Golden Energy gets to work on upgrading mine infrastructure

It will have to spend some US$271m to keep pace with Borneo Indobara mine's growth

By Andrea Soh
sandrea@sph.com.sg
@AndreaSohBT

Singapore

IN A coal mine in South Kalimantan, four hours away by car from the state capital of Banjarmasin, things were bustling along on a recent Thursday afternoon. As the hot afternoon sun beat down, excavators swung back and forth, loading trucks that were waiting in line for their cargoes of soil or coal.

A few kilometres away, in an air-conditioned office, it was a hive of activity too, albeit of a more muted nature. The local managers for Golden Energy and Resources' (Gear) Borneo Indobara (BIB) mine were busy drawing up plans for the necessary expansion in the mine's infrastructure – ranging from the equipment to the port – as the firm gears up for a steep rise in production.

The BIB mine is Gear's crown jewel, and also where the company expects future growth to come from. Located in the Tanah Bumbu regency, the 24,100-hectare mine is operated under a second-generation Coal Contract of Work (CCOW) licence, which lasts till 2036.

Last year, the mine produced 7.5 million tonnes, accounting for four-fifths of Golden Energy's total coal production of 9.5 million tonnes. The firm plans to produce some 12 million tonnes from the BIB mine alone this year, and is on track to achieve the target, mine managers told analysts and media during a recent visit to the site.

Gear is now in the process of planning for future logistical needs to keep pace with the production growth.

As it is, the firm had last year already widened the working area in the coal pits. It also levelled an undulating road between two coal blocks in the concession that had slowed down the trucks transporting its coal.

> Joel Ng, an analyst at KGI Securities (Singapore), believes Golden Energy and Resources has the capability to expand its infrastructure quickly enough to match the projected rise in coal production, given its track record, experienced staff on the ground, and strong balance sheet.

This year, more capacity expansion is in the works.

New crushing equipment that it has ordered is expected to arrive by the end of the current quarter, more than doubling the crushing capacity at the site; coal is crushed to a smaller size before sale so that power stations can use it without further processing.

Mining contractors that the firm has engaged will also be deploying larger excavators and dump trucks, said Gear's chief investment officer Mark Zhou.

The firm is looking at building new port facilities too, especially as it targets to reach over 20 million tonnes by 2021, according to the mining schedule in its Independent Qualified Person's Report (IQPR) by Australian firm HDR Pty Ltd. This exceeds BIB's current maximum capacity of 16-18 million tonnes a year.

It could either add a jetty next to its current one, or build a new port on another piece of land nearby, with a decision to be made on this by the end of this year, said Mr Zhou.

In all, the firm will have to spend some US$271 million to upgrade its mining and logistics infrastructure both at the mine site and at the port, according to the IQPR.

The infrastructure upgrading plans that Gear outlined were viewed favourably by analysts.

Joel Ng, an analyst at KGI Securities (Singapore), said he believes Gear has the capability to expand its infrastructure quickly enough to match the projected rise in coal production, given its track record, experienced staff on the ground, and strong balance sheet.

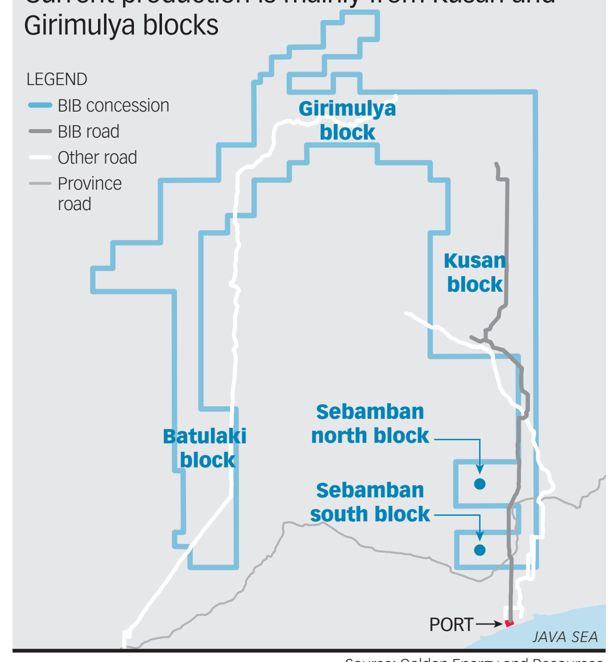
The most important piece of infrastructure, he added, will be the port and its capacity for coal stockpiling and loading onto barges. "Based on the production schedule of Gear's BIB mine, the port facilities may hit its limit in the next two years," said Mr Ng.

Lim and Tan Securities analyst Eric Ong said that the entire transport infrastructure, including the coal hauling roads controlled by BIB, will be important. Gear's infrastructure expansion plans will be able to take place quickly enough as long as the firm continues to generate positive cash flow to support its high capital spending, he said.

The biggest downside risks for Gear would be a decline in coal prices and regulatory risk from operating in Indonesia, according to both analysts. This, however, is mitigated by the company's strong Indonesian parentage, said Mr Ng.

Gear's BIB mine has four blocks

Current production is mainly from Kusan and Girimulya blocks



Source: Golden Energy and Resources

Watch the video on how coal is extracted from Golden Energy and Resources' mine in South Kalimantan at *bt.sg/coal*