

## APP Securities Company Research

# Carbon Energy Limited

CNX A\$0.013

TARGET PRICE A\$0.09

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.

25 October 2016

## Energy

SPECULATIVE BUY

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Asia Pacific  
Prudential Securities

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## Refinanced \$10m convertible note and established a sound foundation for future growth

On 25 October 2016 Carbon Energy Limited (CNX) announced it had refinanced its \$10m convertible note and established a sound foundation for future growth with the following highlights:

- **CNX's cornerstone investor, Kam Lung Investment Development Co Ltd ("Kam Lung" to purchase existing \$10 million convertible note** from current holder Pacific Road with a mix of upfront and deferred cash consideration;
- Current convertible note will be extended for a further five years on substantially the same terms;
- Funding will be used for refinancing, establishing solid foundation for future growth;
- **Proposed minimum \$5 million rights issue** to place CNX in a stronger financial position;
- 70% of the rights issue (\$3.5m) underwritten by Kam Lung;
- Seeking to secure further underwriting opportunities from other sources;
- To be priced at 1.2c per share, being a 25% discount to the 90 trading day VWAP;
- Attached to every two shares subscribed for will be one listed option, with a strike price of 2.4c and a three year life;
- Rights issue proceeds will be used to pay for refinancing costs of the \$10m convertible note and provide general working capital to pursue business development opportunities and ongoing commitment to rehabilitating the Bloodwood Creek trial site;
- Approval will be required from shareholders at the AGM for entering into the convertible note with Kam Lung;
- CNX's 2016 Annual General Meeting will now be held in mid-December; and
- Pacific Road appointed to monetise coal assets of CNX.

CNX's MD, Kerry Parker said: "Extending the Company's debt facility by a further five years and resolving the Company's short-term financial capacity by securing underwriting support for our \$5 million rights issue is a significant milestone and will allow management to focus on progressing the China Joint Venture with JinHong Investment Development Co. Ltd and to pursue additional joint venture and other business opportunities in particular in Asia and Europe."

### Earnings Changes

The rights issue is 25% dilutionary but it is a condition precedent to resolving CNX's short term funding issue and in doing so **dramatically de-risks CNX's business**.

We are retaining our 12 month price target of A\$0.09 and the recommendation of SPECULATIVE BUY. The price target is underpinned by our DDM valuation.

### Company Data

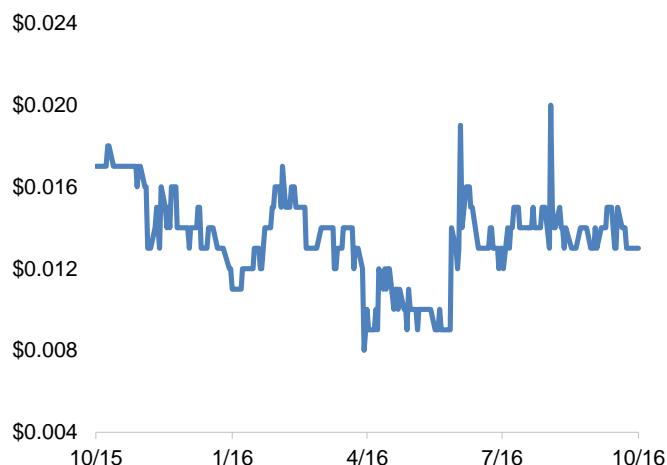
Number of shares	1,813.4M
Market capitalisation	\$23.6M
Free Float (%)	67.8
12 month high/low	\$0.02/\$0.008
Average Daily Turnover (\$M)	0.0
% S&P/ASX 200	0.28
% All Ordinaries	N/A
DDM Ranking	N/A
GICS Industry Group	Energy

### Earnings Summary (AUD)

Year end December	2016A	2017F	2018F	2019F
Revenue (\$M)	2.7	5.6	13.9	8.9
EBITDA (\$M)	-2.9	-4.1	0.0	-3.5
Reported NPAT (\$M)	-100.5	-4.3	-0.2	-3.7
Adjusted NPAT (\$M)	-100.5	-4.3	-0.2	-3.7
Reported EPS (¢)	-4.0	-0.2	0.0	-0.1
Adjusted EPS (¢ - FD)	-4.0	-0.2	0.0	-0.1
Adjusted EPS growth (%)	N/M	N/M	N/M	N/M
Adjusted P/E (x)	N/M	N/M	N/M	N/M
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
ROIC (%)	-192.2	-8.1	-0.3	-7.5

Data Source: Factset, 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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