

23 April 2012

SC55 Extension & March Quarterly Report

▶ **Price Target:** \$0.19/sh

▶ **Investment Case:**

Delay to Cinco does not alter our OEL valuation, we maintain a Buy recommendation with a \$0.19/sh price target. The JV remains committed to execution and is currently awaiting response from the Philippine Department of Energy regarding a 12-18mth permit extension. Production from Galoc Phase 1 continues to outperform 2P expectations providing strong cash flow underpinning the FID and development of Phase 2. Value crystallisation via FID, a Phase 1 reserve upgrade and possible new venture activity is imminent short term.

▶ **Key Points:**

- OEL and JV partner BHPB have submitted an 18mth extension proposal to the Philippine DOE pertaining to the Cinco well commitment (SC55). The JV is awaiting response which is expected imminently.
- Cinco (OEL 33.18% post farm-down) now requires a suitable rig contract for execution, we do not anticipate well spud in CY'12. OEL is free carried for a two well program (Cinco + 1) with BHP earning a 60% interest.
- Cinco targeting a mean prospective resource of 2.1Tcf and 74mmbbls could be worth 10-18cps on a success case basis.
- Galoc Phase 1 production (OEL 33%) has reinitiated at rates circa 6,300bopd; production continues to outperform 2P expectations. No water cut has occurred.
- Galoc Phase 2 FID is expected mid CY'12. Subsequent FID approval, 1-3 new wells can be expected CY'13, targeting 3-9mmbbls of 2C resources.
- We anticipate a reserve upgrade to Galoc Phase 1 within the short term (<3months) in the order of ~2mmbbls 1P in line with JV partners (NDO) previous estimates.
- OEL's Mar Qtly cash position stands ~\$29.5m as expected, down from \$38m previous. No production off-take occurred within the Q due to refurbishment of the Galoc FPSO.

▶ **Analysis:**

Currently limited value is afforded to OEL beyond Galoc + Cash (10cps). Delay to Cinco albeit disappointing, is a timing issue and does not affect our valuation. We maintain a price target of \$0.19/sh representing our current valuation - Buy.

Cinco represents the most high impact catalyst to OEL; we expect significant re-rating of the stock upon exploration drilling success. We note that a suitable rig contract remains the greatest roadblock to execution.

OEL's broader Philippine focus provides material exploration and appraisal opportunities in CY'12 through CY'13, whilst onshore Africa is an emerging low cost high impact asset expansion.

We expect OEL to bid on additional permit within the upcoming release by the Philippine government, success further cementing OEL's significant acreage position within the region.

Recent production re-initiation from Galoc phase 1 (rates ~6,300bopd) provides sustaining cash flow through CY'12 underpinning the near term FID and development of Phase 2 (expected mid CY'12). We expect OEL to fund its share of Galoc Phase 2 (\$50-70m) via phase 1 production revenue and debt.

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Cash at Mar Q end ~\$29.5m is as expected, operations, production and G&A the primary cash costs. We expect revenue generation within the Jun Q from production at Galoc; production off-take is expected late May CY'12.

OEL's recent entry into East Africa is viewed as positive. Significant exploration acreage (some 300% increase) is expected to provide a plethora of hydrocarbon prospects, the basis for long-term growth and value addition. Attractive fiscal terms offered by the Tanzanian government compliment the early stage exploration work requirement.

OTTO ENERGY LTD (OEL)		YEAR END 30 JUN			
MARKET STATISTICS					
Share Price	\$0.11 A\$/sh	Directors			
Issued Capital		R Crabb	Non Exec Chair		
FP Ord	1,138.3 m	G McNab	CFO		
Total Dil. FPOrd	1,138.3 m	M Allen	CFO		
		I Boserio	Non Exec Dir		
Market Capitalisation	\$120 m	I Macliver	Non Exec Dir		
Enterprise Value	\$90 m	R Bomasang	Non Exec Dir		
Debt	\$- m	J Jetter	Non Exec Dir		
Cash*	\$30 m	Shareholders			
		Molton Holdings	21.3%		
		Santo Holding AG	21.3%		
		Directors	5%		
ASSET VALUATION		A\$m	A\$/sh		
Galoc		79	0.07		
SC55		57	0.05		
Exploration		50	0.04		
Hedging		-	-		
Corporate		(7)	(0.01)		
Working Capital		5	0.00		
Unpaid Capital		-	-		
Debt		-	-		
Cash		30	0.03		
Total @ 10% nom		214	0.19		
F/CAST PRODUCTION (A\$m)	2011a	Dec H'11a	2012f	2013f	2014f
Attrib. Prod'n					
Galoc (mmbbls)	0.5	0.1	0.3	0.4	0.6
Edirne (bcf)	0.3	-	-	-	-
Total Attrib (mmboe)	0.5	0.1	0.3	0.4	0.6
Assumptions					
Avg Oil Price - WTI (US\$/bbl)	89.9	91.8	90.9	100.0	100.0
Avg Gas Price - (US\$/mcf)	9.3	9.3	9.4	9.6	9.8
US\$:A\$	0.99	1.03	1.02	1.00	0.95
Cash Cost inc. Royalties (A\$m)					
Galoc	10.7	8.0	14.4	17.3	18.5
Edirne	0.6	-	-	-	-
Ave Cash Cost (A\$/boe)	20.8	82.2	57.1	41.7	30.1
Ave Total Cost (A\$/boe)	21.3	130.1	76.5	44.1	31.9
RATIO ANALYSIS (A\$m)					
CF (US\$m)	(6)	13	9	(25)	29
CF / Sh (Ac/sh)	(1)	1	1	(2)	2
CF Ratio (x)	na	-	12	na	4
Earnings (US\$m)	(6)	16	19	7	17
EPS (Ac/sh)	1	1	2	1	1
EPS Growth (%)	na	0%	52%	n/a	119%
Earnings Ratio (x)	7.7	-	6.0	16.1	7.4
E'prise Val. (A\$m)	65	65	88	128	115
EV : EBITDA (x)	5	-	3	6	3
EV : EBIT (x)	6	-	n/a	12	4
Net Debt / ND+Eq (%)	na	0%	na	9%	na
Interest Cover (x)	4	-	na	na	146
EBIT Margin (%)	50%	0%	44%	23%	42%
ROE (%)	20%	0%	24%	9%	18%
ROA (%)	16%	0%	24%	9%	20%
Div. (Ac/sh)	-	-	-	-	-
Div. payout ratio	0%	0%	0%	0%	0%
Div. Yield	0%	0%	0%	0%	0%
Div. Franking	0%	0%	0%	0%	0%

PROFIT AND LOSS (A\$m)	2011a	Dec H'11a	2012f	2013f	2014f
Oil Equivalent Sales	-	-	-	-	-
Hedging Revenue	-	-	-	-	-
Deferred Revenue	-	-	-	-	-
Interest Revenue	2	-	1	1	1
Other Revenue	23	41	54	46	59
TOTAL REVENUE	24	41	55	48	60
Operating Costs	-	8	15	17	18
Dep/Amort	0	5	5	1	1
O/H + New Bus Dev	11	3	6	6	4
W/O & Provisions	0	-	-	11	11
EBITDA	12	30	34	23	37
EBIT	11	20	24	11	25
Interest Expense	-	-	0	1	1
NPBT	13	20	25	11	24
Tax	-	4	5	3	7
Minorities	1	-	-	-	-
NET PROFIT	13	16	19	7	17
Net Abnormal Gain/(Loss)	1	-	-	-	-
NET PROFIT After Abn'l	14	16	19	7	17
CASH FLOW (A\$m)					
Net Profit	12	16	19	7	17
+ Working Capital Adj.	(17)	(14)	(14)	-	-
+ Dep/Amort	0	5	5	1	1
+ Provisions	0	5	5	11	11
+ Tax Expense	-	4	5	3	7
- Tax Paid	1	2	6	1	8
- Deferred Revenue	-	-	-	-	-
Operating Cashflow	(5)	14	15	22	29
-Capex + Development	1	0	5	46	0
-Exploration	13	3	7	15	15
-Assets Purchased	-	56	56	-	-
+Asset Sales	3	28	28	-	-
+Other	19	21	21	-	-
Investing Cashflow	9	(11)	(19)	(61)	(15)
+Equity Issues	3	-	-	-	-
+Loan D'down/Receivable	-	-	5	20	-
+Other	-	-	-	-	-
-Loan Repayment	0	-	-	-	16
-Dividends	-	-	-	-	-
Financing Cashflow	3	-	5	20	(16)
Period Sur (Def)	6	3	1	(20)	(2)
Cash Balance	36	39	36	17	15
BALANCE SHEET (A\$m)					
Assets					
Cash	36	39	36	17	15
Current Receivables	0	5	5	5	5
Other Current Assets	0	1	1	1	1
Non-Current Assets	35	52	57	102	101
Total Assets	71	96	98	124	121
Liabilities					
Borrowings	-	-	5	25	11
Current Accounts Payable	5	14	14	14	14
Non-Current Liabilities	0	0	0	0	0
Other Liabilities	-	-	-	-	-
Total Liabilities	5	14	19	39	24
Net Assets	66	83	80	86	97
RESERVES AND RESOURCES					
		Oil	Cond	Gas	Total
		mmbbls	mmbbls	bcf	mmboe
Galoc*		2.3			2.3
Total					2.3
EV / boe (A\$)					38.9

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