UNIVERSAL COAL plc (ASX UNV)

Self funding growth stock which also pays high dividends

August 2019

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Recommendation: BUY

Key Points

- ***Universal Coal is an unusual combination of growth and yield in that it will double coal sales in the next 5 years, funded from internal cash flow, while paying a dividend yield currently at 7% unfranked.***
- ***The company is entering a cash generative phase, assuming a constant operating margin, as is appropriate for a business selling largely into cost plus domestic contracts, and increasing sales volumes. Forecast cash generated in FY20 is A$65.9M (~50% to UNV).***
- ***Base Case Net Present Value is A$0.62/sh:***
  - ***Universal at our valuation is trading on a PER of 7.5x***
  - ***2cps unfranked dividend paid and progressive dividend policy declared at 45% of attributable NPAT. At our A$0.62/sh valuation, the dividend yield is 5.3% in FY20***
  - ***This valuation contains nothing for the next round of domestic thermal coal acquisition/expansion, which may come from a bigger Eloff, Arnot, or some new acquisition***
  - ***The large Berenice/Cygnus coking coal resource is valued at $15M, but Universal is approaching a level of cash flow where it is capable of developing this asset into something worth a multiple of Universal's current market value.***
- ***The withdrawal of the Non Binding Indicative Offer saw the share price fall from 31.5cps to 28cps. On our valuation, this represents a buy opportunity which will disappear once the speculators that were punting the outcome of the bid disappear from the register.***

The combination of 7% yield, strong visible organic growth, 25% ROE, proven track record on asset acquisition and project delivery, with a portfolio of cost plus sales contracts delivering reliable, sustainable cash flow that gives the company the muscle to execute, makes Universal Coal a compelling bottom drawer investment in our view.

Hence, Breakaway Research has a ***BUY*** *recommendation on* ***Universal Coal plc****.*

Company Information

ASX Code	UNV
Share Price (20 Aug 2019)	A$0.28
Ord Shares	522.5M
Market Cap	**A$146.3M**
Options	0
Market Cap (fully diluted)	**A$146.3M**
Cash (30 June 2019)	A$18.2M
Total Debt (30 June 2019)	A$20.2M
Enterprise Value	**A$148.3M**

Directors

Chairman	John Hopkins AOM
M.D & CEO	Tony Weber
Director (Non-Exec)	Shammy Luvhengo
Director (Non-Exec)	Henri Bonsma
Director (AMED rep)	David Twist
Director (Non-Exec)	Carlo Baravalle

Significant Shareholders

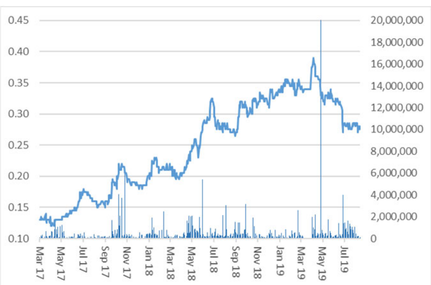
Coal Devlopments Holdings (AMED)	27.5%
Brasidas Investment Management	19.7%
Maple Leaf International Holdings	3.8%
Harvest Lane Asset Mgt	2.9%
Mr & Mrs Geoffrey R Tarrant	2.6%
Mr Tony Weber	1.8%

Source: Company 31 May 2019

Company Details

Address	Level 7, 369 Ann Street Brisbane, Queensland
Phone	+61 7 3181 3800
Web	www.centralpetroleum.com.au

Price Chart



Source: ASX

Universal Coal Limited — UNV-ASX

Share Price A$/sh				0.280
Price Target A$/sh				**0.62**
Profit and Loss A$M	FY18A	FY19F	FY20F	FY20F
Total Revenue	**316.4**	**426.9**	**547.7**	**614.6**
COGS	-239.6	-311.2	-403.6	-454.6
Gross Profit	**76.7**	**115.7**	**144.1**	**159.9**
Gross Profit Margin	*24.2%*	*27.1%*	*26.3%*	*26.0%*
SG&A	-5.5	-18.7	-10.8	-7.7
EBITDA - Reported	71.1	122.9	133.3	152.2
D&A	-18.3	-24.5	-26.0	-27.9
EBIT - Reported	52.8	98.5	107.3	124.3
Total Financial Income	-3.3	0.0	3.0	4.1
PBT	49.5	85.0	110.3	128.4
Tax Expense	-13.5	-27.4	-30.9	-36.0
NPAT	36.0	66.2	79.4	92.4
Minorities	-12.0	-23.4	-36.4	-41.7
Earned for Ordinary	24.0	42.8	43.0	50.7
EPS A cps	4.6	8.2	8.2	9.7
Ordinary shares M	522.5	522.5	522.5	522.5
Dividend A cps	2.0	2.8	3.3	3.9
UNV Equity share of EBITDA	45.0	61.0	76.1	84.3
EBITDA Margin %	22.5%	22.6%	24.3%	24.8%
Return on Equity:	24.2%	16.0%	26.8%	26.6%
Return on Invested Capital:	28.3%	23.7%	36.9%	40.6%
PER	6.10	3.42	3.40	2.88
Price/Book	1.47	1.09	0.91	0.77
Book value A$/sh	0.19	0.26	0.31	0.36
VALUATION (NPV at 14% Disc.)	2018	2019	2020	2021
Kangala Operations	82.6	74.5	67.0	55.3
Less Debt	-4.6	0.0	0.0	0.0
Net Kangala Value to UNV	**55.0**	**52.6**	**47.3**	**39.0**
New Clydesdale Colliery	179.6	175.2	165.3	155.9
Less Debt	-26.1	-11.9	-6.0	0.0
Net NCC Value to UNV	**75.2**	**80.0**	**78.0**	**76.4**
Ubuntu	30.8	35.4	43.7	38.7
Less Debt	0.0	0.0	0.0	0.0
Net Ubuntu Value to UNV	**15.1**	**17.3**	**21.4**	**18.9**
NBC	162.5	170.2	162.8	146.8
Less Debt	0.0	0.0	0.0	0.0
Net NBC Value to UNV	**79.6**	**83.4**	**79.8**	**71.9**
Eloff	63.0	72.4	93.4	152.8
Less Debt	0.0	-10.2	-10.3	0.0
Net Eloff Value to UNV	**30.9**	**30.5**	**40.7**	**74.9**
Total Operations	255.8	263.8	267.2	281.1
Management Fees	32.5	31.5	30.1	28.5
Administration	-68.0	-59.1	-56.6	-57.0
Net working capital	-1.1	8.1	7.2	5.5
Total	219.1	244.3	247.9	258.1
Exploration Assets	15.5	15.5	15.5	15.5
Tax Losses	3.4	3.4	3.4	3.4
Cash (49% of consolidated cash)	18.1	8.9	41.2	63.2
Ndalamo Loan	23.0	25.5	15.5	9.9
NPV A$m	279.1	297.7	323.5	350.2
NPV A$/sh	**0.53**	**0.57**	**0.62**	**0.67**
Coal Sales (100%) Mt	FY18A	FY19F	FY20F	FY20F
Eskom	3.91	5.87	7.61	7.41
Export Thermal	0.85	0.85	0.97	1.77
Coal Sales (UNV Share) Mt				
Eskom	2.46	3.40	4.24	4.15
Export Thermal	0.43	0.42	0.47	0.86

CASH FLOW YE June	FY18A	FY19F	FY20F	FY20F
Receipts from customers	293.3	433.2	535.4	615.0
Payments to Suppliers & Employees	-223.0	-345.1	-406.8	-462.4
Net Interest (Paid) / Received	-1.9	2.4	10.2	11.7
Tax (Paid)	-8.1	-33.4	-22.3	-36.6
Operating cashflow	54.2	49.1	111.8	128.3
Capital expenditure	-10.7	-23.0	-33.6	-51.4
Asset Sales	0.0	0.0	0.0	0.0
Acquisitions	-0.7	-15.0	0.0	0.0
Divestments	0.0	0.0	0.0	0.0
Other Investing	-1.2	0.0	0.0	0.0
Investing cashflow	-12.6	-38.0	-33.6	-51.4
Free Cash Flow	43.5	26.4	78.2	76.9
Net Proceeds from Equity Raisings	0.0	0.0	0.0	0.0
Issue of Shares, Options etc	0.0	0.0	0.0	0.0
Shares Repurchased	0.0	0.0	0.0	0.0
Net Borrowing	-1.0	-12.6	-6.0	-16.1
Ordinary Dividends paid	-17.4	-17.1	-11.3	-20.7
Ndalamo Principal repayment	0.0	0.0	5.0	5.0
Financing cashflow	-18.3	-29.7	-12.4	-31.9
Exchange rate adjustment	-1.6	-0.1	0.0	0.0
Net change in cash	21.7	-18.7	65.9	45.0
BALANCE SHEET YE June	FY18A	FY19F	FY20F	FY20F
Cash	36.87	18.22	84.07	129.08
Trade Receivables	44.4	37.4	49.7	49.2
Inventories	3.7	12.3	16.2	16.2
Financial Derivative	0.0	0.0	0.0	0.0
Total Current Assets	85.0	67.9	149.9	194.5
Receivables (Ndamalo)	10.6	11.9	5.3	3.1
Investments	8.2	0.0	0.0	0.0
Property, plant and equipment	112.6	118.2	125.7	149.2
Intangibles (Other)	45.5	123.4	123.4	123.4
Other non current assets	2.7	29.3	29.3	29.3
Total non-current assets	179.6	282.9	283.8	305.1
Total assets	264.6	350.8	433.8	499.6
Trade Creditors	42.7	36.4	47.9	47.8
Borrowings	33.0	20.2	14.2	-1.9
Current Tax Liabilities	3.9	8.9	17.5	16.9
Deferred Tax Liabilities	11.2	3.6	3.6	3.6
Provisions	35.9	64.5	64.5	64.5
Other Liabilities	0.0	0.0	6.7	17.1
Total liabilities	126.7	133.6	154.4	148.1
Net Assets	137.9	217.1	279.4	351.5
Earned For Ordinary Shareholders	99.2	134.3	160.1	190.6
Outside equity in controlled entities	38.7	82.8	119.3	161.0
Total shareholders equity	137.9	217.1	279.4	351.5
Net Debt to UNV Shareholders				
Debt less Cash	-3.9	2.0	-69.8	-131.0
Shareholders share of net debt	-1.9	1.0	-34.2	-64.2
Ndalamo Loan from balance sheet	-10.6	-11.9	-5.3	-3.1
Ndalamo Loan eliminated on Consol	-12.4	-13.6	-10.2	-6.8
Net Debt to UNV shareholders	-24.9	-24.6	-49.7	-74.1
ASSUMPTIONS	FY18A	FY19F	FY20F	FY20F
USD/AUD	0.78	0.72	0.71	0.72
ZAR/USD	12.92	13.18	12.88	13.23
ZAR/AUD	10.01	9.45	9.19	9.55
Semi Soft Coking Coal	114.96	116.23	102.07	97.88
Thermal Coal (AP4) US$/t FOB	89.92	86.44	77.85	75.51
Eskom Kangala ZAR/t FOT	436.2	463.2	472.4	481.9
Eskom NCC ZAR/t FOT	436.2	463.2	472.4	481.9

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A self funding growth stock that pays a dividend

Universal has added 1-2Mtpa of capacity to its coal production under management each year for the last three years, and is set to continue at that rate going forward. Eloff received its Mining Right and Environmental Authorisation in the June quarter, and Arnot South is seeking Mining Rights at present These two projects will drive domestic sales growth beyond 2020. Universal will have an equity share in this growth of 49%.

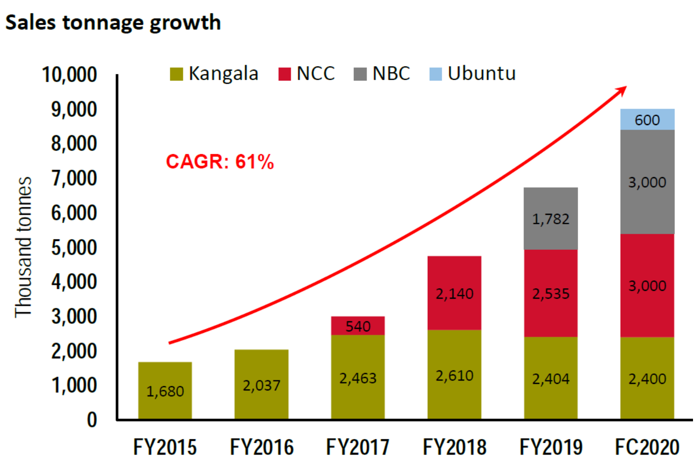
At the core of Universal's success is the requirement that to tender for Eskom domestic power coal supply contracts, a supplier must be 51% Black Empowerment owned. This ownership structure is unacceptable to the bulk of the world's major mining companies. The negative global investor sentiment towards coal makes the sector even more unattractive. This leaves the field wide open to juniors, and Universal is one of the more competent and successful of these new entrants.

Competence and an operator and as an acquirer is the other core driver of Universal's success, with a string of low cost acquisitions and developments funded from cash flow driving organic growth. The company has provided detailed guidance to the market for a number of years and has always met or exceeded its forecasts.

While investor sentiment is negative towards coal, that world in general, and South Africa in particular, will remain heavily dependent on coal for the foreseeable future, and Universal is a likely to maintain its growth rate for some time yet.

Universal also has the large Berenice/Cygnus metallurgical deposit which if developed would be a game changer for company, and because it would not be selling to Eskom, Universal could exercise its option to go to 74% ownership.

Figure 1 Managed Coal Sales Growth



Source: UNV presentation July 2019

Why do people bid for this company but fail to follow through?

Universal was recently subject to two non binding indicative offers in six months. Both were conditional and required the approval of the Universal Board, which was not forthcoming, and the bids lapsed.

- Ata Resources bid A$0.36/sh or A$0.43/sh to be paid in 12 months' time on behalf of a consortium of investors. The bid was conditional of Universal Board support and the implementation of a merger agreement.

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- Afrimat offered A$0.40/sh cash for each Universal share, subject to due diligence and financing.

The Ata offer of the deferred payment of A$0.43/sh was an attempt to counter the Afrimat bid.

Both bids were frustrated when the Ichor stake of 151.66M shares representing 29% of the company was sold to investment funds for A$0.315/sh. Three funds managed by Brasidas Investment LLC picked up 103.096M shares or 19.73% with the rest apparently placed sufficiently widely that no other substantial shareholder notices were generated. The other major shareholder AMED remains a shareholder at 27.5%.

The message from that transaction and from the Board is that the bids undervalue the company. We believe both bids were from groups that intended to use Universal's own cash flow to fund the acquisition.

Our NPV of A$0.062/sh is conservative

Our valuation of A$0.62/sh includes Eloff becomes a 2.4Mtpa saleable production operation, and the start up of Ubuntu which is underway. We have nothing in the valuation for Arnot or a big development at Eloff, which has the resource to be much bigger than the planned 2.4Mtpa of product sales.

We value Cygnus and Berenice at A$15.5M, but their value could easily exceed Universal's current market capitalisation, with potential to become large scale 10Mtpa soft coking coal export mines, which Universal could own 74%, and potentially fund development out of cash flow.

Table 1 Valuation at June 2020

As at June 2020 Issued Shares 522.47M	Project A$M	Less Debt A$M	Net Project A$M	UNV Share A$M	INV Share A$/sh
Kangala Operations	67.04	0.00	67.04	47.26	0.090
New Clydesdale Colliery	165.28	-6.00	159.28	78.05	0.149
NBC	162.82	0.00	162.82	79.78	0.153
Ubuntu	43.67	0.00	43.67	21.40	0.041
Eloff	93.39	-10.35	83.04	40.69	0.078
Total Operations	**532.20**	**-16.35**	**515.85**	**267.18**	**0.511**
Management Fees				30.10	0.058
Administration				-56.56	-0.108
Net working capital				7.21	0.014
Total				**247.93**	**0.475**
Exploration Assets				15.52	0.030
Tax Losses				3.37	0.006
49% of Consolidated Cash				41.20	0.079
Ndalamo Loan				15.53	0.030
NPV A$m				**323.55**	**0.619**

Source: APP estimates

The Result should be in line with EBITDA guidance (plus the gain on revaluation)

Our FY19 reported EBITDA is A$96.7M v guidance of A$93M, and our attributable EBITDA is A$52.4M v guidance of A$51.3M. Note that in the headline H1 result, there was a revaluation on acquisition profit of A$26.24M that is included in the reported EBITDA on Page 2 of this report. This one-off has been excluded from Table 2 (ie Page 2 FY19 EBITDA A$122.9M less A$26.3M is A$96.7 in Table 2).

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We have allowed for a large increase in Corporate Overhead in the June 2019 half due to the cost of scheme documents and expert reports and other costs relating to dealing with the two non-binding offers for the company over the last six months.

We can only calculate the management fees every annual result so our NCC fees may be high, but we have forecast nothing for NBC nor Ubuntu, and will adjust when the result is available.

Table 2 Breakdown of FY19 by halves

	Half to December 2018				Half to June 2019				
A$M	Kangala	NCC	NBC	Total	Kangala	NCC	NBC	Total	FY19
Reported									
Revenue	68.8	105.8	25.5	200.1	74.1	84.0	68.1	226.1	426.2
Cash Costs	-49.9	-66.1	-11.7	-127.7	-53.6	-63.2	-42.3	-159.1	-286.8
Other Costs	-4.1	-7.9	-2.8	-14.8	-4.1	-2.5	-3.0	-9.6	-24.4
Corp	0.0	0.0	0.0	-4.3	0.0	0.0	0.0	-14.0	-18.3
EBITDA	14.9	31.7	11.0	53.3	16.4	18.3	22.8	43.4	96.7
Attributable									
Revenue	48.4	51.8	12.5	112.7	52.1	41.1	33.4	126.6	239.3
Cash Costs	-35.1	-32.4	-5.7	-73.2	-37.7	-31.0	-20.7	-89.4	-162.6
Other Costs	-2.9	-3.9	-1.4	-8.1	-2.9	-1.2	-1.5	-5.6	-13.7
Mgmt Fees	1.5	2.6	0.0	4.1	1.5	2.1	0.0	3.6	7.8
Corp	0.0	0.0	0.0	-4.3	0.0	0.0	0.0	-14.0	-18.3
EBITDA	10.4	15.5	5.4	31.2	11.5	9.0	11.2	21.2	52.4

Source: H1 reported actuals, excluding management fees. H2 and management fees APP estimates

Where will volume growth come from?

Table 3 How Universal gets to 10Mtpa of managed saleable coal

Saleable Coal Mt	FY18	FY19	FY20	FY21	FY22	UNV Interest	FY22 Equity
Kangala	2.6	2.5	2.4	2.4	2.4	70%	1.7
NCC	2.1	2.5	2.6	2.6	2.6	49%	1.3
Brakfontein	0.0	0.0	0.6	1.2	1.2	49%	0.6
NBC	0.0	1.8	3.0	3.0	3.0	49%	1.5
Eloff	0.0	0.0	0.0	0.0	2.4	49%	1.2
Total	4.8	6.7	8.6	9.2	11.6		6.2

Source: Company history, guidance and APP estimates

Since 2018, Universal has had a strategy of reaching 10Mtpa production on a controlled basis. The plan was to get there by FY20, but we have assumed by FY22. We see the rate of growth being determined by the signing of Eskom contracts, which is not something the company controls, hence our more cautious timetable.

Note that the company has provided guidance for NCC to produce 3Mt saleable in FY2020, and we are modelling 2.6Mtpa. We have not lifted our production only because we are unsure whether the sales will be export or domestic, so have left the volumes at the lower rate until there is more clarity. As a result, our FY2020 and life of mine sales forecast are conservative by 0.4Mtpa or 4.6%.

The growth in Table 3 amounts to 61% volume growth in Universal’s equity interest in coal production from FY19 to FY22.

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Table 4 Summary of North Block Model (showing 100% of operation UNV share 49%)

	2019	2020	2021	2022	2023	2024	2025
Waste Mined K BCM	3508	6225	8028	9268	9375	9375	9375
SR	3.32	3.32	3.66	4.00	4.00	4.00	4.00
ROM Feed to Plant kt	2113	3750	4381	4634	4688	4688	4688
Yield %	80.0%	80.0%	68.5%	64.7%	64.0%	64.0%	64.0%
Sales of Produced Coal kt	1784	3000	3000	3000	3000	3000	3000
Project/Expansion Capex ZARm (+ive)	**142**	**76**	**0**	**0**	**0**	**0**	**0**
Thermal Coal Quality Kcal/Kg	5500	5500	5500	5500	5500	5500	5500
Thermal Export Ash Penalty	0%	0%	0%	0%	0%	0%	0%
Revenue Calculation							
Sales Volumes kt	0	0	0	0	0	0	0
Thermal Coal MT	0	0	800	800	800	800	800
Domestic Thermal	1784	3000	2200	2200	2200	2200	2200
Total Kt	1784	3000	3000	3000	3000	3000	3000
Revenues A$m							
Thermal Coal	0	0	77	70	69	69	70
Eskom Domestic	94	167	125	117	114	112	112
Total A$m	94	167	202	187	183	181	182
Mining Costs							
Unit Cost ZAR/BCM (Mindset P292)	53.9	54.9	56.0	57.2	58.3	59.5	60.7
Mining Cost ZAR M	260.8	470.7	603.5	695.3	717.4	731.7	746.4
Unit Cash Costs ZAR/t ROM	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Mining	123.1	125.5	137.6	150.0	153.0	156.1	159.2
Upgrade (Mindset Rept p263)	32.8	33.5	34.2	34.8	35.5	36.3	37.0
Other	35.6	36.3	37.0	37.8	38.5	39.3	40.1
Site Unit Cost ZAR/t ROM excl Royalty	**191.5**	**195.3**	**208.8**	**222.6**	**227.1**	**231.6**	**236.3**
Site Unit Cost A$/t Product excl Royalty	**25.1**	**23.3**	**28.0**	**30.4**	**30.7**	**31.3**	**31.9**
Truck to Eskom ZAR/t Product	104.7	106.8	108.9	111.1	113.3	115.6	117.9
Rail/Port ZAR/t Export Product Only	216.2	220.5	224.9	229.4	234.0	238.7	243.4
Royalty A$/t	0.0	2.4	5.1	4.0	3.8	3.9	3.9
Cost Calculation A$m							
Domestic Coal	59.8	109.9	95.3	95.7	94.5	93.0	92.7
Export Coal	0.0	0.0	44.4	43.9	43.2	42.5	42.4
Cost to fob A$m	59.8	109.9	139.7	139.6	137.8	135.5	135.1
Other Costs	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Royalty	0.0	3.7	7.7	6.0	5.7	5.8	5.9
Reported Cash Costs A$M in Segmentals	**59.8**	**113.5**	**147.4**	**145.6**	**143.5**	**141.3**	**141.0**
Profit & Loss A$m							
Revenue	93.6	166.7	202.0	187.0	182.6	181.5	181.9
Cash Costs	-54.0	-103.8	-133.5	-133.2	-131.3	-128.9	-128.4
Royalty	0.0	-3.7	-7.7	-6.0	-5.7	-5.8	-5.9
EBITDA	39.6	59.3	60.7	47.7	45.6	46.8	47.7
Depreciation	-2.2	-4.9	-4.9	-4.9	-4.9	-4.9	-4.9
EBIT	37.4	54.3	55.8	42.8	40.7	41.8	42.7
NPV							
EBIT	31.6	48.2	49.6	36.5	34.2	35.2	36.0
Depn	2.2	4.9	4.9	4.9	4.9	4.9	4.9
Tax Paid (6mth lag)	-3.1	-12.7	-14.5	-11.5	-9.4	-9.7	-10.0
Capex	-14.9	-8.7	-1.5	-1.5	-1.4	-1.4	-1.4
Calc Free Cash Flow	15.8	31.8	38.6	28.4	28.3	29.0	29.5
Free Cash Flow After Tax	15.8	31.8	38.6	28.4	28.3	29.0	29.5
NPV	170.2	162.8	146.8	139.2	130.6	120.0	107.3

Source: APP estimates

12 November 2018 Acquisition of North Block completed

UNV now holds a 49% interest in North Block Complex Pty Ltd, the 100% owner of the North Block operation comprising a 3.5Mtpa processing plant, existing mines with some 2 years of life and the Paardeplaats mining project currently seeking approval. The cost of the acquisition is ZAR93M (A$8.9M). A final deferred payment of A$7.8M is due in the December 2019 quarter.

North Block Reserves add 3.4cps to valuation

The Reserves were upgraded to 55.5Mtpa ROM in a release of 12 December 2018, up from 27.96Mt.

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Potential of Eloff yet to be factored in by market

UNIVERSAL/NDALAMO PURCHASE OF ELOFF UNDERWRITES KANGALA PRODUCTION FOR DECADES

There are issues to be sorted, including

1. The ownership of Eloff (51% Ndalamo) is different to that of Kangala (29.5% Mountain Rush).
2. Future Eskom contracts will require a sell down of Kalgala by Universal to 49%. This is likely to be done at the same time as the output is increased, so Universal will see an increase in output and in mine life.
3. In the past, Universal has had to wait for domestic coal contracts to be awarded, and the Eloff project will no doubt be subject to similar issues. However, the prospects for Eloff landing an expanded coal supply contract in the next 2-3 years are excellent
4. Eloff has been granted its Mining Right, and Environmental Authorisations in the June 2019 quarter. The Integrated Water License and offtake contracts are the next hurdles.

Table 5 Summary Eloff Model (showing 100% of operation - UNV share 49%)

	2019	2020	2021	2022	2023	2024	2025
Waste Mined K BCM	0	0	0	7273	7273	7273	7273
SR	2.0	4.0	4.0	4.0	4.0	4.0	4.0
ROM Coal Production kt	0	0	0	3636	3636	3636	3636
Yield	0.0%	0.0%	0.0%	66.0%	66.0%	66.0%	66.0%
Saleable Production (ie Crushed) kt	0	0	0	2400	2400	2400	2400
Project/Expansion Capex ZAR m (+ive)	**0**	**94**	**418**	**0**	**0**	**0**	**0**
Revenue Calculation							
Domestic Thermal Sales Kt	0	0	0	2400	2400	2400	2400
Eskom Domestic Sales A$M	0	0	0	138	135	133	133
Mining Costs							
Waste + Coal K BCM	0	0	0	9545	9545	9545	9545
Unit Cost ZAR/BCM (Mindset P292)	53.9	54.9	56.0	57.2	58.3	59.5	60.7
Mining Cost ZAR M	0	0	0	546	557	568	579
Unit Cash Costs ZAR/t ROM	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Mining	0.0	0.0	0.0	150.0	153.0	156.1	159.2
Upgrade (Mindset Rept p263)	32.8	33.5	34.2	34.8	35.5	36.3	37.0
Other	35.6	36.3	37.0	37.8	38.5	39.3	40.1
Site Unit Cost ZAR/t ROM excl Royalty	**68.4**	**69.8**	**71.2**	**222.6**	**227.1**	**231.6**	**236.3**
Site Unit Cost A$/t ROM excl Royalty	**7.0**	**7.3**	**7.5**	**21.3**	**20.8**	**20.5**	**20.4**
Truck to Escom ZAR/t Product	**104.7**	**106.8**	**108.9**	**111.1**	**113.3**	**115.6**	**117.9**
Rail/Port ZAR/t Export Product Only	216.2	220.5	224.9	229.4	234.0	238.7	243.4
Royalty A$/t	0.0	0.0	0.0	3.7	3.7	3.6	3.6
Cost Calculation A$m							
Domestic Coal	0.0	0.0	0.0	102.9	100.8	99.1	98.8
Export Coal	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Cost to fob A$m	0.0	0.0	0.0	102.9	100.8	99.1	98.8
Royalty	0.0	0.0	0.0	4.5	4.4	4.3	4.3
Reported Cash Costs A$M in Segmentals	**0.0**	**0.0**	**0.0**	**107.4**	**105.2**	**103.4**	**103.1**
Margin on Eskom A$/t	0.0	#DIV/0!	#DIV/0!	14.7	14.4	14.2	14.2
Profit & Loss A$m							
Revenue	0.0	0.0	0.0	138.3	135.4	133.1	132.8
Cash Costs	0.0	0.0	0.0	-102.9	-100.8	-99.1	-98.8
Royalty	0.0	0.0	0.0	-4.5	-4.4	-4.3	-4.3
EBITDA	0.0	0.0	0.0	30.9	30.2	29.7	29.7
Depreciation	0.0	0.0	0.0	-3.9	-3.9	-3.9	-3.9
EBIT	0.0	0.0	0.0	27.0	26.3	25.8	25.7
NPV							
EBIT	0.0	0.0	0.0	27.0	26.3	25.8	25.7
Depn	0.0	0.0	0.0	3.9	3.9	3.9	3.9
Tax Paid (6mth lag)	0.0	0.0	0.0	-3.9	-7.4	-7.3	-7.1
Capex	0.0	-10.2	-43.9	-1.0	-1.0	-1.0	-1.0
Free Cash Flow After Tax	0.0	-10.2	-43.9	26.0	21.8	21.4	21.5
NPV	72.4	93.4	152.8	148.5	148.0	147.9	147.6

Source: APP estimates

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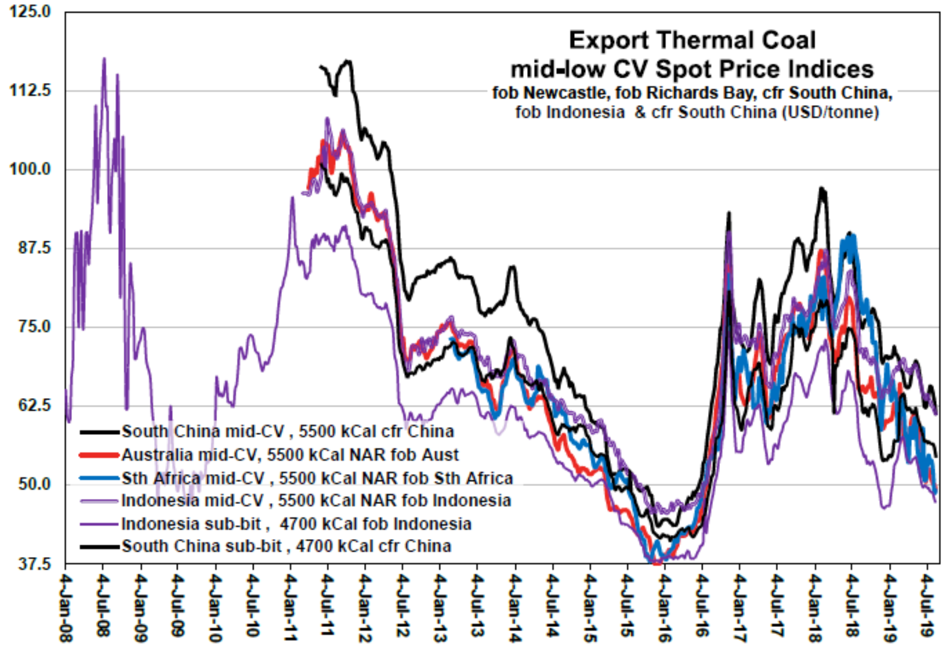
Export Coal Price History and Outlook

Table 7. Export Thermal Price History – Explaining why high volatility will continue



Source: Matau Advisory

Current spot price of South African (US$59.60/t) and Australian thermal coal over sold
5500kCal/kg South African and Australian coal selling below lower quality Indonesian and Chinese coal is a pointer to the degree of overselling. As we discuss below, small demand swings have a magnified impact on the price of seaborne thermal coal. Electricity production is tied to aggregate retail, commercial and industrial offtake, and should be relatively stable. However, the inability to stockpile coal is relevant size means that we should expect large price swings around. Universal is part of the response, and has diverted production into the South African domestic market

Price behaviour: Up on average 19.8% November to May, down 8.1% May to November
Over the 10 years in the chart above, between November and May, the thermal coal price has tended to rise 70% of the time, by an average of 35.5%, and between May and November, the price tends to fall 70% of the time by 15.6%.

That pattern broke down this cycle (November 2018 to May 2019) in part due to the impact of US/China trade war, resulting in the fall in the price Universal receives for its thermal coal. We expect the current prices are close to the lows for this cycle and that we expect a rebound as normal seasonality resumes in the November to May 2020 period.

In our model we use consensus coal price forecasts.

The volatility will be a permanent feature of the bulk (coal, iron ore) markets for the foreseeable future
The root cause of this volatility is China, and the nature of spot markets. Historically, coal was priced every twelve months, so there was zero price volatility during each contract year, so we are still conditioned to think of bulk materials as having low price volatility. That is no longer the reality.

Bulks like coal are too "bulky" to be able to store excess production as a buffer to changes in demand. The reported Chinese port stocks represent something like 90 days of supply, but typically range from 130 days to 80 days. The bulk of the stockpile is essential operating buffer, required by the logistics chain. If demand for coal (thermal or steel making) falls, basically mines have to stop production, and the industry is shown a coal price that is low enough to cause that

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to happen. Likewise, when demand surges above expectation, mines have to be incentivised to re-open, and they are shown a coal price sufficient to cause that to happen. Openings and closures of mines is not something the industry has geared up to do quickly and easily, so there are price overshoots in both directions. We think the current price is an undershoot that will reverse over the next six months.

Project	Kangala	Eloff	New Clydesdale	North Block	Ubuntu	Arnot South	Berenice/ Cygnus
Corporate Entity	UCD I P/L	UCD IV P/L	UCD IV,VIII P/L	NBC	UCD III P/L	UCD VII P/L	UCD II, V P/L
UNV Interest	70.5%	49%	49%	49%	49%	50%	50% option to 74%
Location	65Km east of Johannesburg, in the Witbank Coalfield	65Km east of Johannesburg, in the Witbank Coalfield next door to Kangala	Kreil district 35km south of Witbank.	Belfast	20km south of Kangala (was called Brakfontein)	50Km NE of NCC	Soutpansberg coalfield 90Km southwest of Musina
Coal Seams	Vryheld Formation, Karoo Basin	Vryheld Formation, Karoo Basin	Vryheld Formation, Karoo Basin		Vryheld Formation, Karoo Basin	Vryheld Formation, Karoo Basin	Ecca Formation, Karoo Basin
Surface Rights	All	6146.7ha	All	1900ha	All		
Products	Eskom 20.5MJ 2Mtpa, Export of 27MJ/Kg (6000KCal/Kg) 70ktpa ended Jan 2019	Extension of Kangala	Thermal coal: 1.65Mtpa Eskom and 650Ktpa Export at 6000Kcal/kg	2.4Mtpa Eskom short term contract, Export 0.8Mtpa 15% ash 5500Kcal/kg to 2020	Eskom sales contract for 1.2Mtpa		Soft coking coal with thermal secondary products.
Logistics	4.2Mpta ROM processing capacity, trucking~45Km to Eskom, or 7Km to rail for export sales.		New Clydesdale Colliery with 3.3Mtpa ROM processing plant acquired from Exxaro.	400tpa DMS plant, contractor operated. Own rail siding.	Open cut mine trucking 20km to Kangala to utilize the spare processing capacity.		Concept mine 10Mtpa for over 25 yrs. Project is 20Km from rail to Maputo (680Km) port.
Status	Development started May 2013. First coal delivered April 2014. Extension thru Middlebult in process.	Eloff owns surface rights to 6146Ha of 8168Ha, generating farm income. Mining Right granted Dec 2018.	Phase 1 UG started Sept 2016, Phase 2 shipping by Dec 2016	Operating mine at end of life. Paardeplaats (awaiting S11) to feed plant at 2.5Mtpa for 10 years.	All approvals received. Offtake signed 6 Aug 19 . Startup expected Nov 2019.	Feasibility Study completed and mining right applied for by Dec 2018	Application submitted for mining right and environmental approval
Mine Type	Open Cut Truck & Shovel	Open Cut Truck & Shovel	UG Bord & Pillar 0.9Mtpa, OC 2.2Mtpa	Open Cut Truck & Shovel	OC Truck & Shovel, 9.62Mt/9 yrs 1.2Mtpa.		Open Cut Truck & Shovel
As at June 2018							
Resource OC Mt	102.4	528.3	)139.6	113.0	75.8	206.6	1350.1
Resource UG Mt	0	0	) in OC		0	0	0
Reserve OC Mt	31.6	0	53.6	55.5	9.2	0	0
Reserve UG Mt	0	0	) in OC		0	0	0
End of Life	2021/2029	Kangala life			6 years		Over 20 yrs
Strip Ratio BCM:t	1.8:1	Extension	3:1	2:1	3:1		
ROM Mtpa	3.3	8	4	3.4	Planned 1.2Mtpa ROM		Planned 10Mtpa ROM
Yield	73%		75%	76%	79%		18.80%
Product Mtpa	2.4		3	2.6	0.95		1.9Mtpa soft coking
Universal Share							
Eskom Mtpa	1.68	3.92	0.81	1.18	0.50		Possible middlings
Other Domestic Mtpa			0.32				
Export Mtpa	0.05						1.9Mtpa soft coking
Capex	Pre-production cost of A$47M spent.	Purchased for ZAR170.5M or A$16.3M.	Paid A$7M, took on A$30M environmental liability.	Paid ZAR93M/A$8.9M 12/11/2018 to Exxaro	Need box cut, plant, bonds. Breakaway Est <A$20M		
Other Shareholders	29.5% Mountain Rush Trading P/L	51% Ndalamo Resources P/L	51% Ndalamo Resources P/L	51% Ndalamo Resources P/L	51% Ndalamo Resources P/L	50% Ndalamo Resources P/L	50% Solar Spectrum Trading P/L

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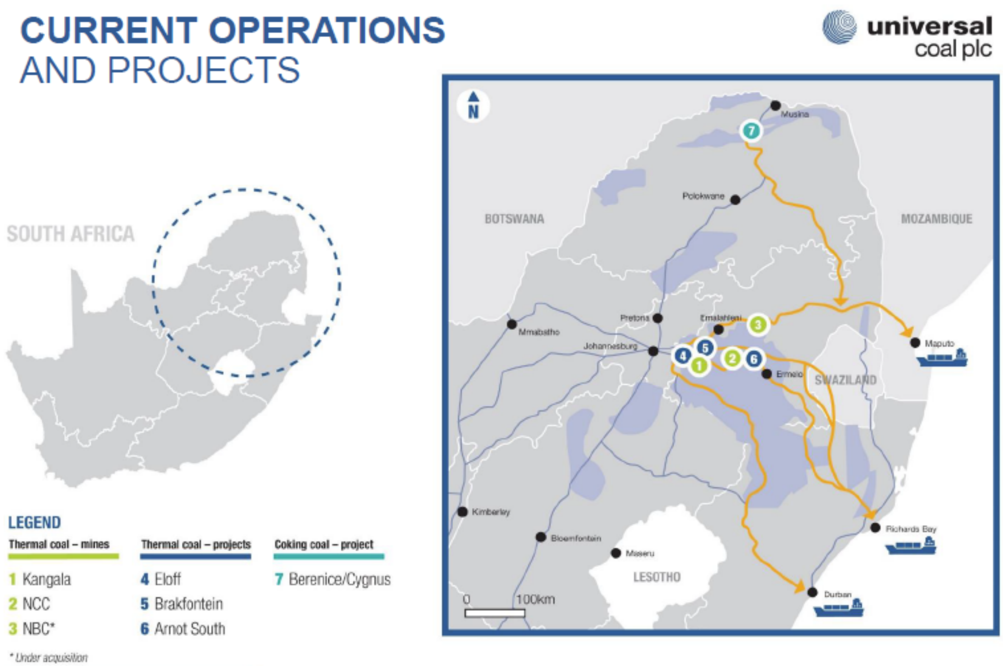
Figure 2. Location of all operations



BUILDING MINING HUBS FED BY SURROUNDING MINES

Kangala is currently based on the Wolvenfontein deposit, with life extensions from Middelbult. Modderfontein has been relinquished. The adjacent Eloff property is along strike from the current Kangala pit and larger in area, so it represents an opportunity to significantly increase Kangala production. The fully approved Ubuntu (previously Brakfontein) is 20Km from Kangala by truck. Trucking costs in South Africa are around ZAR1.40/t/km over 20Km and ZAR0.96/t/Km over 50km, so we estimate Ubuntu would cost ~A$2.80/t to get to Kangala.

NCC is the second mining hub, fed by UNV's previously owned Roodekop, with expansion potential from the even more recently acquired Arnot (50Km by truck). Arnott would cost A$4.80/t to get to NCC.

North Block (NBC) is an additional mining centre for Universal. It is currently producing at 3.5Mtpa ROM, 2.7Mtpa product, and the existing mine at Eerstelingsfontein will reach end of life by the time of financial close of the sale. Future production will be from the continuing Glisa mine and the new Paardeplaats mine, with a planned production rate of 4Mtpa ROM, including domestic and export grade coal products.

Figure 3. Kangala and Eloff Location Map

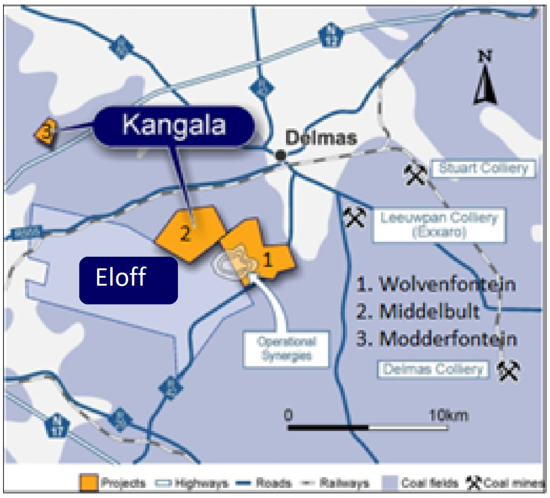


Figure 3. Ubuntu (Brakfontein) Location Map

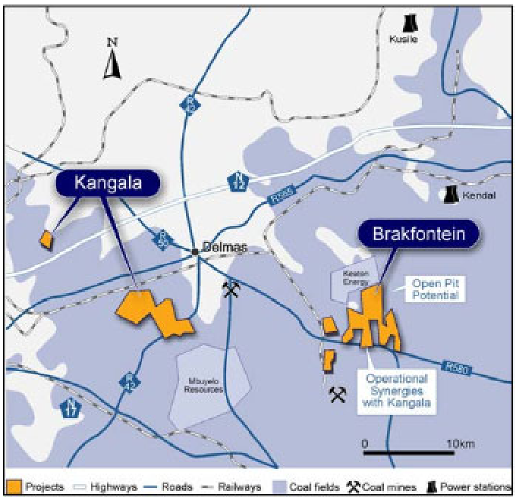


Figure 4. New Clydesdale Location Map

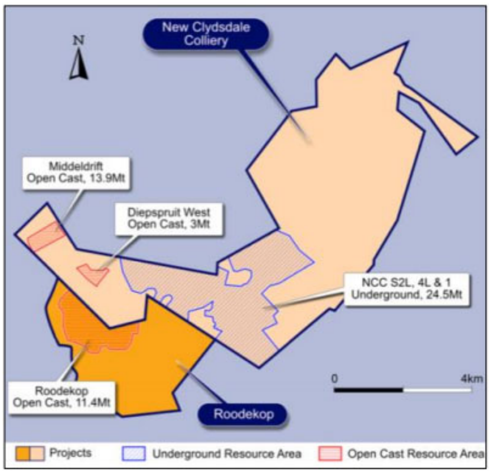


Figure 5. Arnot 50 Km from New Clydesdale

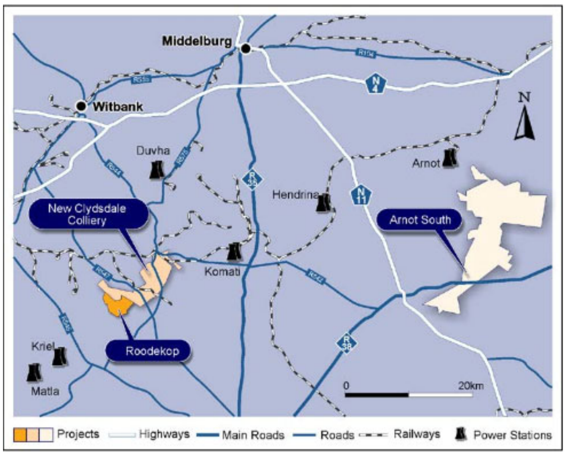


Figure 6. Kangala and Eloff Location

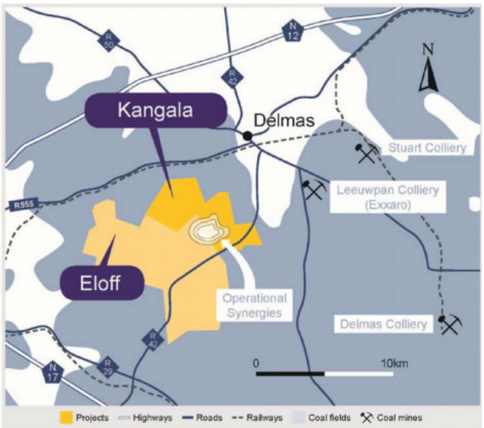


Figure 4. North Block and Exxaro's Belfast Project

All maps were sources from the Reserve and Resource release of 26 September 2016. Exxaro 2016 Mineral Resource & Reserve P43

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Analyst Verification

I, **Michael Harrowell**, as the Research Analyst, hereby certify that the views expressed in this research accurately reflect our personal views about the subject securities or issuers and no part of analyst compensation is directly or indirectly related to the inclusion of specific recommendations or views in this research.

Disclosure

Breakaway Research Pty Ltd (AFSL 503622) and its associates, or consultants may receive corporate advisory fees, consultancy fees and commissions on sale and purchase of the shares of ***Universal Coal plc*** and may hold direct and indirect shares in the company. It has also received a commission on the preparation of this research note.

We acknowledge that Senior Resource Analyst, **Michael Harrowell**, holds no shares nor options in ***Universal Coal plc*.**

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