The Blenheim Report

Numbers

Energy

December 2014

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ENERGY ($,000)																
Company	REVENUE FY2014[2]	REVENUE FY2013	EBITDA FY2014	EBITDA FY2013	EBIT FY2014	EBIT FY2013	EBIT Margin FY2014 %	EBIT Margin FY2013 %	NPAT FY2014	NPAT FY2013	NPAT Margin FY2014 %	NPAT Margin FY2013 %	ROA FY14[1]	ROA FY13[1]	Capital Expenditure FY14	Capital Expenditure FY13
APA GROUP[3]	1,396,000	1,272,300	747,300	661,900	591,100	531,500	42.3	41.8	199,600	175,100	14.3	13.8	2.5	2.7	446,700	397,400
- Energy Infrastructure	824,100	741,500	623,000	548,300												
- Asset Management	99,200	82,300	56,200	41,900												
- Energy Investment	68,100	51,200	68,100	51,200												
BEACH ENERGY LTD	1,050,000	698,200	n/a	n/a	412,192	231,808	39.3	33.2	259,000	140,700	24.7	20.2	10.7	6.4	n/a	n/a
DRILLSEARCH ENERGY LTD	387,000	102,200	231,900[4]	35,100[4]	n/a	n/a	n/a	n/a	94,600	60,600	24.4	59.3	16.1	18.7	95,700	143,400
OIL SEARCH LTD[2,5]	766,300	724,600	552,400[4]	524,300[4]	394,800	330,900	51.5	45.7	175,800	205,700	22.9	28.3	2.3	3.2	1,673,000	1,861,000
ORIGIN ENERGY LTD	14,518,000	14,747,000	2,139,000	2,181,000	1,353,000	1,438,000	9.3	9.8	713,000	760,000	4.9	5.2	2.3	2.6	1,012,000	1,172,000
- Energy Markets	11,607,000	12,146,000	1,053,000	1,333,000	787,000	1,038,000	6.8	8.5								
- Exploration & Production	1,003,000	740,000	487,000	395,000	210,000	162,000	20.9	21.9								
- Contact Energy	2,170,000	2,019,000	533,000	435,000	361,000	279,000	16.6	13.8								
SANTOS LTD[2]	3,602,000	3,200,000	1,992,000[4]	1,861,000[4]	886,000	832,000	24.6	26.0	504,000	606,000	14.0	19.0	2.7	3.7	4,100,000	3,200,000
-Eastern Australia	1,845,000	1,660,000	646,000[4]	668,000[4]	257,000	288,000	13.9	17.3								

ENERGY ($,000)																
Company	REVENUE FY2014[2]	REVENUE FY2013	EBITDA FY2014	EBITDA FY2013	EBIT FY2014	EBIT FY2013	EBIT Margin FY2014 %	EBIT Margin FY2013 %	NPAT FY2014	NPAT FY2013	NPAT Margin FY2014 %	NPAT Margin FY2013 %	ROA FY14[1]	ROA FY13[1]	Capital Expenditure FY14	Capital Expenditure FY13
- WA & NT	1,280,000	1,070,000	979,000[4]	783,000[4]	622,000	516,000	48.6	48.2								
- Asia Pacific	478,000	507,000	318,000[4]	371,000[4]	218,000	213,000	45.6	42.0								
- GLNG	58,000	85,000	12,000[4]	11,000[4]	-12,000	-18,000	-20.7	-21.2								
WOODSIDE PETROLEUM LTD[2,5]	5,926,000	6,348,000	3,756,000	4,979,000	2,538,000	3,795,000	42.8	59.8	1,702,000	2,061,000	28.7	32.5	7.0	8.6	590,000	1,498,000
- North West Shelf	3,230,000	3,300,000			2,170,000	2,235,000	67.2	67.7								
- Pluto LNG	2,098,000	1,427,000			954,000	453,000	45.5	31.7								
- Aus Oil	519,000	1,545,000			-154,000	738,000	-29.7	47.8								

[1] ROA recalculated by Blenheim, based on annual report figures, to make numbers relatively comparable across segments.
[2] Oil Search and Santos Ltd numbers are for calendar year 2013.
[3] APA Group have reported Nomalised Earnings.
[4] Drillsearch Energy Ltd, Oil Search Ltd and Santos Ltd EBITDA includes earnings before exploration expenses (EBITDAX).
[5] Woodside Petroleum Ltd is in US dollars.

PROFIT GUIDANCE

Drillsearch Energy works in pricing floor for oil sales
Australian Financial Review
12 DEC 2014

Junior Cooper Basin oil and gas producer Drillsearch Energy has taken steps to protect it from soft oil prices by putting in place hedging that establishes floor prices of $US70 and $US90 a barrel for part of its oil production.

As US benchmark crude oil prices fell under $US60 a barrel for the first time in five years, Drillsearch said it had taken out put options at $US70 a barrel. Combined with hedging in place under a loan facility, Drillsearch now effectively has a floor price at that level for about 850,000 barrels of output in 2014-15, with another 450,000 barrels enjoying a floor price of $US90 a barrel, it said.

Drillsearch has given guidance of production in 2014-15 of 3 million to 3.4 million barrels of oil equivalent, of which about 80 per cent is oil. That would indicate about half of its oil would still be exposed to market prices.

Managing director Brad Lingo said Drillsearch's financial position remained "strong" at current prices, with cash of about $170 million as of September 30, and oil production that has a cash break-even point of about $US25 a barrel. The company also has an undrawn $50 million working capital facility.

"The company's strong cash position and robust margins provide Drillsearch with a platform to continue investing in growth, notwithstanding the volatile conditions," Mr Lingo said in a statement on Friday. "However, Drillsearch will scrutinise all capital expenditure, both in company-operated assets and in conjunction with its joint venture partners in non-company-operated assets, to ensure that its investment is prudent and scaled to the rate of success."

Drillsearch shares have more than halved since their $1.645 of early August, but rose as much as 2.7 per cent in early trading on Friday to 76.5¢. The company said part of the decline in US dollar oil prices had been offset by the weakening of the Australian dollar but noted the drop inevitably affects revenues.

The plunge in prices has triggered a range of measures by energy players in response, including advice by Santos it would cut spending by 25 per cent in 2015, while Senex Energy is also reviewing capex plans. Origin Energy on Thursday advised it had taken an opportunity of favourable market conditions in bank debt markets to increase and lengthen the terms of a multibillion dollar corporate funding facility.

Drillsearch also announced a gas and condensates find at its Yarowinnie South-1 well in the PEL513 permit with Santos, and noted in the separate PEL182 permit, its partner Senex Energy had recently advised of a successful production test of the Vanessa-1 gas and condensates find.

http://www.afr.com/p/business/companies/drillsearch_energy_works_in_pricing_d6L9huOtzjkGXXhMCCTNgP

CBA 'neutral' on APA Group
Australian Financial Review
12 DEC 2014

CBA is "neutral" on APA Group with a price target of $7.20 down from $7.30 a share.

"APA has entered into an agreement with QCLNG to acquire the QCLNG Pipeline for $US5 billion ($6 billion). On an $A basis (including stamp duty and other costs), this equates to a price of $6.3 billion.

"EBITDA is forecast to be $464 million in 2015-16, which represents an EV/EBITDA multiple of 13.6 times. While we currently forecast the existing APA business is trading on a 13.5 times multiple in 2015-16, this business is delivering an EBITDA CAGR of 5 to 6 per cent over the next three years. In the case of this pipeline, growth is flat. Our valuation has decreased from $7.30 to $7.20 a share as a result of the transaction."

http://www.afr.com/p/markets/market_wrap/cba_neutral_on_apa_group_ZY4VhdIcDrfFhaL90ALEOL

Origin Energy increases loan, reassures on APLNG economics
Australian Financial Review
11 DEC 2014

Australia's major energy producers are scrambling to guard against the shock plunge in oil prices, with Origin Energy renegotiating debt facilities and Santos slashing its 2015 spending by 25 per cent as oil prices threaten to sink below $US60 a barrel. Origin has given itself a bigger cushion on its funding position to bear the impact of the slump in crude prices by increasing a loan facility to $7.4 billion and lengthening out repayment terms.

"At some point in the future oil prices will be higher than they are today, but other than that statement I've got no idea when and by how much," Origin chief executive Grant King said. "It's an uncertain world."

Mr King's comments came as global crude oil prices hit fresh five-year lows after the Organisation of Petroleum Exporting Countries cut its estimate for global demand to the lowest for 11 years. Brent crude has tumbled to less than $US63 a barrel, down from $US115 in June, while the US benchmark dipped to just above $US60. The rout in prices has mauled the prices of oil and gas stocks, with more than $8 billion, or almost 54 per cent, wiped off Santos's market value since early September.

Origin Energy, whose retailing business reduces its exposure to oil prices, is still down 34 per cent in the same period, closing on Thursday at $10.56. Woodside Petroleum, with its minimal debt and low capital expenditure commitments, is less affected but off 22 per cent. Oil Search has dropped 28 per cent since early September.

The oil price weakness has raised questions about the profitability of the east coast LNG projects, whose prices are linked to crude and are all due to start up within the next 12 months. News from British major BG Group on Wednesday that it was taking a write-down of $US2 billion ($2.4 billion) on its Queensland Curtis LNG -venture did little to ease concerns. The worries in the market prompted Origin to reassure investors that its $24.7 billion Australia Pacific LNG project under construction in Queensland will generate cash that can be paid to shareholders even if oil prices hit $US40 or $US45 a barrel.

“It’s a competitive project under almost any circumstance and it will generate surplus cash for its share-holders at relatively low oil prices,” Mr King said.

The break-even cost signals APLNG can cover its cash operating costs, its debt costs and its sustaining capex with prices up to $US20 below current levels.

“They’re trying to signal to people that where the current prices are, their project will be making money and covering its costs, and that even if prices were to fall further they’ve still got a buffer,” Ord Minnett analyst John Young said.

Origin reiterated it had “no requirement to raise equity”. “Whilst lower oil prices will have an inevitable effect on this year’s profits, based on Origin’s existing liquids production of around 3 million barrels per year it will have minimal impact on Origin’s ability to fund APLNG,” the company said.

Doubts about funding have particularly plagued Santos, which has been unable to shake off worries in the market that it will be forced into an equity raising if prices remain low, amid the risk its credit rating may be cut again. Origin’s funding position is more comfortable but Mr King said the company still saw it as “prudent” to accept an opportunity to increase its $6.6 billion loan facility by $750 million, and to extend the term by 16 months. The offer came as Origin was in any case amending the loan to reduce the interest cost, by 0.30 per cent a year, thanks to ”favourable” bank loan market conditions.

“It was prudent for us to make sure that we have absolutely no issues with liquidity because it nearly always turns out that when you need money it’s hardest to get and its cheapest when you don’t need it,” Mr King said. “It’s a straw-hats-in-winter type of thing.”

He also pointed out that the reduction in forward oil prices is much reduced in Australian dollar terms than in US dollars because of the weakening in the local currency. Origin said that based on the forward curve for oil, its share of distributable cash flow from APLNG would average over $900 million a year from 2016-17. That is down relatively modestly from partner ConocoPhillips’s estimate in May of about $US1 billion a year.

It noted that its returns on the APLNG project are higher than the returns made by the venture itself because Origin benefits from contributions made into the venture by its partners ConocoPhillips and Sinopec. Mr King said Origin would still review its capital investment in oil and gas and would defer some plans.It would also consider the divestment of the gas pipeline at APLNG, along the lines of BG’s sale this week of its QCLNG pipeline.

“We’ll look at it and we’ll see what the numbers say, and if it’s worth us doing or it’s a valuable thing to do we would certainly be encouraging the partners in APLNG to look at it” he said.

Santos advised it would cut 2015 capex by 25 per cent to $2 billion.

http://www.afr.com/p/markets/market_wrap/origin_energy_increases_loan_reassures_rJ4RUvo1yDPaTT2nqVi2hO

Santos slashes 2015 spending after oil slump
Australian Financial Review
11 DEC 2014

Santos has slashed $700 million from its 2015 capital investment budget, including $100 million in exploration spending in response to plunging oil prices that have wiped more than $8 billion from its market value since early September. The embattled oil and gas producer is also considering asset sales as it faces an apparent crisis of confidence in the market over its funding position.

Chief executive David Knox ruled out “short term reactive decisions” that could damage the company’s long-term interests and again reiterated Santos has “no present need or intention” to raise equity. But his comments failed to prevent a further selloff in the stock, which fell 8.3 per cent to $7, a new 10-year low.

Standard & Poor’s cut its credit rating on Santos to BBB from BBB+ earlier this week, but it is still assuming crude oil prices in 2015 and 2016 well above current levels, and above those in forward prices. That has led to worries that it will have to further reduce assumptions, with a knock-on impact on the company’s creditworthiness and placing doubt around its insistence that an equity-raising isn’t needed.

Alphinity Asset Management portfolio manager Stephane Andre puts about half of the share price dive down to the plunging oil price, and the rest to concerns that Santos is “sailing close to the wind” on funding and will have to raise equity despite its insistence otherwise. “They say they don’t; the market is obviously not believing it,” he said.

Credit Suisse meanwhile has suggested Santos would be better off raising at least $2 billion in equity to have capital to invest in undeveloped resources. Brent crude oil prices reached a low of $US63.56 a barrel on Wednesday, their lowest since July 2009 and down from $US115 a barrel as recently as June. S&P is assuming prices will average $US80 in 2015 and $US85 in 2016.

“People are saying they will have to come back, they will have to revise their assumptions and therefore it will force Santos to go for an equity-raising,” Mr Andre said.

But Mr Knox reiterated on Thursday that Santos’s funding remains “robust”, with about $2 billion in cash and undrawn debt available. He said Santos was on track to realise cash flow benefits in 2015 and 2016 from its investments in growth LNG export projects, the PNG LNG project and the $US18.5 billion Queensland GLNG venture, which is within a year of start-up.

“The PNG LNG project is producing at full capacity,” Mr Knox said. “The GLNG project is 90 per cent complete and remains on track for first LNG in the second half of 2015. First commissioning gas is expected to be introduced to the LNG plant before the end of 2014. Offtake agreements are in place with large, well-capitalised buyers.”

Santos has been the worst-hit of the larger ASX-listed oil and gas stocks by the collapse in crude oil prices, because of its higher leverage and capex commitments.

“The underlying performance of our business remains strong, with production continuing to grow in the second half of this year,” Mr Knox said. “The company has no present need or intention to raise equity.”

Under the new capex budget for 2015, $1.4 billion is earmarked for growth projects, down from $1.9 billion cited at a November 26 investor day. As well as Cooper Basin gas and exploration spending cuts, investment on GLNG has been cut to $700 million from $750 million; spending on other projects such as the Narrabri coal-seam gas venture in NSW, has been cut to $150 million from $400 million. Sustaining capex for 2015 will now be about $600 million, down from $800 million. Most of the spend will go on the base Cooper oil and gas venture.

http://www.afr.com/p/business/companies/santos_slashes_spending_after_oil_FOCIC4Z2VH0zlgtU8CAJdJ

Woodside Petroleum-Apache deal will drive growth
Australian Financial Review
09 DEC 2014

Woodside Petroleum would see a return to production growth in 2017 if it buys Apache Corporation's stake in the $29 billion Wheatstone liquefied natural gas project in Western Australia, but analysts assess the US player's stake in a Canadian LNG venture as a much -longer-term and less certain prospect.

Woodside is in a plum position to take over Apache's stakes in the two LNG projects. A deal was flagged before Christmas at a potential price of $2.4 billion. A second suitor has been outbid after offers were pared back on the latest slump in oil prices, sources told The Australian Financial Review.

The assets on the block include Apache's 13 per cent stake in Chevron's Wheatstone LNG project, being built near -Onslow, as well as 65 per cent of the Julimar and Brunello gas fields in the Carnarvon Basin that will supply some of the gas for the plant. Wheatstone was 49 per cent complete by the end of September and is due to begin production in 2016.

Potentially included is Apache's 50 per cent stake in the planned 10 million tonnes a year Kitimat LNG venture on Canada's British Columbia coast, in which Chevron is the partner. That project has been delayed several times and has yet to lock in customers or start full construction. However, it is more advanced than Woodside's own western Canadian LNG project at Grassy Point, also in BC. Whether any deal could also include other Apache assets in WA, including its 65 per cent of the new 30,000 barrels a day Balnaves oil venture, is uncertain. Woodside declined to comment.

The drop in the oil price has complicated merger and acquisition deals, causing some potential transactions to fall through while offer prices in others have been cut. But Woodside, with its strong balance sheet and limited capital expenditure commitment, is seen as being in a strong position to carry off acquisitions against thinning competition in an environment where prices will inevitably be softer.

Citigroup analyst Dale Koenders said a deal, if it eventuates, would add near-term production and boost earnings in the 2017 calendar year, appeasing a desire from investors to see growth in Woodside's portfolio. He estimates Woodside will be in a net cash position by the end of this year "and in a strong position to benefit from stressed assets in a low oil price environment".

http://www.afr.com/p/business/companies/woodside_petroleum_apache_deal_will_gkOSDyTycHnN6JIXfuvGUP

Split views from brokers on Oil Search
Australian Financial Review
04 DEC 2014

Despite a miserable oil price, a slew of news for Oil Search has seen a bump in the stock but has split brokers over an appropriate valuation. Oil Search has reportedly bid more than $300 million to buy the Papua New Guinea assets of Talisman Energy, presumably hoping to expand its flagship gas-export facility, though a collapsing oil price has potentially crippled the deal.

Global crude oil prices have slumped almost 40 per cent in the past four months, and Credit Suisse expects lower oil prices for at least the next six to nine months. The broker assumes an average price of $US75/bbl Brent in 2015 and $US80/bbl until the end of the decade.

That being said, the broker says Oil Search is best placed to weather the storm, citing a solid balance sheet and a high margin project.

Deutsche Bank remains impressed with Oil Search's capacity increase and has a buy recommendation and a 12-month price target of $10.20. Citi is also impressed with Oil Search's capacity, but remains concerned that the "de-bottlenecking" studies won't be delivered until 2017, which lowers its production forecasts. Citi has a sell recommendation and price target of $8.18.

Oil Search is trading at $7.66, against the trend of many other energy stocks, which are being battered by the oil price. The stock was up about 8 per cent last week.

http://www.afr.com/p/markets/market_wrap/split_views_from_brokers_on_oil_J4zlhmLtdHQRh7CFYNYJVM

Santos slashes capex, postpones €500m hybrid issue
Australian Financial Review
04 DEC 2014

Santos's promise to progressively grow its dividend in 2015 is under threat and marginal exploration projects could be axed, as the oil and gas producer battles to hold on to its investment grade credit rating following a slump in the oil price. It has been forced to postpone a €500 million ($733 million) hybrid debt raising in Europe and will slash capital and operating expenditure following a price slump to below $US70 a barrel.

Chief financial officer Andrew Seaton said the company had decided to defer any hybrid issue until market conditions improve, noting the oil market had experienced volatility following the decision by the Organisation of Petroleum Exporting Countries not to cut output at a meeting in Vienna late last week.Mr Seaton said Santos holds a robust funding position, with $2 billion in available liquidity but will review its spending plans for 2015.

"Given the current oil price environment, it is prudent for the company to review its spending plans for 2015 and we expect to significantly reduce capital and operating expenditure."

Santos vowed in February to adopt a progressive dividend policy, meaning its dividend would never be lower than in the previous year. Credit Suisse analyst Mark Samter said there was little chance that Santos could pay a higher dividend based on cash generation alone, meaning the company may have to resort to a dividend reinvestment plan to underwrite its promise.

“I think, at the current oil price, Santos might struggle to buy a round of beers at next year’s Christmas party let alone any material capital outlay.”

The energy producer’s shares tumbled nearly 4 per cent on Thursday to close at $8.73. Santos has now lost around 30 per cent of its market value since last Friday, when the Opec decision was handed down with the stock now trading near a 10-year low. The price of Brent crude is down about 30 per cent over the same period. By contrast shares in Woodside Petroleum are down only 7.57 per cent at $36.21 this year.

Investment bank UBS said Santos was proving to be among the most sensitive to nosediving oil prices, with its BBB+ credit rating now at risk.

“Santos is the hardest hit, we estimate, with forecast debt of $8.2 billion by year end 2015, due to a further $2.7 billion capex in 2015,” UBS analyst Nik Burns said. We believe high debt plus low oil price implies its credit -rating will likely come under pressure.”

But Citi analyst Dale Koenders believed the company’s dividend could still rise, so long as there was a DRP to offset it.

“Given they are cutting discretionary capex . . . you can expect any growth in the dividend would be modest.”

Santos could also be under pressure to protect its BBB+ rating which is on negative outlook to reflect the “commissioning risk of the company’s two LNG projects” . S&P’s base case assumption in -evaluating Santos assumes a Brent price of $US100 a barrel and a currency of the Australian dollar worth US90¢. Mr Samter estimated Santos would require more than $1 billion in extra equity to maintain an investment-grade credit rating, and perhaps up much as $US3 billion ($3.5 billion) to retain its current credit rating.

Deutsche Bank said a West Texas Intermediate oil price of below $US60 a barrel would push the whole US high-yield sector into distress – leading to a 30 per cent default rate. This would push the overall US speculative default rate to 3.5 per cent by the end of 2015, up from 2 per cent. The lower oil prices, if they persist, would eat into a forecast jump in Santos’s cashflows from its two, big-ticket LNG projects, a venture in Papua New Guinea that started production earlier this year and the $US18.5 billion ($21.5 billion) GLNG project in Queensland set to begin exports in the second half of 2015.

An earlier estimate by Santos that operating cash flows would double from 2013 to 2016 assumed oil prices of $US100 a barrel. But consensus estimates for crude prices have been pared back, to $US90 a barrel, reducing the expected lift in Santos’s cash flows to 65 per cent by 2016. Brent crude prices are currently much lower than that, at about $US69.

http://www.afr.com/p/markets/market_wrap/santos_slashes_capex_postpones_hybrid_KojLfvlVTsMPpMfOTlV6rO

Beach Energy chief Reg Nelson says market overreacting on oil price
Australian Financial Review
25 NOV 2014

Beach Energy managing director Reg Nelson has declared the market has overreacted to the weakness in crude oil markets as its share price dipped 5.8 per cent dip amid concerns about drilling results in the Cooper Basin. Another slide in crude oil prices took the whole oil and gas sector lower on Tuesday, but Beach underperformed after an investor briefing in Sydney.

Despite its highly profitable oil -operations in the western flank of the Cooper Basin, Beach shares have fallen about 40 per cent from this year's highs, more than the circa 30 per cent decline in Brent crude oil prices.

"It's a huge impact on the share price, for no good reason; the market has overreacted," Mr Nelson said on the sidelines of the investor briefing. "The western flank oil is the most profitable, as far as I know, in the world."

Mr Nelson said he expected that by about mid-2015, the oil price could be back above $US90 a barrel, and depending on exchange rates, above $100 a barrel in local currency terms.

Successful drilling in the western flank has turned Beach into the country's largest onshore oil producer. Mr Nelson said total operating costs in the Western Flank were $US25 ($29) to $US30 a barrel, leaving plenty of margin at current prices of around $US80. Beach's capex plans for 2015 are unchanged. He said the oil price weakness could open up acquisition prospects.

"This is a time of opportunity. You're always looking," Mr Nelson said.

Beach reported "very encouraging" results from its unconventional -exploration venture in the Cooper Basin with Chevron, which must decide by the end of March whether to proceed with a second phase of work.

But one analyst attending the briefing pointed to "mixed" results from drilling at the conventional Cooper gas venture with Santos, where a 30 per cent increase in capacity is targeted to meet new supply contracts.

Santos shares were also down on Tuesday by 5 per cent, though that was seen to be linked to worries about costs at the $US18.5 billion GLNG venture under construction in Queensland ahead of a roadshow next week for a potential hybrid note issue. Santos has its own investor day on Wednesday.

Mr Nelson also flagged a potential sale of Beach's oil and gas assets in Egypt in the first half of calendar 2015 as a result of a global portfolio review.

http://www.afr.com/p/business/companies/beach_energy_chief_reg_nelson_says_c7Ctue8aw5axdMYiLKv4JJ

Oil price drags on Beach Energy results
Australian Financial Review
28 OCT 2014

Mid-cap oil and gas player Beach Energy posted a 14 per cent decline in September quarter revenue, with sales dragged down by a dip in oil prices and softer oil production. Revenues for the three month period slid to $232.9 million, as production dipped to 2.4 million barrels of oil equivalent, down from 2.46 million a year earlier, Beach said on Tuesday. Sales volumes were roughly flat but rose from the June quarter to the highest for six years, thanks to increased gas production, peak winter demand and “continued strong” oil production from the Western Flank of the Cooper Basin.

Like all oil producers, Beach has been hit by the slide in crude prices over recent months, with global benchmarks now about 25 per cent off this year’s peaks. Beach said it got an average price of $114.10 a barrel for its oil in the September quarter, down from over $128 a barrel in the same period a year earlier. Beach put in place additional hedging in the September quarter to protect it at least in part from a slump in crude oil prices, with a floor price for Brent crude at $70 a barrel for 37,500 barrels a month of sales from April 2015 to March 2016. It has existing hedges at $65 a barrel land $70 a barrel through to the 2016 financial year, with hedged volumes of 2.25 million barrels in total.

Beach said its balance sheet “remains in a strong position”, with cash reserves of $343 million at the end of September, down by $68 million because of the payment of the final dividend for 2013-14 and the timing of creditor payments. It also has an undrawn loan of $300 million. In an update on its unconventional gas exploration venture with US oil major Chevron in the Nappamerri Trough area of the Cooper Basin, Beach said flow testing of recent wells would start “prior to November”.

The results from the flow testing are expected to be important for Chevron’s decision, due by March 2015, whether to proceed with a second stage of its farm-in arrangement with Beach, or whether to walk away from the venture. Citigroup said last month it saw a “genuine risk” of Chevron dropping the venture if the results are disappointing.

http://www.afr.com/p/markets/market_wrap/oil_price_drags_on_beach_energy_3fcmnTsaB86ZR2Wd1rEpIN

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