

Resources

## Oil juniors tipped to do well this year

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The energy sector is likely to be one of the better performers in the new financial year. Equity strategists are generally recommending an overweight position in the space due to growing demand for power among emerging economies and the relatively inelastic demand from developed countries.

Energy use is usually less affected by economic cycles compared with other commodities such as industrial metals, as it is often regarded as a non-discretionary item.

This could be a good time for small cap investors to look at some emerging energy plays as a number of them have the potential to double over the next 12 months.

Raisama could be one. The company transformed itself from an emerging uranium explorer to an oil producer via the acquisition of Peak Oil & Gas in March this year.

The deal gives Raisama an opportunity to make a rapid transition to becoming an oil producer via the redevelopment of the Cadlao project in the Philippines.

While the project is of modest scale, independent research house Stock Resource pointed out that the oil field is low-risk and low-cost, and holds the promise of significant near-term cash flow to support the company's broader growth ambitions.

Cadlao had been abandoned in 1991 due to the low oil price after an 11-year run, and Raisama believes that the field could still hold 6 million barrels of oil.

Further, the cost of retrieving the oil is low, with Patersons Securities estimating that the company can reach first oil at a cost of around \$US25 million (\$23.3 million) and a further \$US25 million for the two subsequent development wells.

Based on the current oil price, which is nearing \$US100 a barrel and the expected production rate, the broker calculated that Raisama can generate gross cash flows of \$US300 million from this project in the first 12 months, with break-even achieved in around two months.

The project could significantly lower the risk profile for Raisama and lead to a rerating of the stock given the amount of cash the project is estimated to generate is significant for a company with a market cap of just \$14 million.

However, Patersons warns that the stock is still considered a speculative venture due to Raisama's lack of existing production and the risks inherent in the Cadlao project and its other exploration initiatives.

Patersons has a "speculative buy" recommendation on the stock with a price target of 23¢ a share, while Stock Resource is urging investors to buy the stock under 10¢ a share.

Raisama jumped 1¢ to a near two-month high of 10.5¢ in early trade after hitting a record low of 6¢ on June 27.

Another energy stock that has made a strong rebound is Carnarvon Petroleum as the market is sensing that the company's fortunes are about to turn following a number of encouraging updates.

The stock has jumped over 40 per cent since hitting a near four-year low of 15.5¢ on June 21 and hit a seven-week high this morning when it gained 0.5¢ to 22¢.

All brokers polled on Bloomberg are urging investors to buy the stock, with an average price target of 41¢ a share. Carnarvon is looking cheap on a one-year forward price-earnings of under six times compared with the 32 times average of its peer group.

Further, the company is close to completing its seismic survey over its Phoenix gas project and has identified leads and prospects of between 0.5 trillion and 3 trillion cubic feet of recoverable gas.

Hartleys believes that Carnarvon's downside risk is decreasing, and its upside risk increasing, as its production wells in Thailand have stabilised.

"Thai elections have occurred peacefully and significant progress at Phoenix all point to decreased shareholder risk of any negative surprises," said Hartleys analyst Dave Wall.

The Australian Financial Review

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