

Beach, Cooper, tipped for strong bounce-back

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ADELAIDE energy companies Beach Energy and Cooper Energy have been tipped as contenders for a strong postcrisis bounce back, with their large exposure to gas a positive.

And RBC Capital Markets has a 30c price target on local junior company Vintage Energy, which would deliver more than a fourfold return on investment if achieved.

The oil price has suffered huge blows in the past couple of weeks, with oil cartel OPEC effectively dissolving near the start of month, freeing up producers to pump as much oil as they want to, and the coronavirus outbreak having a huge impact on air traffic and the global economy generally.

RBC's Ben Wilson and Kieran Barratt have released a research note that downgrades the expected 2020 Brent Crude oil price to \$US42 a barrel, from \$US64, but which also poses the question: "Who emerges out the other side?"

RBC says energy producers will face "a likely protracted period of pain" as Russia and Saudi Arabia potentially start to ramp up production.

But there are opportunities in the sector, with companies with contracted revenues wellpositioned.

"Of the mid caps, we highlight Cooper Energy and Beach Energy as two such names," RBC says. Cooper Energy (post-Sole gas project start-up) has less than 5 per cent of its production base exposed to oil.

"Sole Gas, having recently commenced first production and contributing about 80 per cent of Cooper's production base, is fully contracted out to 2025 on attractive pricing terms and favourable take-or-pay contract structures," RBC says. "Beach Energy is in a similar position, with approximately two-thirds of its portfolio geared towards gas.

"In addition, Cooper and Beach Energy have the two most attractive balance sheets in our coverage universe, with each likely to present a net cash position by end-FY21."

Santos is rated in a less positive light, because it "has a very strong leverage to oil prices, due partly to its degree of financial leverage".

"We think declining oil prices may affect Santos more negatively than peers," RBC says.

"The opposite is true in a rising oil price environment."

RBC still has a price target of \$6.50 a share on the stock, however, which is well above the price of about \$3.60 midyesterday.

Of the large-cap stocks in the energy sector, RBC says Caltex is the pick of the bunch, with a takeover bid from Couche Trad still in play.

“There is a risk that the bid is revised lower or that Couche walks,” it says. “However, we look to Couch Tard’s bid history during challenging economic circumstances as a consoling factor in our assessment of the situation.”