

28 Oct 2014

ICON ENERGY LIMITED (ICN)

Waiting for flow test results, Sep Q cash

The next few months will be pivotal to the exploration program in ATP-855 (ICN 35.1%). So far two of the four wells have been fracture stimulated across multiple zones with flow testing expected to commence in late October. The results of these flow tests will be an important step in de-risking the project and hopefully will be a precursor to Chevron (18%) deciding to move to Phase 2 of the farm-in. We maintain our Speculative Buy recommendation on the stock with a target price of 23cps.

The ATP-855 stimulation program

The four well stimulation program with Beach Energy (BPT) as the operator is designed to test a range of target zones within the Nappamerri Trough. The Hervey-1 well has been stimulated over 5 zones with flow testing expected to commence in late October. The Ety-1 stimulation will test 4 zones across the Toolachee and Darlingie formations.

The release of initial flow rates after each well has been stimulated could be a significant catalyst for the stock price. We estimate the cost net to ICN will be A\$10m (paying 35.1%). 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%. BPT will notify Chevron once the work program for Phase 1 has been complete after which Chevron must decide to proceed to Phase 2 by 31st March 2015.

Other activity – ATP 594, PEL 626

In September 2014 ICN was awarded the remaining 50% interest in ATP 594. Subject to completion of native title negotiations ICN will start planning a seismic and drilling program. ICN have announced the relinquishment of a large portion of ATP 626 located in the Surat Basin (Southern Queensland).

Quarterly cash flow

At the end of the September Quarter ICN had a cash balance of A\$21m after reporting a net cash inflow of A\$1.5m for the period. Also noteworthy was the receipt of A\$7.4m tax rebate associated with ICN's research and development (R&D) spending during FY13. ICN is preparing a similar claim for R&D spend in FY14.

ATP 855 – P50 of 28Tcf

As was previously announced by the JV partners, ATP 855 has a best estimate (P50) of 28Tcf of Gross Unconventional Prospective Raw Natural Gas Resource, of which ICN's net position is 10Tcf. The P50 estimate puts ICN on track to achieve 2P reserves of 2Tcf (net). It should be remembered that prospective estimates have no certainty of discovery or commercial viability. 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

Share Price:	\$0.135
Price Target:	\$0.230

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	8.4%

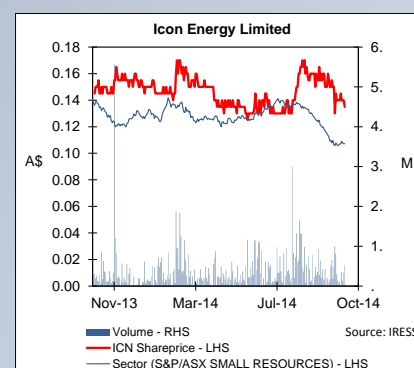
Company Address:

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 Broadbeach Waters, QLD, 4101

Issued Capital:	615.8m
- fully diluted	625.9m
Market Cap:	\$83.1m
- fully diluted	\$84.5m

Cash (Current):	\$21.1m
Debt (Current):	\$0.0m

Source: Hartleys Research



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SUMMARY MODEL

Icon Energy Limited ICN				Share Price \$0.135	Oct-14 Speculative Buy
Key Market Information					
Share Price				\$0.135	
Market Capitalisation				\$83m	
Cash (last Quarterly Report)				\$21.1m	
Debt				0.0m	
Issued Capital				615.8m	
Unvested 2012-13 LTI Performance Rights				2.7m	
Issued Capital (fully diluted performance rights)				618.5m	
Issued Capital (fully diluted all options)				625.9m	
EV				\$62.0m	
Valuation				\$0.23	
Projects	Interest	Operator	Km sq		
ATP-855	35.1%	Beach Energy	1,674		
PRLs 33-40	33.3%	Beach Energy	1,602		
ATP 594	100.0%	Icon	1,538		
ATP-549 West	33.3%	Drillsearch	445		
ATP 794	60.0%	Icon	2,179		
PEP 170	100.0%	Icon	808		
PEP 171	100.0%	Icon	1,312		
PEP 172	100.0%	Icon	1,220		
ATP 626P	100.0%	Icon	741		
Directors					
Mr.Stephen Barry					Non Executive Chairman
Mr.Raymond James					Managing Director
Dr. Kevin Jih					Chief Financial Officer
Mr.Derek Murphy					Non Executive Director
Dr.Keith Hillless AM					Non Executive Director
Mr.Howard Lu					Non Executive Director
Substantial Shareholders				m shs	%
HK Prosperous Technology Limited				80	13.0%
Citigroup Nominees Pty Limited				53	8.4%
Ray James				22	3.6%
Howard Lu				16	2.6%
HSBC Custody Nominees (Australia)				9	1.51%
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 Flow (A\$K)					
	Dec-13	Mar-14	Jun-14	Sep-14	
Exploration	-4,044	-6,397	-7,283	-3,427	
Administration	-2,045	-1,847	-1,125	-2,611	
Other	262	31	318	7,560	
Cash flow from operations	-5,827	-8,213	-8,090	1,522	
Capex	0	-424	100	-20	
Other	45	124	0	0	
Cash flow from Investing	45	-300	100	-20	
Proceeds from financing	15,449	487	0	0	
Other	0	0	0	0	
Cash flow from financing	15,449	487	0	0	
Cash beginning	25,954	35,621	27,595	19,605	
Net change in cash	9,667	-8,026	-7,990	1,502	
Cash end	35,621	27,595	19,605	21,107	
Analyst: Simon Andrew Phone: 618 9286 3020				Last Updated: 28/10/2014	
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 2013 farm-in agreements. In 2013 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. Alternatively, if we assign a 25% probability of success to 3.5Tcf (Gross) at 50c/GJ, we arrive at a value of 26cps. We maintain our Speculative Buy on the stock with a target price of 23cps.

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.

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 Buy	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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