

Australian Worldwide Exploration Ltd

ASX Code: AWE

Could Casino or Cliff Head Beat BassGas to the Chase?

Recommendation: Buy

11 November 2005

Investment Rating

AWE will join the ranks of serious oil and gas companies when production at its BassGas project south of Victoria belatedly begins in 2Q06. This will be complemented by new production from Casino and Cliff Head in late FY06 and then Tui in early FY07. We expect a near 10-fold production increase from current modest levels to +4.0mboe by FY07, placing AWE on a prospective single digit FY07 PE. AWE recently raised \$120m to acquire a 90% interest in an Indonesian LPG extraction plant and add to existing projects. The company is a suitable energy exposure for investors comfortable with a medium level of risk. Strong management, a conservative balance sheet and exploration potential appeal.

Event

- Platform rectification works on AWE's 30% BassGas project suffered further delays in 1Q06 due to repairs needed on the worker accommodation vessel. The less said about BassGas the better, with project commissioning now over a year late. Some compensation has been received but this is cold comfort. On the positive side, once producing, the nearby Trefoil and White Ibis gas and condensate fields will likely be added to this already long life asset. Trefoil (AWE 22.6%) is undergoing engineering and design work prior to release of a recoverable reserve.
- AWE's 25% Casino gas development is 71% complete and on schedule for first gas in 3Q06. Casino has 285PJ of reserves. Horizontal drilling of the shore crossing is finished and the offshore pipeline is being installed. Development drilling is complete with flows from Casinos-4 and -5 in line or exceeding pre-drill expectations. The Iona gas plant modifications are nearly done.
- The 27.5% Cliff Head project is 64% finished and like Casino on schedule for first oil in 3Q06. A \$12.5m increase in budget to \$240m is due to drilling one further well to increase project reserves by 1mbo to 15mbo. Development drilling is imminent if not already underway. The offshore platform jacket is complete and being transported for arrival by early November with platform topsides to be mobilised in December. Construction of the onshore oil facility has begun.

Impact

- Modest output continued from AWE's Las Bases assets in Argentina and from its onshore Otway Basin fields in 1Q06. Our FY06 and FY07 earnings forecasts are essentially unchanged at 12.8cps and 27.7cps respectively. We upgrade our valuation 5% from \$2.40ps to \$2.53ps as first production from the Cliff Head and Casino fields draws nearer.

Recommendation Impact

Unchanged.

Snapshot

Last Price	\$2.00
Market Cap.	\$761 million
52 Week High	\$2.43
52 Week Low	\$1.49
Shares on Issue	380.4 million
Sector	GICS - Energy

Valuation

Intrinsic Valuation \$2.53

Risk

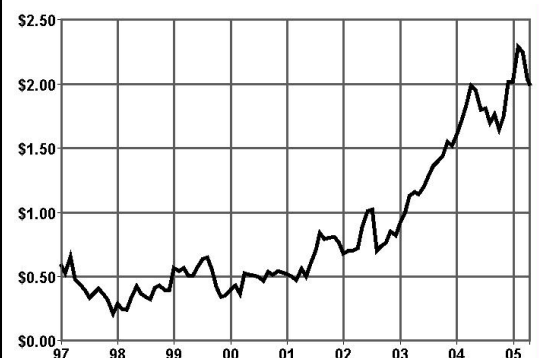
Risk	Medium
Company Beta	0.90
Sector Beta	0.98

Investment Fundamentals

Year-end Jun	FY	FY	FY	FY
NPAT (\$m)	-4.2	-3.5	47.6	107.1
EPS (¢)	-1.7	-1.2	12.8	27.7
EPS Growth (%)	779.0	-29.3		116.4
PE Ratio (x)	n/a	n/a	15.6	7.2
DPS (¢)	n/a	n/a	0.0	0.0
Dividend Yield (%)	0.0	0.0	0.0	0.0
Franking (%)	n/a	n/a	0	0

Source: Source: Aspect Huntley analyst estimates.
 Note: Net profit and EPS are pre-goodwill.

Price Chart



Business Description

Australian Worldwide Exploration Limited (AWE) is an Australian-based oil and gas exploration and production company. AWE has oil and gas interests in Australia, Argentina, New Zealand and Papua New Guinea.

Event Analysis

BassGas

Platform rectification works on AWE's 30% BassGas project suffered further delays in 1Q06 due to repairs needed on the worker accommodation vessel. The less said about BassGas the better, with project commissioning now over a year late. Some compensation has been received but this is cold comfort. On the positive side, once producing, the nearby Trefoil and White Ibis gas and condensate fields will likely be added to this already long life asset. Trefoil (AWE 22.6%) is undergoing engineering and design work prior to release of a recoverable reserve.

Casino

AWE's 25% Casino gas development is 71% complete and on schedule for first gas in 3Q06. Casino has 285PJ of reserves. Horizontal drilling of the shore crossing is finished and the offshore pipeline is being installed. Development drilling is complete with flows from Casinos-4 and -5 in line or exceeding pre-drill expectations. The Iona gas plant modifications are nearly done. Only 8.5km north of Casino, Henry-1 intersected a 32m gross section including 18m of good gas shows in sandstone. Core, wireline, pressure and 3D seismic data indicate a gross recoverable gas reserve of 150-175PJ. Three gas fields, Casino, Martha and Henry, have now been discovered in the Pecten High area of VIC/P 44. Several other high quality prospects have been identified nearby. The Henry-1 discovery maintains the 100% drilling success rate in the VIC/P 44 JV and future drilling success is highly likely.

Cliff Head

The 27.5% Cliff Head project is 64% finished and like Casino on schedule for first oil in 3Q06. A \$12.5m increase in budget to \$240m is due to drilling one further well to increase project reserves by 1mmbo to 15mmbo. Development drilling is imminent if not already underway. The offshore platform jacket is complete and being transported for arrival by early November with platform topsides to be mobilised in December. Construction of the onshore oil facility has begun.

New Zealand

Front end engineering and design on AWE's 20% Tui Area oil development was finished in 1Q06. The project will develop three adjacent fields, Tui, Amokura and Pateke, 40km offshore from the Taranaki coastline in approximately 115m of water. Four subsea wells will link to a Floating Production Storage and Offloading vessel. A final investment decision is expected in 2Q06 when reserves and costs will be set.

AWE is also planning a large NZ drilling program but availability of suitable rigs will delay work until mid to late 2006. Claire Energy and Beach Petroleum will fund AWE's share of drilling costs to earn a combined 25% interest in Cutter-1 in the Canterbury Basin. Cutter-1 is a potential 70-80mmbo target in a proven shallow water oil province 200km SW of Christchurch. Drilling is expected in 1Q07 when AWE's share will dilute from 50% to 25%.

In the Perth Basin, the 27.5% Frankland-1 prospect is to begin after Cliff Head development drilling. A further well is likely to be drilled in 25% owned TP/15. AWE is participating in the upcoming Magnolia- 1 well in the Timor Sea as part of a farm-in transaction involving AWE paying 15% of drill costs to earn 10% equity. Magnolia has the potential to contain 60-100mmbo.

Indonesian LPG

AWE is acquiring 90% of the new Kilang LPG extraction plant near Palembang onshore South Sumatra. The company will fund the remaining \$30m of capital expenditure including set-up and contingencies. The plant is 10% complete. Gross stripped liquid sales of over 1.6mmbbls and over 500kt of LPG are likely over the 15 year project life. Annual revenue of US\$15m net to AWE could be expected assuming liquids prices of US\$325/tonne. The company targets EBITDA of A\$9m per annum on this pricing. First production is expected in 2Q07.

Conclusion

Modest output continued from AWE's Las Bases assets in Argentina and from its onshore Otway Basin fields in 1Q06. Our FY06 and FY07 earnings forecasts are essentially unchanged at 12.8cps and 27.7cps respectively. We upgrade our valuation 5% from \$2.40ps to \$2.53ps as first production from the Cliff Head and Casino fields draws nearer. Assumptions remain a US\$60/bbl oil price, A\$/US\$ of 0.76 and a 10% discount rate. Forecast equity production of 2.1mmboe in FY06 rising to 4.3mmboe in FY07 is a strong drawing card. Exploration potential appeals, particularly given AWE's recent strong track record of success. Our recommendation remains Buy for less risk averse investors. A key risk is oil price and a pull back to US\$35/bbl could see the share price back to around A\$1.50ps levels.

Profit & Loss (\$M)

Year to 30 Jun	2001A	2002A	2003A	2004A	2005A
Sales Revenue	11	8	10	8	6
Total Revenue ex. Int.	12	14	29	36	6
EBITDA	5	4	3	-4	-3
Depreciation & Amort.	-5	-4	-5	-5	-4
Goodwill Amortisation	--	--	--	--	--
EBIT	-0	0	-2	-8	-7
Net Interest	1	2	2	3	5
Profit Before Tax	1	2	0	-5	-2
Income Tax	-1	0	-1	1	-1
Outside Equity Int.	0	0	-0	--	--
Profit after Tax	0	3	-0	-4	-3
Significant Items after Tax	--	-16	10	10	-8
Reported Profit after Tax	0	-13	10	6	-11
Preferred Dividends	--	--	--	--	--

Ratios and Substantial Shareholders

Year to 30 Jun	2001A	2002A	2003A	2004A	2005A
Profitability Ratios					
EBITDA Margin	% 45.30	54.78	32.06	-46.03	-58.08
EBIT Margin	% -0.73	1.06	-15.66	-106.68	-132.25
Net Profit Margin	% 3.26	37.99	-4.22	-54.70	-61.83
Return on Equity	% 0.53	2.86	-0.36	-2.33	-1.43
Return on Assets	% 0.73	2.84	-0.24	-1.53	-0.91

Debt/Safety Ratios

Net Debt/Equity	% -30.01	-51.39	-35.99	-4.15	-6.60
Interest Cover	x -0.30	0.46	-14.66	-354.00	-298.72

Top 5 Substantial Shareholders

Mathews	9.9%
Portfolio Partners Ltd	7.1%
ABN AMRO Management Limited	6.7%

Previous Research

15/09/2005	Indonesian LPG and Equity Raising
29/08/2005	Negative FY05 Result
06/05/2005	Production Down but New Projects Progress
17/03/2005	JV Approval for Cliff Head
09/02/2005	BassGas in Commissioning Phase
09/12/2004	Taranaki Raises Our Production Forecasts
27/08/2004	Asset Sales Lift Result
03/08/2004	Exploration Write Offs Hit Unaudited Full Year Result
04/06/2004	First New Development Project Near Production
18/02/2004	December 2003 Quarter Production Down and Out
24/09/2003	Full Version of Report from 15/09/2003
15/09/2003	Near-Term Earnings Not the Main Game
21/05/2003	March 2003 Quarter and Update
25/02/2003	Earnings fall in first half

Cash Flow (\$M)

Year to 30 Jun	2001A	2002A	2003A	2004A	2005A
Receipts from Customers	12	9	10	9	6
Funds from Operations	7	5	7	4	3
Net Operating Cashflow	9	4	8	4	-5
Capex	-7	-22	-37	-121	-80
Acquisitions & Investments	--	-6	--	--	--
Sale of Invest. & Subsid.	--	5	18	27	1
Net Investing Cashflow	-7	-23	-20	-94	-67
Proceeds from Issues	0	58	--	57	79
Dividends Paid	--	--	--	--	--
Net Financing Cashflow	-1	56	-2	131	103
Net Increase Cash	1	36	-14	41	30
Cash at Beginning	21	22	58	43	84
Exchange Rate Adjust.	--	-1	-1	-1	-0
Cash at End	22	58	43	84	114

Balance Sheet (\$M)

Year to 30 Jun	2001A	2002A	2003A	2004A	2005A
Cash & Equivalent	22	58	43	84	114
Receivables	2	3	2	1	7
Inventories	--	--	--	--	--
Other Current Assets	0	0	0	0	0
Current Assets	24	61	45	85	121
Prop. Plant & Equipment	9	28	65	138	237
Intangibles	--	--	--	--	--
Other Non-Current Assets	0	0	0	0	0
Non-Current Assets	48	53	99	187	259
Total Assets	72	114	145	272	380
Interest Bearing Debt	3	2	1	77	98
Other Liabilities	8	6	27	157	212
Total Liabilities	7	5	27	93	135
Net Assets	66	109	118	179	245
Share Capital	61	118	118	173	250
Reserves	--	--	--	--	--
Retained Earnings	4	-10	0	6	-6
Outside Equity Int.	1	1	--	--	--
Total Shareholders Equity	66	109	118	179	245

Principals & Directors**Principals**

Chairman	Mr Bruce Galloway McKay
CEO/MD	Mr Bruce J Phillips
Company Secretary	N F Kelly

Directors

Mr Edward (Eddie) Scott Smith(Non-Executive Director)
Mr Bruce J Phillips(Managing Director)
Mr Bruce Galloway McKay(Non-Executive Chairman)
Mr Richard M Griffin(Non-Executive Director)
Mr Colin C Green(Non-Executive Director)
Mr Richard (Dick) Dumbrell(Non-Executive Director)

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