

# African Energy Resources

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## African Energy Resources receives Buy from UK broker WH Ireland

African Energy Resources (ASX:AFR) has received a Buy recommendation with a share price target of \$0.31 from UK-based broker WH Ireland, which had initiated coverage in the company. Current share price is \$0.08.

In a highly bullish note, the broker noted that the company's large coal resource is well placed to take advantage of the massive potential for developing power projects in southern Africa and ultimately develop one or more thermal coal export projects.

The following is an extract from the report.

### Investment Case

We initiate on African Energy Resource with a Buy recommendation and a risked target price of \$0.31.

The target price is calculated as Sum-Of-The-Parts (SOTP) with discounted cash flow analysis for the various coal projects underway in Botswana and a notional value on the mixed coal and uranium projects being advanced in Zambia.

There is a significant power requirement in South Africa.

After decades of under investment in the South African power generation capacity the grid is creaking which is having a negative impact on industries and placing constrictions on growth potential – lack of power and a high cost of power.

An increase in power availability may help drive regional growth.

Improved access to power throughout Southern Africa could help stimulate new industry and the expansion of mineral projects where power is a major constraint e.g. Zambian copper smelting and refining.

Botswana is the lowest risk country in Africa. Botswana is also a country that understands the importance of mineral projects, with much of its government revenue generated from the production of diamonds and nickel-copper production.

This is not a typical infrastructure and high capex play. The Joint Development Agreement (JDA) between ACWA Power and African Energy Resources commits ACWA Power to provide access to finance to build the power plants, which it is more than well placed to find.

The enormous coal resources and the royalty strategy makes the projects

**Price:** A\$0.013

**Market Cap:** A\$8146960M

### 1 Year Share Price Graph



### Share Information

**Code:** AFR

**Listing:** ASX

**52 week High Low**  
A\$0.03 A\$0.01

**Sector:** General Mining - Coal [T3]

**Website:**

[www.africanenergyresources.com](http://www.africanenergyresources.com)

### Company Synopsis:

*African Energy Resources (ASX:AFR) is listed on the Australian Securities Exchange.*

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scalable. The royalty streams from each project are to be created by parcelling up blocks of Sese coal.

Separate business strands. There are three separate strands to the business: Domestic power generation for Botswana, export power to neighbouring countries from either Sese or Mmamantswe and export coal from Mmamabula for far-east power generation.

Supportive significant shareholder. The Sentient Group became a significant investor in April 2013 when it subscribed for 17.5% of the company by investing A\$8.5m in the company.

In our experience, part of the investment strategy of Sentient isn't just projects and specific commodities, but also management teams, which are then backed to achieve their goals.

Experienced management. The management has a wide range of experience across a range of commodities and projects. There is big company experience as well as specific power project experience with many of the management having years of work in Africa.

## Valuation

We have risked the projects for the project stage, including some valuation for blue sky potential. We have also included a nominal valuation on African Energy's Zambian uranium projects, which are currently up for sale.

Unrisked we arrive at a share price target of AUD106¢/share. We use a 10% discount rate, which seems appropriate for Botswana and for the stage of project and with the partners that African Energy has put in place. However, the projects are still robust at higher discount rates.

Mining costs are estimated for Sese to be in the order of US\$20/t, giving a net margin for coal mined, on an Eskom-type contract, a margin of between US\$5-10/t.

For the Sese coalfield we use a royalty rate of US\$7.5/t for the coal, which at 1.5Mt/a coal supplied to the IPP gives us an annual cash flow to African Energy of US\$11.3m/a.

We estimate that the capital cost for the mine, power station and all other costs would be in the region of US\$850m; all to be raised in the SPV by ACWA.

## Southern African Power Market

The Southern African power market is dominated by the production capacity and demand in South Africa itself.

The startling statistic is that South Africa generates nearly 45% of the electricity generated in the whole of Africa, which shows the massive potential for development in Africa.

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