

Aurora Oil & Gas Ltd

(AUT \$0.75) Buy

18 June 2010

► **Price Target:** \$1.18

► **Reason For Update:** Capital Raising

► **What we know:**

AUT's \$35m placement has closed heavily over-subscribed.

Significant demand, lead to an up-scaled two tranche placement (up from \$24.75m), issuing 46.67m ordinary shares at \$0.75/sh.

The company will look to raise up to a further \$6m via issue of 8m shares at \$0.75/sh through SPP.

Funds will be applied to the recently revised forward drilling programme - designed to secure existing leaseholds under production - as well further incremental lease acquisition and general working capital.

The increased funding provides additional capacity in the event that continued drilling success further accelerates the programme.

The company has advised that an additional 6 wells will be drilled in CY'10, within the Sugarloaf AMI (AUT - 10%), plus potential for a second well at Ipanema AMI (AUT - 30%). Drilling will commence in July with the re-drill and completion of Kowalik-1 (Sugarloaf).

Similarly, the programme for CY11 has increased from 15 to 25 wells and will focus ostensibly upon the Longhorn AMI (AUT - 25%) with 17 wells planned, whilst 4 are to be drilled at Ipanema and Sugarloaf.

The operator, Hilcorp, have agreed to a JV with KKR & Co to develop Hilcorp's Eagleford Shale assets. KKR will tip in \$400m for a 40% stake; this highlights the increasing focus being provided to the Eagle Ford.

► **What we think:**

The capital raising ensures AUT's participation in a drilling programme that has been accelerated due some exceptional results that have established proof of concept and substantially de-risked the play.

We believe that results from the Turnbull wells (Longhorn AMI - AUT 25%) due shortly, provide a significant catalyst in the short term on account of the potential for even higher condensate to gas ratios (CGRs).

Concerted Sugarloaf drilling in the 2H CY'10 follows 'best-in-play' Initial Production (IP) and 30-day results, including Morgan-1H (30-day: 38.5kkbbls cond; 109mmmscf gas), Easely-1H (30-day: 12.2kkbbls cond; 126mmmscf gas) and Rancho Grande-1H's IP of 1200bopd and 3mmmscf/d on restricted choke.

These results are comparable and generally better, than those reported by EOG and Petrohawk from the oil window within the Eagle Ford, and auger well for 6 month payback.

A maiden reserve and revised resource statement is expected in July, which we expect to show both an overall increase in resources as well as significant conversion to reserves.

We have assumed issue of 54.67m shares on a fully subscribed basis and adjusted our cash balance accordingly to arrive at \$1.03/sh valuation.

Euroz Securities declares that it was mandated to act as Placement Agent to Aurora Oil & Gas Ltd for the purpose of the capital raising. Euroz Securities will receive a fee for these services.

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Our \$1.18/sh price target reflects the valuation metrics applied to Sugarloaf in ADI's target statement.

Strong results from the forward programme (particularly Longhorn) will give cause to reduce our 30% discount factor. Coupled with model economics benefitting from lower drilling costs (Euroz assumes US\$8m/well vs. current <US\$7m) and lower decline rates (as witnessed by Petrohawk) this would directionally move our valuation towards \$2/sh.

Corporate machinations are evident from heightening acquisition activity in the play – Shell, Talisman and Reliance have all recently entered the liquids-prone part of the Eagle Ford play.

▶ **Investment Case:**

AUT is now fully funded to participate in an accelerated drilling programme that has been driven by IP and production data that are some of the best reported in the Eagle Ford trend to date. We remain attracted by the leverage to the oil price that is offered via investment in AUT as well as the low risk and scalable growth to production and earnings in the medium term. Buy.

AURORA OIL & GAS LTD (AUT)		YEAR END 30 JUNE			
MARKET STATISTICS*					
Share Price	\$0.75 A\$/sh	Directors			
Issued Capital		J. Stewart	Exec. Chair'n		
FP Ord	275.2m	I. Lusted	Tech. Dir.		
Opt (@\$0.38/sh)	3.7m	G. Dowland	Non Exec Dir		
		G. Schoch	Non Exec Dir		
		M. Blakiston	Non Exec Dir		
Total Dil. FPOrd	278.9m				
Market Capitalisation	\$212m	Shareholders			
Enterprise Value	\$165m	Dir & Management		12.0%	
Debt	\$-m	CA Stewart		8.2%	
Cash	\$47m				
* Assumes placement and SPP totaling 55m shares at \$0.75/share					
ASSET VALUATION		A\$m	A\$/sh		
Sugarkane - Sugarloaf		50	0.17		
Sugarkane - Longhorn		158	0.55		
Sugarkane - Ipanema		44	0.15		
Exploration		1	0.00		
Corporate		(6)	(0.02)		
Unpaid Capital		5	0.02		
Debt		-	-		
Cash		47	0.16		
Total @ 10% nom		299	1.03		
If RSPT adopted or abandoned, impact on valuation:					
If RSPT unrisks					
		299	1.03		
If RSPT excluded					
		299	1.03		
F/CAST PRODUCTION (A\$m)		2010f	2011f	2012f	2013f
NRI Attrib. Prod'n (kbbls/bcf)					
Well Count		6	19	23	38
Sugarkane - Sugarloaf	cond.	-	9.8	133.5	146.3
	gas	-	0.1	0.9	1.6
Sugarkane - Longhorn	cond.	-	84.0	448.9	681.4
	gas	-	0.6	3.1	4.7
Sugarkane - Ipanema	cond.	-	12.6	102.0	172.3
	gas	-	0.1	0.7	1.2
NRI Total Attrib (mmbboe)		-	0.2	1.5	2.3
Assumptions					
Avg Oil Price (US\$/bbl)		76.1	87.5	90.0	90.0
Avg Oil Price Rec'd (US\$/bbl)		69.9	81.3	83.8	83.8
Avg Gas Price Rec'd (US\$/mcf)		4.9	5.0	5.1	5.2
US\$:A\$		0.89	0.88	0.87	0.85
RATIO ANALYSIS (A\$m)		2010f	2011f	2012f	2013f
CF (A\$m)		(3)	(21)	34	67
CF / Sh (Ac/sh)		(1)	(7)	12	23
CF Ratio (x)		(69.2)	(10.5)	6.4	3.3
Earnings (A\$m)		(4)	6	43	72
EPS (Ac/sh)		(1)	2	15	25
EPS Growth (%)		-73%	-248%	670%	67%
Earnings Ratio (x)		(57.4)	38.8	5.0	3.0
E'prise Val. (A\$m)		163	189	157	91
EV : EBITDA (x)		(74.7)	17.8	1.8	0.6
EV : EBIT (x)		(41.6)	28.5	2.4	0.8
Net Debt / ND+Eq (%)		-222%	-51%	-79%	-117%
Net Debt / Eq (%)		-69%	-34%	-44%	-54%
NTA / sh (A\$/sh)		0.24	0.27	0.46	0.79
Interest Cover (x)		21	10	n/a	n/a
EBIT Margin (%)		-1008%	47%	70%	71%
ROE (%)		-5%	7%	33%	31%
ROA (%)		-6%	8%	49%	47%
Div. (Ac/sh)		-	-	-	-
Div. payout ratio		-	-	-	-
Div. Yield		-	-	-	-
Div. Franking		-	-	-	-

PROFIT AND LOSS (A\$m)	2010f	2011f	2012f	2013f	
Sales Revenue	-	14	93	151	
Hedging Revenue	-	-	-	-	
Deferred Revenue	-	-	-	-	
Interest Revenue	0	2	2	3	
Other Revenue	0	-	-	-	
TOTAL REVENUE	1	16	95	155	
Operating Costs	1	1	3	4	
Dep/Amort	0	3	23	37	
O/H + New Bus Dev	2	2	3	3	
W/O & Provisions	2	1	1	1	
EBITDA	(2)	11	88	145	
EBIT	(4)	7	65	108	
Interest Expense	-	-	-	-	
NPBT	(4)	9	66	111	
Tax	-	3	23	39	
NPAT	(4)	6	43	72	
Minorities	-	-	-	-	
NET PROFIT	(4)	6	43	72	
CASH FLOW (A\$m)		2010f	2011f	2012f	2013f
Net Profit	(4)	6	43	72	
+ Working Capital Adj.	(0)	-	-	-	
+ Dep/Amort	0	3	23	37	
+ Provisions	2	1	1	1	
+ Tax Expense	-	3	23	39	
- Tax Paid	-	-	11	13	
Operating Cashflow	(2)	13	79	135	
-Capex + Development	1	33	45	69	
-Exploration	-	2	2	1	
-Assets Purchased	-	-	-	-	
+Asset Sales	-	-	-	-	
+Other	0	-	-	-	
Investing Cashflow	(1)	(35)	(47)	(70)	
+Equity Issues	45	-	-	-	
+Loan D'down/Receivable	-	-	-	-	
+Other	-	-	-	-	
-Loan Repayment	4	-	-	-	
-Dividends	-	-	-	-	
Financing Cashflow	41	-	-	-	
Period Sur (Def)	38	(23)	32	66	
Cash Balance	49	26	58	124	
BALANCE SHEET (A\$m)		2010f	2011f	2012f	2013f
Assets					
Cash	49	26	58	124	
Current Receivables	1	1	1	1	
Other Current Assets	-	-	-	-	
Non-Current Assets	22	51	73	105	
Total Assets	71	78	132	230	
Liabilities					
Borrowings	-	-	-	-	
Current Accounts Payable	0	0	0	0	
Non-Current Liabilities	-	-	-	-	
Other Liabilities	-	-	-	-	
Total Liabilities	0	0	0	0	
Net Assets	71	78	132	229	
OIL & GAS CONTINGENT RESOURCES (1C)					
	Oil	Gas	Total		
	mmbbls	bcf	mmbboe		
Sugarkane	17.0	100.0	32.2		
Total	17.0	100.0	32.2		
EV / boe (A\$)				5.1	

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