



Aurelian Oil and Gas

Oil and Gas Exploration and Production
AUL (AIM)

Counterparty

Buy Upside
236%

Catalyst for growth

An excellent deal underpins the value in Aurelian.

Investment Case

- With equity and debt markets increasingly restrictive to new cash, the strength of the new shareholder really cements Aurelian's position in Central Europe
- Introduction of a significant regional investment house, at a premium to current share price, provides excellent foundation.
- An excellent catalyst for Aurelian's further growth in an increasingly important hydrocarbon region.

Price 23.75p
Target Price 80p



Source: Proquote

Shares in issue	135.6m
Net Debt (Cash)	€10m (est. year end 08)
Market Cap	£57m
Enterp. Value	£50m
Next Event	Romanian Drilling Results

Forecasts	08/06A	08/07	08/08E	08/09E
Turnover (€m)	0.4	2.8	3.5	3.2
EBITDA (€m)	(2.6)	3.2	2.0	1.8
Net inc. (€m)	(2.3)	(6.9)	(2.3)	(2.8)
DSC EPS (p)	(1.7)	(4.1)	(1.3)	(1.7)
DPS (p)	n/a	n/a	n/a	n/a

Ratios	08/06A	08/07	08/08E	08/09E
EV/DACF	6.5	6.7	2.7	4.7
EV(\$)/2P boe	-	6.7	9.7	14.6

Company Description

Aurelian Oil and Gas is an E&P company focused on central Europe. It has small production in Romania the future growth will come from excellent development prospects in Poland and exploration drilling across its asset base.



New Shareholder

Counter party risk absolved.

New Shareholder

In our recent note on sector turbulence we discussed briefly the new risk to companies share prices becoming vulnerable to counter parties falling into difficulties.

One particular example of this was Aurelian and its majority shareholder Ospraie, a US hedge fund, which liquidated one of its funds last month. To this end, Aurelian has achieved a master stroke and has taken the opportunity to bring on board a significant Central European investment group, Kulczyk Investment House, at a 68% premium to the recent share price with Kulczyk agreeing to buy Ospraie's stake, totalling 17.8mn shares, for 40p, a price last seen in late July.

Our opinion

Not only does this remove the overhang and selling risk of this significant stake, reducing shorting potential within the stock, but also brings on board a strong regional investor for the future; especially as the fund is quoted as saying it looks to increase its investment in the near term.

This is an excellent catalyst for further growth in an increasingly important hydrocarbon region and to complement this news we anticipate further news on the ongoing Romanian drilling campaign towards the year end.

We maintain our **buy** and 80p price target.

Counter party risk is a new risk for commodity focused stocks

Ospraie stake has been taken by Kulczyk Investments, at a premium to the market.

Catalysts for further growth

Disclosure Checklist

Company	Code	Disclosure
Aurelian Oil and Gas	AUL.L	3

Source: Daniel Stewart

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10. Daniel Stewart and Company is party to an agreement with this company for the publication of research on it
11. This research note has been disclosed to the Company, with resulting amendments, prior to its dissemination

The Daniel Stewart recommendation structure is based on relative upside/downside to target price. The target price is set on a rolling 12 month view. Upside or downside of 10% or more is categorised as Buy or Sell respectively, and less than 10% a Hold.

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Distribution of Ratings

	All Companies	Of which are Investment Banking Clients in the last 12 months
Buy	80%	35%
Hold	13%	19%
Sell	7%	0%

data as of Q2'08 30 June 2008

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Authorised and Regulated by the Financial Services Authority. Sept 08

Key Assumptions

- Conservative gas price assumptions
- Trezk/Siekierki major focus
- Further expansion across core area expected

Income	08/06A	08/07A	08/08E	08/09E
Sales (€m)	0.4	2.8	3.5	3.2
EBITDA (DSC)	(2.6)	3.2	2.0	1.8
EBIT (DSC)	(3.3)	(7.7)	(3.1)	(2.3)
Net income (DSC)	(2.3)	(6.9)	(2.3)	(2.8)
EPS (DSC)	(1.7)	(4.1)	(1.3)	(1.7)
DPS(p)	n/a	n/a	n/a	n/a

Cash Flows (€m)	08/06A	08/07A	08/08E	08/09E
Op. CF	(0.8)	2.5	5.5	5.0
Investing CF	(8.3)	(28.6)	(9.8)	(14.0)
FCF	(9.1)	(26.1)	(4.3)	(9.3)

Balance Sheet (£m)	08/06A	08/07A	08/08E	08/09E
Fixed Assets	14.9	32.1	38.9	51.6
Current Assets	57.9	33.1	31.3	24.6
Current Liabilities	1.5	5.8	9.30	12.7
Net Assets	65.5	56.4	57.9	60.0
Net Cash	56.5	29.3	24.9	15.7

Recent News / Events

Drilling success in Romania
Farm out to Romgaz
New Significant Shareholder

Management Team

David Prior- NEC
Michael Seymour – CEO
Frank Jackson – Commercial Director

Major Shareholders

Kulczyk Investments	13.2%
Blue Ridge	9.58%
Millennium	9.24%
AXA	7.44%
Ingalls and Snyder	7.07%
M Donnelly	6.33%
M Seymour	5.18%
Ospraie Master Fund	4.8%