

# Cooper Energy Ltd COE (\$0.46)

**Recommendation: BUY**

## Solid Production & Eventful Exploration Program

Analyst: Scott Simpson

### OUR VIEW

With \$95m in cash and a solid production base underpinning the current share price, COE provides an asset backed investment with exposure to a busy 2010 exploration program. COE is a proficient oil and gas producer which generates a healthy cash flow from its flagship Cooper Basin interests but more recently has expanded exploration internationally in Tunisia and Indonesia. It holds interests in 5 x Cooper Basin exploration permits ranging from 19.165% to 30% with the bulk of its 9 x producing assets annexed from PEL92, in which it has a 25% interest. Recent exploration in PEL92 has proved successful with a number of discoveries and will be a key focus moving forward. Phase-2 of the Cooper Basin program will commence in mid-2010 following recently approved 2D and 3D seismic surveys to mature further prospects. Other key catalysts are the drilling of Fuchsia-1 (early 2010) and Menzel Horr (late 2010) in Tunisia and the Gigir-1 well in Indonesia (April 2009).

### INVESTMENT HIGHLIGHTS

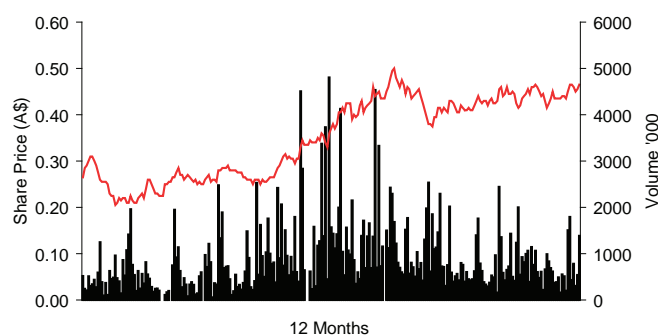
- Another outstanding quarter of production.** Net production from the company's cornerstone Cooper Basin assets was up 4% to 136,392bbls – an average of 1,495bopd. This provided revenue of A\$11.4m, finishing the quarter with a healthy \$94.8m in cash. The Sep Q production exceeded expectations, totaling 37% of the "no success" FY2010 production guidance of 368,000bbls. Note that Perlubie South and Butlers were discovered subsequent to the budget so COE is likely to better this estimate over the coming 9-months of production.
- Phase-2 drilling in the Cooper Basin.** PEL 92 will remain a key focus of COE with phase-3 expected to commence in mid-2010 following completion of the recently approved seismic surveys. In addition, COE is pushing the operator of PEL 92 to bring forward the drilling of a number of drill-ready exploration and appraisal targets. (phase -2)
- Exciting and material near-term drilling program.** A key value driver will be the drilling of the Fuchsia-1 exploration well (COE 35%) with recoverable oil estimates of 46mmbbls. Drilling will now likely be early 2010 following the need to complete a seafloor geotechnical review prior to spudding. COE is hoping to drill the Menzel Horr prospect (COE 100%) in 2010 after review of 2D seismic confirmed the validity of the 8mmbbl prospect. In Indonesia, preparations to drill the Grigir-East-1 well (COE 30%) are reportedly on-track for April 2010 with a recoverable gas estimate of 32bcf. COE estimates non-discretionary and desired commitments of \$28-\$54m over the next 5 years and is covered by existing cash.
- Good value with asset backing.** COE's healthy cash position underpins \$0.32/sh, with our valuation of producing reserves accounting for a further \$0.16/sh. Hence \$0.48/sh is asset backed.
- We maintain our BUY recommendation with a price target of \$0.67/sh.** COE presents a value investment with a solid backing to what looks to be an eventful 2010 drilling schedule, with a number of high impact wells. In addition, COE's large cash position provides potential for further value investment and acquisitions.

### Investment Summary

Year End June 30	2009A	2010F	2011F	2012F
<b>Reported NPAT (\$m)</b>	<b>(2.8)</b>	<b>7.1</b>	<b>7.7</b>	<b>4.3</b>
Recurrent NPAT (\$m)	(2.8)	7.1	7.7	4.3
Recurrent EPS (cents)	(1.0)	2.4	2.6	1.5
EPS Growth (%)	na	na	8.7	(43.7)
PER (x)	(47.9)	19.0	17.5	31.1
<b>EBITDA (\$m)</b>	<b>9.0</b>	<b>13.5</b>	<b>12.9</b>	<b>7.7</b>
EV/EBITDA (x)	4.7	3.5	3.4	5.7
Capex (\$m)	5.3	0.6	0.6	0.6
Free Cashflow	12.4	(6.4)	4.1	0.1
FCFPS (cents)	4.2	(2.2)	1.4	0.0
PFCE (x)	10.9	(21.0)	32.6	943.9
<b>DPS (cents)</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
Yield (%)	0.0	0.0	0.0	0.0
Franking (%)	0.0	0.0	0.0	0.0

### Company Statistics & Performance

Shares on issue (m)	293.9	3mth ADT (\$m)	0.33
Market Cap. (\$m)	135.2	Debt est (\$m)	0.0
52 week range	\$0.21 - \$0.50	Cash est (\$m)	94.8



Cooper Energy Ltd

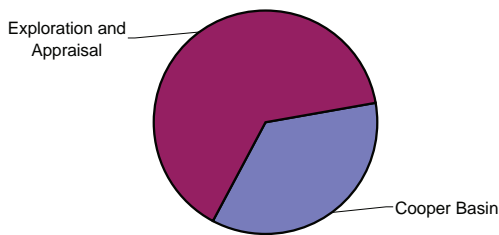
\$0.46

Year End June 30

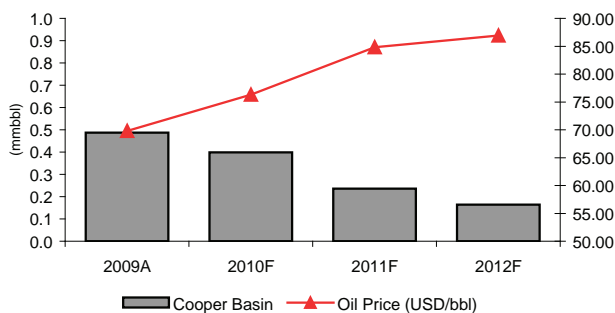
Valuation	A\$m	A\$/sh
Cooper Basin	48	0.16
Exploration and Appraisal	86	0.29
Corporate	(32)	(0.11)
Cash	95	0.32
Debt	0	0.00
Other	0	0.00
<b>Total @ 10% Discount Rate</b>	<b>197</b>	<b>0.67</b>
<b>Price Target</b>		<b>0.67</b>

Price Target Sensitivity	-10%	0%	+10%
Oil Price Sensitivity (A\$/sh)	0.64	0.67	0.69
Exchange Rate Sensitivity (A\$/sh)	0.70	0.67	0.65

Valuation Summary of Operating Assets



Production Summary



Reserves & Resources

2P Reserves	Oil/Cond (mmbbl)	Gas (bcf)	Total (mboe)
Cooper Basin	1.9	0.0	1.9
<b>Total</b>	<b>1.9</b>	<b>0.0</b>	<b>1.9</b>

Directors

Name	Position
Laurence Shervington	Non-Executive Chairman
Michael Scott	Managing Director
Gregory Hancock	Executive Director
Christopher Porter	Non-Executive Director
Stephen Abbott	Non-Executive Director
Ian Gregory	Company Secretary

Substantial Shareholders	Shares (m)	%
Acorn Capital	19.4	6.7

Commodity Assumptions	2009A	2010F	2011F	2012F
A\$:US\$	0.75	0.86	0.89	0.87
Crude Oil - WTI (USD/bbl)	69.78	76.29	84.82	86.92

Production Summary	2009A	2010F	2011F	2012F
<b>Cooper Basin</b>				
Production (bopd)	1335	1146	645	451
Production (mmbbl)	0.49	0.40	0.24	0.16

Profit & Loss (A\$m)	2009A	2010F	2011F	2012F
<b>Sales Revenue</b>	<b>41.6</b>	<b>35.0</b>	<b>22.4</b>	<b>16.5</b>
Other Income	4.2	5.1	4.9	5.0
Operating Costs	8.5	7.2	5.3	4.6
Exploration Exp.	20.5	11.9	4.6	5.0
Corporate/Admin	5.0	4.0	4.1	4.2
Royalties	2.9	2.8	1.8	1.3
<b>EBITDA</b>	<b>9.0</b>	<b>14.2</b>	<b>11.5</b>	<b>6.4</b>
Depn & Amort	4.0	3.3	2.0	1.5
<b>EBIT</b>	<b>5.0</b>	<b>10.9</b>	<b>9.4</b>	<b>4.9</b>
Interest	0.0	0.0	0.0	0.0
Abnormals Pre-Tax	0.0	0.0	0.0	0.0
<b>Operating Profit</b>	<b>5.0</b>	<b>10.9</b>	<b>9.4</b>	<b>4.9</b>
Tax expense	7.9	3.3	2.8	1.5
Minorities	0.0	0.0	0.0	0.0
Discontinued Operations	0.0	0.0	0.0	0.0
<b>NPAT</b>	<b>(2.8)</b>	<b>7.6</b>	<b>6.6</b>	<b>3.4</b>
<b>Normalised NPAT</b>	<b>(2.8)</b>	<b>7.6</b>	<b>6.6</b>	<b>3.4</b>

Cash Flow (A\$m)	2009A	2010F	2011F	2012F
Adjusted Net Profit	(2.8)	7.6	6.6	3.4
+ Interest/Tax/Expl Exp	28.4	15.1	7.5	6.5
- Interest/Tax/Expl Inc	14.7	27.0	12.1	11.6
+ Depn/Amort	4.0	3.3	2.0	1.5
+/- Other	2.9	0.0	0.0	0.0
<b>Operating Cashflow</b>	<b>17.7</b>	<b>(0.9)</b>	<b>4.0</b>	<b>(0.1)</b>
- Capex (+asset sales)	(11.1)	0.6	0.6	0.6
- Working Capital Increase	0.0	4.4	0.0	0.0
<b>Free Cashflow</b>	<b>28.8</b>	<b>(5.9)</b>	<b>3.4</b>	<b>(0.8)</b>
- Dividends (ords & pref)	0.0	0.0	0.0	0.0
+ Equity raised	0.0	0.0	0.0	0.0
+ Debt drawdown (repaid)	0.0	0.0	0.0	0.0
+ Other	0.0	0.0	0.0	0.0
<b>Net Change in Cash</b>	<b>28.8</b>	<b>(5.9)</b>	<b>3.4</b>	<b>(0.8)</b>
Exchange Rate effects	0.0	0.0	0.0	0.0
<b>Cash at End Period</b>	<b>93.4</b>	<b>87.5</b>	<b>90.9</b>	<b>90.2</b>
Net Cash/(Debt)	93.4	87.5	90.9	90.2

Balance Sheet (A\$m)	2009A	2010F	2011F	2012F
Cash	92.0	87.5	90.9	90.2
Total Assets	136.2	144.5	151.1	154.5
Total Debt	0.0	0.0	0.0	0.0
Total Liabilities	12.9	13.6	13.6	13.6
Shareholders Funds	123.3	130.9	137.5	141.0
<b>Ratios</b>				
Net Debt/Equity (%)	na	na	na	na
Interest Cover (x)	na	na	na	na
Return on Equity (%)	na	5.8	4.8	2.4

# Research

Mark Simpson – Head of Research	Phone: (+61 8) 9263 1678	Email: msimpson@psl.com.au
Andrew Quin - Research Strategy Coordinator	Phone: (+61 8) 9263 1152	Email: aquin@psl.com.au
Tony Farnham - Economist	Phone: (+61 8) 9258 8973	Email: tfarnham@psl.com.au

## Resources

Andrew Harrington – Coal Analyst	Phone: (+61 2) 8238 6214	Email: aharrington@psl.com.au
Alex Passmore – Head of Metals & Mining	Phone: (+61 8) 9263 1239	Email: apassmore@psl.com.au
Scott Simpson – Oil & Gas Analyst	Phone: (+61 8) 9263 1679	Email: ssimpson@psl.com.au
Levi Spry – Resources Analyst	Phone: (+61 8) 9263 1610	Email: lspry@psl.com.au
Josh Welch – Resources Analyst	Phone: (+61 8) 9263 1668	Email: jwelch@psl.com.au

## Industrials

Allan Franklin – Assistant Analyst	Phone: (+61 8) 9263 1151	Email: afranklin@psl.com.au
Ben Kakoschke – Materials Analyst	Phone: (+61 3) 9242 4181	Email: bkakoschke@psl.com.au
David Gibson – Industrial Analyst	Phone: (+61 8) 9263 1664	Email: dgibson@psl.com.au
George Galanopoulos – Industrial Analyst	Phone: (+61 3) 9242 4172	Email: ggalanopoulos@psl.com.au
Graeme Carson – Industrial Analyst	Phone: (+61 3) 9242 4076	Email: gcarson@psl.com.au
Jonathan Kriska – Diversified Financials & REIT Analyst	Phone: (+61 2) 8238 6245	Email: jkriska@psl.com.au
Kien Trinh – Quantitative Analyst	Phone: (+61 3) 9242 4027	Email: ktrinh@psl.com.au
Mark Barsdell – Quantitative Analyst	Phone: (+61 3) 9242 4187	Email: mbarsdell@psl.com.au
Russell Wright - Retail Analyst	Phone: (+61 2) 8238 6219	Email: rwright@psl.com.au

## Institutional Dealing

Phil Schofield	Phone: (+61 2) 8238 6223	Email: pschofield@psl.com.au
Michael Brindal	Phone: (+61 2) 8238 6274	Email: mbrindal@psl.com.au
Dan Bahen	Phone: (+61 2) 8238 6237	Email: dbahen@psl.com.au
Paul Doherty	Phone: (+61 3) 8803 0108	Email: pdoherty@psl.com.au
Trent Foxe	Phone: (+61 2) 8238 6265	Email: tfoxe@psl.com.au
Andrew Frazer	Phone: (+61 8) 9263 1241	Email: afrazer@psl.com.au
Jason Lal	Phone: (+61 2) 8238 6276	Email: jlal@psl.com.au
Ben McIlvrde	Phone: (+61 2) 8238 6253	Email: bmcilvrde@psl.com.au
Jeremy Nugara	Phone: (+61 3) 8803 0166	Email: jnugara@psl.com.au
Trevor Pike	Phone: (+61 3) 8803 0110	Email: tpike@psl.com.au
Nicholas Whiteley	Phone: (+61 2) 8238 6244	Email: nwhiteley@psl.com.au
Sandy Wylie	Phone: (+61 8) 9263 1232	Email: swylie@psl.com.au

Important Notice: Copyright 2009. The contents contained in this report are owned by Patersons Securities Limited ('Patersons') and are protected by the Copyright Act 1968 and the copyright laws of other countries. The material contained in this report may not be copied, reproduced, republished, posted, transmitted or distributed in any way without prior written permission from Patersons. Modification of the materials or use of the materials for any other purpose is a violation of the copyrights and other proprietary rights of Patersons.

Disclaimer: Patersons believes that the information or advice (including any financial product advice) contained in this report has been obtained from sources that are accurate at the time of issue, but it has not independently checked or verified that information and as such does not warrant its accuracy or reliability. Except to the extent that liability cannot be excluded, Patersons accepts no liability or responsibility for any direct or indirect loss or damage caused by any error in or omission from this report. You should make and rely on your own independent inquiries.

If not specifically disclosed otherwise, investors should assume that Patersons is seeking or will seek corporate finance business from the companies disclosed in this report.

Warning: This report is intended to provide general securities advice, and does not purport to make any recommendation that any securities transaction is appropriate to your particular investment objectives, financial situation or particular needs. Prior to making any investment decision, you should assess, or seek advice from your adviser, on whether any relevant part of this report is appropriate to your individual financial circumstances and investment objectives.

Disclosure: Patersons, its director and/or employees may earn brokerage, fees, commissions and other benefits as a result of a transaction arising from any advice mentioned in this report. Patersons as principal, its directors and/or employees and their associates may hold securities in the companies the subject of this report, as at the date of publication. These interests did not influence Patersons in giving the advice contained in this report. Details of any interests may be obtained from your adviser. Patersons as principal, its directors and/or employees and their associates may trade in these securities in a manner which may be contrary to recommendations given by an authorised representative of Patersons to clients. They may sell shares the subject of a general 'Buy' recommendation, or buy shares the subject of a general 'Sell' recommendation.

Stock recommendations: Investment ratings are a function of Patersons expectation of total return (forecast price appreciation plus dividend yield) within the next 12 months. The investment ratings are Buy (expected total return of 10% or more), Hold (-10% to +10% total return) and Sell (> 10% negative total return). In addition we have a Speculative Buy rating covering higher risk stocks that may not be of investment grade due to low market capitalisation, high debt levels, or significant risks in the business model. Investment ratings are determined at the time of initiation of coverage, or a change in target price. At other times the expected total return may fall outside of these ranges because of price movements and/or volatility. Such interim deviations from specified ranges will be permitted but will become subject to review by Research Management. This Document is not to be passed on to any third party without our prior written consent.