

Otto Energy (OEL \$0.10) Buy

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Expansion into East Africa - Tanzania

Price Target: \$0.19/sh

Investment Case

OEL has acquired 50% interest in two Production Sharing Agreements with Swala Energy Ltd in Tanzania. A 12 mnth work program covering ~34,000km² of prospective acreage has been committed. We view this as a positive diversification to OEL's exploration portfolio, attractive fiscal terms complimented via early stage exploration potential. The long-term exploration upside is underpinned by near term production increases from Galoc Phases 1 & 2 and the high impact Cinco well (mid CY'12). We maintain a Buy recommendation and a price target of \$0.19/sh.

Key Points

- OEL has acquired 50% interest in two Production Sharing Agreements with Swala Energy Ltd in Tanzania.
- ~34,000km² of prospective acreage.
- A 12mnth exploration program including airborne and or magnetic surveying has been committed.
- Upon positive exploration results OEL can elect to conduct seismic exploration prior to any well commitment.
- Upon negative results OEL can elect to relinquish and exit from the PSA.
- OEL's exploration acreage portfolio has increased some 300% to ~50,820km².
- OEL's diversification into East Africa is viewed as positive, attractive fiscal term are well complimented via early stage exploration potential.
- OEL cash position ~US\$38million CY'11 end.

Analysis

OEL's entry into East Africa is viewed as positive. Significant exploration acreage (some 300% increase) provides the basis for long-term growth and value addition. Attractive fiscal terms offered by the Tanzanian government compliment the early stage exploration work requirement.

A 12 month airborne and or magnetic exploration survey has been committed by OEL. Upon completion OEL can elect to exit the PSA or move forward via seismic exploration or drilling campaign. The exit points inbuilt within the PSA limit exposure to large capital commitments associated with long term work programs.

We believe the current share price does not recognize value beyond the Galoc asset + cash. OEL's forward programs including; The Cinco well JV with BHPB, Galoc North, production enhancement, seismic exploration, and oil price uplifts are all potentials for significant upside.

The strong balance between production, appraisal and exploration within OEL's asset base, and upcoming CY'12 work program are all grounds for solid growth. Expansion and diversification into East Africa is viewed as positive. We maintain a price target of \$0.19/sh representing our current valuation: Buy.

Company Name (OEL)	Year end 30 June	
Share Price	0.10	A\$/sh
Price Target	0.19	A\$/sh
Methodology		npv
Valuation	0.19	A\$/sh (npv 10% nom)
Shares on issue	1138	m, diluted *
Market Capitalisation	114	A\$m
Enterprise Value	76	A\$m
Debt	0	A\$m
Cash	38	A\$m
Largest Shareholder	Molton Holdings 21.3%	

Production F'cast	2011a	2012f	2013f
Total Attrib (mmboe)	0.26	0.42	0.61
Ave Cash Cost (A\$/boe)	62.7	41.7	30.1
Ave Total Cost (A\$/boe)	64.6	42.9	30.9

Assumptions	2011a	2012f	2013f
Avg Oil Price - WTI (US\$/bbl)	90.9	100.0	100.0
Avg Gas Price - (US\$/mcf)	9.4	9.6	9.8
AUDUSD	1.02	1.00	0.95

Key Financials	2011a	2012f	2013f
Revenue (A\$m)	20	48	61
EBITDA (A\$m)	12	41	55
NPAT (A\$m)	1	19	30
Cashflow (A\$m)	1	-10	41
CFPS (Ac)	0	-1	3
P/CFPS (x)	149.6	na	2.9
EPS (Ac)	0	2	3
EPS growth (%)	-94%	n/a	48%
PER (x)	156.7	5.9	4.0
EV:EBITDA (x)	9.4	3.4	1.9
EV:EBIT (x)	n/a	4.7	2.4
DPS (Ac)	0.0	0.0	0.0
Dividend Yield (%)	0%	0%	0%