

27 August 2008

Analyst: Oliver Foster

- ▶ **Price Target:** \$0.70/sh
- ▶ **Reason For Update:** FY'08 Results
- ▶ **Quick Comment:**

COE recorded a FY'08 NPAT \$6.4m v's our forecast of \$5.7m – an excellent result reflecting strong Cooper Basin oil production combined with high product prices.

The NPAT result was skewed slightly by a high exploration write-off (\$11.6m) due to disappointing exploration results in Indonesia.

Lower exploration write-off and slightly costs were the reasons our forecasts was beaten.

Importantly cash flow was significant from the business at \$27m, almost equal to the current EV of \$29m. We are expecting a similar level of cash flow this year.

We are forecasting a FY'09 NPAT of \$14m (unchanged) based on oil production of 380 kbbls at US\$115/bbl oil price.

COE's cash balance remains strong with ~\$70m currently at bank.

Focus over the last few months has been centered on moving its high quality Tunisian permits forward to the drilling phase next CY. These permits have company making potential and should provide investors with various catalysts over the next 18 months or so.

▶ Investment Case:

We expect investor interest to increase in the stock over the next few months leading up to the Tunisian program early next year. CY'09 looks to be a very busy year for COE with at least five high impact wells likely in Tunisia and Indonesia.

A breakdown of our valuation shows \$0.51/sh based on cash and its proven developed Cooper Basin reserves (npv). Thus, at the current market price, COE's international acreage position and exploration carry a negative value.

We are forecasting strong EPS growth (~130%) this year on the back of strong oil production and continued strong oil prices.

The Tunisian exploration portfolio should be unveiled in the near future (following formal gov't sign-off) based on the 2D and 3D seismic programs completed over the last 12 months. Prospect sizes vary from 10 mmbbls to >300 mmbbls recoverable oil – these could add multiples to the current share price at assumed equity positions of 35% and 50% for the Hammamet and Bargou PSC's respectively. Timing for the drilling of at least two wells is dependent on rig availability, but best guess at this stage is the June/Sept Q's 2009.

A farmout is likely on the Bargou Block (COE 100%) over the next few months, reducing COE's drilling exposure and should confirm at least the \$0.10/sh valuation currently held for the block. We expect a mid-sized experienced operator will come in based on the interest COE has received on this block over the past 18 months.

COE should participate in the drilling of two Western Flank Cooper (COE 25%) exploration/appraisal wells this H. The potential value-add for these wells is \$0.05 - 0.10/sh combined and should provide some welcome news flow. Up to seven exploration and appraisal wells are planned over the next 18 months in the Cooper permits.

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Following completion of the South Madura PSC (COE 30% and operator) seismic, which is expected this H, COE will likely plan for two wells in CY'09. Preliminary oil prospect sizes are <25 mmbbls recoverable.

There are numerous discoveries, prospects and leads within the Seruway PSC (COE 22.5%) that will be appraised following interpretation of the 2D seismic completed in the June Q. Exploration wells (one or two) are likely to follow in the CY'09. There is no doubt the prospectivity of the block has been downgraded by the failure at Gurame earlier this year but existing gas markets have the appetite for any future commercial discoveries.

Our price target of \$0.70/sh represents COE's valuation excluding all value for exploration prospects.

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AUSTRALIAN RESEARCH

COOPER ENERGY LTD (COE)		YEAR END 30 JUNE			
MARKET STATISTICS					
Share Price	\$0.42 A\$/sh	Directors			
Issued Capital		L Shervington		Ch'n	
FP Ord	252.3 m	M Scott		CEO	
Opt (@ \$0.43/sh ave)	19.4 m	G Hancock		Exec Dir	
Total Dil. FPOrd	271.7 m	C Porter		Non Exec Dir	
		S Abbott		Non Exec Dir	
Market Capitalisation	\$97m	Shareholders			
Enterprise Value	\$29m	Acorn Capital		5.5%	
Debt	nil	RAB Capital		5.0%	
Cash	\$68m				
ASSET VALUATION					
		A\$M	A\$/sh		
Western Flank Fields (25%)		57	0.21		
Worrior (30%)		13	0.05		
South Madura PSC		15	0.06		
Seruwai PSC		9	0.03		
Bargou PSC		26	0.10		
Hammamet PSC		29	0.11		
Investments		4	0.02		
Working Capital		10	0.04		
Corporate		(14)	(0.05)		
Exploration		25	0.09		
Unpaid Capital		17	0.06		
Debt		-	-		
Cash		68	0.25		
Total @ 10% nom		260	0.96		
Total @ 0% nom		265	0.98		
Total @ 5% nom		273	1.00		
Total @ 15% nom		255	0.94		
Valuation @ spot (10% nom)		269	0.99		
Valuation @ 10 year average (10% nom)		210	0.77		
FORECAST PRODUCTION					
	2007a	Jun H'08f	2008f	2009f	2010f
Attrib. Prod'n (mboe)					
Western Flank fields	138.8	114.1	214.8	284.7	263.5
Worrior	118.1	84.4	165.3	96.2	78.0
Total Attrib (mboe)	256.9	198.5	380.1	380.9	341.5
Assumptions					
Avg Oil Price (US\$/bbl)	63.3	110.8	96.9	115.0	100.0
US\$:A\$	0.78	0.92	0.90	0.89	0.87
Cash Cost - excl royalties (A\$/m)					
Western Flank fields	2.7	2.4	4.4	6.0	5.5
Worrior	3.9	1.9	4.3	2.2	1.8
Ave Cash Cost (A\$/boe)	25.6	21.9	22.8	21.5	21.5
Ave Total Cost (A\$/boe)	35.1	37.2	37.5	34.7	34.7
RATIO ANALYSIS					
	2007a	Jun H'08f	2008f	2009f	2010f
CF (A\$m)	2	20	27	25	19
CF / Sh (Ac/sh)	1	7	10	9	7
CF Ratio (x)	53	-	4	5	6
Earnings (A\$m)	6	1	6	15	13
EPS (Ac/sh)	3	0	2	6	5
EPS Growth (%)	-41%	0%	-31%	137%	-13%
Earnings Ratio (x)	23	-	18	8	9
E'prise Val. (A\$m)	107	33	33	45	53
EV : EBITDA (x)	10	-	1	2	2
EV : EBIT (x)	16	-	3	3	3
Net Debt / ND+Eq (%)	-45%	0%	-127%	-108%	-95%
Interest Cover (x)	n/a	-	n/a	n/a	n/a
EBIT Margin (%)	33%	0%	26%	38%	40%
ROE (%)	11%	0%	6%	15%	15%
ROA (%)	12%	0%	9%	15%	15%
Div. (Ac/sh)	-	-	-	-	-
Div. payout ratio	-	-	-	-	-
Div. Yield	-	-	-	-	-
Div. Franking	-	-	-	-	-

PROFIT AND LOSS	2007a	Jun H'08f	2008f	2009f	2010f
Oil Equivalent Sales	20	24	43	48	38
Deferred Revenue	-	2	2	(2)	-
Interest Revenue	1	3	3	4	3
Other Revenue	0	0	0	-	-
TOTAL REVENUE	22	29	49	50	42
Operating Costs	7	7	13	13	12
Dep/Amort	2	2	4	5	5
Writeoffs (explor)	1	10	12	5	2
Corp O/H	3	2	4	5	5
Provisions	1	2	2	-	-
EBITDA	11	17	29	28	22
EBIT	7	4	12	18	15
Interest Expense	-	-	-	-	-
NPBT	8	6	15	22	19
Tax	3	5	9	6	6
NPAT	6	1	6	15	13
Minority Interest	-	-	-	-	-
NET PROFIT	6	1	6	15	13
Net Abnormal Loss after Tax	-	-	-	-	-
Net Profit After Abnormal	6	1	6	15	13
DIVISIONAL EBIT					
	2007a	Jun H'08f	2008f	2009f	2010f
Western Flank fields	7	8	16	22	17
Worrior	4	6	10	7	5
Other (Corp & Expl'n)	(4)	(10)	(13)	(12)	(7)
Total EBIT	7	4	12	18	15
CASH FLOW					
	2007a	Jun H'08f	2008f	2009f	2010f
+ Net Profit	6	1	6	15	13
+ Working Capital Adjustment	(4)	5	-	-	-
+ Dep/Amort	2	2	4	5	5
+ Provisions, W/O	2	11	13	5	2
+ Tax Expense	3	5	9	6	6
- Tax Paid	6	2	3	9	6
- Deferred Revenue	-	2	2	(2)	-
= Operating Cashflow	2	20	27	25	19
-Capex + Development	3	4	7	3	3
-Exploration	6	7	18	35	25
-Assets Purchased	-	10	14	-	-
+Asset Sales	-	(0)	1	-	-
+Other	(6)	2	2	-	-
= Investing Cashflow	(14)	(20)	(36)	(38)	(28)
+ Equity Issues (Rts,plc,opts)	1	-	58	-	-
+Loan Drawdown/Receivable	-	-	-	-	-
+Other	-	-	-	-	-
-Loan Repayment	-	-	-	-	-
-Dividends	(1)	-	-	-	-
= Financing Cashflow	2	-	58	-	-
Period Surplus	(10)	0	49	(13)	(8)
Adj. FX effects	(1)	-	-	-	-
CASH	15	65	65	52	44
BALANCE SHEET					
	2007a	Jun H'08f	2008f	2009f	2010f
Assets					
Cash	15	65	65	52	44
Current Receivables	8	15	15	15	15
Other Current Assets	1	4	4	4	4
Non-Current Assets	30	46	46	44	42
Total Assets	54	130	130	115	105
Liabilities					
Borrowings	-	-	-	-	-
Current Accounts Payable	3	7	7	7	7
Non-Current Liabilities	2	4	4	4	4
Other Liabilities	1	3	3	3	3
Total Liabilities	5	14	14	14	14
Net Assets	49	115	115	100	90
OIL RESERVES (2P)					
		Oil	Gas	Total	
		mmbbls	bcf	mboe	
Western Flank fields		1.0	-	1.0	
Worrior		0.4	-	0.4	
Total		1.4	-	1.4	
EV / boe (A\$)				21	

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