

Whitehaven Coal (WHC) added to the portfolio

Table 1: Whitehaven Coal Limited Corporate History 1999-2009

Year	Event
1999	Founded by CEO Keith Ross backed by Hans Mende and Fritz Kundrun of AMCI (USA) to develop Canyon open cut coal mine in Gunnedah NSW.
2000	Canyon commissioned, Gunnedah Basin mines Tarrawonga, Werris Creek added.
2004	Exploration licence awarded for Narrabri Project at no cost, covering 112 Km ² .
2004	Newcastle Coal Infrastructure Group (NCIG) established to provide port facilities at Kooragang Island.
2005	NCIG successful tender to provide additional port facilities. Whitehaven direct interest 11.06%. Other members include BHP Billiton, Centennial, Donaldson, Peabody Energy and Felix Resources.
2007	Board strengthened with appointment of Excel Coal founders Tony Haggarty and Andy Plummer.
2007	Compliance listing, issued 1.9M new shares @ \$1.00 each, valuation \$323M.
2007	Appointment of new CEO Rob Stewart.
2007	Stage 1 Narrabri North Coal Project with 230 Mt coal tenements approved
2007	\$130M capital raising at \$2.65 per share to fund remaining 60% buyout Werris Creek and initial Narrabri North development phase expected to be \$140M.
2008	Mining lease granted in January for Narrabri North Coal Project.
2008	Sale 7.5% Narrabri Project plus off-take contract to China's Yudean group for A\$67M, valuing total project at A\$900M.
2008	Tony Haggarty becomes substantial shareholder with 5.7%.
2008	Further sale of 15% in Narrabri Project to J-Power and EDF Trading for \$A125M and US\$120M respectively, valuing total project at A\$1.7B.
2008	August pre-significant net profit of \$51.9M, underlying net profit \$12.9M.
2008	Rob Stewart resigns Tony Haggarty new CEO, Andy Plummer appointed director.
2009	Gloucester Coal and Whitehaven agree to merge February, combined \$900M value.
2009	Former founding director Excel Coal appointed executive director of operations.
2009	Gloucester's bid withdrawn after Noble Group's \$6.00 cash offer for Gloucester.
2009	Capital raising, issues 60.7M new shares @ \$3.05 per share raising net \$177M.
2009	Sale of additional 7.5% of Narrabri Project to Korean consortium for A\$125M, valuing total project at \$1.7B.
2009	August pre-significant net profit of \$244.2M, underlying net profit of \$77.3M.
2009	Contract to purchase long wall unit with 8Mtpa capacity, retro-fitted to handle Top Coal Caving.
2009	Purchase Vickery Coal in Gunnedah for \$31.5M from Coal & Allied.
2009	JORC marketable coal reserves more than doubled during 2009 to 278Mt, while coal resource increased to 762Mt.

Investment opportunity beckons

Worthy investment opportunities can present themselves from all matter of places. That we would add a coal company to the portfolio during a period of difficult global macroeconomic conditions and on the back of growing worldwide concerns with the effects of climate change makes this decision even more intriguing. However, far from being controversial, the decision to invest should be seen for what it really is - a relatively straight forward exercise in identifying an undervalued assets.



That the shares of the business were selling for a price substantially below its true worth was made largely possible by the uneasiness emanating from governments and industry alike regarding the coal industry. We share some of these concerns but as is often the way in life, rather than fearing the impacts of change, we chose to understand the role it would play and ultimately how it would affect businesses like Whitehaven. To this end, we added Whitehaven to the portfolio in July this year (entry price \$3.05) with Table 1 providing a snapshot of the group's commercial progress thus far.

5



And yet while the timeline accurately outlines the group's corporate development, it falls short of truly reflecting the management vision and depth that has underpinned Whitehaven's rise. When founding CEO Keith Ross - a fifty year coal industry veteran - chose Gunnedah to build a coal business it seemed an unlikely place to start.

Gunnedah Coal Basin

The Gunnedah Basin in NSW is located some 350 kilometres northwest of the Port of Newcastle, a distance considered by most to be too far from port. But Ross had vision and a somewhat contrarian approach to addressing the growing global demand for coal and the depletion of existing coal reserves in the traditional coastal

fields. He teamed up with former partners Hans Mende and Fritz Kundrun from AMCI (USA) who provided funding – AMCI (USA) is a private coal company with operations in USA, South America and Queensland. Together the group kicked things off with the 1999 purchase of an exploration licence and development of the open-cut Canyon mine. Commissioned in 2000, the Canyon mine has allowed the company to remain profitable every year since.



Whitehaven's big break

However the group's big break came in 2004 when the company was awarded the right to carry out exploration in the nearby Narrabri region. Having spent a good part of his life surveying the region, Ross had a sense of where to peg and drill, ultimately coming up trumps with the discovery of what is now referred to as the Narrabri Project. Better still, Whitehaven picked up the exploration licence rights for nil consideration under the old NSW non-tender system. New entrants to the Gunnedah region including BHP Billiton and China's Shenhua Energy group have since parted with some \$100 million and \$300 million respectively for the privilege of exploring the Caroona and Watermark leases.

6

Having staked out an extensive tenement position, management's immediate task to fund the Gunnedah projects, ultimately led to the recruitment of founding Excel Coal executives Tony Haggarty and Andy Plummer. Their involvement has been pivotal in the group's progress, culminating in the group's public listing in May 2007. Today, with more than a few years under its public belt, Whitehaven is advancing on a number of operational fronts while chalking up a growing list of accomplishments.

Mining Operations

Operationally, the group's business can be viewed in two parts. Firstly, there are the four open cut mines that have the capacity to produce at the rate of 5.5Mtpa of both Pulverised Coal Injection (PCI) coal - injected into blast furnaces as a replacement for coke in producing pig iron - and high quality thermal coals used in power generation. Reserves in place today could sustain these types of production levels for at least the next 20 years.

Narrabri Project – key asset

The second leg to the business surrounds the group's large underground Narrabri Project, located 40 kilometres outside the town of Gunnedah. The ground, acquired for no upfront cost, is currently moving through the various levels of mining approval processes. Stage 1 production is expected to commence in early 2010 while the larger Stage 2 has a 2011 start date. When completed, annual production is expected to be running at 6Mtpa, with sufficient reserves in place to sustain this rate for at least 25 years. The capital cost to make all this happen is around \$600 million or \$100 million per million tonnes of production, a far cry from the typical \$200 million per million tonnes outlaid for Queensland based coal projects.



Management steers a steady course

Sensibly, management has steered the business in a conservative manner, selling down equity stakes in the Narrabri Project to key customer groups in order to fund the capital expenditure program. To date, thirty percent of the project, in four lots of seven and half percent parcels have been sold, netting Whitehaven \$500 million and valuing the group's remaining seventy percent stake at \$1.2 billion.

The group has also been tackling its main business road block, that of infrastructure. Just because you have the resources and customers to sell too, doesn't in itself guaranteed the stuff can be delivered on time. The bottleneck that has seen ships stranded off the Newcastle coastline waiting to berth, is a product of increasing demand for coal and a lack of government foresight to provide adequate facilities. However, recent developments at the Port Waratah Coal Services (PWCS) loading facility and the privately funded Newcastle Coal Infrastructure Group (NCIG) – of which Whitehaven is one of six shareholders with a direct stake of 11.06% - will ultimately lift ship loading capacity from the current 102Mtpa to in excess of 200Mtpa by 2015.

Coal markets – what the future holds

Ultimately Whitehaven's long term success depends on customers demand for coal. This perhaps is the most contentious issue facing investors and also the most difficult to forecast. That said, CEO Haggarty has sought to address the issue in a pragmatic

manner. He contends that the world and specifically developing nations are not in sync when it comes to energy demand.

This results in demand distortion for energy fuels such as coal. To illustrate the point, he uses the 2007 International Energy Agency (IEA) figures on electricity consumption per person. In 2007 the Scandinavian countries were using above 18,000 KWh per person, in Australian the figure was 11,000 KWh, while China and India were sitting near the bottom of the list, consuming on average 2,000 KWh and less than 500 KWh per person respectively. As long as such disparity exists, developing nations would appear to be very reluctant to agree to any capped emission trading demands from developed nations.



Furthermore, coal is necessary for steel making, and base load electricity supply. Alternatives will play an increasing role, but this demand simply can't be met in the immediate future from any single alternative energy source or combination including nuclear power.

China's growing appetite for coal

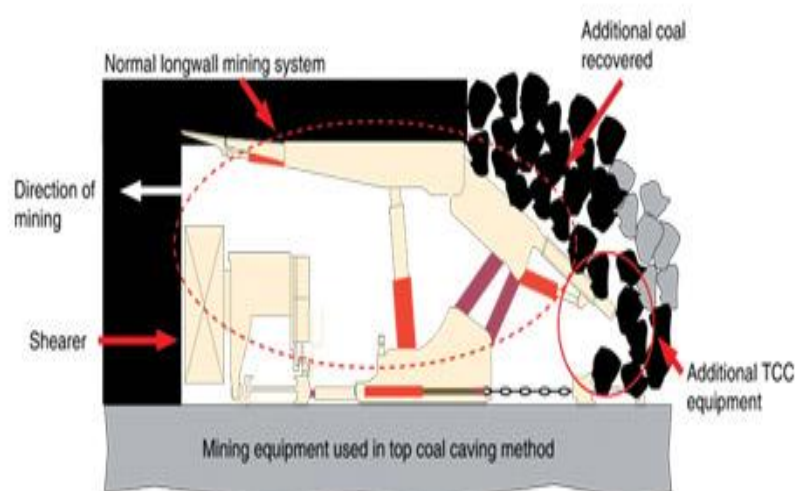
Putting aside the current climate debate, the growing list of new coal buyers clearly reflects an appetite from international groups. For its part, Australia is the largest exporter of coal, running at 250Mtpa, followed by Indonesia at 200Mtpa, the Former Soviet Union (FSU) countries with 150Mtpa and the combined countries of the US and Canada exporting 100Mtpa. Historically China has also been a net exporter of coal, however this is set to dramatically change as it looks to import a net 100Mt this year.



Certainly from Whitehaven's perspective, the general outlook for demand is decidedly positive, while internally the business remains on track to complete its transformation from start-up, to one where production is expected to ramp up from 3Mtpa in 2009 to

11.3Mtpa by 2014. Importantly, Narrabri's contribution to this number is 6Mtpa based purely on accessing the bottom half of the 9 metre thick coal seam. Should it be able to tackle the top half of the seam with the use of Top Coal Caving methods as depicted below, production levels could rise by an extra 3.5Mtpa with minimal additional costs. While we applaud management in its foresight, a decision to proceed is still some time off. More appealing though is the group's focus on blending the Narrabri seam to produce a higher valued PCI coal product with early indications suggesting this can be achieved without any real loss in yield.

Diagram 1. Top Coal Caving



Management's interest are aligned

A tight management team, who collectively account for 138 million shares or 29% of the stock gives us comfort that any future decision regarding the business will be both considered and in the best interests of shareholders. On this point, management have good form. Unlike MacArthur Coal's founding CEO Ken Talbot - who chose to offload his considerable personal stake in the company at record prices while leaving ordinary shareholders high and dry - Whitehaven executives Haggarty and Plummer successfully garnered a full bid for their previously listed Excel Coal business by selling to the US's largest coal producer, Peabody Energy for US\$1.5 billion in July 2006. While we would not discount the potential for future corporate action in Whitehaven, we suspect management will be unwilling to part with such a valuable suite of assets for anything less than full value.

Table 2. Whitehaven Coal Financial Snapshot

\$'M	2008	2009	2010(f)	2011(f)	2012(f)
Revenue	252.0	489.4	362.2	510.6	863.0
Operating Margin (%)	12.6	14.2	19.5	24.8	21.9
Underlying EBITDA	35.0	136.5	106.1	145.0	346.1
Underlying EBITA	17.0	110.2	78.8	113.9	304.8
Underlying NPAT	12.9	77.3	56.9	82.0	218.0
Net Debt / (net cash)	(25.6)	(78.4)	(85.1)	(127.5)	(313.2)
Market Capitalisation	1,771.4	1,278.3	2,491.6	2,491.6	2,491.6
Enterprise Value	1,745.8	1,199.9	2,406.5	2,364.1	2178.4
Production Profile (100% basis) Mtpa	2.7	3.3	4.2	6.1	10.1
Production Profile (equity basis) Mtpa	2.3	3.0	3.5	5.1	7.9
Earnings Yield (%)	0.9	5.8	3.3	4.8	13.8
ROCE (%)	3.8	15.0	9.3	13.4	35.7
Cover ratio	n/a	n/a	n/a	n/a	n/a
GOCF / EBITDA (%)	51.1	99.4	157.6	92.3	85.5
Underlying Earnings per share (¢)	3.3	19.0	11.9	17.2	45.8
PER	137	16.5	43.9	30.4	11.4
Share Price 30 June (\$)	4.52	3.14	5.23*	5.23*	5.23*
Issued Capital million	391.9	407.1	476.4	476.4	476.4

* Price as at 31 Dec 2009

In the meantime, management's task is to bring the Narrabri Project on line and within budget. The number of moving parts still to be overcome should not be underestimated, particularly when you consider the added risks associated with any underground mining venture. That said, the path forward for the company is clear, the necessary regulatory hurdles are mapped out and the capital required is in place and accounted for. All that is required is time and a successful execution of the business roadmap. **SFM**