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Incremental Petroleum Limited

Cooper Energy bids $1.32/share for IPM

Oil & Gas

BUY

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ASX code | IPM
Last price | $1.195
Fully diluted shares | 87.8M
Market cap | A$105.0M
52 week hi/low | $1.53 / $0.88
12 month price target[1] | $1.78
Valuation | $1.78
Valuation methodology | DCF

KEY POINTS

- Cooper Energy Limited (COE) has launched a hostile takeover offer for IPM valuing the company at $1.32/share, a 35% premium to IPM's closing price.
- COE is offering IPM shareholders 3.1 COE shares for each IPM share or $0.50/share in cash and 1.9 COE shares for each IPM share.
- The bid has a number of conditions including a minimum acceptance of 90%, the ASX 200 not falling more than 20% and the value of the offer remaining above $1.18/share.
- COE has already acquired a 4.99% stake in IPM and has indicated it has the support of one of IPM's substantial shareholders.
- Under the terms of the deal IPM shareholders will still received the $0.03/share unfranked dividend declared with the 1HCY08 result.

COMMENT

The hostile bid for IPM looks opportunistic and undervalues the company in our view. We note that the bid price translates to an EV/2P reserve multiple of US$8.40/bbl and a CY09 EV/EBITDA multiple of just 3.1X. While the offer is at a 35% premium to IPM's closing price and 30 day VWAP it is a 34% discount to our $1.78/share price target.

COE is an ASX listed oil production and exploration company with a market capitalisation of $107.2M. The company has 1.45mmbbls of 2P reserves, produced 380kbbls of oil in FY08 from the cooper basin and had $64.6M in cash at the end of June 2008. COE is currently trading on an EV/2P ratio of US$24.30/bbl.

INVESTMENT VIEW

IPM's core cash flow generating asset is its 100% owned Selmo Oil field in south-eastern Turkey. The project has 11.1mmbbls in 2P reserves and is currently producing around 480,000bbls per year. Selmo is expected to generate in excess of $20Mpa in cash flow over the next three years which will enable IPM to undertake its planned development programs in Turkey and California and also continue to pay unfranked dividends.

The development of the Edirne Gas project is proceeding as planned and remains on track to begin selling gas into the Turkish domestic gas network in mid 2009. Revenue from Edirne and increasing production at Kettleman should enable IPM to report strong earnings growth in CY09.

We view the hostile takeover bid by COE as opportunistic and are reiterating our BUY recommendation on IPM. At the bid price IPM is trading on an EV/2P reserve ratio of just US$8.40/bbl compared to COE's EV/2P reserve ratio of US$24.80/bbl. Our $1.78/share price target implies an EV/2P reserve ratio of US$11.40/bbl and we note that recent transactions for similar assets to Selmo have been completed at US$12.00-16.00/bbl which implies a price for IPM of $1.85-2.50/share.

Share price performance | IPM

Year end December	2007A	2008F	2009F	2010F
Revenue - A$M	40.0	56.3	74.0	78.4
EBITDA - A$M	18.3	29.1	39.7	42.2
NPAT - A$M	10.8	17.5	23.6	24.8
Free Cash Flow - A$M	(5.1)	(1.3)	7.7	28.1
EPS - cents	16.0	22.8	29.8	29.1
EPS - % chg	(10.9)	42.7	30.7	(2.4)
PER - x	7.5	5.2	4.0	4.1
DPS - cents	6.0	6.0	9.0	12.0
Dividend Yield - %	5.0	5.0	7.5	10.0
Franking - %	0.0	0.0	0.0	0.0

Notes: 1. Price target is equivalent to our DCF valuation.

TRICOM

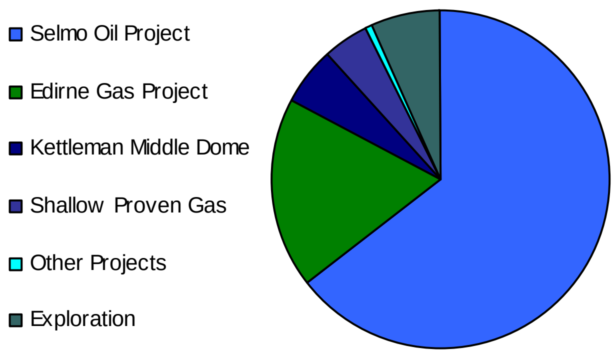
Year end December	2007A	2008F	2009F	2010F
PROFIT & LOSS SUMMARY (A$M)				
Sales revenue	**40.0**	**56.3**	**74.0**	**78.4**
Other revenue	0.6	0.6	0.3	1.2
Operating Costs	(19.5)	(24.8)	(31.7)	(34.3)
Exploration Expense	0.0	0.0	0.0	0.0
Corporate & Admin	(2.8)	(3.0)	(3.0)	(3.1)
EBITDA	**18.3**	**29.1**	**39.7**	**42.2**
Depreciation	(4.2)	(4.4)	(5.6)	(6.3)
EBIT	**14.1**	**24.7**	**34.1**	**35.9**
Interest Expense	(0.1)	(0.3)	(0.5)	(0.5)
Pre-tax profit	**14.0**	**24.4**	**33.7**	**35.5**
Tax expense	(3.2)	(7.0)	(10.1)	(10.6)
Net income	**10.8**	**17.5**	**23.6**	**24.8**
Minorities & Abnormals	0.0	0.0	0.0	0.0
NPAT	**10.8**	**17.5**	**23.6**	**24.8**
CASHFLOW SUMMARY (A$M)				
NPAT	10.8	17.5	23.6	24.8
Int, Tax, Expl Expensed	3.3	7.2	10.6	11.1
Int, Tax, Expl Incurred	(5.1)	(10.2)	(20.7)	(11.9)
Depreciation/Amortisation	4.2	4.4	5.6	6.3
Working Capital (Inc)/Dec	(2.4)	(2.2)	(0.5)	0.1
Other	0.7	0.5	0.0	0.0
Operating Cash Flow	**11.5**	**17.2**	**18.5**	**30.4**
Capex(net of asset sales)	(10.0)	(10.9)	(10.8)	(2.2)
Disposals/(Acquisitions)	(6.7)	(7.6)	0.0	0.0
Other investing cash flows	0.0	0.0	0.0	0.0
Free Cash Flow	**(5.1)**	**(1.3)**	**7.7**	**28.1**
Dividends	(2.0)	(4.4)	(5.5)	(8.3)
New Equity	(3.4)	10.7	0.0	11.5
Debt Drawdown/(Repay)	5.9	0.0	0.0	0.0
Net Cash Inc/(Dec)	**(4.6)**	**4.9**	**2.1**	**31.3**
FX impact on cash	0.4	(0.5)	0.0	0.0
Cash at End Period	3.8	8.2	10.4	41.6
Net Cash/(Debt)	**(2.6)**	**2.4**	**4.5**	**35.8**
BALANCE SHEET (A$M)				
Cash	3.8	8.2	10.4	41.6
Receivables	7.9	11.3	18.5	19.6
Inventories	2.2	5.6	7.4	7.8
Other current assets	0.6	0.6	0.7	0.8
Total current assets	**14.5**	**25.7**	**37.0**	**69.8**
Plant & equipment	17.6	18.3	18.8	18.4
Oil & Gas properties	60.5	74.0	78.7	75.1
Other non-current assets	11.6	11.3	11.1	10.9
Total non-current assets	**89.7**	**103.6**	**108.6**	**104.4**
Total assets	**104.2**	**129.3**	**145.6**	**174.2**
Payables	3.7	7.3	9.6	10.2
Short-term debt	1.3	1.2	1.2	1.2
Other current liabilities	0.1	1.1	1.5	1.6
Total current liabilities	**5.1**	**9.6**	**12.3**	**12.9**
Long-term debt	5.1	4.7	4.7	4.7
Other non-current liabilities	15.8	11.4	5.2	3.8
Non-current liabilities	**20.9**	**16.1**	**9.9**	**8.5**
Total liabilities	**26.1**	**25.7**	**22.2**	**21.4**
NET ASSETS	**78.1**	**103.6**	**123.4**	**152.8**
Contributed equity	56.3	66.9	66.9	78.4
Retained profits	21.9	36.7	56.5	74.3
Minority interests	0.0	0.0	0.0	0.0
EQUITY	**78.1**	**103.6**	**123.4**	**152.8**

Year end December	2007A	2008F	2009F	2010F
RATIOS AND MULTIPLES				
Income				
Revenue growth | %	(1.8)	40.9	31.5	5.8
EBITDA growth | %	(10.1)	59.0	36.3	6.4
EBITDA margin | %	45.8	51.7	53.6	53.9
EBIT margin | %	35.3	43.9	46.1	45.9
Effective Tax rate | %	23.1	28.5	30.0	30.0
Net interest cover | x	120.7	86.7	75.0	79.0
Balance Sheet				
ROA | %	10.3	13.5	16.2	14.3
ROE | %	13.8	16.9	19.1	16.3
Net debt/equity | %	3.4	(2.3)	(3.6)	(23.4)
Net debt/(debt+equity) | %	3.3	(2.3)	(3.8)	(30.6)
Shares Outstanding				
Basic | M	67.4	79.0	79.0	87.8
Other | M	8.8	8.8	8.8	0.0
Fully diluted | M	76.2	87.8	87.8	87.8
Valuation metrics				
Market cap | M	91.1	105.0	105.0	105.0
Net debt (cash) | $M	2.6	(2.4)	(4.5)	(35.8)
Options | $M	10.5	10.5	10.5	0.0
Enterprise value | $M	104.2	113.1	111.0	69.2
EV/EBITDA | x	**5.7**	**3.9**	**2.8**	**1.6**
EPS | c	16.0	22.8	29.8	29.1
P/E | x	7.5	5.2	4.0	4.1
FCF / Share | c	(7.6)	(1.7)	9.7	32.0
Price / FCF | x	**na**	**na**	**12.3**	**3.7**
Dividend Yield | %	5.0	5.0	7.5	10.0
Franking | %	0.0	0.0	0.0	0.0

VALUATION

NPV by project	(A$M)	(A$/sh)
Selmo Oil Project	101.5	1.16
Edirne Gas Project	29.2	0.33
Kettleman Middle Dome	8.8	0.10
Shallow Proven Gas	6.7	0.08
Other Projects	1.0	0.01
Unpaid capital	11.5	0.13
Corporate	(16.8)	(0.19)
Exploration	10.5	0.12
Forwards	0.0	0.00
Cash	9.5	0.11
Debt	(5.9)	(0.07)
NPV @ 12%	**156.1**	**1.78**

NPV BY PROJECT



TRICOM

Year end December	2007A	2008F	2009F	2010F
PRODUCTION SUMMARY				
Oil Production (mbbls)				
Selmo Oil Project	501	482	477	449
Kettleman Middle Dome	0	1	61	58
Total)	**501**	**483**	**538**	**506**
Oil Production (bopd)				
Selmo Oil Project	1,374	1,321	1,306	1,229
Kettleman Middle Dome	na	2	168	159
Total	**1,374**	**1,323**	**1,475**	**1,387**
Gas Production (mmcf)				
Edirne Gas Project	0.0	0.0	901.1	1,868.1
Shallow Proven Gas	na	na	na	na
Total	**0.0**	**0.0**	**901.1**	**1,868.1**
Gas Production (mmcf/d)				
Edirne Gas Project	na	na	2.47	5.12
Shallow Proven Gas	na	na	na	na
Total	**na**	**na**	**2.47**	**5.12**
CASH COSTS				
Cash Costs (US$/bbl)				
Selmo Oil Project	32.3	45.6	43.3	42.3
Kettleman Middle Dome	na	36.4	19.1	19.1
Average (US$/bbl)	**32.3**	**45.6**	**40.6**	**39.7**
Cash Costs (US$/mcf)				
Edirne Gas Project	na	na	3.02	3.06
Shallow Proven Gas	na	na	na	na
Average (US$/mcf)	**na**	**na**	**3.02**	**3.06**

COMMODITY PRICE ASSUMPTIONS

Year end December	2007A	2008F	2009F	2010F	Long-term
WTI Oil (US$/bbl)	72.32	112.96	105.00	97.50	70.00
Arabian Oil (US$/bbl)	67.61	103.74	95.40	88.65	66.00
ArabianGas(US$/mcf)	7.11	9.38	9.75	10.00	9.00
US$/A$ FX	0.84	0.89	0.80	0.80	0.80

BOARD OF DIRECTORS

Chris Cronin	Non-Executive Chairman
Gerry McGann	Managing Director
Mark Stowell	Non-Executive Director
Clayton Hyder	Non-Executive Director
Hon. Sandy Macdonald	Non-Executive Director
Jonathan Asquith	Chief Financial Officer

SUBSTANTIAL SHAREHOLDERS

Shareholder	Shares (M)	(%)
Westoz Funds Management	5.4	6.9%
Paradice Coopers Investors	4.6	5.9%
Kinetic Investment Partners	4.6	5.9%
Top 20	**37.5**	**47.7%**

RESERVES AND RESOURCES

Reserves		
1P Reserves	**100%**	**IPM**
Selmo	5.4	5.4
Total	**5.4**	**5.4**
2P Reserves	**100%**	**IPM**
Selmo	11.1	11.1
Total	**11.1**	**11.1**
3P Reserves	**100%**	**IPM**
Selmo	17.9	17.9
Kettleman Middle Dome	1.6	0.2
Total	**19.5**	**18.1**

Important Notice

Analyst Certification

As at the time of writing this report, the author held shares in Incremental Petroleum Limited (IPM).

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