

29 May 2018

Australia

EQUITIES

COI AU	Not rated	
Stock price as of 28/05/2018 A\$	A\$0.370/sh	
GICS sector	Energy: Oil & Gas E&P	
Market cap	A\$m	A\$250m
Avg Value Traded (3m)	A\$m	A\$0.2m
12m high/low	A\$	A\$0.115-0.375

Historical financials

YE Dec (A\$m)	2015A	2016A	2017A
Revenue	-	-	-
% growth	<i>nmf</i>	<i>nmf</i>	<i>nmf</i>
EBITDA	(2.4)	(1.7)	(1.4)
% growth	15%	29%	15%
EPS	(0.1)	(0.0)	(0.0)
% growth	(18%)	61%	14%

Source: Company data, FactSet, May 2018

Share Price Driver

Thematic
<b>Growth</b>
Value
Event

Source: Macquarie Research, May 2018



Source: FactSet, May 2018

## MacVisit: Comet Ridge Uncontracted East Coast gas

### Key points

- ▶ We met with COI at the APPEA conference, discussing the Mahalo CSG project and early-stage appraisal work in the Galilee Basin.
- ▶ COI are targeting FID by end-2018 on Mahalo (COI 40%), with initial volumes expected to reach ~25TJ/d, and upside potential to >100TJ/d.
- ▶ The Galilee Basin JV with Vintage are currently drilling the first appraisal well.

- We met with the management team of Comet Ridge (COI.AU, Mkt Cap: A\$250m) at the APPEA conference in Adelaide, discussing the Mahalo CSG Project and potential Galilee Basin opportunities.

### Company overview

- COI is an Australian E&P focused on the Australian east coast gas market. Its 40% interest in the Mahalo CSG asset, in the **southern Bowen Basin** (QLD), holds a net **uncontracted** 2P reserve of ~173PJ (gross ~430PJ) with JV partners APLNG (30%) and Santos (STO AU, A\$5.68, Neutral, TP: A\$5.85) (30%). Final Investment Decision (FID) is expected in late 2018.
- In early 2017 COI negotiated with STO to assume the risk and responsibility for the 2017 exploration program at Mahalo. This covered STO's share of the gross A\$5m budget, despite STO holding exploration operator status. STO were to be cash-called if gross 2P reserves reached 334PJ, which was achieved, under-budget, in March'18. Volumes from the Mira-6/2 well achieved >1mmscf/d from initial testing, and are targeting 1.2-1.3mmscf/d.
- COI also have large acreage positions in the lightly explored **Galilee Basin** (QLD) and in the **Gunnedah Basin** (NSW), north of STO's Narrabri asset. Short-term activity is targeting the Galilee Basin's ~153PJ conventional 2C resource, with potential upside from the shallower CSG targets.

### Growth

- The company are working towards a first phase of ~25TJ/d from the northern area of the Mahalo block, tying in to the underutilised ~30TJ/d Rolleston spur line. COI have a larger development plan to increase volumes to >100TJ/d, building a gas plant, and a pipeline to either Jemena or GLNG. However, this is proposal is still subject to JV approvals.
- In March'18, the company farmed-out a 30% interest in the Galilee Basin conventional sandstone targets to Vintage Energy for a A\$8.5m carry. Drilling is underway on the first well in this target, Albany-1. However, COI have retained 100% of the Galilee Basin CSG targets.

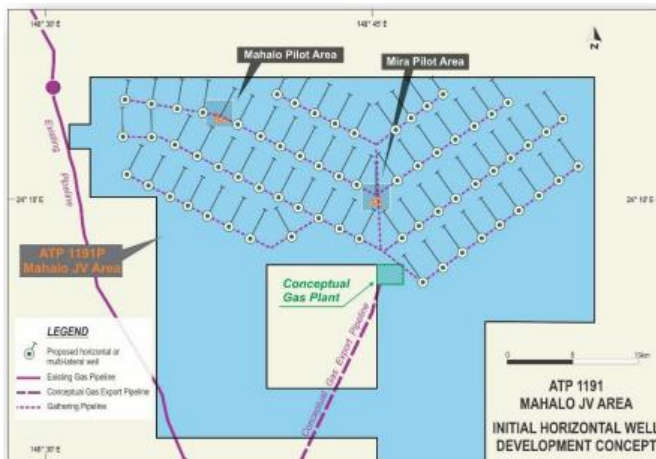
### Catalysts

- The 2018 exploration program in the Mahalo Project aims to drill two wells and convert existing 3P reserves in to 2P. COI are targeting FID in late-2018.
- The Albany-1 well spudded on 18<sup>th</sup> May in the Galilee Basin, appraising the Carmicheal-1 well drilled in 1995. The well is targeting conventional gas.
- With ~173PJ of uncontracted 2P reserves, COI have exposure to the tight east coast gas market, in close proximity to the three LNG projects exporting from Gladstone.

**Analysis – Risks**

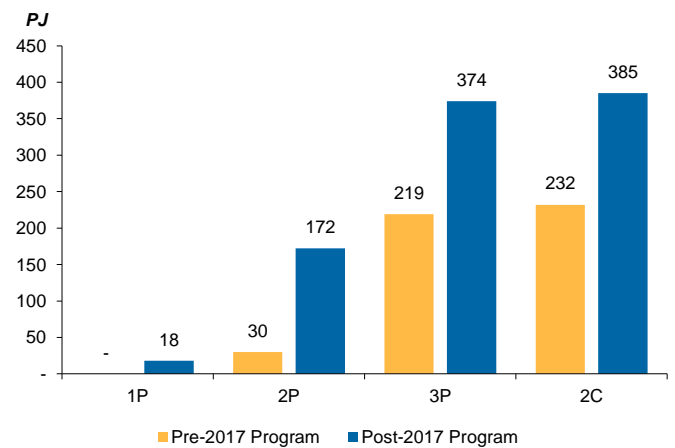
- ⇒ **Development risk** – the current development plan remains subject to JV approval and could be varied in the future.
- ⇒ **Commodity risk** – potential for fluctuations in east coast gas prices, pronounced as volumes remain uncontracted.
- ⇒ **Funding risk** – uncertainty on the full funding sourcing and quantum, could cause changes to the development plan.

**Fig 1** COI’s initial development proposal is for 25TJ/d production from the northern acreage, with a potential expansion to >100TJ/d.



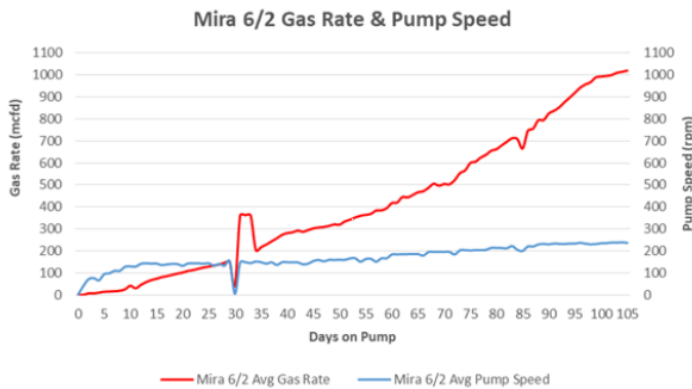
Source: COI, Macquarie Research, May 2018

**Fig 2** COI booked its first net 1P reserve over the Mahalo acreage in early-2018. Net 2P reserves increased 473%, with gross reserves beating STO’s cash-call target.



Source: COI, Macquarie Research, May 2018

**Fig 3** Production data from the Mira-6/2 well shows gas rates >1mmscf/d from within the Mahalo project acreage.



Source: COI, Macquarie Research, May 2018

**Fig 4** COI’s achievements over the past year.

Date	Description	Status
Apr 17	Executed Mahalo agency agreement for Comet Ridge to manage JV subsurface work	✓
Jun 17	Completed \$5.3 million Placement	✓
Aug - Nov 17	Mahalo 2017 field work program successfully completed by Comet Ridge	✓
Nov 17	Executed Farm-in agreement - Vintage to farm into Galilee Sandstone "deeps"	✓
Nov & Dec 17	Completed \$10 million Placement and \$3.1m SPP	✓
Jan - Mar 18	Mira 6/2 gas production climbs substantially	✓
Feb 18	Comet Ridge re-appointed agent for 2018 work program	✓
Mar 18	Galilee farm-out deal becomes unconditional	✓
Mar 18	Mahalo Block reserves upgrade – 473% increase in 2P reserves	✓

Source: COI, Macquarie Research, May 2018

## Important disclosures:

## Recommendation definitions

## Macquarie - Australia/New Zealand

Outperform – return >3% in excess of benchmark return  
Neutral – return within 3% of benchmark return  
Underperform – return >3% below benchmark return

Benchmark return is determined by long term nominal GDP growth plus 12 month forward market dividend yield

## Macquarie – Asia/Europe

Outperform – expected return >+10%  
Neutral – expected return from -10% to +10%  
Underperform – expected return <-10%

## Macquarie – South Africa

Outperform – expected return >+10%  
Neutral – expected return from -10% to +10%  
Underperform – expected return <-10%

## Macquarie - Canada

Outperform – return >5% in excess of benchmark return  
Neutral – return within 5% of benchmark return  
Underperform – return >5% below benchmark return

## Macquarie - USA

Outperform (Buy) – return >5% in excess of Russell 3000 index return  
Neutral (Hold) – return within 5% of Russell 3000 index return  
Underperform (Sell) – return >5% below Russell 3000 index return

## Volatility index definition\*

This is calculated from the volatility of historical price movements.

**Very high-highest risk** – Stock should be expected to move up or down 60–100% in a year – investors should be aware this stock is highly speculative.

**High** – stock should be expected to move up or down at least 40–60% in a year – investors should be aware this stock could be speculative.

**Medium** – stock should be expected to move up or down at least 30–40% in a year.

**Low-medium** – stock should be expected to move up or down at least 25–30% in a year.

**Low** – stock should be expected to move up or down at least 15–25% in a year.

\* Applicable to Asia/Australian/NZ/Canada stocks only

## Recommendations – 12 months

**Note:** Quant recommendations may differ from Fundamental Analyst recommendations

## Financial definitions

All "Adjusted" data items have had the following adjustments made:

Added back: goodwill amortisation, provision for catastrophe reserves, IFRS derivatives & hedging, IFRS impairments & IFRS interest expense  
Excluded: non recurring items, asset revals, property revals, appraisal value uplift, preference dividends & minority interests

**EPS** = adjusted net profit / efpowa\*

**ROA** = adjusted ebit / average total assets

**ROA Banks/Insurance** = adjusted net profit / average total assets

**ROE** = adjusted net profit / average shareholders funds

**Gross cashflow** = adjusted net profit + depreciation

\*equivalent fully paid ordinary weighted average number of shares

All Reported numbers for Australian/NZ listed stocks are modelled under IFRS (International Financial Reporting Standards).

## Recommendation proportions – For quarter ending 31 March 2018

	AU/NZ	Asia	RSA	USA	CA	EUR	
Outperform	54.38%	58.90%	48.35%	43.91%	69.03%	45.26%	(for global coverage by Macquarie, 3.69% of stocks followed are investment banking clients)
Neutral	32.48%	27.88%	34.07%	48.73%	21.29%	38.95%	(for global coverage by Macquarie, 3.07% of stocks followed are investment banking clients)
Underperform	13.14%	13.21%	17.58%	7.37%	9.68%	15.79%	(for global coverage by Macquarie, 0.39% of stocks followed are investment banking clients)

## STO AU vs ASX 100, &amp; rec history



(all figures in AUD currency unless noted)

Note: Recommendation timeline – if not a continuous line, then there was no Macquarie coverage at the time or there was an embargo period.

Source: FactSet, Macquarie Research, May 2018

## 12-month target price methodology

STO AU: A\$5.85 based on a DCF methodology

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