

BHP chases hopeful petroleum prospect

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A joint venture with Otto Energy in the Palawan Basin may be worth every cent.

DESPITE its \$US20 billion (\$A20.6 billion) push into the "unconventional" shale gas business in the US, BHP Billiton remains committed as ever to the conventional world of oil and gas exploration in offshore fairways.

It is spending a record amount around the world looking for the sort of big oil and gasfields that you would expect a company of BHP's size to focus on. But today's interest is its work in the Palawan Basin offshore from the Philippines/Malaysia.

More particularly, its farm-in on a Palawan permit (SC55) offshore from the Philippines held by Perth's Otto Energy (ASX: OEL).

Otto is no stranger to the offshore oil and gas potential of the Palawan as it is operator of the producing Galoc oilfield, which produced 595,423 barrels of oil in the September quarter (196,490 barrels net to Otto based on its increased interest of 33 per cent).

Take a look at any analyst reports on Otto and you will see that the Galoc interest pretty much covers Otto's current market capitalisation of \$92 million at Friday's closing price of 8¢ a share. It is also holding some \$28 million in cash, much of which will be applied to a second-phase development of the Galoc field.

So anything else Otto has comes for free, including the joint venture with BHP in SC55. BHP's involvement tells you that success in SC55 could be a game-changer for Otto. The targets in the permit are meaningful for BHP, let alone for a company of Otto's size.

SC55 sits in the south-west region of the Palawan and has proven oil and gas finds sitting to the north and south along what is considered to be an emerging 1000-kilometre long deepwater oil and gas trend. Total (unrisked) potential means recoverable resources across a number of prospects in SC55 have been estimated at 19 trillion cubic feet of gas and 670 million barrels of condensate (light oil).

BHP can earn a 60 per cent interest in the permit by carrying the cost of drilling two wells, with a commitment to drilling at least one. Otto's interest in the permit gets reduced to 33.18 per cent (the remainder is held by Trans-Asia Oil).

More to the point is that Otto reckons the first target - the curiously named Cinco - is good to go in April 2012. The estimated recoverable resource there alone is 74 million barrels of condensate and 2.1 trillion cubic feet of gas.

We're talking about a significant commitment here by BHP. The cost of the first well could be as much as \$US60 million. Worth every cent if it comes in and not the end of the story if it does not, given the other targets in SC55.

The broker Hartleys reckons Cinco has a risked value of \$89 million (15 per cent probability of success) and an unrisked value of \$594 million. Again, that's all very interesting when stacked up against Otto's current market value. Little wonder then that Hartleys rates Otto as a "conviction buy" with a share price target of 18¢ a share.

"We consider the ideal to buy in the oil and gas sector is six months before the drilling of a high impact well," Hartleys said in a recent note. Cinco certainly has high impact potential for Otto.

As an aside, it is worth noting that Otto has a new chief executive officer - Gregor McNab.

Funny thing is that McNab comes to Otto after 22 years with BHP's now Houston-based oil and gas division, most recently as its vice-president external affairs.

Before that he had stints in Perth as the division's general manager of negotiations and general manager of its North West Shelf interests. As enthusiastic about Otto's interests in the Philippines as he is, McNab is looking to expand Otto's footprint elsewhere in south-east Asia and (onshore) east Africa.

GARY Fietz is another BHP veteran that jumped ship to do his own thing, as mentioned by Garimpeiro in July when his new endeavour New Age Exploration (ASX: NAE) was trading at all of 9.5¢ a share.

Fietz has been kicking some goals too, as is reflected in NAE moving up to the 11¢ a share level seen on Friday for a (fully diluted) market capitalisation of about \$19 million. His Colombian coal ambitions for NAE are taking shape.

NAE's starter project in Colombia is the Terranova mine where NAE has announced a maiden resource of 3.6 million tonnes of coking coal. It is not the biggest resource ever announced but it does not have to be.

Because of its location in an environmentally constrained part of Colombia, NAE has to be in and out of the planned development by October 2014, assuming the environmental constraints remain, which they might not.

But the in-and-out beauty of Terranova at a peak annualised mining rate of 550,000 tonnes of raw coal is that its ease of development (a small-scale operation run by others is already there) sets up NAE to employ its mining equipment, wash plant and other infrastructure to the development of regional deposits.

To that end, it is stepping up work on an adjacent but not environmentally constrained concession area, the plan being that a stage-two development there will give it the longer-life presence in the Colombian coking coal industry that Fietz wants to see.

While NAE works towards possible first production at Terranova from January 2013, investors who took up stock in the group's recent \$4 million placement at 12¢ a share are also banking on the big-time potential of NAE's ground position in Colombia's Cesar Basin.

The Cesar is where the privately owned US group, Drummond Company, struck a deal earlier this year for the sale of 20 per cent of its operations to Japan's Itochu for \$US1.52 billion. It is also where Vale, Glencore and others have major expansions in mind.

If NAE's ground position in the Cesar were in any of Australia's coal basins, you could bet that its market capitalisation would be a multiple of where it is today. Current Cesar production for export markets is 40 million tonnes, rising to an estimated 70 million tonnes from 2015.

Fietz has an exploration target of up to 1 billion tonnes of coal across NAE's two concessions in the Cesar and an adjacent sub-basin. It could be worth watching NAE confirm that potential with the drill bit.

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