

Comet Ridge (COI)

Rating: Buy | Risk: High | Price Target: \$0.40

Drilling and reserve catalysts coming up

Key Information

Current Price (\$ps)	0.24
12m Target Price (\$ps)	0.40
52 Week Range (\$ps)	0.08 - 0.29
Target Price Upside (%)	66.7%
TSR (%)	66.7%
Reporting Currency	AUD
Market Cap (\$m)	148
Sector	Energy
Avg Daily Volume (m)	0.8
ASX 200 Weight (%)	0.01%

Fundamentals

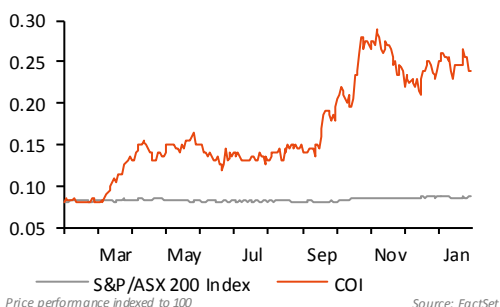
YE 30 Jun (AUD)	FY17A	FY18E	FY19E	FY20E
Sales (\$m)	0	0	0	0
NPAT (\$m)	(4)	(3)	(3)	(3)
EPS (cps)	0.0	(0.5)	(0.5)	(0.5)
EPS Growth (%)			1.1%	1.1%
DPS (cps) (AUD)	0.0	0.0	0.0	0.0
Franking (%)	100%	100%	100%	100%

Ratios

YE 30 Jun	FY17A	FY18E	FY19E	FY20E
P/E (x)	nm	(50.2)	(50.8)	(51.3)
EV/EBITDA (x)	(22.0)	(50.5)	(53.8)	(54.8)
Div Yield (%)	0.0%	0.0%	0.0%	0.0%
Payout Ratio (%)	nm	0.0%	0.0%	0.0%

Price Performance

YE 30 Jun	1 Mth	2 Mth	3 Mth	1 Yr
Relative (%)	3.3%	(4.2%)	(15.9%)	174.0%
Absolute (%)	4.3%	(2.0%)	(12.7%)	182.4%
Benchmark (%)	1.0%	2.2%	3.2%	8.4%



Major Shareholders

MCKAY JAMES ALLAN VINCENT	6.0%
Brixia Investments Ltd.	4.1%
GILBY ANTHONY RECHKA	3.8%
Villiers Queensland Pty Ltd.	3.1%
Norfolk Enchants Pty Ltd.	2.6%

Event

December Quarter Activity report and outlook for Q2. There are no changes to our earnings estimates or \$0.40 target price.

Highlights

- COI has no production or revenue. It is focused on appraisal and bringing to production the Mira/Mahalo coal seam gas (CSG) field in Queensland's Surat-Bowen basin. COI has a 40% interest in this, with APLNG and Santos 30% each.
- At December 31, the cash position was A\$13.8M, with nil debt. Capex in the quarter was \$2.4M to complete the Mira wells and hook-up surface facilities for de-watering and gas production. During the quarter, COI issued 56m shares at 23.5c, by way of placement and SPP, raising a total of A\$12.6M net of costs, to fund planned 2018 exploration activity.
- At the Mira CSG pilot project, 4 wells have been re-completed, with gas rates steadily increasing as the wells de-water. The 2017 work program is complete and included under-reaming and completion of vertical wells Mira 3,4 and 5, and drilling Mira6 horizontal well to intersect Mira2 vertical well-bore with the objective of accelerating the de-watering process.
- Reserve and resource bookings, which the company expects at the completion of the testing and appraisal phase, have yet to be concluded. The last well (Mira6-horizontal) only commencing de-watering on December 10, with gas flows two days later, so it will take time to gather and assess all the data. COI advise that it will provide a further performance update in early February and results from the completed work program are expected to add "significant" reserves in the first quarter of 2018.
- The company targets a reserve conversion of 200 PJ. Reserve upgrades would deliver a step-wise increase in value, some of which is already impounded in our view. We figure around ~100 PJ is already in the price, but this is a subjective assessment. The key objective for COI, is to elevate rates and reserves to a level to justify commercial production, initially through the pre-existing pipeline 14km to the east. The pipeline connects the Surat Basin to domestic gas and LNG hubs at Gladstone and the south.
- Upcoming is conventional gas exploration in the Galilee basin, following farm-out to E&P start-up, Vintage Energy. Vintage will contribute \$8.5M to earn up to 30%, in a two-stage farm-in commencing with the drilling of a well Albany#1. Equipment has been ordered and a rig contract is expected to be signed in February, with drilling to commence shortly thereafter. The Albany prospect is a conventional gas target, designed to follow-up on gas shows recorded at a nearby well, Lake Carmichael#1, which was drilled by previous license owners in 1995. The Albany target has a 3C resource estimate of 417 PJ.
- Although progress in the Surat basin at Mira is of primary interest to investors, COI is exposed to two other gas resource regions. In the Galilee basin, success at the Albany well could catalyse a re-rating of the region in general. In NSW, there are encouraging signs that the various CSG operators may win stakeholder support needed to kick-start activity. We think acreage in the Galilee and central NSW are sleeper assets

Recommendation

We retain a Buy and 40c price target. COI is reasonably well capitalised (vs peers) has a very large uncommitted resource base of >3200 PJ, and there are immediate catalysts in the form of reserve / resource upgrades at Mira, and drilling at Albany in Q2.

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Comet Ridge

Energy

Energy

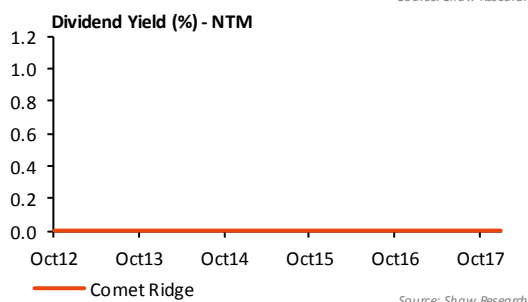
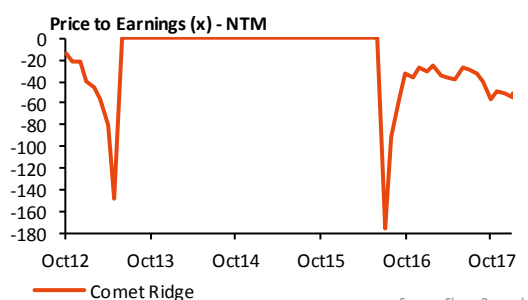
FactSet: COI-AU / Bloomberg: COI AU

Key Items	Data
Recommendation	BUY
Risk	HIGH
Price (\$ps)	0.24
Target Price (\$ps)	0.40
52 Week Range (\$ps)	0.08 - 0.29
Shares on Issue (m)	618
Market Cap (\$m)	148
Enterprise Value (\$m)	151
TSR (%)	66.7%

Valuation NPV	Data
Valuation (\$m)	246
Valuation per share (cps) (AUD)	0.40

Company Description

Comet Ridge is an exploration company with gas reserves and resources and prospective acreage in eastern Australia.



Financial Year End: 30 June

Investment Summary (AUD)	FY16A	FY17A	FY18E	FY19E	FY20E
EPS (Reported) (cps)	(0.7)	(0.6)	(0.5)	(0.5)	(0.5)
EPS (Underlying) (cps)	0.0	0.0	(0.5)	(0.5)	(0.5)
EPS (Underlying) Growth (%)				1.1%	1.1%
PE (Underlying) (x)	nm	nm	(50.2)	(50.8)	(51.3)
EV / EBIT (x)	(7.7)	(20.7)	(50.1)	(53.4)	(54.5)
EV / EBITDA (x)	(8.4)	(22.0)	(50.5)	(53.8)	(54.8)
DPS (cps) (AUD)	0.0	0.0	0.0	0.0	0.0
Dividend Yield (%)	0.0%	0.0%	0.0%	0.0%	0.0%
Franking (%)	100%	100%	100%	100%	100%
Payout Ratio (%)	nm	nm	0.0%	0.0%	0.0%
Profit and Loss (AUD) (m)	FY16A	FY17A	FY18E	FY19E	FY20E
Sales	0	0	0	0	0
Other Operating Income	0	0	0	0	0
EBITDA	(3)	(3)	(3)	(3)	(3)
EBITDA Margin (%)	nm	nm	nm	nm	nm
Depreciation & Amortisation	(0)	(0)	0	0	0
EBIT	(4)	(4)	(3)	(3)	(3)
EBIT Margin (%)	nm	nm	nm	nm	nm
Net Interest	0	0	(0)	(0)	(0)
Pretax Profit	(4)	(4)	(3)	(3)	(3)
Tax	0	0	0	0	0
Tax Rate (%)	0.0%	0.0%	0.0%	0.0%	0.0%
Minorities	0	0	0	0	0
NPAT Underlying	(4)	(4)	(3)	(3)	(3)
Significant Items	0	0	0	0	0
NPAT Reported	(4)	(4)	(3)	(3)	(3)
Cashflow (AUD) (m)	FY16A	FY17A	FY18E	FY19E	FY20E
EBIT	(4)	(4)	(3)	(3)	(3)
Payments to Suppliers	(2)	(1)	(3)	(3)	(3)
Receipts from Customers	0	0	(0)	(0)	(0)
Tax Paid	0	0	0	0	0
Net Interest	0	0	0	0	0
Depreciation & Amortisation	0	0	0	0	0
Operating Cashflow	(2)	(1)	(3)	(3)	(3)
Capex	(3)	(2)	(6)	(5)	(5)
Acquisitions and Investments	0	0	0	0	0
Disposal of Fixed Assets/Investments	0	0	0	0	0
Other	0	0	0	0	0
Investing Cashflow	(3)	(2)	(6)	(5)	(5)
Equity Raised / Bought Back	0	7	13	0	7
Dividends Paid	0	0	0	0	0
Change in Debt	0	0	0	0	0
Other	0	0	0	0	0
Financing Cashflow	0	7	13	0	7
Exchange Rate Effect	0	0	0	0	0
Net Change in Cash	(4)	4	4	(8)	(1)
Balance Sheet (AUD) (m)	FY16A	FY17A	FY18E	FY19E	FY20E
Cash	2	6	10	2	1
Accounts Receivable	0	1	0	0	0
Inventory	1	1	1	1	1
Other Current Assets	0	0	0	0	0
PPE	41	44	50	54	59
Investments	0	0	0	0	0
Other Non Current Assets	0	0	0	0	0
Total Assets	44	51	60	57	61
Accounts Payable	0	2	0	0	0
Short Term Debt	0	0	0	0	0
Long Term Debt	0	0	0	0	0
Income Taxes Payable	0	0	0	0	0
Other	14	17	16	16	16
Total Liabilities	15	18	16	16	16
Total Shareholder Equity	29	33	44	41	44
Ratios	FY16A	FY17A	FY18E	FY19E	FY20E
ROIC (%)	0.0%	0.0%	0.0%	0.0%	0.0%
Gearing (%)	(5.8%)	(22.6%)	(30.5%)	(5.3%)	(1.7%)
Net Debt / EBITDA (x)	0.5	1.8	3.4	0.7	0.2
Price to Book (x)	1.0	2.4	3.7	4.0	3.7

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Rating Classification

Buy	Expected to outperform the overall market
Hold	Expected to perform in line with the overall market
Sell	Expected to underperform the overall market
Not Rated	Shaw has issued a factual note on the company but does not have a recommendation

Risk Rating

High	Higher risk than the overall market – investors should be aware this stock may be speculative
Medium	Risk broadly in line with the overall market
Low	Lower risk than the overall market

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