

Drillsearch Energy

Oil & gas

30 July 2015

Exciting upside

Drillsearch Energy has a balance of near-term oil cash flow generation, a multitude of wet gas opportunities as well as unconventional upside. As of 1 July 2015, Drillsearch had produced 3mmboe and had a 74% success rate with the drill bit with 12 new discoveries. A diverse, but focused asset set is encouraging for future shareholder value.

Excellent positioning

Even with the downturn in commodity prices, Drillsearch generates a strong margin on production, enhanced with hedging, realising a price of \$97.2/bbl for the year and as of 30 June had A\$131.1m in cash and A\$40m of undrawn working capital facilities. Drillsearch has continued to hedge protection with 280mmbbls hedged across FY16/17 in the form of US\$60-85 collars. It is targeting A\$10-15m a year in corporate and operational savings plus reduced 2016/17 capex expenditure of around A\$80m-110m while targeting similar production to 2015 of 2.8 to 3.2mmboe.

Growth prospects

The majority of cash flow is generated from its Western Flank Oil project where over 12mb/d gross has recently been achieved. The project has production capacity in excess of the export capacity and while new connections will increase output potential, there is no rush to expedite these in the low oil price environment. With currently just under 8mmbbl of 2P reserves, we expect these to be revised upwards given recent drilling success and a healthy inventory. On the gas front, JVs with Beach and Santos are focused on establishing early stage production. Of note, the work with Santos has involved drilling eight wells (seven discoveries), with first connection expected in H116. Drillsearch's objective is to become a material supplier to the East Coast and it is actively exploring short payback commercialisation strategies.

Potential

Drillsearch's unconventional assets are focused on the Patchawarra and Nappamerri troughs. In the northern area, a JV with Santos should drill deep coals in early FY16. A JV in the western area will test gassy coals in the Baird-1 well. In the Nappamerri trough, four wells have been completed and two wells have been shut-in post fracture for pressure build up. 2016 will be an active year with Western Flank Oil driving cash flow with investment (and gas flow) in the Western Wet Gas area to come online progressively during FY16. At present, Drillsearch plans on drilling up to 22 wells across its portfolio, therefore, there is plenty of scope for upside.

Historical financials

Year end	Revenue (A\$m)	PBT (A\$m)	EPS (c)	DPS (c)	Net assets (A\$)	OCF (A\$)
06/13	102.2	17.8	11.1	N/A	286.6	19.2
06/14	387.0	179.4	16.6	N/A	363.4	246.4

Source: Drillsearch Energy

Price **A\$0.86**
Market cap **A\$397m**

Share price graph



Share details

Code	DLS
Listing	ASX
Shares in issue	461.1m

Business description

Drillsearch Energy is an ASX 200 oil and gas producer and explorer. The company is Australia's third-largest onshore oil producer focused on the highly prospective Cooper-Eromanga Basin.

Bull

- Balanced portfolio; East Coast opportunity.
- Active 2016 program.
- Domestic gas upside, oil cash flow.

Bear

- Overall activity slowing.
- Overall sector sentiment remains low.
- Growing environmental pressures.

Analysts

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