

Bowen Coking Coal Ltd (BCB)

Rating: Buy | Risk: High | Price Target: \$0.23

17 November 2023

Leveraged upside to tight coking coal markets

Key Information

Current Price (\$ps)	0.10
12m Target Price (\$ps)	0.23
52 Week Range (\$ps)	0.08 - 0.34
Target Price Upside (%)	137.0%
TSR (%)	137.0%
Reporting Currency	AUD
Market Cap (\$m)	256
Sector	Materials
Avg Daily Volume (m)	3.8
ASX 200 Weight (%)	0%

Fundamentals

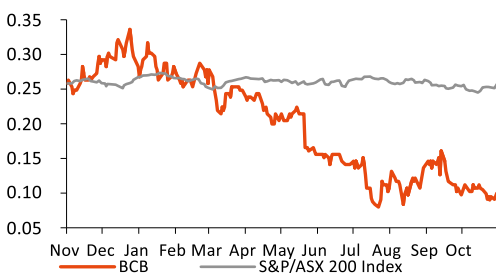
YE 20 Jun (AUD)	FY23A	FY24E	FY25E	FY26E
Sales (\$m)	204	436	617	490
NPAT (\$m)	(163)	53	110	53
EPS (cps)	(8.9)	2.2	4.0	1.9
EPS Growth (%)	nm	125.1%	80.1%	(52.9%)
DPS (cps) (AUD)	0.0	0.0	1.0	1.0
Franking (%)	0%	0%	0%	0%

Ratios

YE 20 Jun	FY23A	FY24E	FY25E	FY26E
P/E (x)	(1.7)	4.4	2.5	5.2
EV/EBITDA (x)	(1.6)	2.4	1.1	2.1
Div Yield (%)	0.0%	0.0%	10.1%	10.1%
Payout Ratio (%)	0.0%	0.0%	24.8%	52.7%

Price Performance

YE 20 Jun	1 Mth	2 Mth	3 Mth	1 Yr
Relative (%)	(3.2%)	(24.4%)	(6.4%)	(60.5%)
Absolute (%)	(3.2%)	(27.4%)	(7.6%)	(61.6%)
Benchmark (%)	0.0%	(3.0%)	(1.2%)	(1.1%)



Price performance indexed to 100

Source: FactSet

Major Shareholders

Regal Funds Management Pty Ltd.	11.8%
LATIMORE MATTHEW	6.8%
Ilwella Pty Ltd.	6.1%
Crocodile Capital Partners GmbH	5.8%
Iolite Partners Ltd.	5.0%

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Event

Bowen Coking Coal has successfully completed a A\$50m capital raise to strengthen the balance sheet and provide operational flexibility to take advantage of strong coking coal markets. The premium HCC coking coal price has rebounded above US\$300/t and Bowen should achieve >US\$200/t for its ULVPCI product. The closure of Bluff and focus on Ellensfield South will reduce costs and should see margins expand towards A\$100/t.

Highlights

- Bowen has completed a \$50m capital raise consisting of a \$17m placement and a \$33m 1-for-6 pro-rata non-renounceable entitlement offer at 9cps. It is pleasing to see the stock trading at 10.5cps post the raise which is still well below our price target and valuation of 23cps, which has reduced from 27cps post the equity dilution.
- The capital raise will allow Bowen to complete the Ellensfield South box cut (~A\$32m) and lock in port and rail volumes with prepayments (~17m). The additional capital provides the company with breathing room to reach steady state production from Ellensfield South.
- Bowen shipped 555kt of produced coal in the Sept quarter generating revenue of \$120m. Bowen's average achieved coal prices for both thermal and metallurgical coal sales declined in the quarter with thermal down 21% to US\$84/t and metallurgical down 28% to US\$173/t. The weaker coal prices were partially offset by a shift in the mix to metallurgical sales (54%) but the overall achieved coal price was down 15% to US\$132/t (~A\$203/t). Strengthening coal prices towards the back end of the quarter are likely to result in a stronger achieved price in the December quarter.
- Overall cash costs were A\$199/t per tonne of coal sold, with the Burton Complex operating at A\$152/t and Bluff at A\$372/t. The Bluff mine is not profitable at current coal prices and is being placed on care-and-maintenance. Costs are expected to reduce as the strip ratio falls in coming quarters and with Bluff closed. We expect to see a significantly improved margin in the December quarter of ~A\$95/t, with revenue at A\$240/t and cash costs at A\$155/t, assisted by a draw down in inventories.
- Bowen recently announced the renegotiation of the terms of its debt facilities with Taurus and New Hope. Debt repayments have been deferred until FY25 in exchange for higher interest and royalties with Taurus and the issue of shares and warrants to New Hope.
- Bowen has also negotiated a deferral of QLD state royalty payments which collectively total \$21.5 million. These liabilities will be paid in equal instalments to the Queensland Revenue Office (QRO) over the next 12 months, commencing in November 2023.
- Bowen has deferred the refurbishment of the second module of the Burton wash plant until later in CY24. This leaves the company with wash plant capacity of ~2.8Mtpa which will be filled from a combination of Broadmeadow East and Ellensfield South production. Bowen is examining options to lift Ellensfield South production to 2.8Mtpa to allow it to fully feed the wash plant.
- Bowen finished the September quarter with \$44m in cash which has now been augmented with the A\$50m capital raise. We forecast the cash balance reducing to A\$41m by end CY24 post payments for the Ellensfield South box cut (\$32m), port and rail prepayments (\$17m), royalties (\$20m) and assuming that around A\$20m of revenue from shipments made in the quarter is deferred into CY25.

Recommendation

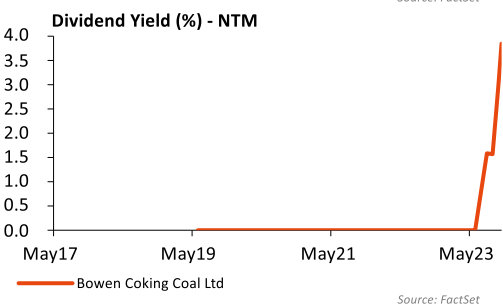
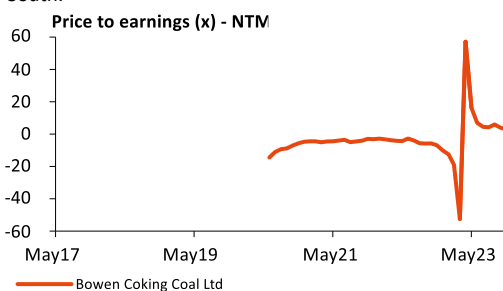
We retain our BUY recommendation, and our price target pulls back to 23c (from 27c) post the dilution from the equity raise. We have a positive view on coal markets and Bowen has a clear pathway to positive cash flow.

Bowen Coking Coal Ltd
Materials
Materials
FactSet: BCB-AU / Bloomberg: BCB AU

Key Items	Data
Recommendation	BUY
Risk	HIGH
Price (\$ps)	0.10
Target Price (\$ps)	0.23
52 Week Range (\$ps)	0.08 - 0.34
Shares on Issue (m)	2,588
Market Cap (\$m)	256
Enterprise Value (\$m)	225
TSR (%)	137.0%

Company Description

Bowen Coking Coal Ltd is a coking coal producer based in the Bowen Basin in Queensland. Bowen has refurbished the first module of the 5.5mtpa Burton coal wash plant and is washing coal from Broadmeadow East and Ellensfield South.



Financial Year End: 20 June

Investment Summary (AUD)	FY22A	FY23A	FY24E	FY25E	FY26E
EPS (Reported) (cps)	(1.5)	(8.9)	2.2	4.0	1.9
EPS (Underlying) (cps)	(1.5)	(8.9)	2.2	4.0	1.9
EPS (Underlying) Growth (%)	nm	nm	125.1%	80.1%	(52.9%)
PE (Underlying) (x)	(23.1)	(1.7)	4.4	2.5	5.2
EV / EBIT (x)	(12.8)	(1.5)	2.7	1.2	2.5
EV / EBITDA (x)	(13.3)	(1.6)	2.4	1.1	2.1
DPS (cps) (AUD)	0.0	0.0	0.0	1.0	1.0
Dividend Yield (%)	0.0%	0.0%	0.0%	10.1%	10.1%
Franking (%)	0%	0%	0%	0%	0%
Payout Ratio (%)	0.0%	0.0%	0.0%	24.8%	52.7%
Profit and Loss (AUD) (m)	FY22A	FY23A	FY24E	FY25E	FY26E
Sales	12	204	436	617	490
Sales Growth (%)	n/a	1,623.8%	113.3%	41.5%	(20.6%)
Other Operating Income	0	6	2	3	2
EBITDA	(17)	(139)	95	203	106
EBITDA Margin (%)	nm	(67.9%)	21.9%	32.9%	21.7%
Depreciation & Amortisation	(1)	(13)	(12)	(16)	(17)
EBIT	(17.6)	(151.8)	82.9	186.6	89.4
EBIT Margin (%)	nm	(74.2%)	19.0%	30.2%	18.2%
Net Interest	(1)	(11)	(22)	(9)	(4)
Pretax Profit	(18)	(163)	61	177	86
Tax	0	0	0	(53)	(26)
Tax Rate (%)	0.0%	0.0%	0.0%	(30.0%)	(30.0%)
NPAT Underlying	(18)	(163)	53	110	53
Significant Items	0	0	0	0	0
NPAT Reported	(18)	(163)	53	110	53
Cashflow (AUD) (m)	FY22A	FY23A	FY24E	FY25E	FY26E
EBIT	(18)	(152)	83	187	89
Payments to Suppliers	(19)	(287)	(340)	(413)	(383)
Receipts from Customers	0	185	436	617	490
Tax Paid	0	0	0	0	(53)
Change in Working Capital	0	0	(30)	(14)	16
Depreciation & Amortisation	1	13	12	16	17
Other	(1)	(16)	(34)	(26)	(20)
Operating Cashflow	(19)	(105)	44	180	66
Capex	(0)	(67)	(62)	(22)	(2)
Acquisitions and Investments	(3)	(1)	(1)	(1)	(1)
Disposal of Fixed Assets/Investments	0	0	0	0	0
Other	(29)	(33)	(20)	0	0
Investing Cashflow	(33)	(100)	(83)	(23)	(3)
Equity Raised / Bought Back	67	126	48	0	0
Dividends Paid	0	0	0	0	(28)
Change in Debt	20	56	0	(47)	(74)
Other	34	(0)	0	0	0
Financing Cashflow	121	182	48	(47)	(102)
Exchange Rate Effect	0	0	0	0	0
Net Change in Cash	70	(24)	9	110	(38)
Balance Sheet (AUD) (m)	FY22A	FY23A	FY24E	FY25E	FY26E
Cash	73	49	58	168	130
Accounts Receivable	15	37	42	59	47
Inventory	6	60	36	51	40
Other Current Assets	3	4	4	4	4
PPE	11	171	221	227	212
Total Assets	107	321	360	508	433
Accounts Payable	32	121	71	89	83
Short Term Debt	9	131	47	0	0
Long Term Debt	33	28	102	102	28
Total Liabilities	89	373	313	337	230
Ratios	FY22A	FY23A	FY24E	FY25E	FY26E
ROE (%)	(37.2%)	(275.0%)	59.0%	54.7%	19.7%
Gearing (%)	(59.7%)	75.8%	38.4%	(34.8%)	(56.8%)
Net Debt / EBITDA (x)	1.8	(0.8)	1.0	(0.3)	(1.0)

Figure 1: Bowen quarterly production and cash flow – fiscal year quarters

Bowen quarterly financials	1Q23	2Q23	3Q23	4Q23	1Q24	2Q24f	3Q24f	4Q24f
ROM production (kt)								
Bluff	120	78	125	159	153	100	0	0
Broadmeadow East	0	396	344	437	398	250	150	0
Ellensfield South	0	0	0	0	90	250	500	700
Total	120	474	469	596	640	600	650	700
Shipments (kt)								
Bluff	40	0	109	134	118	140	0	0
Broadmeadow East	0	42	207	230	436	240	125	0
Ellensfield South	0	0	0	0	0	140	325	455
Total	40	42	316	364	555	520	450	455
Coal price (US\$/t)								
Benchmark HCC (US\$/t)	252	277	344	246	260	330	300	250
Benchmark 6,000 Newc (US\$/t)	434	404	254	159	147	135	150	150
AUD/USD	0.64	0.68	0.68	0.67	0.65	0.65	0.67	0.70
Bowen Achieved Sales Price (US\$/t)								
Bluff			232	241	173	180	180	165
Broadmeadow East			183	107	121	143	148	0
Ellensfield South			0	0	0	154	157	147
Average (US\$/t)			200	156	132	156	154	147
Average (A\$/t)			293	234	202	240	230	209
Operating Costs (A\$/t of sales)								
Bluff				299	372	214	0	0
Burton Complex				191	152	133	143	150
Average (A\$/t)				231	199	155	143	150
P&L (A\$m)								
Revenue	31	8	92	85	112	125	104	95
Operating Costs	56	68	64	84	111	81	65	68
Other costs	12	6	11	4	5	20	20	10
EBITDA	-37	-65	17	-3	-3	24	19	17
Cashflow (A\$m)								
Revenue	31	8	92	85	112	125	104	95
- less deferred revenue	0	0	-15	-17	0	-20	0	0
Receipts from customers	31	8	77	68	120	105	104	95
Operating Costs	-56	-68	-64	-84	-111	-81	-65	-68
Other costs	-12	-6	-11	-4	-5	-20	-20	-10
Operating cash flow	-37	-65	2	-20	6	4	19	17
Capex	-31	-12	-21	-24	-15	-55	-10	-10
Debt repayments	0	-16	0	0	0	0	0	0
Other financing cashflow	23	117	3	54	4	48	0	0
Free cash flow	-45	25	-16	10	-5	-3	9	7
Cash at period end	29	52	37	49	44	41	50	57

Source: Company reports, Shaw and Partners forecasts

Key risks

- Commodity prices are driven by global growth and the market's expectation of growth. In the current geo-political climate there are numerous risks to global growth expectations. Issues such as rising interest rates, the Russia/Ukraine war, supply chain issues and global trade imbalances have the potential to change global growth projections.
- The coal market is severely impacted by largely unpredictable movements in Chinese policy settings. Coal prices may be adversely impacted if China implements policies that reduce its reliance on seaborne coal.
- Forecasting future commodity prices and operating costs has considerable uncertainty. Our forecasts may prove to be too optimistic on both. If coal prices continue to reduce and/or Bowen Coking Coal's costs increase faster than we expect then our cash flow forecasts will be too high.
- Climate change is requiring a de-carbonisation of global energy production. Bowen Coking Coal is largely a coking coal producer so is less impacted than thermal coal mines, but all coal producers are under increased scrutiny and regulatory approvals may be harder to achieve than expected.
- Smaller companies carry more significant 'key personnel' risk than larger organisations. If senior management depart the company then it could delay projects or exacerbate operational risks.
- Bowen Coking Coal is operating in a region that is exposed to cyclone activity. Disruption to mining, rail and/or port operations is possible during the Queensland cyclone season.

Core drivers and catalyst

- Bowen Coking Coal Ltd is a coking coal exploration and development company based in the Bowen Basin in Queensland. The company's assets include Bluff (100%), Broadmeadow East (90%), Isaac River (100%), Lenton (90%), Burton (90%) Cooroorah (100%), Hillalong (85%) and Comet Ridge (100%). Bowen is also a joint venture partner with Stanmore Coal Limited in the Lilyvale (15% interest) and Mackenzie (5% interest) coking coal projects
- On 4 July 2022 Bowen announced the first shipment of metallurgical coal from the Bluff Project which moved the company into production for the first time. Bowen also acquired and is refurbishing the 5.5mtpa Burton coal handling and preparation plant (CHPP). Stage 1 is complete and provides 2.7mtpa of was capacity and stage 2 will be completed in late 2023/early 2024.
- There is a clear growth pathway to production of 4-5Mtpa over the next 2-3 years as the company develops the Ellensfield South and Lenton resources and there are growth opportunities at Hillalong.
- Coking coal is used in the steel-making process in blast furnaces and has very different demand dynamics to thermal coal which is used to generate electricity in coal-fired power stations. Global steel production is continuing to grow in-line with global GDP, and is particularly fast growing in the developing world (e.g. India). We forecast global coking coal seaborne trade to grow from 317Mt in 2021 to 335Mt in 2025.

Rating Classification

Buy	Expected to outperform the overall market
Hold	Expected to perform in line with the overall market
Sell	Expected to underperform the overall market
Not Rated	Shaw has issued a factual note on the company but does not have a recommendation

Risk Rating

High	Higher risk than the overall market – investors should be aware this stock may be speculative
Medium	Risk broadly in line with the overall market
Low	Lower risk than the overall market

RISK STATEMENT: Where a company is designated as ‘High’ risk, this means that the analyst has determined that the risk profile for this company is significantly higher than for the market as a whole, and so may not suit all investors. Clients should make an assessment as to whether this stock and its potential price volatility is compatible with their financial objectives. Clients should discuss this stock with their Shaw adviser before making any investment decision.

Distribution of Investment Ratings

Rating	Count	Recommendation Universe
Buy	76	96%
Hold	2	3%
Sell	1	1%

History of Investment Rating and Target Price - Bowen Coking Coal Ltd

Date	Closing Price (\$)	Target Price (\$)	Rating
17-Nov-23	0.10	0.23	Buy
24-Oct-23	0.10	0.27	Buy
2-Oct-23	0.15	0.29	Buy
29-Aug-23	0.10	0.31	Buy
26-Apr-23	0.24	0.48	Buy
6-Apr-23	0.25	0.48	Buy
7-Nov-22	0.29	0.47	Buy
20-Jul-22	0.27	0.50	Buy



Buy

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