

QLD government peril hurts a good project

Downgrade to HOLD pending outcome

- CXY will recommence trading with the market opening today. The company has issued its FY10 results and a simplified prospectus in order to comply with ASIC following from its extended voluntary suspension. On 16 July the Queensland government ordered CXY to suspend operations due to a water contamination scare that has been subsequently proven and re-proven to have been a testing mistake.
- Since the suspension CXY has fired most of its site staff and has been burning cash in order to comply with QLD government testing and reporting directives. At 30-Jun it had \$2.9m in cash and it currently has \$1.3m in cash which will probably only last for another month.
- In order to remain solvent CXY has renegotiated its \$10m previously agreed equity financing deal with YA Global. YA has agreed to supply funds in \$0.1m tranches in exchange for shares at a price based on a 10-day VWAP calculation up to \$10m. However, the prospectus clears the way for CXY undertake a placement of new shares to the value of approximately \$0.5-0.6m in Sep-10 and a share purchase plan offering to shareholders in Oct-10 in addition to the YA facility.
- Cougar has been poorly treated by the QLD government. The initial scare was not only a false reading, the implied contamination was no danger to human health, and regardless, the water in the region is too saline for human consumption anyway. Subsequent, continuous testing has found no traces down to the molecular limit of testing. All of this however, has not jogged the government into lifting the suspension order. It has on several occasions issued announcements through Press Releases and speeches before any official notification.
- On paper CXY still has a compelling project at Kingaroy and a delay of a few months is irrelevant to the valuation of 30-year power project. However we fear that the QLD government has taken a negative view of the UCG industry and this poses too much sovereign risk to ordinary shareholders. Further, the YA funding agreement may lead to an overhang of stock that will limit short term upside.
- Accordingly we are taking a 50% discount to our NPV and are downgrading our recommendation to a HOLD with a price target of \$0.08 per share pending an outcome with the QLD government.

2 September 2010

12mth Rating		HOLD
Price	A\$	0.08
Target Price	A\$	0.08
12m Total Return	%	6.7

RIC: CXY.AX		BBG: CXY AU
Shares o/s	m	936.9
Free Float	%	88.0
Market Cap.	A\$m	70.3
Net Debt (Cash)	A\$m	-1.3
Net Debt/Equity	%	na
3m Av. D. T'over	A\$m	0.05
52wk High/Low	A\$	0.15/0.07
2yr adj. beta		1.51

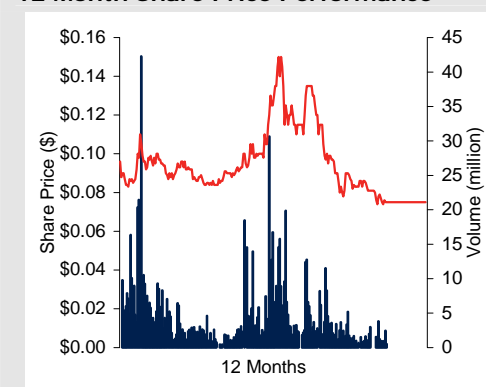
Valuation:

Methodology		DCF
Value per share	A\$	0.17

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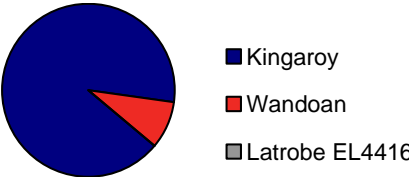
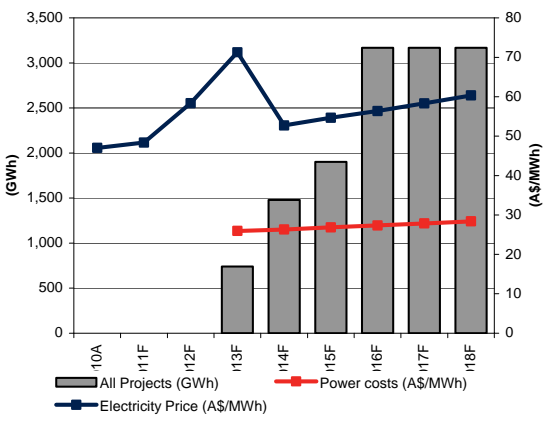
Patersons Securities Limited acted as lead manager to the placement that raised \$8.29 million at 8.25 cents per share for Cougar Energy Limited in September 2009. It received a fee for this service

12 Month Share Price Performance

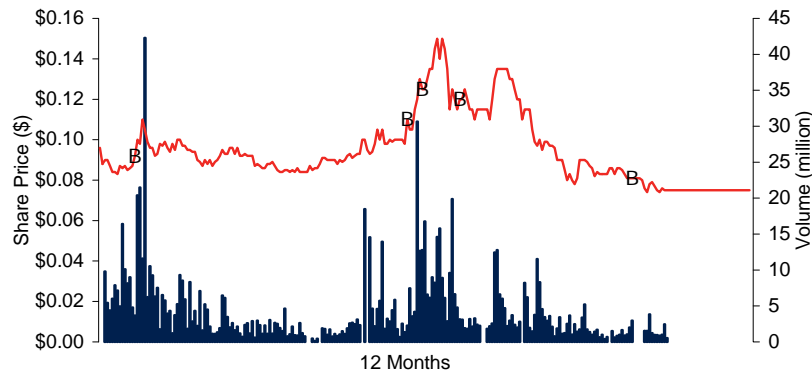


Performance %	1mth	3mth	12mth
Absolute	0	0	0
Rel. S&P/ASX 300	0	0	0

Year End June 30	2009A	2010A	2011F	2012F	2013F
Reported NPAT (\$m)	(2.9)	(4.1)	(4.4)	(12.0)	6.5
Recurrent NPAT (\$m)	(2.9)	(4.1)	(4.4)	(12.0)	4.4
Recurrent EPS (cents)	(0.4)	(0.4)	(0.5)	(1.1)	0.4
EPS Growth (%)	na	na	na	na	na
PER (x)	(18.8)	(17.5)	(16.6)	(6.8)	18.2
EBITDA (\$m)	(2.1)	(3.2)	(2.5)	(2.2)	31.3
EV/EBITDA (x)	(23.2)	(21.3)	(49.0)	(135.1)	11.8
Capex (\$m)	8.1	11.0	50.1	166.2	79.7
Free Cashflow	(10.3)	(18.4)	(54.4)	(179.2)	(68.4)
FCFPS (cents)	(1.4)	(1.9)	(5.6)	(16.6)	(6.3)
PFCF (x)	(5.3)	(3.9)	(1.3)	(0.5)	(1.2)
DPS (cents)	0.0	0.0	0.0	0.0	0.0
Yield (%)	0.0	0.0	0.0	0.0	0.0
Franking (%)	100.0	100.0	100.0	100.0	100.0

Cougar Energy			Year End June 30						
0.075									
Valuation	A\$m	A\$/sh	2010A	2011F	2012F	2013F	2014F		
Kingaroy	176.0	0.16	0.8939	0.8842	0.8800	0.8550	0.7900		
Wandoan	17.1	0.02	42.26	41.78	53.48	59.88	51.10		
Latrobe EL4416	0.0	0.00	63.56	64.25	82.69	78.38	71.10		
Thar Coal Pakistan	0.0	0.00	Export Thermal Coal						
Eneabba JV	0.0	0.00	Domestic Thermal Coal (A\$/t)						
Cougar Direct Invest China	0.0	0.00	77.00	94.75	82.50	73.75	68.75		
FX Hedging	0.0	0.00	43.58	44.65	45.73	46.80	47.76		
Corporate	(15.6)	(0.01)	Production Summary						
Unpaid Capital	0.0	0.00	2010A	2011F	2012F	2013F	2014F		
Cash	1.3	0.00	Attributable Power Production						
Debt	(0.0)	(0.00)	Kingaroy (GWh)						
NPV	178.8	0.17	0	0	0	740	1,480		
Price Target (discounted 50% due to QLD gov uncertainty)	0.08	0.08	Power costs (A\$/MWh)						
Valuation Summary of Operating Assets			Wandoan (kt)						
			Power costs (A\$/MWh)						
			Electricity Price (A\$/MWh)						
			Electricity Price (A\$/MWh)						
Coal Production Summary			All Projects (GWh)						
			Power costs (A\$/MWh)						
			Electricity Price (A\$/MWh)						
			Electricity Price (A\$/MWh)						
Resources 100% Basis (Mt)			Profit & Loss (A\$m)						
Deposit	Meas. & Ind.	Inf.	Total	2010A	2011F	2012F	2013F	2014F	
Kingaroy				Sales Revenue	0.0	0.0	0.0	52.8	78.0
Resources - Meas. & Ind. - Inf. - Tot.	28.0	45.0	73.0	Other Income	0.4	0.1	0.5	0.5	1.8
Reserves - Prov - Prob - Total	0.0	0.0	0.0	Operating Costs	0.0	0.0	0.0	19.2	39.0
Wandoan				Exploration Exp.	0.0	0.0	0.0	0.0	0.0
Resources - Meas. & Ind. - Inf. - Tot.	34.0	307.0	341.0	Corporate/Admin	3.6	2.6	2.7	2.8	2.8
Reserves - Prov - Prob - Total	0.0	0.0	0.0	EBITDA	(3.2)	(2.5)	(2.2)	31.3	38.1
Latrobe				Deprn & Amort	0.9	1.0	1.0	6.9	12.8
Resources - Meas. & Ind. - Inf. - Tot.	0.0	0.0	0.0	EBIT	(4.1)	(3.5)	(3.2)	24.3	25.2
Reserves - Prov - Prob - Total	0.0	0.0	0.0	Interest	0.0	1.1	9.4	17.5	18.9
Total Resources	414.0		414.0	Operating Profit	(4.2)	(4.6)	(12.6)	6.8	6.3
Directors				Tax expense	0.0	0.0	0.0	0.0	0.0
Name	Position			Abnormals + Minorities	0.1	0.2	0.6	(0.3)	(0.3)
Malcom McAully	Chairman and Non-Exec Director			NPAT	(4.1)	(4.4)	(12.0)	6.5	6.0
Len Walker	Managing Director and CEO			Normalised NPAT	(4.1)	(4.4)	(12.0)	4.4	4.1
Rodney Watson	CFO & Company Secretary			Cash Flow (A\$m)					
Michael Dalling	Non-Exec Director			2010A	2011F	2012F	2013F	2014F	
Significant Shareholders				Adjusted Net Profit	(4.1)	(4.4)	(12.0)	6.5	6.0
Len walker	108.8	11.6		+ Interest/Tax/Expl Exp	0.0	1.1	9.4	17.5	18.9
Acorn Capital	42.7	4.6		- Interest/Tax/Expl Inc	13.6	3.1	11.5	19.6	21.0
Michael Dalling	1.1	0.1		+ Depn/Amort	0.9	1.0	1.0	6.9	12.8
Malcolm McAully	0.6	0.1		+/- Other (Associates)	9.3	1.2	0.0	0.0	0.0
Andrew Metcalfe	0.3	0.0		Operating Cashflow	(7.4)	(4.2)	(13.1)	11.3	16.7
				- Capex (+asset sales)	11.0	50.1	166.2	79.7	1.1
				- Working Capital Increase	0.0	0.0	0.0	0.0	0.0
				Free Cashflow	(18.4)	(54.4)	(179.2)	(68.4)	15.6
				- Dividends (ords & pref)	0.0	0.0	0.0	0.0	0.0
				+ Equity raised	17.9	0.3	10.0	0.0	0.0
				+ Debt drawdown (repaid)	(0.2)	54.1	174.2	87.7	9.1
				Net Change in Cash	(2.7)	0.1	4.9	19.3	24.7
				Cash at End Period	2.9	2.9	7.9	27.2	51.9
				Net Cash/(Debt)	2.9	(51.2)	(220.4)	(288.8)	(273.2)
				Balance Sheet (A\$m)					
				2010A	2011F	2012F	2013F	2014F	
				Cash	2.9	2.9	7.9	27.2	51.9
				Total Assets	37.7	87.9	259.6	370.7	393.7
				Total Debt	0.0	54.2	228.3	316.0	325.0
				Total Liabilities	2.4	57.2	232.1	336.1	352.4
				Shareholders Funds	35.3	30.7	27.4	34.6	41.3
				Ratios					
				Net Debt/Equity (%)	na	166.8%	803.3%	834.1%	661.9%
				Interest Cover (x)	na	na	na	1.4	1.3
				Return on Equity (%)	na	na	na	18.8%	14.6%

Recommendation History



Date	Type	Target Price	Share Price	Recommendation	Return
22 Sep 09	Research Note	0.20	0.09	B	
22 Feb 10	Event Impact Email	0.20	0.11	B	16.7%
02 Mar 10	Research Note	0.20	0.13	B	23.8%
23 Mar 10	Event Impact Email	0.20	0.12	B	-7.7%
28 Jun 10	Research Note	0.20	0.08	B	-33.3%
	Current Share Price		0.08		-6.3%

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