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