



# **Coal seam gas: an equity market view**

**SPE Vic/Tas Branch  
Melbourne  
28<sup>th</sup> July 2011**

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- Evolution of the CSG equity market
- Valuation metrics
- Where to from here?

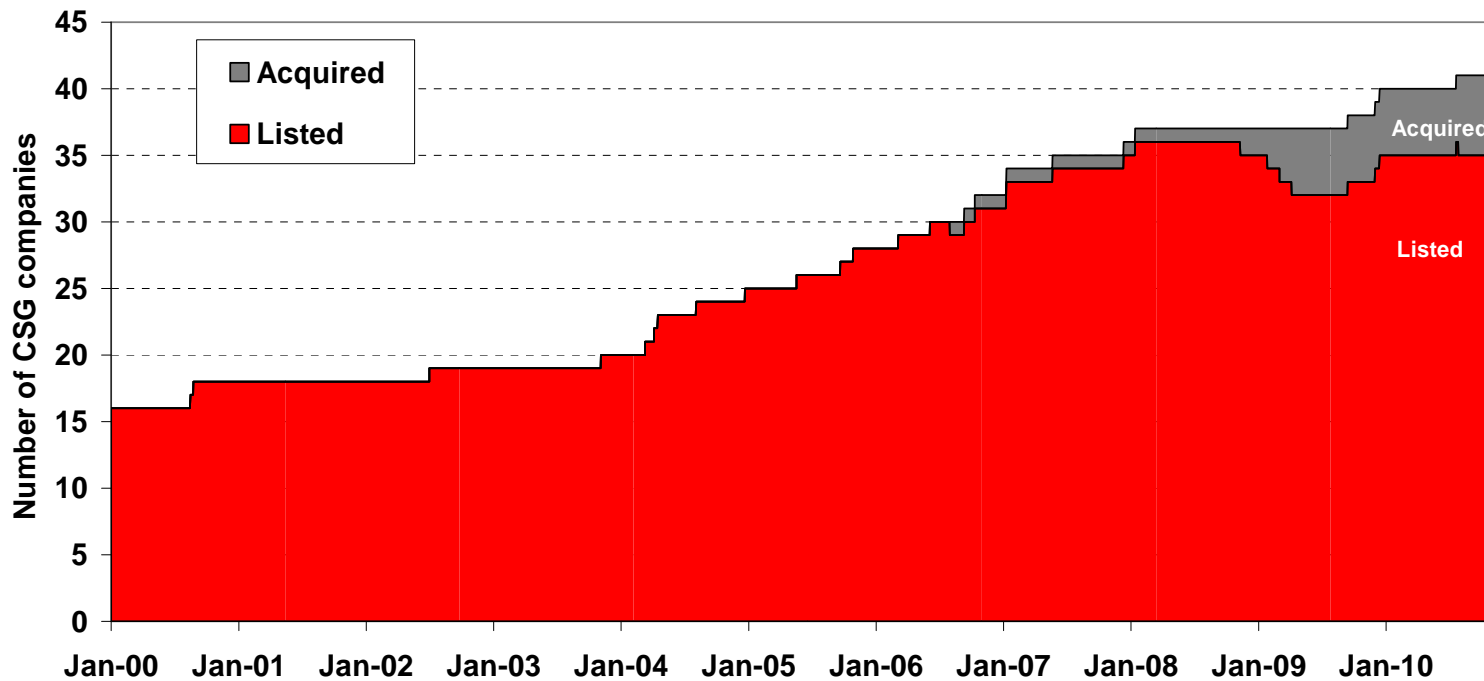


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## The number of “CSG” companies grew strongly from 2005, approximately doubling by 2010

Australian CSG Sector companies



However, not all “CSG” companies were actively pursuing CSG in the early years; many were late adopters

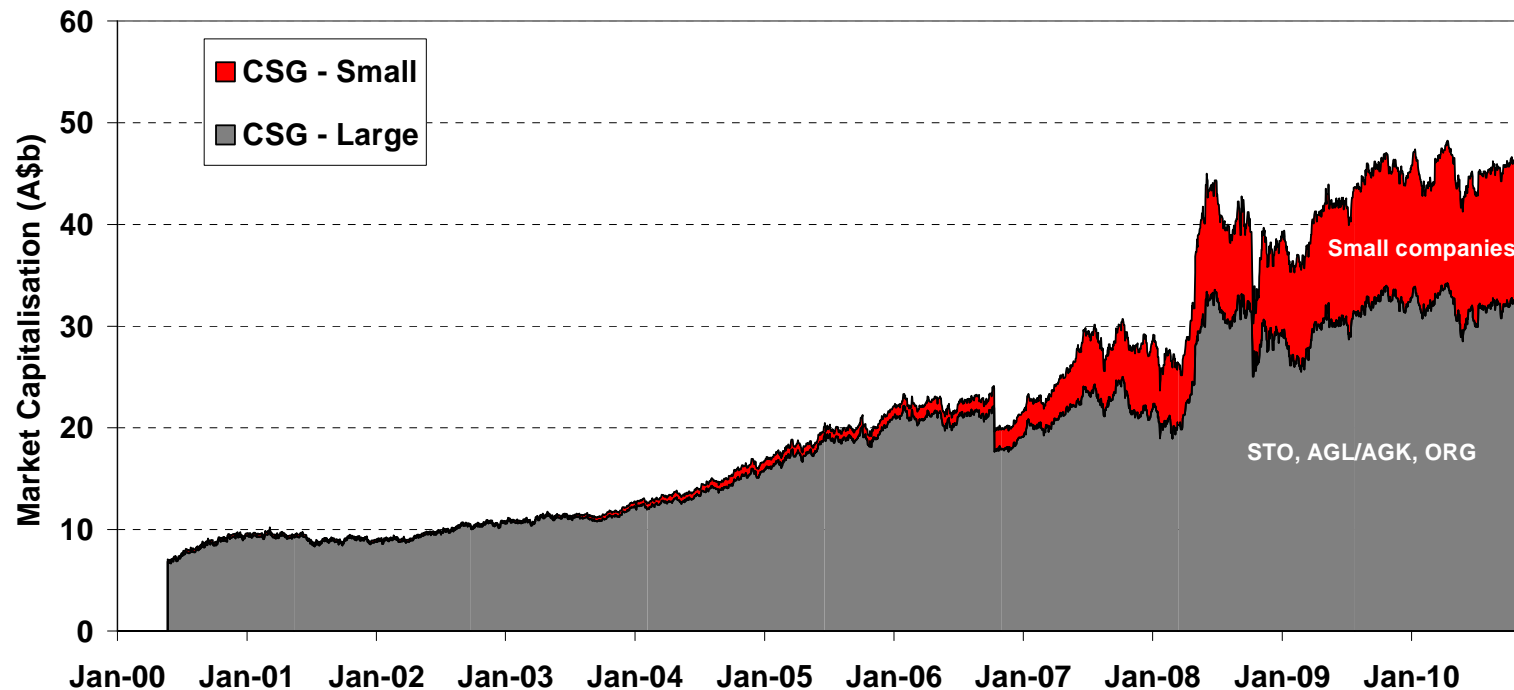


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## Market capitalization of the sector grew over four-fold in the past decade, with much of this following interest from international majors from 2008

Australian CSG Sector Market Capitalisation



Not all of the capitalization increase was due directly to CSG; increases from 2003 were also driven by global oil price rises

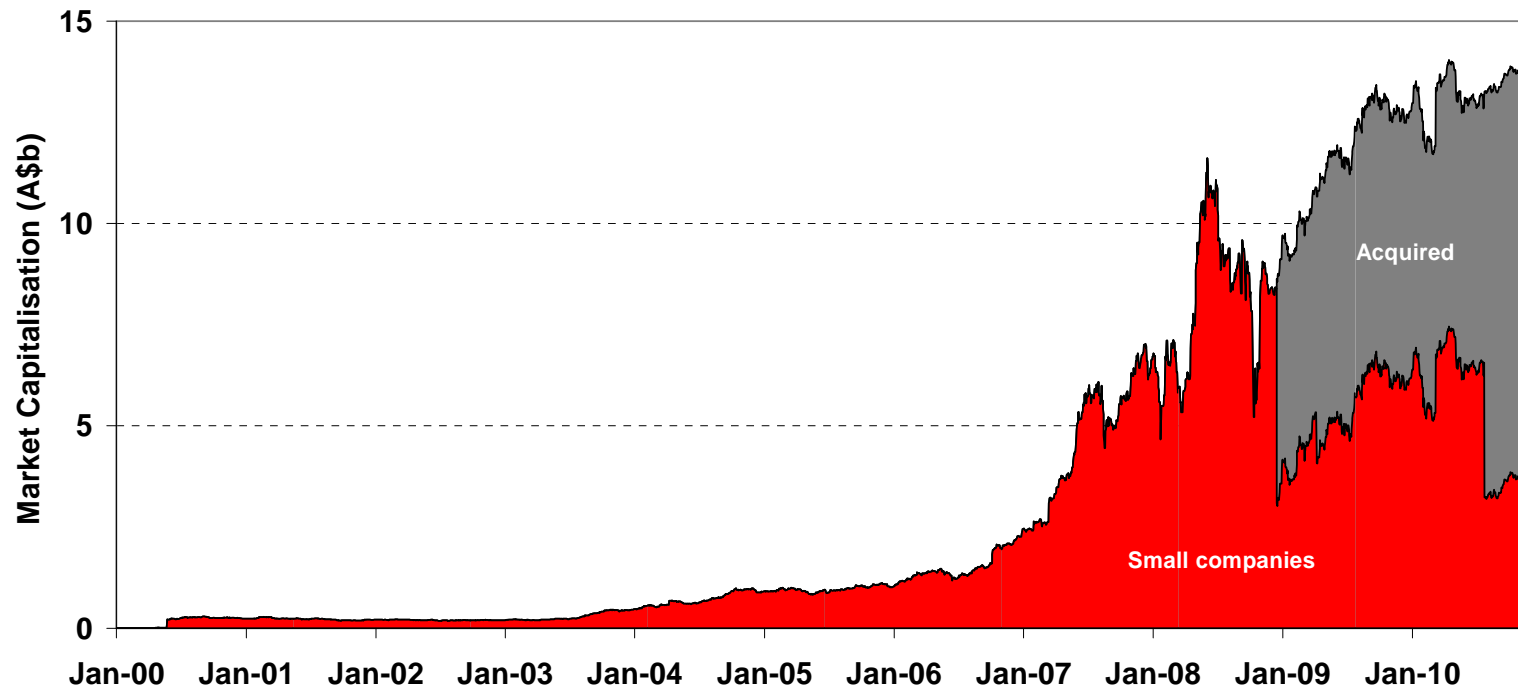


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## Market capitalization increased dramatically for the “pure” CSG sector during 2007, with step changes in 2008 as majors acquired interests

Australian CSG Sector Market Capitalisation



Acquisitions led to sector re-rating, but reduced the remaining capitalization as QGC, Pure and Arrow de-listed



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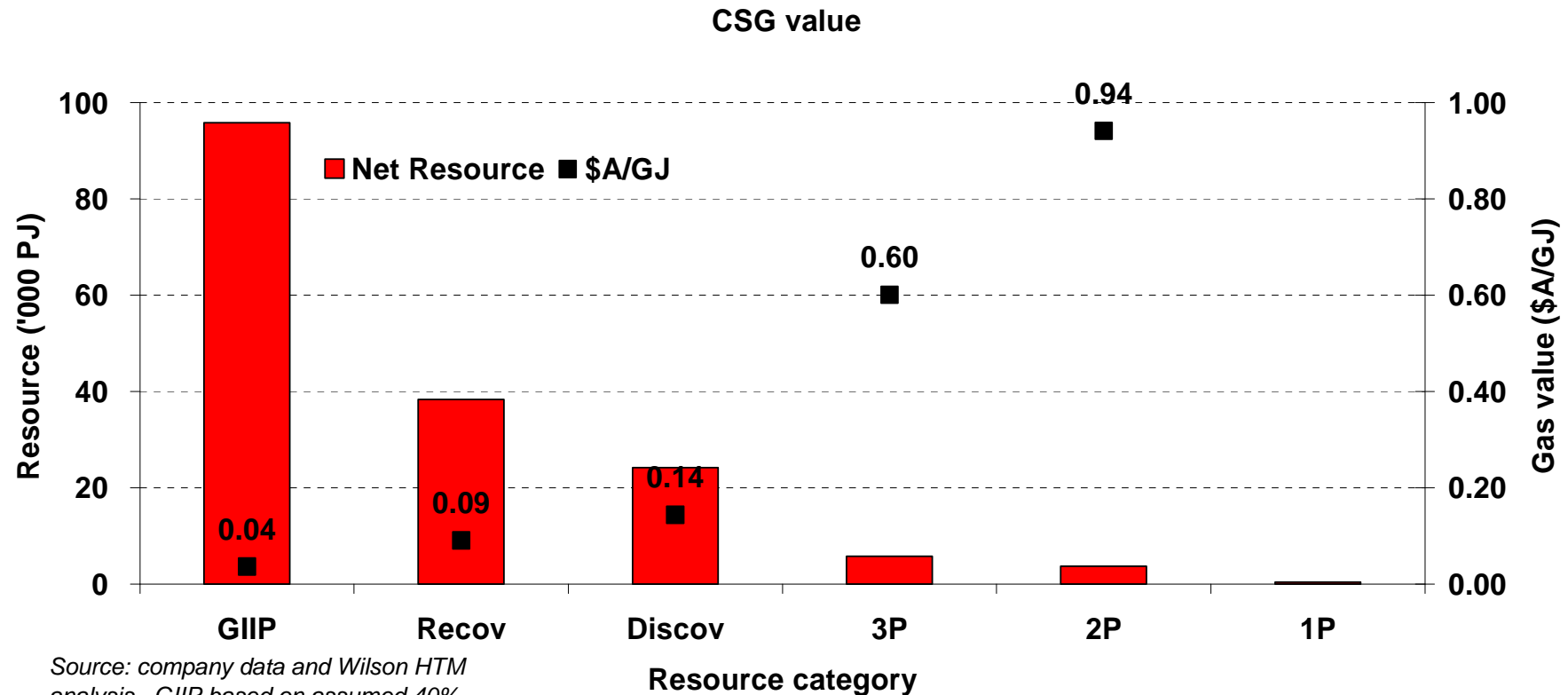
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## Valuation metrics can be problematic – just what is being measured? The chart below shows the resource multiples for the acquisition of Arrow



Shell & PetroChina paid \$A3.5 billion for Arrow's Queensland assets: how much gas were they buying?



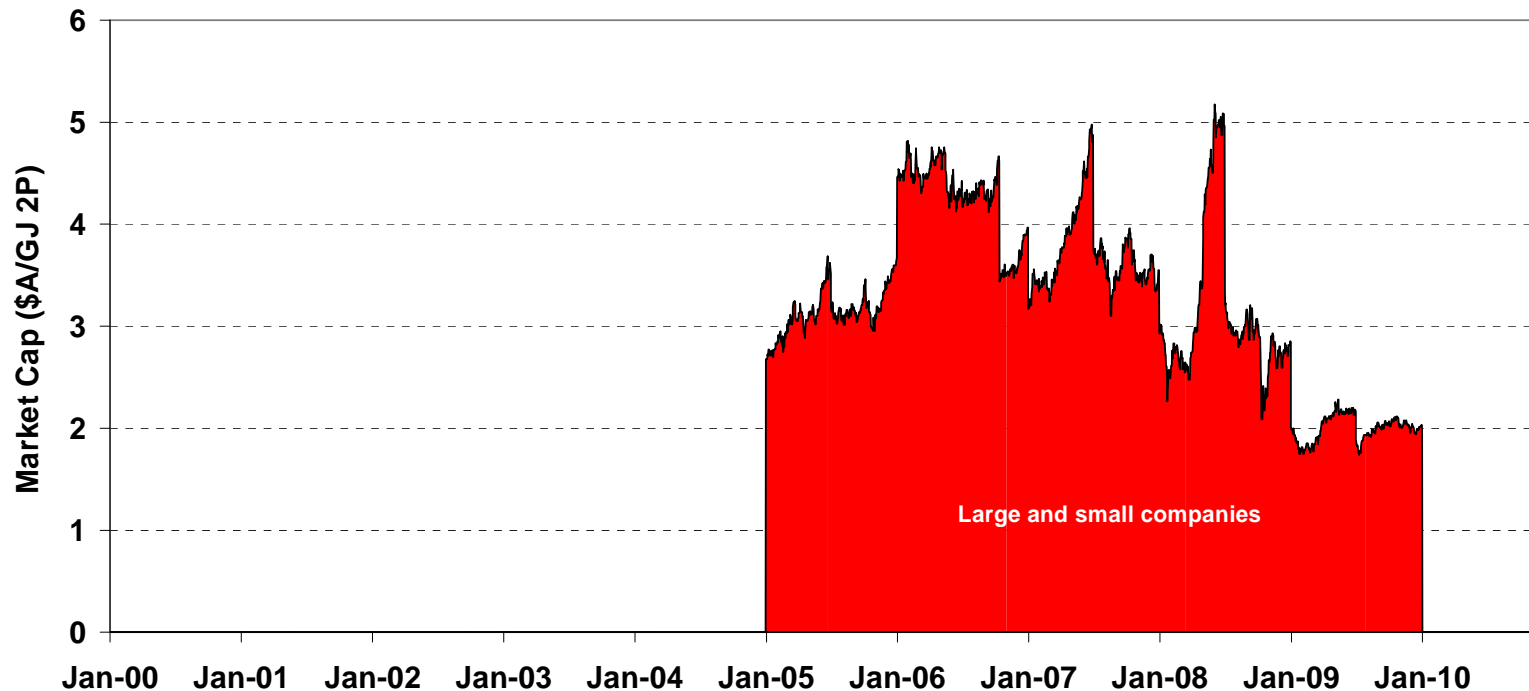


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## Whilst we favour a “recoverable gas” multiple the data are scarce; industry 2P reserves suggest gas values peaked in mid-2008

Australian CSG Sector Market Capitalization per Reserves



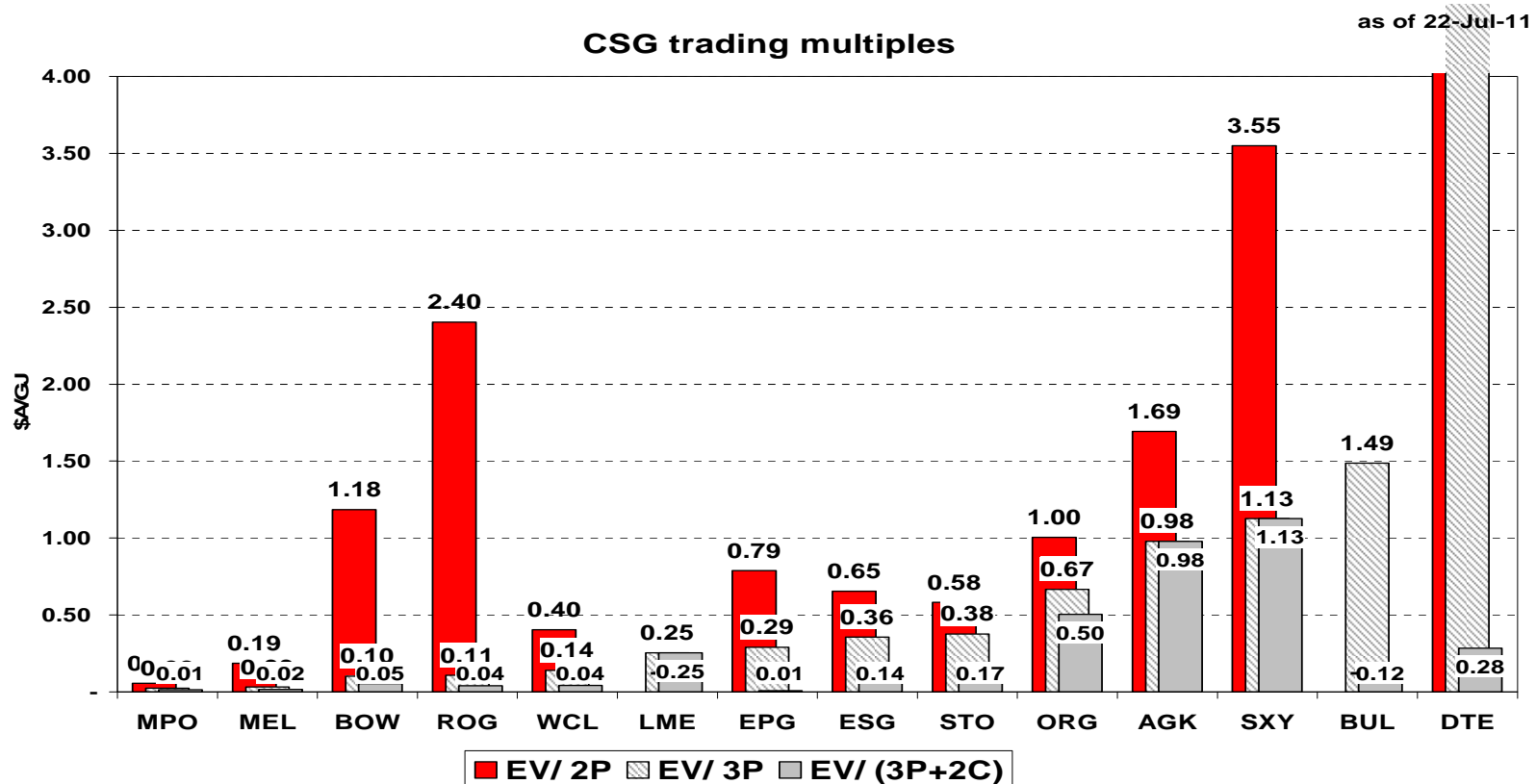
This could be due to oil prices and the GFC or to increases in 2P reserves (with value driven by factors other than 2P)



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# Enterprise value to reserves trading values range widely, on 2P, 3P and discovered (3P+2C) bases



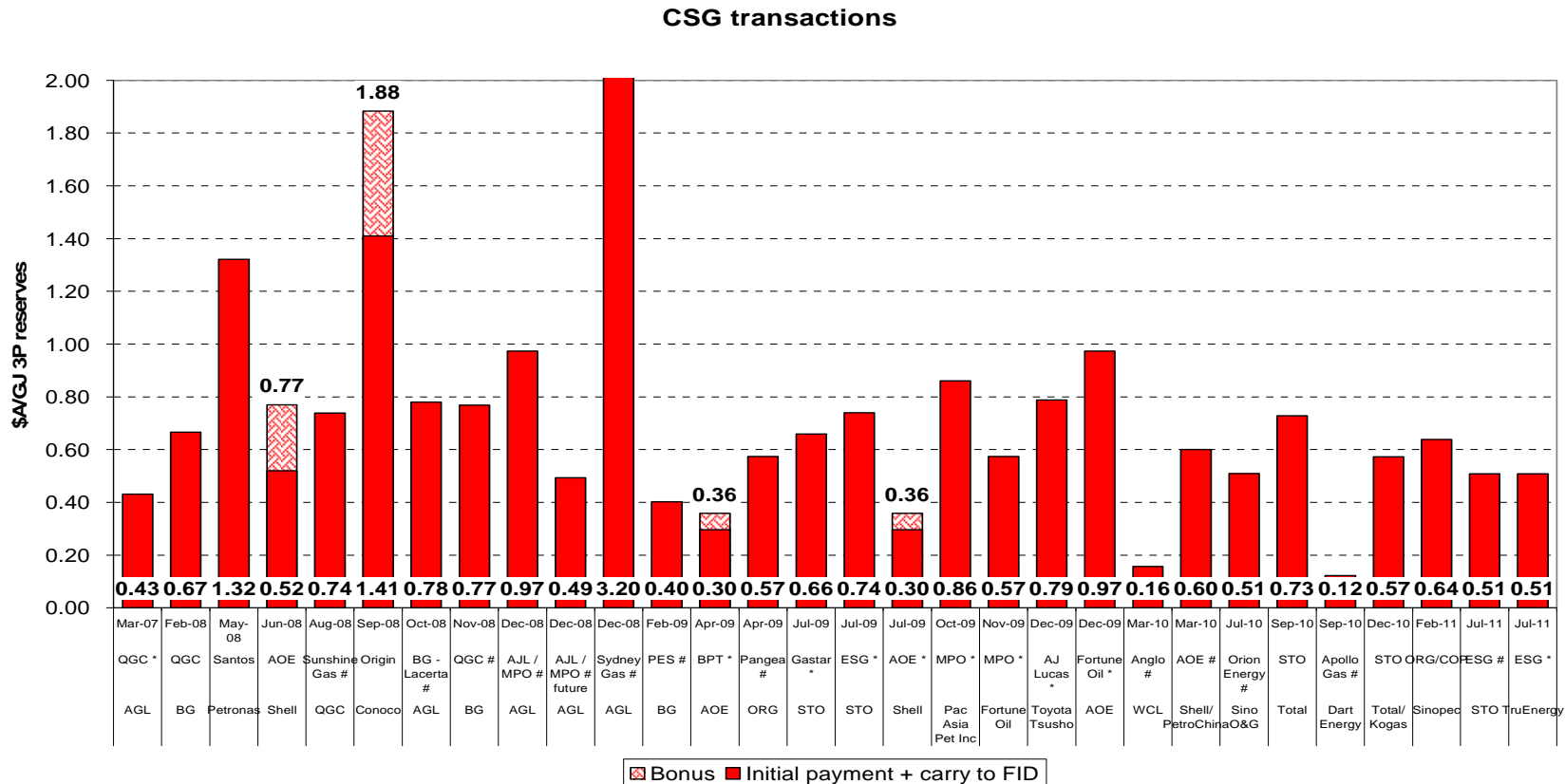
**EV/3P has become widely used, due to availability and being an early indication of recoverable potential**



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# Transaction multiples range widely, but exhibit three cohorts: (A) large scale / LNG project entry; (B) mid-scale with control, and (C) minority stakes



**Multiples for Group A at ~\$A1.40/GJ 3P in 2008 have not been repeated; Group B is steady at best at ~\$0.60-0.80/GJ**



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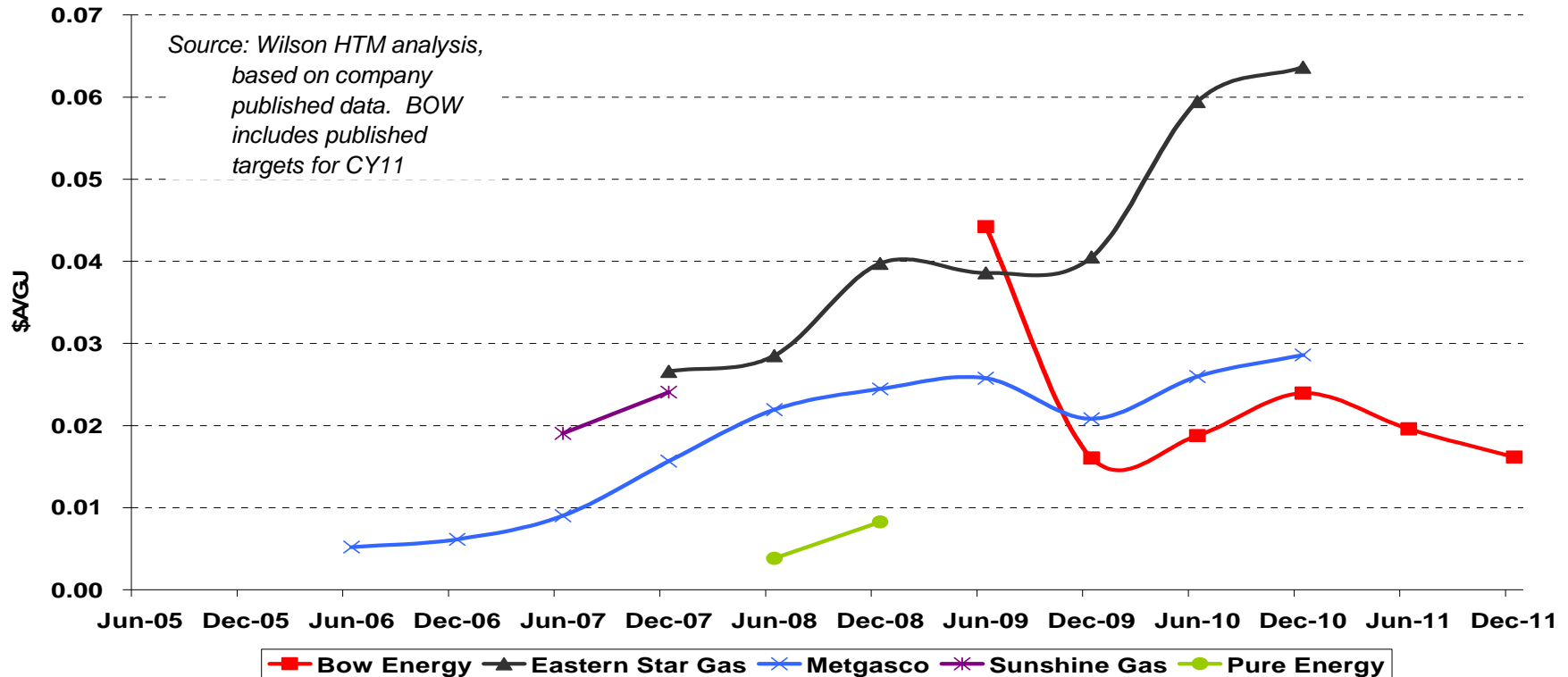


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# CSG finding costs (3P) range widely, although the median now appears stable at ~\$0.02-0.03 /GJ

CSG 3P reserve finding costs



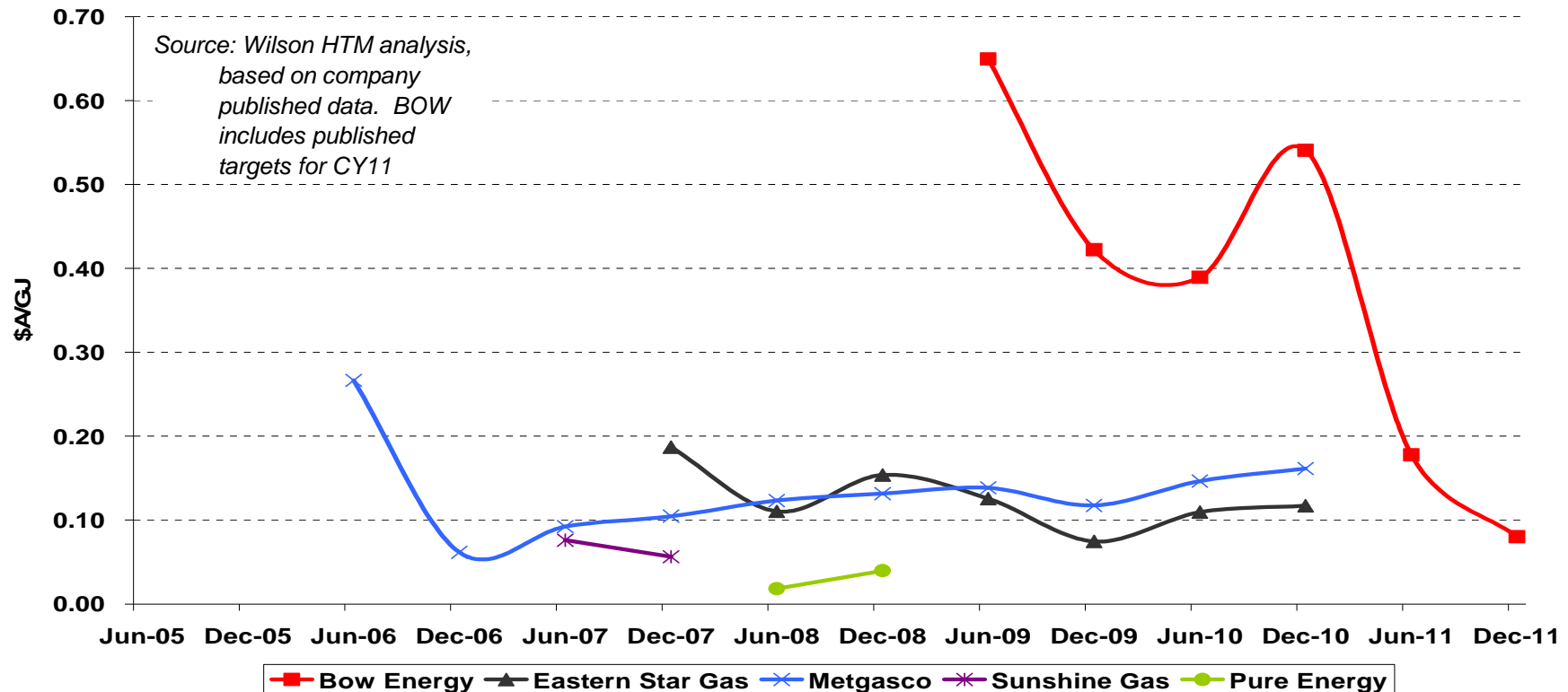


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## CSG finding costs appear to be steady at ~\$A0.10 /GJ 2P reserves, once pilot programs are well established

CSG 2P reserve finding costs



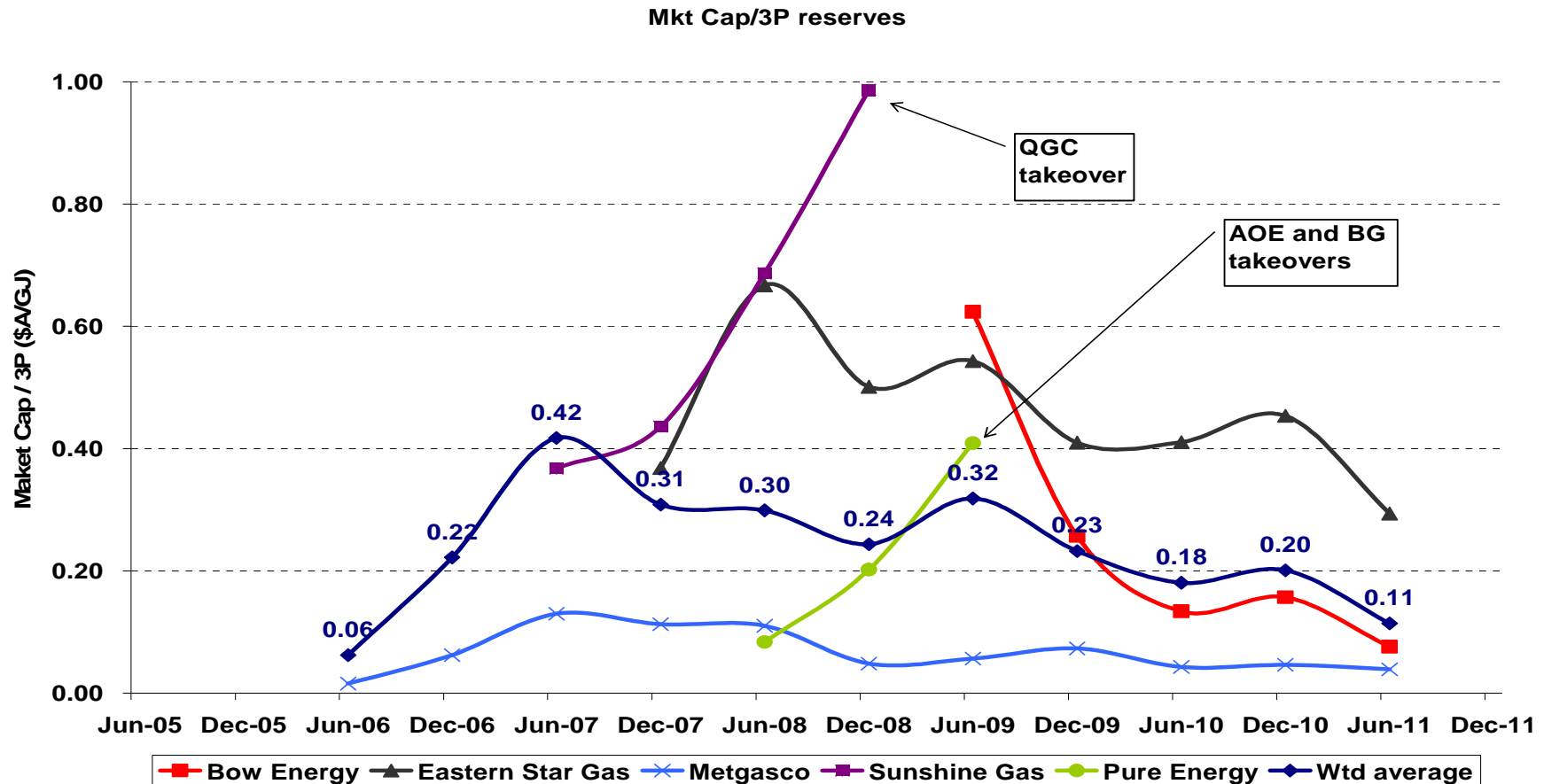
Whilst Sunshine Gas and Pure Energy achieved ~\$A0.05/GJ 2P this has not been repeated. Arrow reported <\$A0.10/GJ



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## The value attributed to reserves has declined over time for small to mid-cap CSG players



Trading multiples range widely for different companies, reflecting the perceived quality of the underlying assets

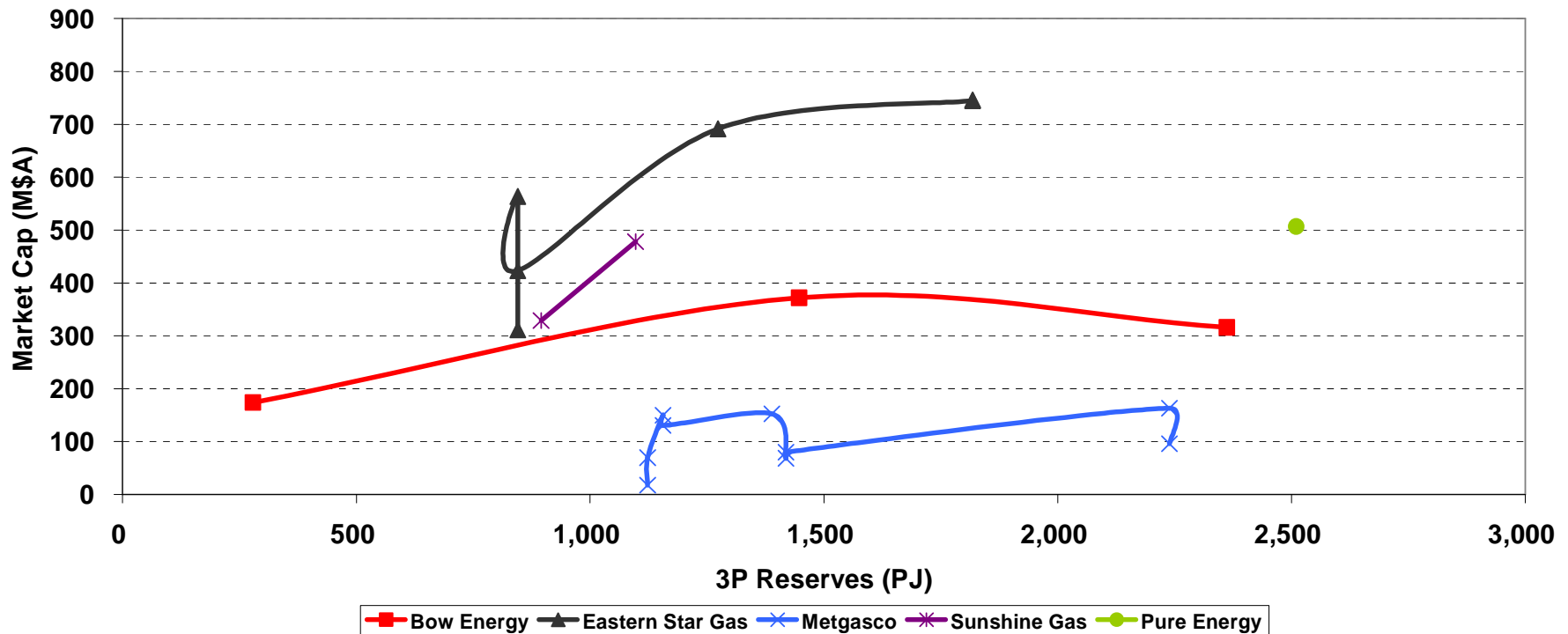


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# The market cap of some mid-tier CSG companies now appears to be insensitive to 3P reserves; that is, more 3P reserves are not driving more value

Market Cap vs Reserves



We believe the market now assumes that gas will be found, in contrast to the early years, where reserves were “new” news

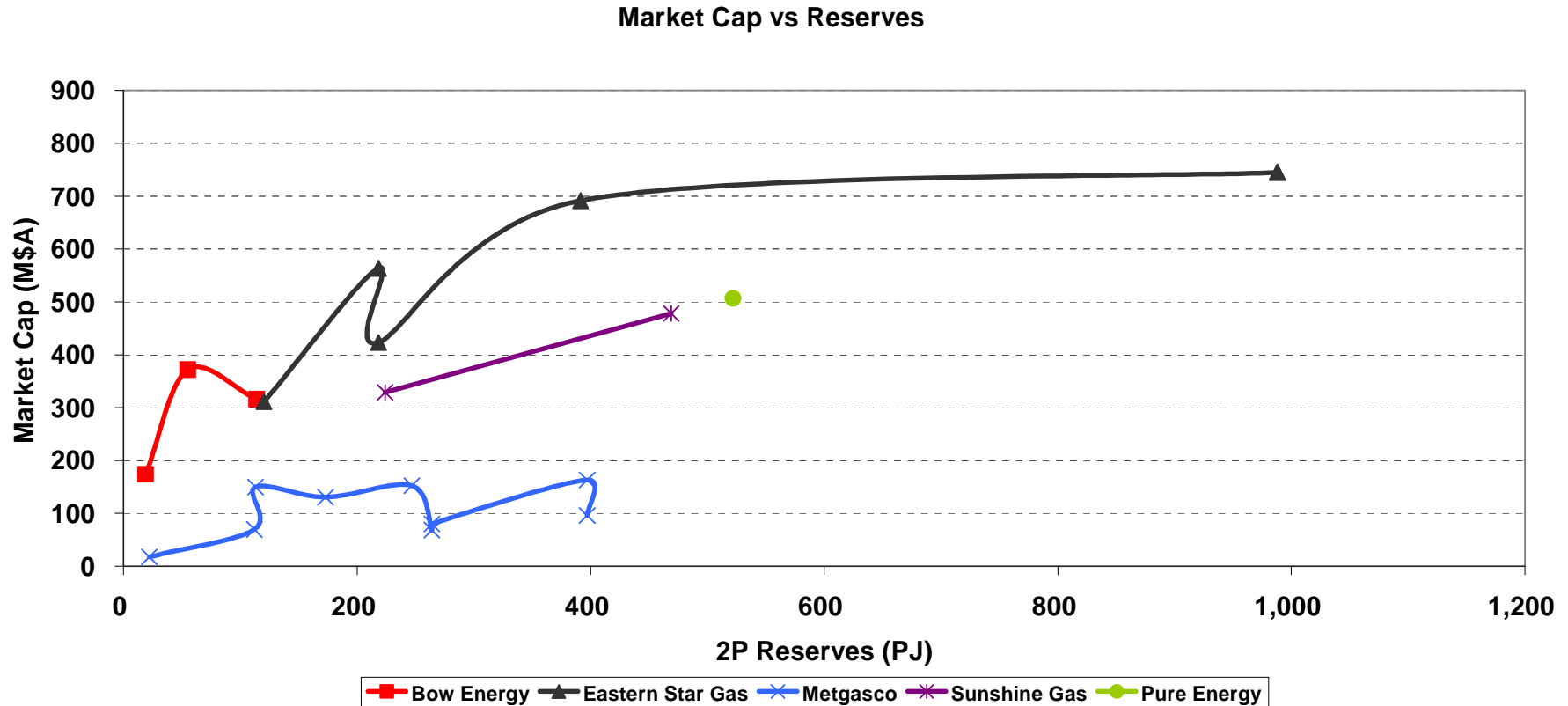




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## Similarly, increases in 2P reserves no longer appear to drive increases in value for mid-tier CSG companies



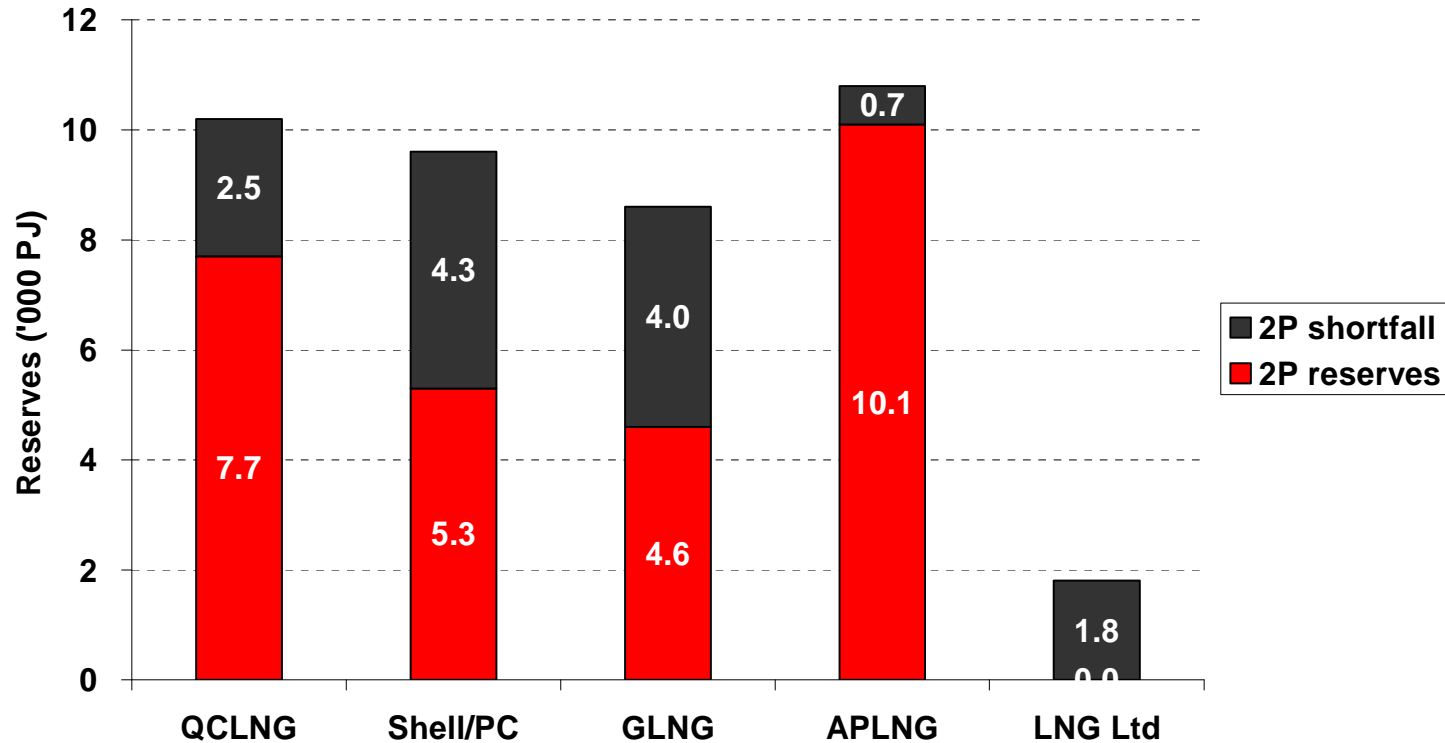
We believe the market is now looking for credible commercialization plans to re-rate company capitalization



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## Despite the large reserve position of the majors, more 2P reserves are required to support LNG project aspirations



Source: data from Bow Energy Limited presentation 11 Nov 2010, sourced from EnergyQuest and Bow Energy estimates

Reserves will come from further exploration by the majors and third party providers, both conventional & unconventional

## **What type of CSG assets are likely to be favoured by the market?**

- Those that are favoured by the majors
  - Material reserve potential
  - Good geographic location
  - Expected low cost of development and production
  - Opportunity for control
    - pace of development, access to cash flows, operating standards, etc
- A clear and credible commercialization path is fundamental to market rating

**Ticking the boxes does not necessarily mean automatic acquisition; gas sales agreements and JVs will also feature**

## Conclusions

- Reserves values have dropped over time
- Market focus has shifted: reserves → revenue
- Majors need more gas
- Re-rating will follow for good companies



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**Thank you**

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