

Good timing means smooth flow for oil producer



Company: New Zealand Oil and Gas (NZO)
Recommendation: Buy

DESPITE a 60 per cent slump in the oil price over recent months, New Zealand Oil and Gas (NZO) is just hitting its straps, with oil, gas and coal projects at or nearing critical milestones.

NZO's three primary joint ventures are the Tui Oil Field, the Kupe Oil Project, and a major shareholding in a coking coalmine development listed as Pike River Coal (PRC).

The Wellington-based company is also listed on the New Zealand stock exchange.

Wise-owl.com analyst Joshua Terlich says it may have been a while coming, but the company looks to have "timed its run" from explorer to producer.

Terlich says: "The Tui oilfield began producing in July of last year, narrowly avoiding the beginnings of the credit crunch, which could have affected funding.

"Furthermore, first production managed to tag on to the historic surge in the oil price that peaked at \$US147 per barrel, boosting the company's coffers substantially."

The run of good fortune has put the company in a strong financial position.

Terlich says: "NZO has very modest debt levels, access to half of a \$NZ125 million (\$109 million) debt facility still available and, most importantly, large cash reserves nearing \$NZ285 million.

"Revenue streams are already being generated from the 12.5 per cent stake in Tui, and income from the Kupe JV gas project is forecast by the middle of 2009.

"Simply put, companies in the same space would be green with envy at NZO's balance sheet strength

and short-term prospects."

Construction at Pike River Coal, in which NZO has a 31 per cent holding, has been completed and the project has the necessary funding to see it through to commercial production.

Terlich says: "The seam is New Zealand's largest-known hard coking coal deposit, and is expected to produce 100,000 tonnes by March 2009, and another 100,000 tonnes by June."

The 2007-08 financial year saw the company post its first profits, and distribute a dividend of 10c per share.

"Despite the strong results, the stock's PE of four suggests there is still value on offer, even at current oil prices," Terlich says.

"Cash is king at the moment, and this is something NZO has plenty of under its belt for growth purposes. In a nutshell, a strong financial backing combined with major projects that are well under way attracts us to this stock."

