

Icon Energy

Riding the Cooper wave

Having exercised an option in June to sell a 4.9% stake of its Cooper Basin permit to major Beach Energy, Icon has near-doubled its cash position to A\$33m. That money is needed to fund its share of an extensive work programme to validate a potentially significant shale play in 2013-14.

Year end	Revenue (A\$m)	EBITDA (A\$m)	PBT (A\$m)	Debt (A\$m)	Net cash (A\$m)	Capex (A\$m)
06/11	0.0	(7.8)	(6.7)	(3.7)	18.4	(3.1)
06/12	0.0	(5.6)	(5.3)	(3.5)	9.4	(6.3)
06/13a/e	0.0	(5.4)e	(12.7)e	0.0	33.2	(4.7)
06/14e	0.0	(5.2)	(14.2)	N/A	5.8	N/A

Source: Company data, Bloomberg consensus

Assets: Cooper, Surat, Gippsland niche player

Icon holds stakes in 13 exploration permits in the Cooper, Surat and Gippsland basins. Its main recent focus has been on its Cooper Basin interests, in particular ATP855P, where in October it drilled the Halifax-1 well with partner Beach Energy, discovering what the JV concluded to be the largest gas interval uncovered to date in Australia. Initial flow rates of up to 4.5mmscf/d sparked much optimism. However, a faulty wellhead temperature gauge resulted in flow being under-constrained during testing. Now remedied, flow rates have retreated to c 1.1mmscf/d. From Halifax, Icon plans to release a maiden 2C resource during Q313.

Challenges: Validating deep Cooper gas

Halifax-1 is the first JV well to validate a basin-centred gas play in the Nappamerri Trough in ATP855P. In adjoining PEL218 operated by Beach, GIP has been estimated at 300tcf and a contingent resource of 1.3tcf booked. In February 2013, Beach announced the farm-in of Chevron to PEL218 and ATP855P in a US\$349m deal structured over two stages and a number of years. In lieu of JV pre-emptives, Beach and Icon agreed a put option under which Beach would pay Icon US\$18m cash for 4.9% of Icon's existing 40% stake if Icon elected before 30 June 2013. In mid-June, Icon did so, triggering the put. The metrics of the option place the value of Icon's residual 35.1% ATP855P stake at US\$129m (A\$141m).

Outlook: Cooper newsflow to dominate

Although Beach and Chevron's assessment of the play is clearly positive, much work remains to prove commerciality in what remains a promising but early-stage shale opportunity. The ATP855P JV has signalled a seven-well, 18-month drilling programme. The first two wells, Hervey-1 and Keppel-1, were recently completed and encountered gas. Each will likely be re-entered during H213. With c \$33m cash on hand, Icon is well placed to fund its share of the programme. However, with the wells being deep (4-5km) and stimulation cycles planned for four of the wells, the full programme would account for much of current cash held. Elsewhere, Icon's activities in the Gippsland Basin have been deferred while the moratorium on fracking in VIC remains in place. In the Surat, Icon's JV partner advised in July of its intention to exit the permit, passing 100% ownership to Icon.

Price

A\$0.135*

Market cap

A\$72m

*as at 9 August 2013

Net cash at 30 June 2013	A\$33m
Shares in issue	533.4m
Free float	83.5%
Code	ICN
Primary exchange	ASX
Secondary exchange	N/A

Share price performance



52-week high/low A\$0.29 A\$0.13

Business description

Icon holds stakes in permits totalling 5.5m acres spanning the Cooper, Surat and Gippsland Basins. Its main current focus is its Cooper Basin interests, where it is in a JV with Beach Energy and Chevron.

Catalysts/next events

ATP855P 2C resource estimate	Q313
Halifax-1 testing results	H213
Hervey-1 & Keppel-1 re-entries	H213

Analysts

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Evaluation criteria

	Exposure	Comment
Risk potential based on ★ low risk/key strength, ★★ medium risk, ★★★ high risk/weakness.		
Management and operational partners	★★	ATP855P JV partners Beach and Chevron bring with them exceptional depth of experience and capability with comparable shale plays, both in Australia and globally. Otherwise, Icon operates relatively independently with its other permits.
Subsurface understanding/complexity	★★	Accepted exploration risk aside, the Cooper, Gippsland and Surat basins are each mature and well understood plays. Understanding of unconventional Cooper prospectivity (shale, tight) remains lower, but is the subject of an aggressive work programme.
Portfolio balance/upside potential	★★	While production testing at Halifax-1 continues, Icon is not yet producing on a commercial basis. In mature basins, Icon's plays are each at a relatively early stage. Offsetting this is the upside potential of Icon's Cooper Basin play, particularly if the commerciality of the mapped Patchawarra, Murteree, Epsilon and Roseneath continuous formations is eventually proven.
Infrastructure	★	Each of Icon's Cooper, Surat and Gippsland positions are very well serviced by existing processing, handling and transmission infrastructure.
Financial strength/discipline	★★	With c \$33m net cash on hand, Icon's balance sheet is strong and well placed to fund its pro rata share of ATP855P deep gas programme through 2013-14.

Key onshore Australian assets



Reserves and resources

	2P reserves				2C resources			
	Oils mmbbl	LPG kt	Gas PJ	Total mmbbl	Oils mmbbl	LPG kt	Gas PJ	Total mmbbl
Onshore Australia	*	*	*	*	*	*	*	*
Offshore Australia	*	*	*	*	*	*	*	*
Other countries	*	*	*	*	*	*	*	*
Total	*	*	*	*	*	*	*	*

Note: *Not applicable.

Onshore Australia permit titles

Basin/ permit	Permit/ prospect	Interest (%)	Gross km ²	Operator	Basin/ permit	Permit/ prospect	Interest (%)	Gross km ²	Operator
Cooper / Eromanga	PEL218	33.3%	1,602	Beach	Surat	ATP626P	100.0%	2,224	Icon
	ATP560	50.5%	86	Icon		ATP849P	80.0%	3,854	Icon
	ATP549	33.3%	964	Drillsearch	Gippsland	PEP170	100.0%	804	Icon
	ATP794	60.0%	5,315	Icon		PEP172	100.0%	1,312	Icon
		75.0%				PEP173	100.0%	1,220	Icon
	ATP594P	50.0%	1,538	Icon					
ATP855P	35.1%	1,674	Beach						

Source: Company announcements, Edison Investment Research