



Monday 8 August 2005

INP AU **Outperform**
 Relative to ex 100
 Volatility index very high

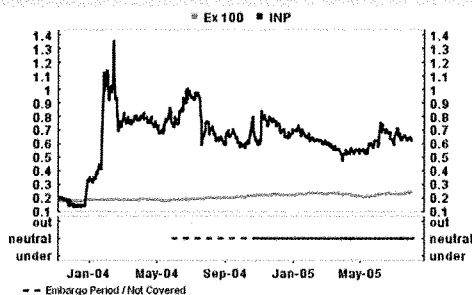
Stock price as of 05 Aug 05 A\$ 0.64
 12-month target A\$ 0.73
 12-month TSR % +15.0
 Valuation A\$ 0.45
 - DCF (WACC 9.8%)

GICS sector energy
 Market cap A\$m 43
 Number shares on issue m 67.58

Investment fundamentals

Year end 30 Jun		2004A	2005E	2006E	2007E
Sales revenue	m	0.0	0.2	7.0	10.5
EBIT	m	-2.4	-4.2	0.4	1.3
Reported profit	m	-2.3	-3.9	0.3	1.0
Adjusted profit	m	-2.3	-3.9	0.3	1.0
Gross cashflow	m	-0.3	-0.2	2.8	4.0
CFPS	¢	-0.5	-0.3	4.2	5.9
CFPS growth	%	nfm	31.1	nfm	41.9
PGCFPS	x	nfm	nfm	15.1	10.7
PGCFPS rel	x	nfm	nfm	1.51	1.18
EPS adj	¢	-3.6	-5.8	0.5	1.4
PE adj	x	nfm	nfm	133.3	43.9
PE rel	x	nfm	nfm	9.16	3.40
DPS	¢	0.0	0.0	0.0	0.0
Yield	%	0.0	0.0	0.0	0.0
Franking	%	0	0	0	0
ROA	%	-34.3	-30.7	3.1	8.1
ROE	%	-33.8	-29.2	2.5	6.4
Net debt/equity	%	nc	nc	nc	nc
Price/book	x	3.0	3.3	3.2	2.5

INP AU vs ex 100, & rec history



Source: ASX, Macquarie Research. All figures in AUD unless noted.

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Innamincka Petroleum

Now an 'E' and 'P' company

Event

- With Flax-1 coming on-stream in July, Innamincka Petroleum (INP) is now both an 'explorer' and a 'producer'.

Impact

- Flax production online.** The Flax field is currently producing around 300bopd. A second well has been drilled and will be brought online later in 2005 after it is fraced. A third well is scheduled to be drilled in late 2005, early 2006 potentially lifting production rates towards 1000bopd, thereby justifying an export pipeline. We value INP's share in the Flax field at \$0.19 per share assuming gross recoverable reserves of 5.1mmbbl (INP net reserves of 1.8mmbbl).
- Juniper potential upside.** The Juniper-2 well extended the reservoir but increased awareness of potential issues surrounding the continuity of reservoir properties and potential recovery factors. Our price target includes \$0.36 per share for a 50mmbbl oil-in-place Juniper resource with a 20% recovery factor (ie INP net reserves of 3.5mmbbl). This is risked at 25% in our valuation and currently excluded from our earnings forecast.

Earnings revision

- Adjusted earnings forecast reduced due to delay in fracing of Flax-1 and general rig availability.

Price catalyst

- 12-month price target: A\$0.73 based on a DCF methodology.
- Catalyst: Assumes development of the Juniper oil discovery with gross 10mmbbl oil recoverable.

Action and recommendation

- With INP now producing oil in the current US\$60/bbl oil price environment, we expect the company to book its first profit in FY06. Assuming the development of both the Flax and Juniper fields, our DCF valuation for INP is A\$0.73 per share, a 14% premium to the current trading price.
- Given that INP is now a producer and the current stock price is trading at a discount to our price target, we have increased our recommendation to outperform.



Operational update

Flax production online at last!

- The Flax-1 well was shut-in in December 2004 following production testing with the recommendation for fracture stimulation. Due to rig availability and rain, the procedure was delayed, resulting in no production for over six months.
- The Flax-1 well fracture stimulation of the Tirrawarra Sandstone was successfully completed in June with production increasing from around 200bopd to around 300bopd. At present the well is continuing to clean up, with rates of up to 350–400bopd expected to be achieved.
- It took several months for INP to wrestle a frac crew away from STO, delaying production from Flax-1. To help combat this issue, Halliburton is bringing a second frac crew to the Cooper Basin for the Geodynamics project late 2005 which may provide an alternative rig to frac Flax-2 and Juniper-1.
- A third Flax well is planned in late 2005/early 2006 and with three producing wells, an oil export pipeline may be justified as opposed to the current trucking. We believe production rates of around 1000bopd are required in order to justify the construction of an oil pipeline.
- It will be important to have an improved understanding of the Juniper field before a potential oil export pipeline is sized for the development.

Juniper appraisal ongoing

- The Juniper-2 well was drilled in 2Q05 with the results extending the lowest known oil. Original results from Juniper-1 mapped a 40m interval with an 8km² enclosure resulting in a 24mmbbl oil-in-place resource estimate. Juniper-2 intersected the reservoir 80m below Juniper-1, increasing the mapped enclosure to 30km². Current oil-in-place resource estimates stand at 40–50mmbbl, however, variable reservoir quality creates concern over recoverability.
- INP has started to use the term 'Flax-Juniper complex' when discussing the fields with the belief that they may be connected. We believe that additional wells are required in order to prove this theory.

Exploration delayed by rain

- Given heavy rain periods in June, the exploration program has experienced some delays. The Ginko-1 prospect (PEL 101, INP 37.5%) has now spudded and is targeting multiple gas targets with the potential to contain around 24bcf gas-in-place. Ginko is a commitment well and is located 6km north of a producing STO gas field in the Cooper Basin.

- Following Ginko, the drill rig will go to STO for three wells before returning to INP later in 2005. INP is likely to drill a third Flax well and additional exploration commitment wells. The order of the drill program will be dependent on commitment wells, some of which are currently required by the end of January 2006.

Corporate update

Farm-ins finalised, reduces capex commitments

- The partners in PEL 101 and PEL 103 have concluded farm-in negotiations.
- INP's equity in PEL 101 has been reduced from 50% to 37.5% with the entry of Mid Continent Equipment (Australia) Pty Ltd (MCEA) an oilfield equipment supplier. MCEA will earn a 25% equity in the permit by contributing to the funding of the 2005 exploration program, starting with the Ginko gas exploration prospect.
- In PEL 103, an agreement has been reached with Avery Resources to farm-in to three blocks within the permit by contributing to funding of exploration and seismic activity. The farm-in blocks are adjacent to the Flax and Juniper discoveries and cover various prospects, including Aspen and Turban. INP's equity remains unchanged for the Flax/Juniper/Yarrow discoveries but reduces from 35% to 26.25–22.75% in the surrounding defined blocks within PEL 103.
- INP currently holds 50% equity in ATP 543P South and is negotiating with potential farm-in partners. The JV plans to drill the Zeta prospect in the block in late 2005.

Cash position tight

- At the end of the June quarter, INP had A\$7.2m cash on hand with exploration and evaluation expenditure commitments for the September quarter of A\$0.6m.
- The good news is that with the start-up of Flax-1 production and assuming a US\$50/bbl oil price, INP should be making around A\$120k/mth, lifting in successive quarters as further Flax wells are brought online.
- Given the current cash position, combined with forecast cash inflow and reduced exploration commitments due to farm-in agreements, it is likely that INP will require additional funding to fully develop the Flax and Juniper oil fields in 2006.



Innamincka Petroleum

Year End 30 June

Shares: 67.6m

Price: A\$0.63

Profit & Loss						Ratio analysis							
A\$m	FY04A	FY05E	FY06E	FY07E	FY08E			FY04A	FY05E	FY06E	FY07E	FY08E	
Sales Revenue	A\$m	0.0	0.2	7.0	10.5	13.9	(ND/ND+E)	%	45%	36%	14%	29%	36%
+other income	A\$m	0.1	0.3	0.2	0.1	0.2	Dividend Yield	%	0%	0%	0%	0%	0%
Total revenue	A\$m	0.1	0.5	7.1	10.6	14.1	ROA	%	nmf	nmf	4%	8%	21%
-Operating costs	A\$m	0.4	0.8	4.0	6.2	6.7	ROE	%	nmf	nmf	2%	6%	15%
EBITDAX	A\$m	-0.3	-0.2	3.1	4.4	7.4	Effective tax rate	%	0%	0%	47%	30%	30%
-Exploration expensed	A\$m	2.0	3.7	2.0	2.0	2.0	EBITDA Margin	%	nmf	nmf	16%	23%	39%
EBITDA	A\$m	-2.3	-3.9	1.1	2.4	5.4	EBIT Margin	%	nmf	nmf	9%	13%	31%
-Depreciation & Amortisation	A\$m	0.0	0.0	0.5	1.0	1.1	EV/EBITDA	X	nmf	nmf	12.8	7.9	4.2
EBIT	A\$m	-2.3	-3.9	0.6	1.4	4.3	GCFPS	cps	-0.5	-0.3	4.2	5.9	9.1
-interest expensed	A\$m	0.0	0.0	0.0	0.0	0.0	P/GCFPS	X	-125	-183	14.9	10.5	6.9
Pre-tax operating profit	A\$m	-2.3	-3.9	0.6	1.4	4.3	Price assumptions						
Tax expense	A\$m	0.0	0.0	0.3	0.4	1.3	US\$/A\$m	¢	0.71	0.76	0.77	0.75	0.70
Net operating profit	A\$m	-2.3	-3.9	0.3	1.0	3.0	Oil-WTI	US\$/bbl	33.69	48.73	52.58	49.98	48.18
Reported profit	A\$m	-2.3	-3.9	0.3	1.0	3.0	Production						
- significant items	A\$m	0.0	0.0	0.0	0.0	0.0	Natural gas	PJ	0.0	0.0	0.0	0.0	0.0
Adjusted profit	A\$m	-2.3	-3.9	0.3	1.0	3.0	Condensate	kbbl	0.0	0.0	0.0	0.0	0.0
Gross cashflow	A\$m	-0.3	-0.2	2.8	4.0	6.1	Oil	kbbl	0.0	3.5	103	156	208
EPS (Adjusted)	Ac	-3.6	-5.8	0.5	1.4	4.4	LPG	k tonnes	0.0	0.0	0.0	0.0	0.0
EPS growth	%	nmf	nmf	nmf	204%	207%	Total boe	mmboe	0.0	0.0	0.1	0.2	0.2
DPS	Ac	0.0	0.0	0.0	0.0	0.0	Reserves						
PER	x	nmf	nmf	131.2	43.2	14.1	Oil	mmbbl	1.8	1.8	1.7	1.5	1.3
FFPOWA shares on issue	m	65	68	68	68	68	Gas	PJ	0	0	0	0	0
							Total reserves	mmboe	1.8	1.8	1.7	1.5	1.3
							Reserves/production	years	nmf	nmf	16.4	9.8	6.3
							Mkt cap / boe reserves	A\$/boe	9.59	8.15	8.65	8.94	9.35
							Per bbl statistics						
							Sales Revenue / boe	A\$/boe	nmf	nmf	67.8	67.4	66.7
							EBIT / boe	A\$/boe	nmf	nmf	6.0	9.0	20.6
							Profit / boe	A\$/boe	nmf	nmf	3.1	6.3	14.4
							Opex/boe	A\$/boe	nmf	nmf	25.6	29.4	24.5
							DDA/boe	A\$/boe	nmf	nmf	5.0	6.7	5.5

Cashflow Analysis

A\$m	FY04A	FY05E	FY06E	FY07E	FY08E	
Cash from operations	A\$m	0.6	1.3	7	11	14
-Operating costs	A\$m	1.0	1.3	4.0	6.2	6.7
-interest paid	A\$m	0.0	0.0	0.0	0.0	0.0
-tax	A\$m	0.0	0.0	0.3	0.4	1.3
Operating cashflow	A\$m	-0.3	0.1	3	4	6
-exploration & development	A\$m	4.6	6.8	7.8	2.0	2.0
-acquisitions	A\$m	0.1	0.2	0.0	0.0	0.0
Free cashflow	A\$m	-5.0	-6.9	-5.0	2	4
+equity/other	A\$m	16	3.1	0.0	2.9	0.0
+debt raised/(repaid)	A\$m	0.4	0.0	0.0	0.0	0.0
Net cashflow	A\$m	11	-4	-5	5	4
+exchange rate adjustments	A\$m	0.0	0.0	0.0	0.0	0.0
Increase in cash	A\$m	11	-3.8	-5.0	5	4
Net debt at year end	A\$m	-11	-7.2	-2	-7	-11

Balance sheet

A\$m	FY04A	FY05E	FY06E	FY07E	FY08E	
Cash & investments	A\$m	14	13	8	12	17
Capitalised exploration & develop	A\$m	0.0	0.8	6.1	5.0	3.9
Property, plant & equipment	A\$m	0.1	0.2	0.2	0.2	0.2
Total assets	A\$m	14	14	14	18	21
interest bearing debt	A\$m	0.0	0.0	0.0	0.0	0.0
other liabilities	A\$m	0.3	0.6	0.6	0.6	0.6
Total liabilities	A\$m	0.3	0.6	0.6	0.6	0.6
Shareholder funds	A\$m	14	13	13	17	20

Reserves

	FY04A	FY05E	FY06E	FY07E	FY08E	
Oil	mmbbl	1.8	1.8	1.7	1.5	1.3
Gas	PJ	0	0	0	0	0
Total reserves	mmboe	1.8	1.8	1.7	1.5	1.3
Reserves/production	years	nmf	nmf	16.4	9.8	6.3
Mkt cap / boe reserves	A\$/boe	9.59	8.15	8.65	8.94	9.35

Per bbl statistics

	FY04A	FY05E	FY06E	FY07E	FY08E	
Sales Revenue / boe	A\$/boe	nmf	nmf	67.8	67.4	66.7
EBIT / boe	A\$/boe	nmf	nmf	6.0	9.0	20.6
Profit / boe	A\$/boe	nmf	nmf	3.1	6.3	14.4
Opex/boe	A\$/boe	nmf	nmf	25.6	29.4	24.5
DDA/boe	A\$/boe	nmf	nmf	5.0	6.7	5.5

NPV @WACC of 9.1%

	A\$m	A\$	%
Flax	15	0.19	
Juniper	7	0.09	
Exploration	7	0.08	
Net Cash	7	0.09	
Group NPV	36	0.45	
Shareprice prem/(disc) to NPV			38%
Discovered Undeveloped	29	0.36	
Target price (NPV)	58	0.73	
Shareprice prem/(disc) to NPV			-14%

Source: Macquarie Research, August 2005

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