

3 November 2011

**RECOMMENDATION**  
Speculative Buy

12 month price target	\$0.24
12 month volume	69m
12 month share low	A\$0.05
12 month share high	A\$0.27

Market Risk	High
Liquidity Risk	Medium
Infrastructure Risk	Medium
Country Risk	Medium

IRESS & DJC Research

**ISSUED CAPITAL**

ASX	RAI
Share price	\$0.12
Mkt cap <sup>1</sup>	\$31m
Ordinary shares on issue	260m
Unlisted Options <sup>2</sup>	54.5m

<sup>1</sup> Undiluted Source: IRESS  
<sup>2</sup> Various dates and strike prices

**DIRECTORS**

David Berrie	Exec Chairman
Jeff Steketee	Managing Director
Jim Durant	Technical Director
Mathew Howison	Non Exec Director
Chris Reindler	Non Exec Director
Guy Cowan	Non Exec Director

Source: RAI

**MAJOR SHAREHOLDERS**

Sagepark Holdings	11.4%
Pontia Pty Ltd	11.4%
Hebei Mining	9.3%
Matthew Howison	5.6%
Lanza Holdings Pty Ltd	5.4%
Veblen Group Pty Ltd	5.4%

Source: IRESS

**12 MONTH PERFORMANCE**



Source: IRESS

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# Raisama Ltd (RAI)

## Cadlao Final Investment Decision Imminent

RAI has released its September Quarter 2011 report. The key focus for the quarter was to mature RAI's flagship Cadlao Redevelopment project (50% RAI) which is located in the prolific Palawan Basin offshore Philippines. We expect a Financial Investment Decision (FID) to be taken on the project by the end of November which will be a key catalyst for RAI.

**Key Points:**

- Project debt facility of US\$30m secured.** RAI has agreed terms for a project debt facility through Legavi Holding Inc (Legavi) for US\$30m. Legavi is a Philippines based corporate investment organisation associated with Hong Kong and European Fund Placement/Investors.
- Marketing and working capital facility with BP.** RAI has reached an agreement with global oil and gas major BP for the marketing of crude oil produced from the Cadlao redevelopment project. Under the agreement, BP will advance RAI the full amount of oil sales revenue (estimated to be ~US\$35m) for its maiden cargo of up to 350,000 bbls of oil as it is produced into the floating storage facility.
- Cadlao project fully funded.** RAI now has a total funding capacity of US\$85m for the Cadlao redevelopment project. The gross Capex estimate for the Cadlao redevelopment project is currently estimated to be ~US\$70m with RAI's share being ~US\$43m.
- Cadlao FID imminent.** The next major milestone for the Cadlao project will be FID which is expected by the end of November. The project is highly economic (based on current assumptions) with the gross project NPV estimated to be US\$136m (RAI share of US\$79m) assuming a 10% discount rate and oil price of US\$87/bbl. In addition, the project is expected to generate over \$90m net cashflow (RAI share) in the first year of production with an estimated IRR of over 100%. First oil is now planned in 1H 2012 as opposed to 1Q 2012 due to longer than anticipated procurement times for long lead items.
- Amanah prospect has 40mmbbls oil potential.** RAI has entered into a shareholder agreement to acquire a 38.25% interest in South Block A (located onshore North Sumatra, Indonesia). The key prospect identified on the block is Amanah which is estimated to have a most likely prospective resource of ~40mmbbls oil over six potential reservoir zones. Drilling is expected during 1H 2012. A success at Amanah could add ~\$0.40/sh unrisks to RAI.
- We maintain our Speculative Buy recommendation with a slightly revised price target of \$0.24/sh.** RAI has delivered all the major milestones on the Cadlao redevelopment project in 2011 to date and has a quality portfolio of development and exploration assets. The Cadlao FID is planned by the end of November which will be a key near term catalyst for RAI. However, we believe a key impediment to an improvement in the current share price is the perceived lack of funding to pursue other key activities (e.g. drilling of the Amanah prospect) given cash at the end of September was ~\$1.2m. Once this hurdle is removed, we believe the market will attribute more value to RAI's assets outside of Cadlao.

## Cadlao Redevelopment Project (50% RAI)

The Cadlao field was discovered by Amoco in 1977 and is located offshore in the prolific Palawan Basin, Philippines. The field lies in relatively shallow water (~20m - 90m) and is surrounded by a number of producing oil and gas fields, with the largest being the Shell- Operated Malampaya field (2.5 - 4.5tcf gas). Other nearby developments include Mantinloc (12.7mmbbbls oil) and Nido (18mmbbbls oil).

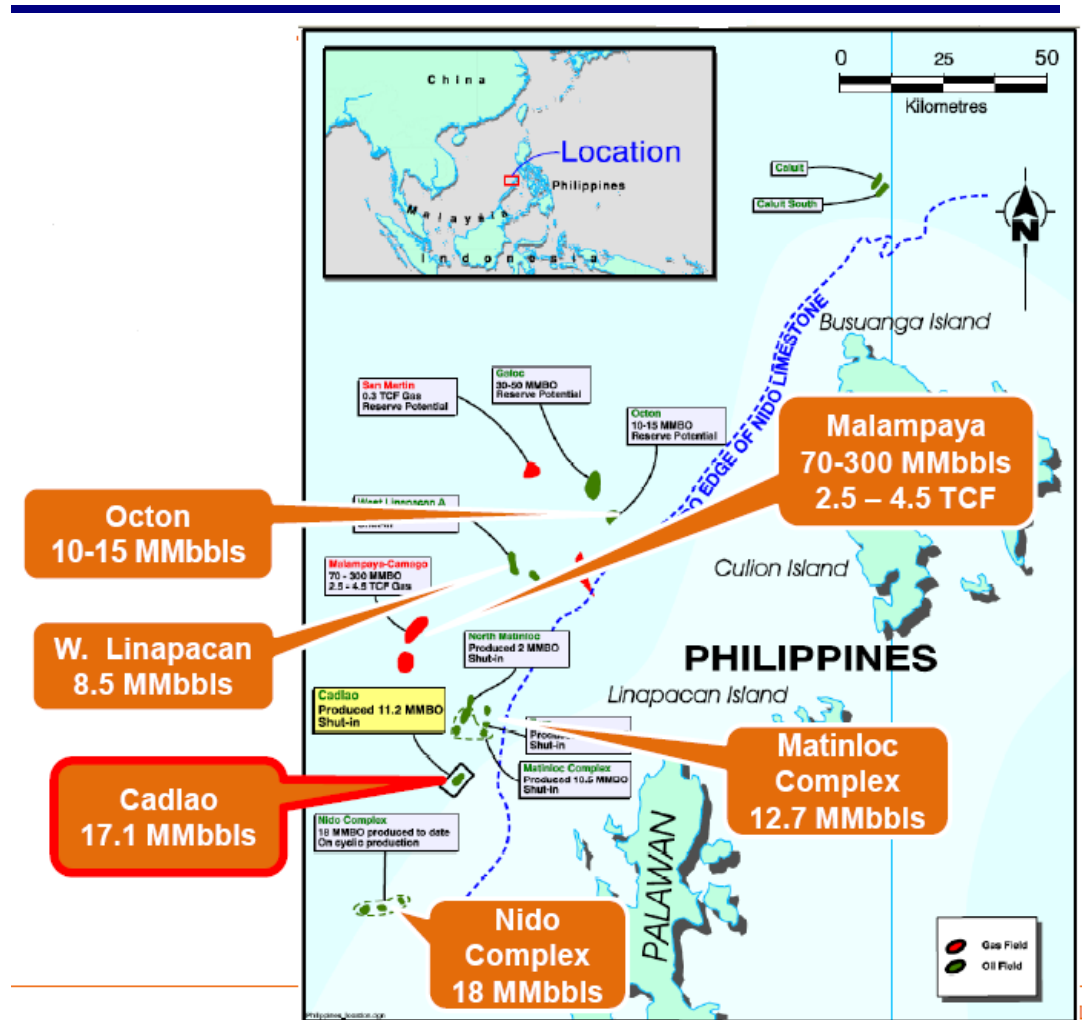


Figure 1: Cadlao Field in Palawan Basin

Source: RAI

Production from the Cadlao field commenced in August 1981. The development included two production wells (Cadlao-1A and Cadlao-3) and a Floating Production Storage Offloading facility (FPSO). The field produced over 11mmbbbls oil over 11 years and was shut-in in 1991 due to a low oil price environment (US\$14/bbl), declining oil production from sub-optimal well locations and escalating operating costs.

A newly acquired 3D survey over the Northwest Palawan basin (including Cadlao) undertaken by Western Geco in 1996 identified a different structure in the Cadlao field than what was previously interpreted on vintage 2D. The highlight of the new 3D seismic data was the interpretation of oil potential up-dip from the existing Cadlao wells which was not previously identified. Based on the 1996 3D seismic data and production history of the three appraisal/development wells in the Cadlao field (Cadlao-1, Cadlao-3 and Cadlao 1A), Global oil and gas consultancy Gaffney, Cline and Associates (GCA) performed a reserves certification on remaining oil volumes located up-dip.

The result was certified gross Proved Reserves (1P) of 4.11mmbbls oil and gross Proved and Probable Reserves (2P) of 6.05mmbbls oil. The identification of material remaining oil volumes highlighted the potential of a redevelopment of the Cadlao field.

At the end of 1Q 2011, RAI completed the acquisition of Peak Oil & Gas Ltd (Peak) for a total consideration of \$39m. The acquisition added an impressive portfolio of oil and gas assets located throughout the Asia Pacific region, with the Cadlao Redevelopment project being one of the highlights. Following the Peak acquisition, RAI is operator and has a 50% interest in the Cadlao Redevelopment project. Other Joint Venture (JV) partners include Blade Petroleum (30%) and VenturOil (20%).

The redevelopment concept of the Cadlao field is planned to be a three phase redevelopment which includes initial production, main production and decline. Each of these phases are summarised below.

- **Initial production phase.** The initial production phase includes the drilling of three development wells with temporary oil facilities being installed on the jack-up rig to accelerate first production. Oil will then be transferred through a floating hose to a floating storage and offloading vessel (FSO) for oil storage. The oil will then be exported periodically by tanker.



Figure 2: Initial production phase development

Source: RAI

- **Main production phase.** Once the field productivity is confirmed, a fixed platform will be installed along with permanent oil facilities. The FSO will be retained for oil storage, offloading, accommodation and for the supply of electrical power. The jack-up rig will then be released which will reduce operating costs.

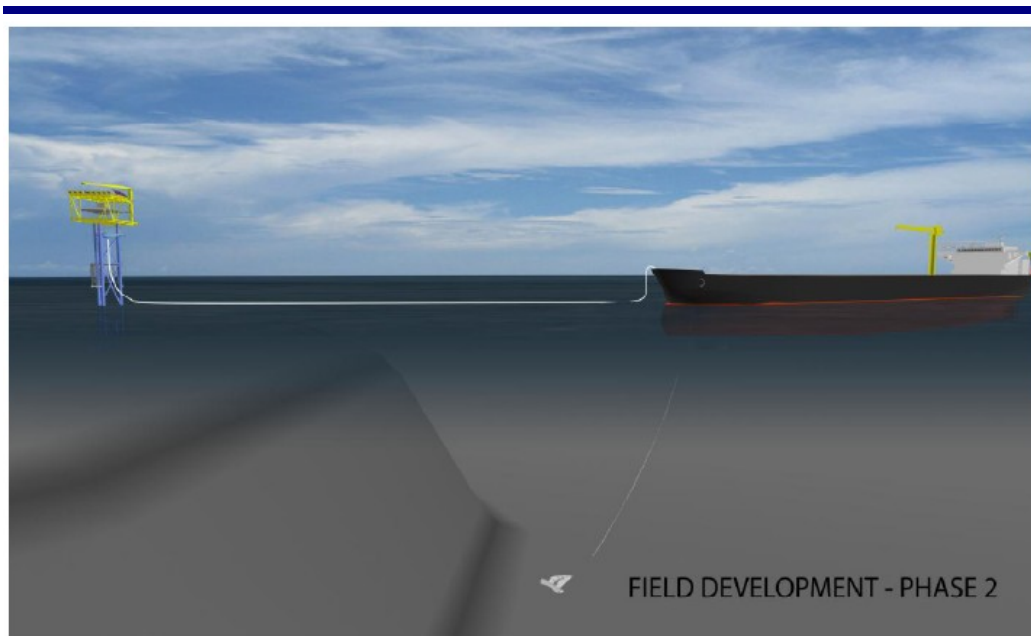


Figure 3: Stabilised production phase

Source: RAI

- **Decline phase.** To prolong the field life, the FSO will be replaced with a barge to reduce operating costs before the economic limit of the field is reached. However, as the barge is not as stable as the FSO, production will need to be shut-in periodically during the typhoon season and the barge will need to disconnect.

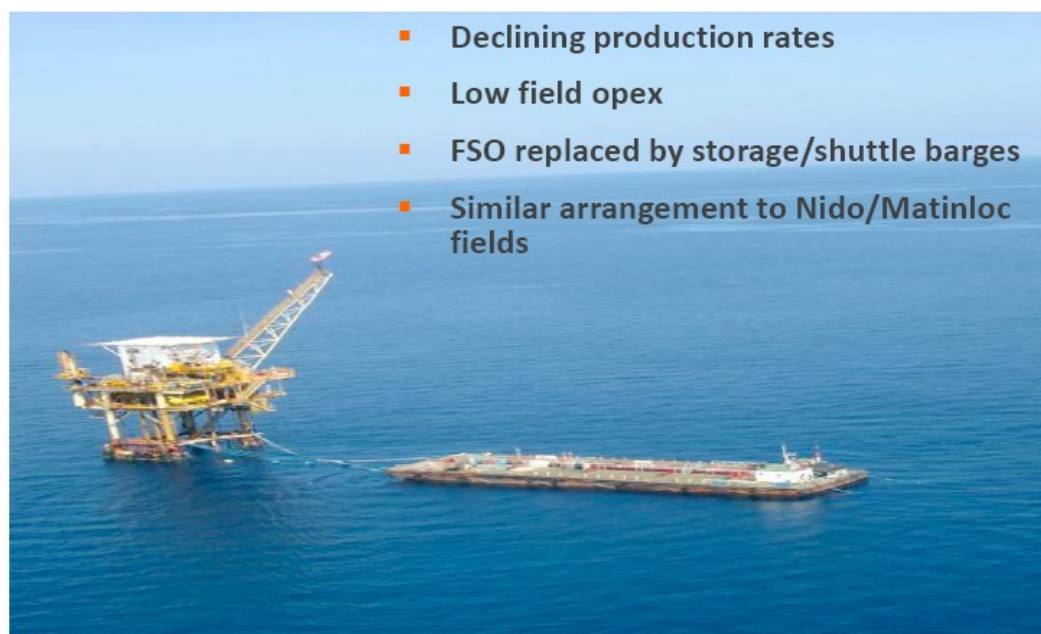


Figure 4: Decline phase

Source: RAI

RAI has appointed experienced oil and gas engineering group ARV to deliver the Cadlao project. ARV has successfully delivered similar scale projects to Cadlao in the Asian region such as

Bualuang (Thailand) and Kambuna (Indonesia). RAI plans to make a Final Investment Decision (FID) on the Cadlao project by the end of November 2011.

### Cadlao Redevelopment Project Fully Funded

Given the equity line of facility (US\$20m), project debt facility (US\$30m) and working capital arrangement with BP (US\$35m), RAI has a total funding capacity of \$US85m for the Cadlao redevelopment project. The Gross Capex estimate for the Cadlao redevelopment project is currently ~US\$70m with RAI's share being ~US\$43m. RAI is required to pay 80% of the Capex to first oil under the farmin agreement with Capex shared on an equity basis thereafter. Hence RAI now has sufficient funding for the Cadlao redevelopment project.

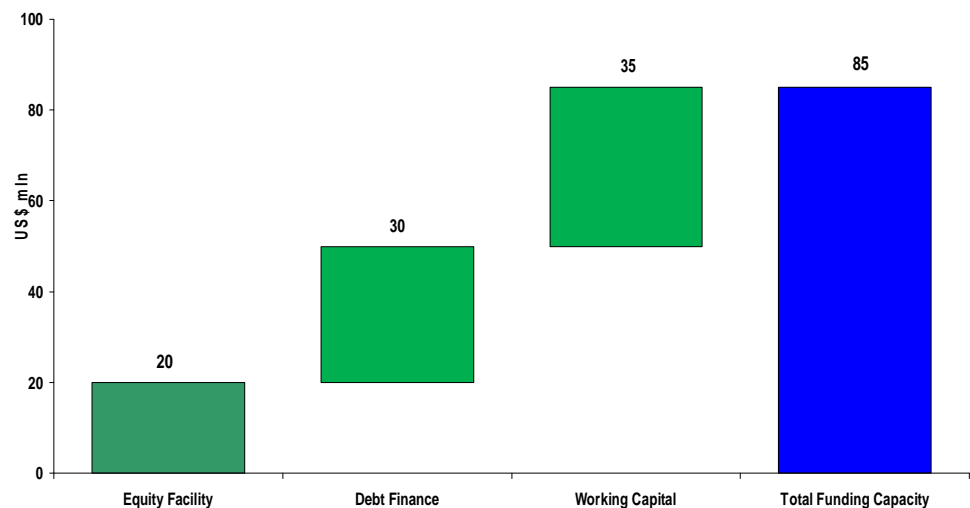


Figure 5: Cadlao Funding Capacity

Source: DJC and RAI

### Compelling Economics

Global consultancies Gaffney, Cline and Associates (GCA) and KPMG Corporate Finance (KPMG) were engaged by RAI to provide a project valuation on Cadlao. The economics of the Cadlao project (2P Reserves) are impressive. GCA and KPMG have estimated a gross project NPV of US\$136m (RAI entitlement share of US\$79m) and an impressive payback period of two months, assuming a 10% discount rate and oil price of US\$87/bbl. The project is expected to generate over \$90m net cashflow (RAI share) in the first year of production with an estimated IRR of over 100%.

#### Project Economics

Base case	Project US\$m	Peak US\$m
NPV <sub>10</sub>	136	79
Free cash flow	140	92
Payback months	2 months	2 months

Figure 6: Estimated project economics

Source: RAI

The key factor which underpins the impressive project economics is the high initial gross flow rate, which is estimated to initially be ~20,000bopd (ensuring high present value revenue) before rapidly declining with increasing water cut. The production rate is expected to drop to ~500bopd by 2016.

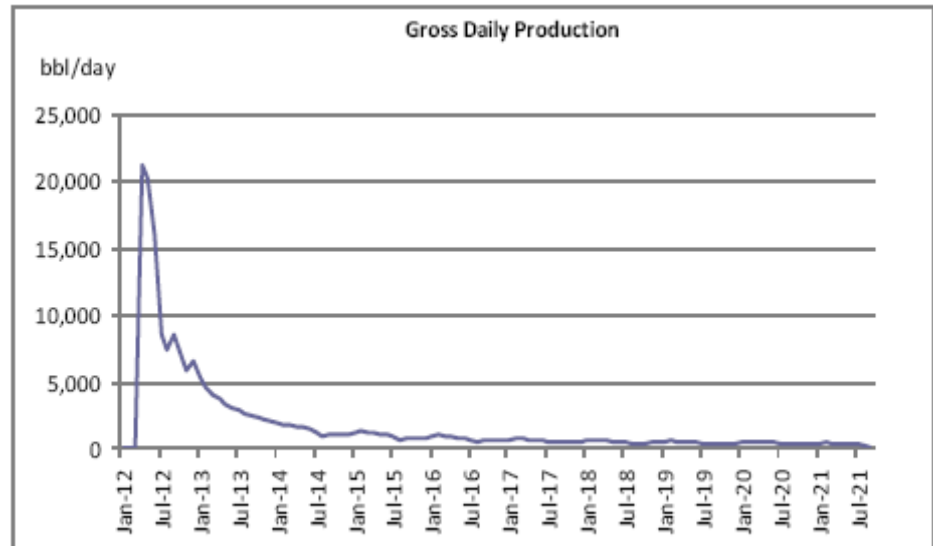


Figure 7: Cadlao estimated production profile

Source: RAI

## The Amanah Prospect, North Sumatra Basin, Indonesia

RAI has entered into a shareholder agreement to acquire a 38.25% interest in South Block A, in the North Sumatra Basin, Indonesia. The North Sumatra Basin is one of the most productive hydrocarbon provinces in Indonesia with over 80 known oil and gas fields. South Block A covers 2,100 sq km and is surrounded by a number of oil and gas fields supported by extensive infrastructure. The larger fields include the Arun gas field (15tcf) and the Rantau oilfield (300mmbbls). Two distinct petroleum trends (Shallow oil and Arun gas field reef trend) are prominent throughout South Block A.

The Amanah prospect is located adjacent to the Lee Tabue oil and gas field which was discovered in 1971 and by 1989 had produced 12mmbbls oil and 24bcf of gas. The large Rantau oil field (300mmbbls oil) is also located in close proximity (just over 50kms away). Based on recently completed technical studies by the joint venture on South Block A, the Amanah prospect has been assessed to have a most likely gross prospective resource of ~40mmbbls. This equates to 15.3mmbbls oil RAI share. The study has also identified three additional prospects, including a large oil prospect and two large gas prospects. However, these prospects require further study work to delineate the resource potential.

RAI plans to drill the Amanah prospect in 1H 2012. It is a relatively shallow well with a target depth of 1200 metres and will target six potential reservoir zones. One of the potential reservoir zones exhibits a flat spot and amplitude anomaly on 2D seismic which are potential indicators of a gas cap overlying an oil accumulation. The Amanah exploration well is estimated to cost \$3m gross with RAI's share being \$1.5m due to its obligation to fund certain study, seismic and drilling activities under a shareholder agreement with Renco Elang Energy Pte Ltd (REE). A success at Amanah could add ~\$0.40/sh unrisks to RAI.

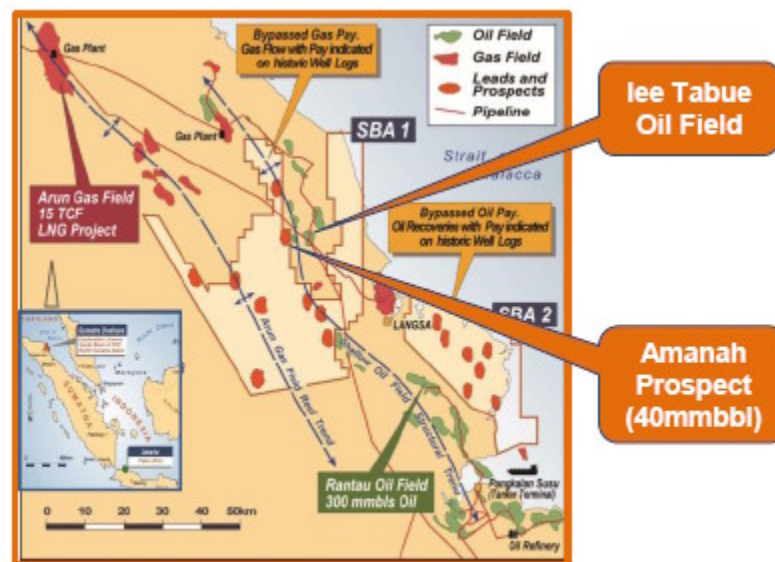


Figure 8: South Block A

Source: RAI

## Significant Upside Potential in New Zealand

RAI has entered into an agreement with New Zealand Oil and Gas Ltd (NZO) to acquire a 10% interest in offshore permit 51311 located in the Taranaki Basin, offshore New Zealand by funding 20% of an exploration well (dry hole costs only) to a cap of US\$3m (gross cost of ~\$15m). Water depths in the permit range from 30m to 150m. The Taranaki Basin is a prospective petroleum province hosting a number of producing fields (Tui, Maari and Kapuni). Over 1bnboe has been discovered in the Taranaki basin to date.

The most mature prospect in permit 51311 is Kaupokonui (recently renamed Kakapo) which lies in 90m of water and has a target depth of ~2000m. The Kakapo prospect lies between the producing Maari and Kupe fields, and is supported by an Amplitude Offset (AVO) anomaly which indicates potential for an oil accumulation with a small associated gas cap. The prospect has a gross mean recoverable resource estimate of ~380mmbbls oil (38mmbbls net to RAI). However, given the close proximity of the prospect to producing fields, a lower volume discovery outcome could be commercial (assuming a tieback to one of the nearby developments). There is significant upside to RAI's share price if Kakapo is a commercial success, which we estimate could add \$1.00/sh to RAI unrisks. The forward plan is to spud the Kaupokonui exploration well in 1Q 2012.

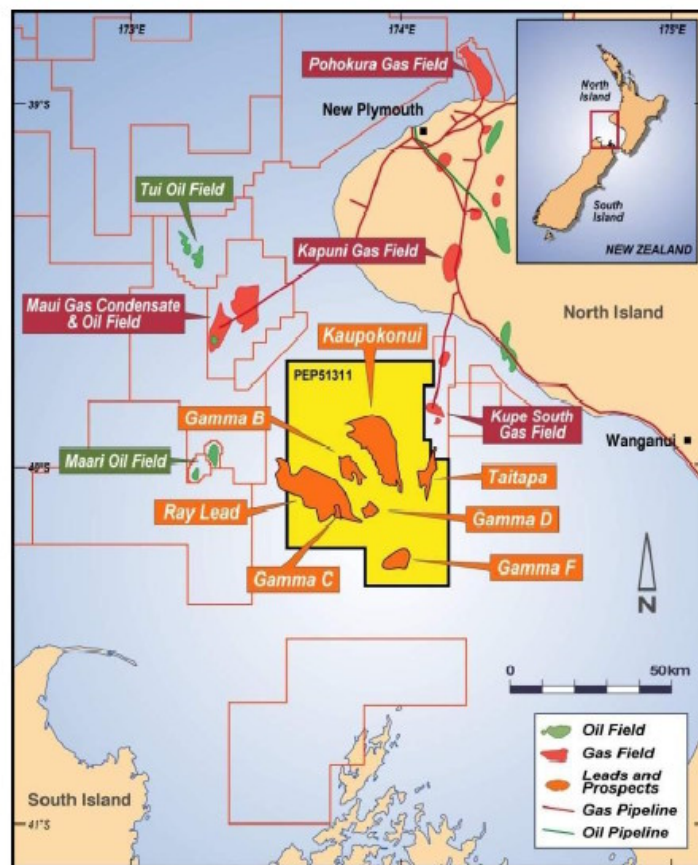


Figure 9: Kakapo prospect

Source: RAI

## RAI Valuation

**Our price target for RAI is \$0.24/sh.** We have based our valuation for the Cadlao project on the Independent expert's NPV (assuming a 10% discount rate) of \$79m RAI share (\$136m gross). However, we have scaled the independent expert's NPV in line with our long term oil price assumption of US\$95/bbl. The independent expert's modelled NPV was based on an oil price assumption of US\$87/bbl. This increases the RAI share NPV to \$89m.

In addition, we have applied a Probability of Success (POS) to the Cadlao project of 65% (i.e 35% chance of failure). This accounts for the execution and geological risks of the project. We have assumed a long term AUD/USD exchange rate of 1.00. Furthermore, we have calculated an Expected Monetary Value (EMV) for RAI's exploration and appraisal portfolio.

Given Capex to first oil (RAI share) is estimated to be \$30m, we have forecast debt to be \$30m. Once first oil is achieved we have assumed the working capital facility will fund the second well, with the project being self-funded once two wells are onstream. We have also assumed \$8m of equity dilution to account for additional project contingency and the funding required to execute additional activities in Indonesia and New Zealand.

Valuation Component	NPV10 A\$m	POS	Risked NPV	A\$/sh
Cadlao	89	65%	57.9	0.17
Cadlao East Prospect	13	10%	1.3	0.00
Bonita Discovery	10	20%	1.9	0.01
Kaupokonui Prospect	378	10%	37.8	0.11
Amanah Prospect	153	10%	15.3	0.04
Corporate	(4)	100%	-4.0	-0.01
Est. Cash	1	100%	1.2	0.00
Forecasted Debt	(30)	100%	-30.0	-0.09
<b>Price Target</b>	<b>610</b>		<b>81</b>	<b>0.24</b>

Figure 10: RAI Valuation

Source: DJC Estimates

**Disclosure****RCAN0996**

This Research report, accurately expresses the personal view of the Author. All the information utilised in this report is accurate and current at the date stated on this report.

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The Author of this report made contact with **Raisama Ltd** for assistance with verification of facts, admittance to business sites, access to industry/company information. No inducements have been offered or accepted by the company.

The recommendation made in this report is valid for four weeks from the stated date of issue. If in the event another report has been constructed and released **Raisama Ltd**, the new recommendation supersedes this and therefore the recommendation in this report will become null and void.

**Recommendation Definitions**

SPECULATIVE BUY – 10% out-performance, but high risk

BUY – 10% or more out-performance

ACCUMULATE – 10% or more out-performance, buy on share price weakness

HOLD – 10% underperformance to 10% over performance

SELL – 10% or more underperformance

Period: During the forthcoming 12 months, at any time during that period and not necessarily just at the end of those 12 months.

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