

ICON ENERGY LIMITED (ICN)

Will the rubber hit the road?

Icon Energy Limited (ICN) and its joint venture partners in the ATP 855 (Beach Energy 46.9% and operator, ICN 35.1% and Chevron 18%) have now completed the six (vertical) well drill programs. The next stage of the work program is the fracture stimulation and production testing of the six wells. This is expected to begin sometime in 2H CY14 and will determine the commercial viability of project. This will be a significant catalyst for the ICN share price but may not come until 2015. We maintain our Speculative Buy on the stock with a target price of 0.23c.

Redland-1 and Ety-1 now complete, both with gas shows

Since the beginning of 2014 the final two wells in the current ATP 855 well program have been completed. The Redland-1 well was drilled to a total depth of 3,804m to test the Daralingie and Toolachee Formations. Both formations exhibit significant gas shows and confirm the continuation of the basin centred gas play in the Nappamerri Trough. The Ety-1 well was drilled to a depth of 3,665m into the top of the Patchawarra Formation. The well encountered gas shows at several intervals.

4-well fracture stimulation to begin in 2H CY14

Based on market releases from Beach Energy (BPT), the four-well stimulation campaign will begin in 2H CY14. The program will test various target zones within the Hervey-1, Geoffrey-1, Redland-1 and Ety-1 wells. The priority will be on optimising recoveries by determining the most productive zones and optimal fracturing plan. We estimate the cost net to ICN of this program will be A\$12m. The success or failure of this program will then lead into a decision by Chevron to proceed to Phase 2 of the farm in. This will involve a payment of A\$36m to BPT for an additional 18%.

Iconic Tenements in the Cooper Basin

ICN's key asset is a 35.1% interest in the ATP-855 block located in the Cooper Basin. ICN's partners in the block are Beach Energy (BPT) (46.9% and operator) and Chevron (18%). Other interests include unconventional exploration tenements targeting the Gippsland Basin (PEP 170).

An infrastructure advantage

The close proximity of the ATP-855 to gas pipelines and processing plants means ICN's hurdle to a commercial success is significantly reduced. ICN has both a raw gas pipeline (West to gas processing plant) and a sales gas pipeline (East to gas markets in Adelaide, Brisbane and Sydney) running through its Cooper Basin acreage.

Valuation and recommendation

A very simplistic valuation of ICN involves the look through value of ATP-855 based on the recent farm in agreements. Beach Energy paid ICN US\$18m for a 4.9% stake in the block in June 2013. Based on this transaction ICN remaining 35.1% interest in the block has a look through value of A\$135m or 23c/share. In our view it is too early to conduct a full field development model. We maintain our Speculative Buy on the stock.

10 Apr 2014

Share Price:	\$0.150
Price Target:	\$0.23

Brief Business Description:

Exploration, appraisal and development of oil and gas properties both conventional and non-conventional.

Investment Summary:

ICN offers investors exposure to the developing Cooper Basin unconventional exploration story.

Chairman & CEO:

Mr. Stephen Barry (Chairman)
 Mr. Raymond James (Managing Director)

Top Shareholders:

HK Prosperous Technology Limited	13.0%
Citigroup Nominees Pty Limited	8.6%

Company Address:

4 Miami Key
 Broadbeach Waters, QLD, 4101

Issued Capital:	615.8m
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- fully diluted	620.8m
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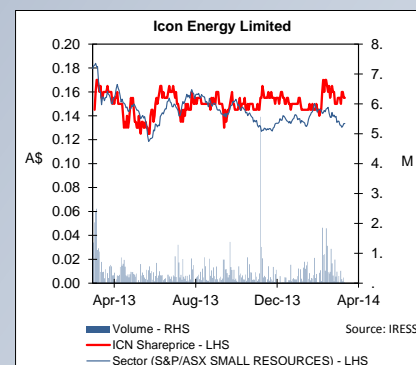
Market Cap:	\$92.4m
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- fully diluted	\$93.1m
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Cash (Dec 13):	\$35.6m
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Debt (Dec 13):	\$0.0m
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Source: Hartleys Research



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SUMMARY MODEL

Icon Energy Limited ICN				Share Price \$0.150	Apr-14 Speculative Buy				
Key Market Information					Directors				
Share Price				\$0.150	Mr.Stephen Barry			Non Executive Chairman	
Market Capitalisation				\$92m	Mr.Raymond James			Managing Director	
Cash				\$36.2m	Dr.Kevin Jih			Chief Financial Officer	
Debt				0.0m	Mr.Derek Murphy			Non Executive Director	
Issued Capital				615.8m	Dr.Keith Hillless AM			Non Executive Director	
Unvested 2012-13 LTI Performance Rights				2.7m	Mr.Howard Lu			Non Executive Director	
Issued Capital (fully diluted performance rights)				618.5m					
Issued Capital (fully diluted all options)				620.8m					
EV				\$56.2m					
Valuation				\$0.23					
Projects					Substantial Shareholders				
	Interest	Major Partners	Net acres			m shs		%	
ATP-855	35.1%	Beach Energy 46.9%	145,314		HK Prosperous Technology Limited	80		13.0%	
ATP-549	33.3%	Drillsearch	303,168		Citigroup Nominees Pty Limited	53		8.6%	
ATP-560	50.0%	Lake Oil	37,956		Ray James	22		3.6%	
ATP-626	100.0%		549,562		Howard Lu	16		2.6%	
ATP794	65.0%	Victoria Petroleum	853,687		Taiwan Fructose Co Limited	9		1.5%	
PEL218	33.3%	Beach Energy	131,941						
PEP170	100.0%		198,672						
					Investment Summary				
					Icon Energy's activities include the exploration, appraisal and development of oil and gas properties focused primarily on the Cooper Basin. Over the next 12 months the work program on the ATP-855 block will dominate news flow for ICN.				
					Quarterly Cash Burn (A\$k)				
					Corporate Overheads	Capex	Other	Total Cash Burn	
					Sep-12	-1,288	-734	65	-1,957
					Dec-12	-2,315	-1,703	17,605	13,587
					Mar-13	-1,312	-113	2,806	1,381
					Jun-13	-923	-4,651	19,005	13,431
					Sep-13	-1,064	-6,731	546	-7,249
					Dec-13	-2,045	-4,044	15,756	9,667
					Forecast				
					Mar-14	-1,300	-9,500	0	-10,800
Analyst: Simon Andrew Phone: 618 9286 3020					Last Updated: 10/04/2014				
Sources: IRESS, Company Information, Hartleys Research									

VALUATION

The look through value of recent farm outs values ICN's 35.1% stake in the ATP-855 at 23c/share

VALUATION

The simplest way to value ICN is the look through value of the ATP-855 given the two recent farm-in agreements. In June Beach paid ICN US\$18m for a 4.9% stake in the block. This values ICN's 35.1% stake at US\$128m (A\$122m) or 23c/share. The Beach farm-down to Chevron values ICN's stake at 24c/share.

An assessment of the in ground hydrocarbon value is a far more difficult proposition. Given the JV is still in the early stage of assessing a 6 well drill program any reserve estimates will need to be aggressively discounted.

ICN is fully funded for the CY14 exploration program on the ATP-855

INVESTMENT CONCLUSION

ICN offers investors exposure to the developing Cooper Basin unconventional exploration story. The company has managed to farm-down to two strong partners in Beach Energy (Operator) and Chevron. As with any exploration story there is significant uncertainty until the flow testing is complete and an assessment of commercial viability is complete.

RISKS

The risks to our investment thesis are both specific to ICN but also to the macro in nature.

By definition exploration is risky. Even within known gas bearing zones commercial flow rates may not be achieved because of poor reservoir quality governed by localised geology.

We have assumed total field capex in CY2014 of A\$60m. This would equate to a capex budget for ICN of A\$21m for CY14.

The cost of drilling and limited infrastructure mean the hurdle to achieve a commercial gas project is much higher in Australia than in other parts of the world. This means gas producers are at risk even from a modest fall in the domestic gas price.

The unconventional assets do not have a long term production history; as such decline curves and long term production rates are not as well understood as conventional wells. The general nature of unconventional wells in the US is an aggressive production decline curve. This results in operators having to maintain an aggressive drill program in order to replenish lost production

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Hartleys Recommendation Categories

Buy	Share price appreciation anticipated.
Accumulate	Share price appreciation anticipated but the risk/reward is not as attractive as a “Buy”. Alternatively, for the share price to rise it may be contingent on the outcome of an uncertain or distant event. Analyst will often indicate a price level at which it may become a “Buy”.
Neutral	Take no action. Upside & downside risk/reward is evenly balanced.
Reduce / Take profits	It is anticipated to be unlikely that there will be gains over the investment time horizon but there is a possibility of some price weakness over that period.
Sell	Significant price depreciation anticipated.
No Rating	No recommendation.
Speculative	Share price could be volatile. While it is anticipated that, on a risk/reward basis, an investment is attractive, there is at least one identifiable risk that has a meaningful possibility of occurring, which, if it did occur, could lead to significant share price reduction. Consequently, the investment is considered high risk.

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