Dart Energy

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Dart Energy: Making impressive progress in coal bed methane

If the development of coal bed methane specialist Dart Energy (ASX:DTE) is anything like its former parent company, then investors are in for quite a ride.

Dart was spun out of Arrow Energy in the summer of 2010 ahead of Arrow's US$4 billion takeover by Shell and PetroChina and it is an object lesson in value creation.

In the course of a decade Arrow emerged from obscurity to producing 30 per cent of the energy in Queensland - and in doing so became a multi-billion dollar company.

And the dynamism that made Arrow such a success can be detected at Dart.

In less than 18 months Dart has grown from seven international projects demerged from the rump of the Arrow business to 56, covering an impressive 37,000 square kilometres.

Its resource base has expanded from eight to 59 trillion cubic feet, while an ambitious drilling programme commenced in mid-2011 targeting more than 100 wells by the end of 2012 to demonstrate the value of its portfolio.

And with around $120 million of cash, or near cash assets, it has the financial wherewithal to bankroll these ambitions.

It expects to generate first revenues by the end of the year with revenues expanding substantially in 2013 as delivery into gas sales agreements begins.

However a cursory look at the share price suggests the market hasn't quite picked up on the company's plans and its prospects.

The poor performance can be ascribed to the largely Australian shareholder base not quite understanding the potential of the international business.

Price: A$0.44

Market Cap: A$313.58M

1 Year Share Price Graph

Share Information

Code:	DTE
Listing:	ASX
Sector:	**General Mining - Coal**
Website:	**www.dartenergy.com.au**

Company Synopsis:

Dart Energy is an Australian S&P/ASX 200 listed company focused on the development of coal bed methane in Australia, Asia and Europe. The company has offices in Singapore, Australia, China, India, Indonesia, Vietnam, Scotland and Poland servicing a portfolio of quality projects, assets and opportunities.

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This operation spans the globe, including Indonesia, China, India, the UK, continental Europe and the company's native Australia.

There are plans to remedy this via the re-organisation of the company's corporate structure.

It will leave the current shareholders owning stock in an Australian company, with Australian assets.

The Australian entity will also own a majority stake in the international business, which is likely to be listed abroad, probably Singapore.

The IPO of these overseas assets will likely also provide Dart with the injection of cash needed to take the company over the finish line to profitability.

Dart's business model is probably the polar opposite to the one that took Arrow to prominence in Australia.

Where Arrow proved up the huge gas resources in Queensland required to justify costly infrastructure and plants, Dart hopes to show that a little coal bed methane goes a long way.

Its agreement with Scottish & Southern Energy is a great example of this.

It will sell up to a maximum nine billion cubic feet a year to the utility over a five year period a relatively modest amount by world standards.

However, current UK gas prices mean the group could stand to generate total revenues of up to US$400 million from this contract.

This is because Dart has made the deliberate decision of locating its operations in areas of high gas demand where prices are strong and growing.

The strategy has been very well thought out starting with Australia, where the takeover of Apollo Gas for $145 million last year gives it a very big toe-hold in New South Wales.

Land packages in Indonesia, India and China provide the company exposure to three of the world's great growth emerging markets.

And two acquisitions in the UK (of Composite Energy and Greenpark) helped consolidate the company's position in three of the nation's major basins.

The operation also forms the bedrock of Dart's European gas aspirations, which also includes Poland and Belgium.

These European assets also give the company the right to exploit the lower-lying hydrocarbons, which provides the basis of Dart's shale strategy.

Within Dart's asset portfolio, 15 have identified shale gas potential, and in relative terms the portfolio is of equivalent size to other listed companies focused solely on shale.

However the costs and risks associated with developing a shale play are in orders of magnitude larger than those allied to coal bed methane, and thus the company has indicated that it might make sense to joint venture the assets at some later date.

Demonstrating the value of the whole portfolio is key, and Dart will do this by bringing CBM wells in multiple separate geographies into production.

On that list is the company's project in the central belt of Scotland, Luilin in the Shanxi Province of China, India, where it has a partnership with a local steel company, Australia, and Indonesia.

These are not the company's biggest projects, but Dart has indicated a strategy based around getting going as fast as possible to start generating revenue.

The US$120 million of cash and near cash assets will fund this 2012 development programme, while the proceeds from the IPO of the international business should see it through well into 2013.

Broker Deutsche Bank says the stock is worth $1.20 (current price 44 cents), while local broker EL&C Baillieu has a slightly less punchy price target of 88 cents a share.

Both valuations are based on the potential of its international operation, and specifically Dart's prospects here in Europe.

"The European push is driven mostly by market opportunities," said Ballieu's Ivor Ries.

"Utilities are scrambling to diversify gas supplies away from political volatile locations such as Russia and other central Eurasian republics.

"Furthermore, European gas prices remain high compared with the rest of the world."

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