

Article derived from Energy News Bulletin:

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<http://www.energynewsbulletin.net/outlook-analysis/news/1315499/rbc-sees-strong-us-potential-for-australis>

RBC sees strong US potential for Australis

WITH an experienced management team behind it and a sizeable low-priced acreage entry in an unloved but prospective US shale play on the Gulf Coast, RBC Capital Markets believes Australis Oil & Gas is worth a look, initiating coverage with an outperform rating.

- o [Sally Bogle](#)
- o 15 February 2018
- o 11:12
- o News



Hartleys likes Australis' 'unfashionable' Tuscaloosa Marine Shale

Formed by the core Aurora Oil & Gas team in mid-2014 Australis has accumulated a strategic position within one of the last emerging oil shale basins onshore in the US, RBC said.

Australis is now the largest acreage holder in the emerging shale play Tuscaloosa Marine Shale, onshore Louisiana and Mississippi, which exists "in the shadows of household name basins like the Permian and Eagle Ford," RBC said in a note yesterday.

"In shunning the popular Permian Basin, Australis has defined itself as a value investor in a US context, a position that necessitates a deft hand in asset screening in order to avoid 'Hotel California' syndrome," RBC said, referring to widespread appeal of US shale.

Ranking the company with an A\$1.10 per share price target, around three times its recent trading level, RBC noted that the company "has exploited the unfashionable nature of the play and the oil market downturn to establish a low cost, premium position in the TMS".

The analyst believes low entry costs and a strong management team underpin Australis' potential.

In 2017, Australis bought Encana's interests in the TMS for US\$80 million (A\$100 million), which included five million barrels of proved developing producing reserves valued at the time at \$95 million with 80MMbbl of 2C resources effectively acquired for free.

Since then Australis has acquired more acres, adding some 33MMbbl at what RBC estimates cost around 25c per barrel.

"The Australis board and management team comprises the greater part of the team from former ASX-listed Eagle Ford Shale play Aurora Oil & Gas. While past track record is no guarantee of future success, we think the lessons learned in the Eagle Ford are doubtless behind the selection of the TMS as a focus play for Australis," RBC added.

With around \$17 million for 2017's year-end cash, the analysts anticipates that Australis will require "a financing solution" to exploit its undeveloped 2P reserves in the TMS. Australis recently posted a 59.6% increase in market capitalisation from A\$182.44 million to \$291.13 million.

The company also has exploration interests in Portugal.

Its shares last traded up 7% to 35c, giving it a market valuation of \$272 million.