

# Entek Energy Ltd

## (ETE \$0.13) Speculative Buy

31 October 2011

- ▶ **Price Target:** \$0.30/sh
- ▶ **Reason For Update:** Sep Q'ly
- ▶ **What we know:**
  - Three new wells have been drilled to TD in ETE's Niobrara Green River Basin shale (ETE 55% and operator) appraisal campaign over the Q.
  - BM 14-10L, SD 24-9 and C&C 18-8 have all had wireline logs run with results being encouraging for the prospective hydrocarbon intervals.
  - A total of 11 completion targets (vs 9 expected pre-drill targets) have been identified in the 3 holes; these will be tested over the remainder of the year with at least 2 additional frac' campaigns remaining in the programme.
  - Reservoir stimulation operations to date have systematically targeted deeper to shallower hydrocarbon bearing zones and limited time has been spent recovering hydrocarbons.
  - Production facilities are being installed at each of the 3 well locations.

▶ **What we think:**

That the Company is already installing production facilities at each of the 3 wells suggests to us that ETE is taking a positive view of how these wells will flow.

Good flow results (driving acreage value) will ultimately dictate a share price rally in ETE and we expect this will come at the back-end of the current program.

The lack of flow to date is a function of operational procedure rather than reservoir potential; preliminary analysis of wireline logs remains highly encouraging for economic flows when the current completions' programme concludes.

Our views on success for this vertical well program is for >250 bopd from any individual zones.

The identification of 2 additional targets from the drilling programme and thus the potential for economics flows for 3 to 4 zones per well is exciting on this basis.

It is worth noting that the aim of this program is to find the best way to complete the Niobrara Shale and evaluate the production potential on ETE's acreage – it could well take the planned 3 wells and further recompletions to achieve this (ie. monitoring individual well results could be misleading).

We will try to track the activity and results of other operators (mainly Shell) drilling directional and horizontal wells proximal to ETE's Niobrara acreage over the coming months.

► **Investment Case:**

ETE is the cheapest ASX exposure to an emerging oil shale project in the US (<\$1,000/acre v's its peer average of > \$10,000/acre) – Niobrara appraisal/development is currently underway in a productive basin. We envisage the share price will reflect the considerable upside as operating results are converted into production, reserves and ultimately cash flows. Drilling results in the Niobrara (both ETE and other operators) will be significant milestones as the company begins to build momentum.

Our valuation and price target is \$0.30/sh based on a re-rating of its Niobrara acreage this year (to say US\$3,000/acre) as Niobrara drilling and production results emerge. Our upside case is >\$0.70/sh.

ETE's oil focused GoM assets will provide base cash flow from next year and look to be a good complement to the Niobrara assets which will be active 6-9 months a year dependent on weather.

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**Market Statistics**

<b>Share Price</b>	<b>\$0.135 A\$/sh</b>
Price Target	\$0.30 A\$/sh
Methodology	Valuation
Valuation	\$0.30 A\$/sh (npv 10% nom)
Shares on issue	511m diluted
Market Capitalisation	\$69m
Enterprise Value	\$56m
Debt	\$- m
Cash	\$13m

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