

## Coal barons turn \$1m into \$500m in a year

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It was just 14 months ago that a group of Sydney businessmen paid \$1 million to explore for coal in western NSW. The area was described as "remnant", or leftover.

But in a deal struck this week, those leftovers are to be sold by their company, Cascade Coal, to the sharemarket-listed White Energy for \$500 million. It provides yet another example of the speed and scale at which fortunes are being created by the mining boom.

And this will be the second coal fortune in as many years for Travers Duncan and Brian Flannery, who reaped \$1 billion in cash from selling Felix Resources. The pair and Cascade's directors, including Rams Home Loan founder John Kinghorn, will share 72 per cent of the spoils.

But their deal, which must be approved by White Energy's independent directors, and shareholders, is not without controversy.

It is the ultimate related-party transaction as five White Energy directors are shareholders in Cascade. The circumstances in which Cascade was awarded the exploration licence have also been the subject of questions in the NSW Parliament.

Then comes the matter of land ownership. The family company of NSW upper house member Eddie Obeid owns a property covered by the exploration licence. The Obeids paid \$3.65 million for Cherrydale Park in November 2007, less than two years before the Mt Penny licence was issued to Cascade.

Mr Obeid is a former minister for mineral resources who has often had his family's extensive business dealings scrutinised by political opponents.

In its statement to the Australian Securities Exchange on Tuesday, White Energy said its application for a mining lease was imminent and it had "secured all necessary land and water rights" to develop the project's first open-cut mine.

Mr Flannery told The Australian Financial Review that Cascade had options over the four or five key properties in the area, including that owned by the Obeid family.

"Companies generally pay multiples [of the value] for the farms," Mr Flannery said yesterday.

"I don't think I've ever met an unhappy farmer after the deal is done."

He said the options over the properties were legally binding, but so much money was involved that Cascade did not want to take the risk of actually buying the properties before the approvals were granted.

If an independent expert sanctions the purchase and independent directors recommend it, more details about the land purchases will be released.

Under the \$500 million deal, White Energy will issue shares worth \$445 million, assume \$14 million in liabilities and hand over \$41 million in cash to Cascade's shareholders.

That means each of the five White Energy directors, who each own 12 per cent of Cascade, will receive \$58 million. They may take up to 20 per cent of this in cash.

The other two directors, lawyers John Atkinson and John McGuigan, were co-investors with Mr Kinghorn in doughnut maker Krispy Kreme, which collapsed last month.

The family of Sydney investor Richard Poole, who runs boutique investment house Arthur Phillip, also has a 12 per cent stake in Cascade. The remaining 28 per cent is controlled by clients of both Arthur Phillip and stockbroker Southern Cross Equities.

"A lot of the names in [that 28 per cent] are quite well known business people," Mr Flannery said, declining to provide more details,

## Sellers' market

Recent NSW coal asset transactions						
Date	Acquirer	Seller	Project	Price (\$m)	Resource	EV/ resource tonne
Oct 09	Whitehaven Coal	Coal & Allied	Vickery	32	300 m/t	11¢
Nov 09	Aston Resources	Coal & Allied	Mauls Creek	480	398 m/t	\$1.18
Jul 10	Korea Electric Power Co	Anglo American	Bylong	403	423 m/t	95.3¢
Nov 10	White Energy	Cascade Coal	Mt Penny	500	174 m/t	\$2.87

\* Enterprise value

SOURCE: AFR

Mr Flannery and Mr Duncan have spent nearly 40 years in the coal business, most of it when the commodity was a relatively unattractive investment. They came to prominence in April 2005 when they took control of publicly listed Felix Resources by vending in assets. As the coal price rose in recent years and the management team boosted production, Felix earned plenty of profits for its share holders.

Last year Chinese group Yanzhou Coal took over Felix for \$3.2 billion. That deal resulted in Mr Flannery and Mr Duncan each receiving \$530 million of cash.

"It is a management team with a very, very strong track record," a Sydney-based analyst said of Mr Flannery and Mr Duncan.

Some in the investment community have raised eyebrows about the price being paid for Cascade, especially as it is a related-party transaction. The deal is being done at a higher multiple per tonne of resource than other recent thermal coal transactions in NSW. In July, Anglo American agreed to sell the neighbouring Bylong project to Korea Electric Power Co for the equivalent of 95.34 a tonne of resources, versus the \$2.87 proposed for Mt Penny. Fleur Grose at Southern Cross Equities - herself a shareholder in White Energy — said the price per tonne looks steep but could fall as more resources are found. Losing bidders had noted the potential for 500 million tonnes of resources on the tenement.



Riding the coal boom . . . from left, Travers Duncan, Brian Flannery and John Kinghorn.

Photos: JIM RICE, GLENN HUNT

But Mr Flannery said the focus was on developing an open-cut mine, rather than searching for more resources, which were more likely to be underground.

"I think people need to focus on what we've actually got. A good open-cut deposit is better than a good underground deposit 99 per cent of the time.\*"

While the price tag appears steep at first glance, Mt Penny could produce \$500 million of revenue a year if thermal coal prices remain at their present levels. As an open cut, it should have relatively low mining costs.

"I think it is a fair value, personally. The independent directors are going to have to work that out," Mr Flannery said.

"The value is all related to what has happened in the Asian market in terms of coal demand."

Just like Moolarben - the key Felix project acquired by Mr Flannery and Mr Duncan when coal was in the doldrums - the Mt Penny project was picked up during a downturn. When the global financial crisis hit, most companies were looking to exit coal exploration properties rather than to buy them.

"You've got to look at things in terms of timing," Mr Flannery said. "I could have bought the whole Galilee Basin 10 years ago for about \$5 million "

Mr Flannery said Felix was interested in bidding for Mt Penny and the smaller Glendon Brook project that White Energy is also acquiring from Cascade, but the NSW government limited the tender process to smaller companies.

"I think their view was that a lot of companies are sitting on large coal areas, some for 20 years, and if you give it to a small company they will develop it," Mr Flannery said

Mr McGuigan and Mr Poole and his wife Amanda, formed Cascade to take advantage of the opportunity and later brought Mr Flannery and Mr Duncan on board

"They asked me to join as a private person," Mr Flannery said "They asked Travers as well. I put some money in."

Mr Flannery said about \$14 million has been spent on the deposit, primarily on drilling but also on some environmental studies.

"We've gone from virtually nothing to a JORC resource," he said, referring to the industry standard.

But the circumstances in which Cascade was awarded the exploration licence last October has been much questioned in the NSW Parliament.

Former NSW Greens MP Lee Rhiannon, asked then minister for mineral resources Ian Macdonald if he had ever discussed the matter with Mr Obeid or visited his Cherrydale Park property. The minister did not answer the questions in connection to Mr Obeid, nor did he say if he had ever visited the property.

He said the awarding of the exploration licences was overseen by "an external independent probity auditor. Mr Obeid previously told the AFR he would fight any mine affecting Cherrydale, but said if people had a licence and could demonstrate a mineral deposit, he didn't "have the power to stop them".

Production at Mt Penny is scheduled to begin in 2013. Cascade expects annual exports of up to 5 million tonnes of thermal coal, which is used in power generation, after proving up 174 million tonnes of resources.