

Carbon Energy Limited

Energy

CNX A\$ 0.016 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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The JV of CNX's first commercial project has received \$10m of initial funding

On 26 September Carbon Energy Limited (CNX) announced a key milestone in the development of its China Joint Venture ("JV") with Beijing JinHong Investment Co. Ltd ("JinHong"):

- The JV is receiving the initial \$US10m payment from JinHong as the initial capitalisation payment for the JV under the Joint Venture Agreement;
- The \$US10m is the first required milestone payment under the JV agreement that will see JinHong contribute a total of \$US30m towards the development of a commercial demonstration project upon the completion of defined milestones;
- With the initial funding now in place, the JV will assess its shortlist of suitable projects.
- CNX will provide technical and design services, supervision and training for all JV projects, and other agreed required services under a Technical Services Agreement.
- CNX and JinHong are also actively working towards finalising discussions in relation to matters raised by JinHong around the JV's ability to secure an exclusive licence to CNX's technology and intellectual property in China on an unencumbered basis;
- CNX and JinHong are actively working to resolve these matters in the short term

Commenting, the MD of CNX, Kerry Parker, who has recently returned from Beijing following a series of meetings with JinHong, said: "This is a significant step forward for Carbon Energy, moving closer to our strategic priority to commercialise the Company's keyseam technology in China, with our partner JinHong. There is considerable demand in this market for advanced coal technologies. Additionally supportive macro drivers, such as the emphasis on the industry in the Chinese Government's 13th five year plan, are underpinning the expansion of China's UCG industry. The joint venture with JinHong ideally positions Carbon Energy to capitalise on this demand. JinHong is a valuable partner for us as we work towards our first commercial project in China".

- Carbon Energy also advises that it is actively working towards the re-financing of the convertible note with the Pacific Road Group which matures in early 2017.
- The Company has recently appointed PriceWaterhouseCoopers and Magma Capital to assist with this re-financing. Further updates on this will be provided in coming weeks.

Earnings changes

The initial capitalisation payment for the JV shores up some of our forecast revenue and earnings.

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

Company Data

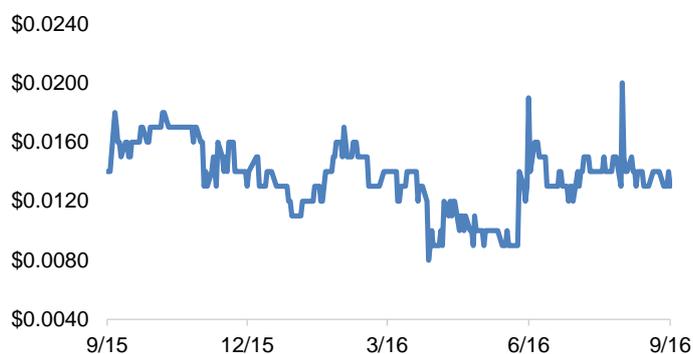
Number of shares	1813.4M
Market capitalisation	\$23.6M
Free Float (%)	67.804
12 month high/low	\$0.02/\$0.008
Average Daily Turnover (\$M)	0.0
% S&P/ASX 200	0.28
% All Ordinaries	N/A
DDM Ranking	N/A
ESG Score (Ranking)	N/A
GICS Industry Group	Energy

Earnings Summary (AUD)

Year end December	2015A	2016A	2017F	2018F
Revenue (\$M)	4.2	2.7	8.4	27.8
EBITDA (\$M)	-3.5	-2.9	0.7	12.1
Reported NPAT (\$M)	-6.2	-100.5	0.4	8.3
Adjusted NPAT (\$M)	-6.2	-100.5	0.4	8.3
Reported EPS (¢)	-0.3	-5.4	0.0	0.4
Adjusted EPS (¢ - FD)	-0.3	-5.4	0.0	0.4
Adjusted EPS growth (%)	N/M	N/M	N/M	N/M
Adjusted P/E (x)	-3.9	-0.2	65.2	2.9
Dividend (¢/sh)	0.0	0.0	0.0	0.3
Gross yield (%)	0.0	0.0	0.0	20.6
Net yield (%)	0.0	0.0	0.0	20.6
ROIC (%)	-3.0	-192.2	1.0	21.5

Data Source: APP Securities

Share Price Performance



Source: APP Securities, Company Reports. APP

Securities contributes all company estimates to Bloomberg, Thomson Reuters, FactSet and Capital IQ.

Note: Numbers displayed are a sub-set

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Free Float (float / current shares outstanding) *100 – This float figure is the number of shares that are available to the public and is calculated by subtracting the shares held by insiders and those deemed to be stagnant shareholders. Stagnant holders include ESOP's, ESOT's, QUEST's, employee benefit trusts, founding shareholder equity stake plus senior management equity stake, corporations not actively managing money, venture capital companies and shares held by Governments.

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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