

Challenger Energy

Capital raise

Cash injection helps while licence application progresses

Oil & gas

On 25 November 2014, Challenger Energy (CEL) announced it had raised A\$1.2m in a private placement, mostly from existing shareholders. The funds will be used to support the company's ongoing activities as it progresses its licence application in South Africa's Karoo basin. On 26 October 2014, Challenger's application was allowed to proceed, along with those of its neighbours. A licence award, expected in mid-2015, could pave the way for a farm-out, which is required to fund a large portion of CEL's A\$20-25m initial appraisal programme. CEL has previously stated it is in 'advanced' farm-in discussions. A licence award and farm-out could lead to a near-term re-rating, with longer-term upside based on drilling success.

Year end	Revenue (A\$m)	EBITDA (A\$m)	PBT * (A\$m)	Operating cash flow (A\$m)	Net cash/(debt) (A\$m)	Capex (A\$m)
06/13	0.1	(7.6)	(7.6)	(0.6)	0.3	(0.3)
06/14	0.1	(1.2)	(1.2)	(1.1)	0.8	(0.2)
06/15e	0.1	(1.2)	(1.2)	(1.2)	0.7	0.0
06/16e	0.1	(1.2)	(1.3)	(1.3)	(7.2)	(6.7)

Note: *PBT is normalised, excluding intangible amortisation and exceptional items.

Momentum building towards licence awards

The South African government's decision to start processing pending applications is a strong indication that it is ready to move forward with shale exploration, no doubt aided by an ever-deteriorating energy situation (see our [initiation](#)). Shale gas has been described as a "game changer" by President Zuma. The moratorium on new applications remains in place, but has no impact on applications received before 1 February 2011, including those from Challenger, Falcon/Chevron and Shell.

More clarity on Karoo shale exploration timeline

The Ministry of Mineral Resources is currently reviewing and augmenting the regulatory framework for shale exploration, which could be published during Q115 after final public consultations. Meanwhile, Challenger is required to update its environmental management programme and consult with stakeholders by 27 February 2015. South Africa's oil and gas regulator, PASA, has asked companies to remove references to fracking from their applications so they can be processed while the technical regulations are finalised. Press reports quoting PASA and ministry officials suggest the applications could be approved and permits issued by July-August 2015, with first shale drilling in H216.

Valuation: Appraisal and farm-outs to create value

The A\$1.2m private placement brings CEL's cash balance to cA\$1.3m at end-2014 on our estimates, allowing it to fund ongoing activities through to late 2015. CEL's valuation of A\$25/acre equates to pre-feasibility acreage pricing featured in Australian farm-out deals. This leaves significant upside potential given partial de-risking from one well and CEL's strategic value as the only Karoo shale pure-play. The key near-term catalysts are a licence award and farm-out to fund exploration. A follow-on farm-out would likely attract much higher valuations (A\$250-1,000/acre).

1 December 2014

Price **A\$0.06**

Market cap **A\$21m**

A\$1.13/US\$

Net cash (A\$m) as of 30 June 2014 0.8

Shares in issue (post-issue) 329.5m

Free float 85%

Code CEL

Primary exchange ASX

Secondary exchange N/A

Share price performance



% 1m 3m 12m

Abs (11.3) (21.3) (33.7)

Rel (local) (9.0) (16.4) (33.3)

52-week high/low A\$0.13 A\$0.06

Business description

Challenger Energy is an ASX-listed E&P with a 95% interest in an application for an exploration permit in the Karoo basin, South Africa, which is prospective for shale gas. It is awaiting award of a permit to start drilling.

Next events

Exploration permit award Mid-2015

Farm-out 2015

Drilling starts 2016

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Exhibit 1: Financial summary

	A\$000s	2012	2013	2014	2015e	2016e
Year-end June		IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS						
Revenue		509	89	114	90	90
Cost of Sales		(255)	0	0	0	0
Gross Profit		255	89	114	90	90
EBITDA		(9,307)	(7,567)	(1,242)	(1,180)	(1,180)
Operating Profit (before amort. and except.)		(9,311)	(7,570)	(1,243)	(1,180)	(1,180)
Intangible Amortisation		0	0	0	0	0
Exceptionals		0	0	0	0	0
Other		0	0	0	0	0
Operating Profit		(9,311)	(7,570)	(1,243)	(1,180)	(1,180)
Net Interest		(88)	4	(4)	(60)	(81)
Profit Before Tax (norm)		(9,400)	(7,566)	(1,247)	(1,240)	(1,261)
Profit Before Tax (FRS 3)		(9,400)	(7,566)	(1,247)	(1,240)	(1,261)
Tax		0	0	0	0	0
Profit After Tax (norm)		(10,039)	(8,544)	(1,695)	(1,240)	(1,261)
Profit After Tax (FRS 3)		(9,400)	(7,566)	(1,247)	(1,240)	(1,261)
Average Number of Shares Outstanding (m)		311.5	311.5	329.5	349.5	349.5
EPS - normalised (c)		(3.3)	(2.8)	(0.5)	(0.4)	(0.4)
EPS - normalised and fully diluted (c)		(3.3)	(2.4)	(0.4)	(0.3)	(0.3)
EPS - (IFRS) (c)		(3.0)	(2.4)	(0.4)	(0.4)	(0.4)
Dividend per share (c)		0.0	0.0	0.0	0.0	0.0
Gross Margin (%)		50.0	100.0	100.0	100.0	100.0
EBITDA Margin (%)		NA	NA	NA	NA	NA
Operating Margin (before GW and except.) (%)		NA	NA	NA	NA	NA
BALANCE SHEET						
Fixed Assets		13,567	4,870	4,604	4,604	11,254
Intangible Assets		0	0	0	0	0
Tangible Assets		13,567	4,870	4,604	4,604	11,254
Investments		0	0	0	0	0
Current Assets		631	394	865	825	104
Stocks		0	30	31	31	31
Debtors		116	82	74	74	74
Cash		515	282	761	721	0
Other		0	0	0	0	0
Current Liabilities		(342)	(217)	(184)	(184)	(184)
Creditors		(342)	(217)	(184)	(184)	(184)
Short term borrowings		0	0	0	0	0
Long Term Liabilities		(275)	(9)	(9)	(9)	(7,199)
Long term borrowings		0	0	0	0	(7,190)
Other long term liabilities		(275)	(9)	(9)	(9)	(9)
Net Assets		13,581	5,037	5,276	5,235	3,975
CASH FLOW						
Operating Cash Flow		(864)	(616)	(1,085)	(1,180)	(1,261)
Net Interest		0	0	0	0	0
Tax		0	0	0	0	0
Capex		(9,408)	(333)	(156)	0	(6,650)
Acquisitions/disposals		0	537	0	0	0
Equity Financing		4,534	180	1,721	1,140	0
Dividends		0	0	0	0	0
Net Cash Flow		(5,738)	(233)	480	(40)	(7,911)
Opening net debt/(cash)		(6,250)	(515)	(282)	(761)	(721)
HP finance leases initiated		0	0	0	0	0
Other		3	(0)	(1)	0	0
Closing net debt/(cash)		(515)	(282)	(761)	(721)	7,190

Source: Edison Investment Research, company accounts

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