

Financial Review

HOEY

Oil and gas producer cheap as chips

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TREVOR HOEY

Hawley Oil and Gas has a growth profile that many of its peers would like to boast. This was only enhanced last week when the company announced there had been a fourfold increase in estimated resources within its tenements in the Ukraine region.

It is possibly the location of the company's operations that have resulted in it flying under the radar. But the fact is, Ukraine is an oil- and gas-rich region that is relatively unexplored. It could be argued that if Hawley was operating similar types of onshore projects in North America, it would not be trading on its current forward price-earnings multiple of about one relative to Hartleys' 2012-13 forecasts.

Analysts at Hartleys believe this is a very underrated stock, particularly given that the broker values its assets at \$1.10 per share. Hartleys has a three-month price target of 66 cents on Hawley, double its recent trading range with the prospect of strong outperformance over the medium term as production ramps up.

It was announced last week that an independent expert from the State Committee of Reserves of Ukraine estimated Hawley's Sorochynska tenement could produce 46 billion cubic feet of gas and 1 million barrels of condensate based on a three-well development with production taking place over a 20-year period.

Hawley already has one well operational in this area and another should be completed by the end of 2011. The company is also advanced in drilling its Chernetska number one well that is designed to test three oil and two gas zones to the north-west of Sorochynska.

Hartleys believes news flow from Chernetska, reserves announcements, the development of an additional well at Sorochynska and acknowledgement of the significant cash flow that is being generated by the company's assets will be recognised throughout 2011, providing share price momentum.

Hawley only listed on the stock exchange in June 2010, raising \$5.5 million in a reverse takeover of former biotechnology company Incitive. But the company, led by Dr Michael Earle, who has extensive experience in the oil and gas industry in Eastern Europe, has been quick to reward shareholders.

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The early identification of high-profile assets along with management's ability to quickly bring these into production will result in the company recording a maiden profit in its first full year of operation. Analysts at Hartleys expect the company to achieve a net profit of \$2 million in 2010-11, increasing to \$26.2 million in 2011-12 and rising to more than threefold to \$87.2 million in 2012-13.

Based on 2011-12 forecasts, Hawley should generate earnings per share of 10.8 cents, which places the company on a forward price-earnings multiple of 3.3 relative to Monday morning's opening share price of 36 cents.

they@bigpond.net.au

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www.hawleyoilandgas.com

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