

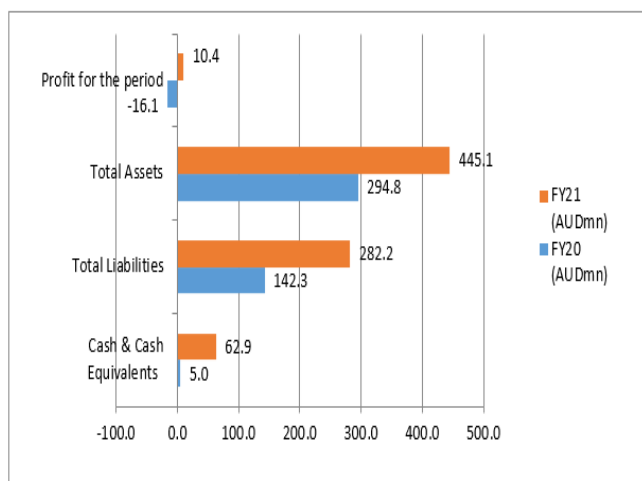
Stanmore Resources Limited
**Equity Analysis
March 2022**
Introduction:

Stanmore Resources Limited (ASX: SMR) is involved in the production of metallurgical coal. SMR is engaged in operating and exploring projects in the Bowen and Surat Basins.

Operating performance:

For the year ended 31 December 2021 (FY21), SMR recorded revenue amounting to \$382.9 million as compared to \$136.3 million in FY20. It posted a net profit of \$10.4 million against a loss of \$16.1 million in FY20. At the end of FY21, the company had a cash balance of \$62.1 million as compared to \$5 million as of 31 December 2020.

(Annual Standardised in Millions of Australian Dollars)



Source: Refinitiv, Analysis by Kapitales Research

Recent Updates:

Recently, the company announced a partially underwritten accelerated renounceable entitlement offer to raise ~US\$506 million, which would be used for financing the BMC acquisition.

Outlook:

Looking forward, the company is targeting to become one of the largest global producers of metallurgical coal. In addition, the company is focused on capturing value from three de-risked cash-generating operating assets.

Key Risks:

| Stanmore Resources Limited | | Small-Cap Stock | |
|---|-----------------|---------------------------------|-------------------------------|
| Recommendation | Speculative Buy | | |
| Risk Profile | High | | |
| Current Market Price (\$) | 1.250 | | |
| 52 Week Range (\$) | 0.600 - 1.280 | | |
| Market Capitalization (\$Mn) | 338.00 | | |
| Outstanding Shares (Mn) | 270.42 | | |
| PE (TTM) | 32.40 | | |
| EPS (TTM)(\$) | 0.038 | | |
| Dividend Yield/Frinking | 0%/100% | | |
| Ex-Date/Pay-Date | - | | |
| Beta (5Y Monthly) | 0.59 | | |
| Enterprise Value(EV)/Sales (LTM FY-1) | 0.99 | - | |
| EV/EBITDA (LTM FY-1) | 6.43 | - | |
| Price/Book Value (LTM FY-1) | 2.08 | 1.44 | |
| Shareholding Pattern (Mn) | | | |
| Top 3 | Current | 12/31/2021 | 9/30/2021 |
| Golden Energy and Resources Ltd | 203.93 | 203.93 | 203.70 |
| Latimore Family Pty. Ltd. | 36.99 | 36.99 | 36.99 |
| Old Forrester Pty. Ltd. | 12.90 | 12.90 | 12.71 |
| Price Performance (%) | | | |
| | % Change | ASX All Ordinaries Index | S&P/ASX 200 Energy |
| 1 month | 8.69% | -3.57% | 11.76% |
| 3 months | 25.00% | -4.63% | 14.51% |
| 12 months | 92.30% | 5.64% | 17.29% |

| | Industry Median | 2021 | 2020 | 2019 | 2018 | 2017 |
|-------------------|-----------------|-------|------|-------|-------|-------|
| Gross Margin | 40.9% | 16.6% | - | 39.3% | 23.7% | 24.5% |
| EBITDA Margin | 36.6% | 15.4% | - | 38.1% | 24.0% | 18.8% |
| Operating Margin | 19.6% | 8.1% | - | 34.3% | 9.0% | 11.4% |
| Pretax Margin | 17.2% | 4.1% | - | 31.9% | 4.8% | 4.7% |
| Net Margin | 12.8% | 2.7% | - | 22.7% | 2.9% | 8.7% |
| ROE | 7.3% | 6.6% | - | 79.6% | 8.5% | 22.7% |
| Current Ratio | 1.27 | 0.93 | 1.48 | 1.62 | 1.69 | 1.66 |
| Cash Cycle (Days) | 10.1 | 12.0 | - | 18.5 | 90.2 | 108.9 |
| Assets/Equity | 2.01 | 2.73 | 1.93 | 1.95 | 2.30 | 2.44 |
| Debt/Equity | 0.49 | 0.64 | 0.19 | 0.00 | 0.00 | 0.23 |
| ROIC | - | 4.5% | - | 52.9% | 4.8% | 11.9% |

Source: Refinitiv, Analysis by Kapitales Research

The company's operational and financial performance could be affected by the adverse movement in the spot prices of metallurgical coal. In addition, the business is exposed to a more complex regulatory environment; any failure in the compliances could lead the business to fines, penalties, etc.

Valuation:

The stock is trading at a P/BV multiple of 2.1x as compared to the industry average of 3.8x on a TTM basis. Thus, it can be said that the stock is undervalued at the current trading levels.

Technical Analysis:



Source: Refinitiv, Analysis by Kapitales Research

The energy company SMR settled at AU\$1.250 on 4 March 2022, near its 52-week high price range.

The stock is trading above all the major exponential moving averages (i.e., 20, 50, 100, and 200 days) on a weekly time frame, indicating mid-term bullishness. Exponential moving averages of 20 and 50 days are crossing the 200-day EMA from below, and this is a good sign for the stock to continue the uptrend in the longer time.

The stock price is in the process of forming a 'rounding bottom' chart pattern and is expected to be completed in the coming weeks. We expect the stock to hit the Pivot resistance R2 (AU\$1.445) in the coming weeks.

RSI (14-days) is at 70, holding an uptrend momentum in the index.

Buying can be initiated at the current price levels for the potential targets of AU\$1.445 (Pivot resistance R2) and AU\$1.740 (Pivot resistance R3) in the coming time. The investors are advised to keep a strict stop loss at or below AU\$0.968 (50-day EMA).

Investment Summary:

The company possesses a high quality, long life, well capitalised assets supported by an equipment-rich business and experienced people. In addition, the company's strong products including benchmark PCI at South Walker Creek, are aided by a significant contract book and global customer base. Hence, considering the aforesaid facts, recent capital raising, optimistic outlook, and key risks associated with the business, we give a "Speculative Buy" rating on the stock of SMR at the closing market price of AUD 1.250 per share on March 4, 2022.

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Disclosure: *The information mentioned above has been sourced from the company reports and a third-party database, i.e., Refinitiv. Investors are advised to use strict stop-loss to protect their investments in case of any unfavorable/uncertain market events.*

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