

16 March 2012

## Half Year Results - Dec'11

▶ **Price Target:** \$0.19/sh

▶ **Investment Case:**

OEL's half year results are largely in line with expectations. A NPAT of US\$16.4m is above our forecast, attributed to the equity increase in the Galoc Production Company (OEL 100%). Imminent production re-start of the Galoc field will provide strong cash flow through CY'12 end, underpinning the FID and development of Galoc Phase 2. Visible near-term catalysts include the high impact Cinco well, Phase 2 FID and a Galoc field reserve certification expected H2. We maintain a Buy recommendation and a price target of \$0.19/sh.

▶ **Key Points:**

- OEL's half year NPAT of US\$16.4m is above expectations. US\$38m cash on hand, up from US\$28m at the Sep Qtr end.
- The Cinco well (OEL 33.18% post farm-down) JV with BHP scheduled for mid CY'12 spud is the most immediate high impact catalyst. 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. A lack of rig contract remains the greatest execution risk at present.
- Galoc production (OEL 33%) is to reinitiate as of Q2 CY'12, noting gross production rates circa 6,400bopd were achieved prior to the shut-in.
- Galoc Phase 2 FID expected mid CY'12. Subsequent FID approval 1-3 new wells can be expected CY'13, targeting 3-9 mmbbls of 2C resources.
- The Hawkeye prospected is the likely second drill candidate within the BHP JV, targeting P50 STOIIIP 454mmbbls and GIIP 1.2Tcf.

▶ **Analysis:**

CY'12 is a notably active year for OEL, with significant exploration and development activity. OEL's mature portfolio of world class exploration prospects in SC 55 (Cinco) offers large upside, particularly in context of large prospects defined within proven hydrocarbon trend.

Limited value is afforded to OEL beyond Galoc + Cash (10cps). The Cinco well represents the most immediate high impact catalyst, we expect significant re-rating of the stock upon exploration drilling success. The broader Philippine focus provides material exploration and appraisal opportunities, whilst onshore Africa is an emerging low cost high impact portfolio.

OEL's half year results are in line with our expectations. Imminent production re-start from Galoc phase 1 will provide sustained cash flow through CY end underpinning the near term FID and development of Phase 2 (expected H2 CY'12).

OEL's 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 complement the early stage exploration work requirement.

We maintain a price target of \$0.19/sh representing our current valuation. Buy.

## Contact Details

Analyst  
Michael Skinner

Telephone: +61 8 9488 1431  
Facsimile: +61 8 9488 1479  
Email: mskinner@euroz.com.au

OTTO ENERGY LTD (OEL)		YEAR END 30 JUN			
<b>MARKET STATISTICS</b>					
<b>Share Price</b>	<b>\$0.13 A\$/sh</b>	<b>Directors</b>			
Issued Capital		R Crabb	Non Exec Chair		
FP Ord	1,138.3 m	G McNab	CFO		
<b>Total Dil. FPOrd</b>	<b>1,138.3 m</b>	M Allen	CFO		
		I Boserio	Non Exec Dir		
Market Capitalisation	\$154 m	I Macliver	Non Exec Dir		
Enterprise Value	\$116 m	R Bomasang	Non Exec Dir		
Debt	\$- m	J Jetter	Non Exec Dir		
Cash*	\$38 m	<b>Shareholders</b>			
		Molton Holdings	21.3%		
		Santo Holding AG	21.3%		
		Directors	5%		
<b>ASSET VALUATION</b>		<b>A\$m</b>	<b>A\$/sh</b>		
Galoc		75	0.07		
SC55		57	0.05		
Exploration		50	0.04		
Hedging		-	-		
Corporate		(12)	(0.01)		
Working Capital		5	0.00		
Unpaid Capital		-	-		
Debt		-	-		
Cash		38	0.03		
<b>Total @ 10% nom</b>		<b>214</b>	<b>0.19</b>		
<b>F/CAST PRODUCTION (A\$m)</b>	<b>2011a</b>	<b>DecH'11a</b>	<b>2012f</b>	<b>2013f</b>	<b>2014f</b>
<b>Attrib. Prod'n</b>					
Galoc (mmbbls)	0.5	0.1	0.2	0.4	0.6
Edirne (bcf)	0.3	-	-	-	-
Total Attrib (mmbbls)	0.5	0.1	0.2	0.4	0.6
<b>Assumptions</b>					
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
<b>Cash Cost inc. Royalties (A\$m)</b>					
Galoc	10.7	8.0	14.3	17.3	18.5
Edirne	0.6	-	-	-	-
Ave Cash Cost (A\$/boe)	20.8	82.2	63.3	41.7	30.1
Ave Total Cost (A\$/boe)	21.3	130.1	84.9	44.1	31.9
<b>RATIO ANALYSIS (A\$m)</b>	<b>2011a</b>	<b>DecH'11a</b>	<b>2012f</b>	<b>2013f</b>	<b>2014f</b>
CF (US\$m)	(6)	13	7	(24)	28
CF / Sh (Ac/sh)	(1)	1	1	(2)	2
CF Ratio (x)	na	-	22	na	6
Earnings (US\$m)	(6)	16	18	7	17
EPS (Ac/sh)	1	1	2	1	1
EPS Growth (%)	na	0%	39%	n/a	116%
Earnings Ratio (x)	7.7	-	8.5	21.2	9.8
E'prise Val. (A\$m)	65	65	124	164	152
EV : EBITDA (x)	5	-	4	7	4
EV : EBIT (x)	6	-	n/a	15	6
Net Debt / ND+Eq (%)	na	0%	na	11%	na
Interest Cover (x)	4	-	na	na	95
EBIT Margin (%)	50%	0%	41%	23%	41%
ROE (%)	20%	0%	23%	9%	17%
ROA (%)	16%	0%	22%	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%

<b>PROFIT AND LOSS (A\$m)</b>	<b>2011a</b>	<b>DecH'11a</b>	<b>2012f</b>	<b>2013f</b>	<b>2014f</b>
Oil Equivalent Sales	-	-	-	-	-
Hedging Revenue	-	-	-	-	-
Deferred Revenue	-	-	-	-	-
Interest Revenue	2	-	1	1	1
Other Revenue	23	41	52	46	58
<b>TOTAL REVENUE</b>	<b>24</b>	<b>41</b>	<b>52</b>	<b>47</b>	<b>59</b>
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	31	23	36
EBIT	11	20	21	11	24
Interest Expense	-	-	0	1	1
NPBT	13	20	22	10	24
Tax	-	4	4	3	7
Minorities	1	-	-	-	-
<b>NET PROFIT</b>	<b>13</b>	<b>16</b>	<b>18</b>	<b>7</b>	<b>17</b>
Net Abnormal Gain/(Loss)	1	-	-	-	-
<b>NET PROFIT After Abn'l</b>	<b>14</b>	<b>16</b>	<b>18</b>	<b>7</b>	<b>17</b>
<b>CASH FLOW (A\$m)</b>	<b>2011a</b>	<b>DecH'11a</b>	<b>2012f</b>	<b>2013f</b>	<b>2014f</b>
Net Profit	12	16	18	7	17
+ Working Capital Adj.	(17)	(14)	(14)	-	-
+ Dep/Amort	0	5	5	1	1
+ Provisions	0	5	5	11	11
+ Tax Expense	-	4	4	3	7
- Tax Paid	1	2	6	0	8
- Deferred Revenue	-	-	-	-	-
<b>Operating Cashflow</b>	<b>(5)</b>	<b>14</b>	<b>12</b>	<b>22</b>	<b>28</b>
-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	-	-
<b>Investing Cashflow</b>	<b>9</b>	<b>(11)</b>	<b>(19)</b>	<b>(61)</b>	<b>(15)</b>
+Equity Issues	3	-	-	-	-
+Loan D'down/Receivable	-	-	5	20	-
+Other	-	-	-	-	-
-Loan Repayment	0	-	-	-	16
-Dividends	-	-	-	-	-
<b>Financing Cashflow</b>	<b>3</b>	<b>-</b>	<b>5</b>	<b>20</b>	<b>(16)</b>
<b>Period Sur (Def)</b>	<b>6</b>	<b>3</b>	<b>(2)</b>	<b>(19)</b>	<b>(3)</b>
<b>Cash Balance</b>	<b>36</b>	<b>39</b>	<b>34</b>	<b>15</b>	<b>12</b>
<b>BALANCE SHEET (A\$m)</b>	<b>2011a</b>	<b>DecH'11a</b>	<b>2012f</b>	<b>2013f</b>	<b>2014f</b>
<b>Assets</b>					
Cash	36	39	34	15	12
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	96	122	119
<b>Liabilities</b>					
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	77	84	95
<b>RESERVES AND RESOURCES</b>					
		<b>Oil</b>	<b>Cond</b>	<b>Gas</b>	<b>Total</b>
		<b>mmbbls</b>	<b>mmbbls</b>	<b>bcf</b>	<b>mmbbls</b>
Galoc*		2.3			2.3
<b>Total</b>					<b>2.3</b>
<b>EV / boe (A\$)</b>					<b>50.3</b>
* Phase 1 reserves, Phase 2 FID pending - reserve addition to follow.					

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