



NAVIGATOR PROJECT FINANCE: PETSEC ENERGY CASE STUDY

Australian explorer takes on USA

Petsec Energy is an Australian-listed exploration and production company operating in the Gulf of Mexico and onshore in Louisiana, USA, which together forms one of the world's leading oil and gas provinces. Petsec also has off-shore investments in the shallow waters of the Beibu Gulf, China.

With its corporate headquarters in Sydney, Australia, Petsec has a proven track record of acquiring prospective leases, successful exploration and production, and reserves growth.

Today Petsec has annual turnover revenue of more than US\$60 million, and a market capitalisation of approximately AU\$200 million. The company has a successful history of exploration, including 28 successes from 37 wells during the past five years.

Securing the future

Petsec seeks to create outstanding growth in shareholder value through successful oil and gas exploration and production. Fiona Robertson, Petsec Energy Chief Financial Officer explained, "Our aim is to build Petsec Energy into a significant mid-tier producer and explorer. We want to be respected for technical and commercial skills, rapid and cost-effective delivery of projects with an emphasis on financial returns, and to be preferred by investors as a creator of shareholder value."

"We value integrity and honesty, high performance and initiative, accountability with appropriate rewards for achievement, and the responsible use of resources."

In order to meet its objectives, Petsec targets exploration and production opportunities in highly-prospective areas. Through extensive use of 3-D seismic data, Petsec undertakes drilling with a high probability of success, to discover resources previously overlooked – or too small – for larger producers.

Navigator offers Petsec a business strategy

Petsec's in-house development evaluation software did not provide flexibility to analyse the impact of potential acquisitions on the Group's financial position, and like most off-the-shelf packages in the sector, was quite restricted in reporting functionality.

Petsec's banks asked for a stand-alone financial model they could use to analyse the cash flows and debt sizing ratios. Petsec responded by investing in the development of a model that could be used by third parties, as well as internally for strategic planning.

"Feedback from our banks was extremely positive when they were presented with the Navigator model - it is in a familiar format, and key assumptions are easily adjusted to facilitate credit evaluation."

Fiona Robertson, Petsec Energy Chief Financial Officer



At a Glance

Client: Petsec Energy

Industry: Oil and Gas

Geography: Australian-based with assets in both the USA and China

Market Cap: AU\$200 million

Challenges: Estimate borrowing capacity and analyse the impact on the portfolio of an acquisition or joint venture (JV)

Solution: A comprehensive and easy-to-use portfolio assessment model incorporating a borrowing base debt package built by Navigator Project Finance

Benefits: Ability to rapidly analyse the impacts on borrowing base capacity, based on additions of new fields or acquisitions/JVs

One of Petsec's most important goals was to present the company in a professional way to its project finance banks. Ms Robertson said, "With Navigator, we got a tailor-made initiative so I was confident Navigator could produce what we needed."

Key requirements

- Present the Company in a professional way to project finance banks
- Integrate with proprietary oil and gas development evaluation software to synchronise the production data
- Capture three production cases (Independent Reserve estimates (P1, P1+P2) and Petsec Internal estimates)
- Flexibility to analyse a portfolio of assets and to switch individual area of interest on/off easily
- A valuation module showing NPV per producing asset under different scenarios
- Ability to sensitise for key variables

Navigator helps business steer a course

Significantly, Petsec found the Navigator model consistent with the ways in which banks evaluate project finance. Ms Robertson further advised, "For instance, Navigator builds financial models in the way the banks prefer to see the projects or the company presented, including revenues, profits and cash flow."

"We use the Navigator model to evaluate the financial impact of acquisition opportunities, such as the properties we recently acquired in the Gulf of Mexico."

Project financing made easy

Navigator designed, constructed and delivered a financial model which satisfied all Petsec's key requirements, and by doing so allowed the borrowing base capacity, based on a portfolio of producing assets, to be determined.

This has given Petsec significant leverage with the banks, due to their enhanced ability to address debt sizing criteria, and to develop a model as a standalone document outlining all cash flows of the company. The additional functionality of identifying and sensitising key drivers and risks without modifying the base case, is key when it comes to efficient communication of a project to the banks.

Navigator's model is being used proactively to drive financing discussions with banks. Ms Robertson said, "Navigator allows you to evaluate financing options independent of the bank, as well as providing a framework for presenting the financial data required by the bank to structure an offer of financing which saves time, and allows the bank to turn around proposals more quickly."

"Once the financing is established we can manage and monitor variables in place in compliance with banks' requirements."

"The Navigator model gives us the capacity to evaluate the cash flow impact of a new opportunity very quickly, and assists in rapid turnaround from potential financiers. As and when we take on debt, it also enables us to model and anticipate changes in our cash flow outlook, and helps us be proactive in managing our banking relationships."

Fiona Robertson, Petsec Energy Chief Financial Officer

About Navigator Project Finance

Founded in 2004, Navigator Project Finance Pty Ltd (Navigator) is the project finance modelling expert. Headquartered in Sydney, Australia, Navigator is raising the global benchmark in financial modelling services to the project finance sector. Navigator designs and constructs financial models for complex project financings, offers training courses throughout the Middle East, Asia and Europe, and conducts independent model reviews of project finance transaction models. Navigator delivers fast, flexible and rigorously-tested project finance services that provide unparalleled transparency and ease of use.

Customers include market leaders such as Deutsche Bank, ANZ Investment Bank, Lend Lease, Oxiana, Mirvac Property, Westpac and the Commonwealth Bank of Australia, together with leaders from the finance, mining, property, utilities, banking, chemical and infrastructure sectors.