



Carbon Energy Limited

CNX A\$0.014

TARGET PRICE A\$0.09

SPECULATIVE BUY

Carbon Energy Limited (CNX) is a resources development company targeting the development of UCG in Australia and Asia (China). CNX has entered into a strategic JV with a Chinese partner which is likely to enable a relatively rapid rollout of its patented keyseam UCG business model throughout targeted sites. This technology has globally significant ramifications.

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QLD Government validates CNX UCG technology...

Carbon Energy Limited (ASX: CNX) is a QLD based energy technology company focussed on the development and commercialisation of underground coal gasification (UCG) projects, primarily overseas.

On 25/07/2015, CNX announced that the QLD Government had confirmed that CNX had **complied with and met the key recommendations** of the QLD Government appointed Independent Scientific Panel (ISP) into underground coal gasification (UCG). The ISP was originally established to assist the QLD Govt in assessing the merit of several UCG trial sites in QLD.

Additionally, it was confirmed that 1) CNX was the only company so far to meet the requirements of the ISP and 2) that the "company's successful and innovative keyseam technology is different from that of other technologies employed".

Whilst the ban on UCG in QLD has not changed, we think this endorsement specific to CNX's keyseam technology, from such a high level Govt source can only enhance the company's credibility in commercialising its CSIRO developed technology licensing model into Asia, as we have discussed in previous notes. Importantly, CNX is the only company to meet the ISP requirements accepted by QLD Department of Natural Resources and Mines (DNRM) and reviewed by QLD Department of Environment and Heritage Protection (DEHP).

Recommendation

Coupled with recent announcements (including the registration of the Jinhong China JV and potential (solar) monetisation of CNX's Bloodwood Creek demonstration facility project infrastructure, we believe this announcement is a positive move which highlights the uniqueness of CNX's parallel CRIP UCG model amongst other UCG technologies.

Given our revised valuation and price target still significantly exceeds the current share price our **Speculative Buy** recommendation remains.

Company Data

Number of shares (undiluted)	1806.5M
Market capitalisation	\$25.2M
Free Float (%)	61%
12 month high/low	\$0.024/\$0.008
Average Daily Turnover (\$K)	72.0
% S&P/ASX 200	n/a
% All Ordinaries	n/a
DDM Ranking	n/a
GICS Industry Group	Energy

Data Source: Fact set, APP Securities

Earnings Summary (AUD)

June Year End	2015A	2016F	2017F	2018F
Revenue (\$M)	4.2	3.3	27.0	28.0
EBITDA (\$M)	-3.6	-3.8	11.4	12.9
Reported NPAT (\$M)	-6.2	-4.8	10.8	12.2
Adjusted NPAT (\$M)	-6.2	-4.8	10.8	12.2
Adjusted EPS (¢ - FD)	-0.5	-0.3	0.6	0.7
Adjusted EPS growth (%)	n/a	n/a	n/a	13.0
Adjusted P/E (x)	n/a	n/a	2.3	2.1
Dividend (¢/sh)	0.0	0.0	0.0	0.0
Gross yield (%)	0.0	0.0	0.0	0.0
Net yield (%)	0.0	0.0	0.0	0.0

Share Price Performance



Source: APP Securities, Company Reports. APP Securities contribute all company estimates to Bloomberg, Thomson Reuters, Fact Set and Capital IQ.

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Contact with **Carbon Energy Limited** has been made during the preparation of this report for assistance with the verification of facts.

APP Securities Pty Ltd acted as Lead Manager and Underwriter to the Carbon Energy Limited Rights Issue as announced by the ASX on 11 March and 11 April 2016.

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Terminal Value methodology - APP Securities' Discounted Cash Flow (DCF) valuation applies a terminal growth rate to the last forecast year's cash flow and discounts the amount using Weighted Average Cost of Capital (WACC). The Terminal Value is tested using ASX-listed company multiples. For resource companies there is no terminal value because cash flows are forecast to the end of mine life.

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