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The UN will declare a global population of 7 billion in late October.

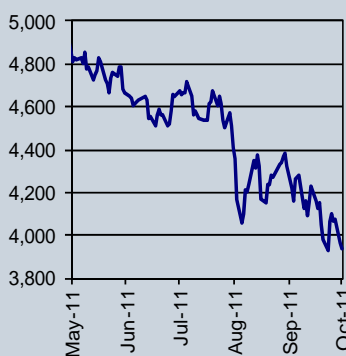
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**Indices & Prices**

<b>All Ordinaries</b>	3,935.60
<b>Energy Index</b>	12,049.00
<b>Brent AU\$/bbl</b>	105.94
<b>AUS\$/US\$</b>	0.9568

As at Close Oct 4th, 2011

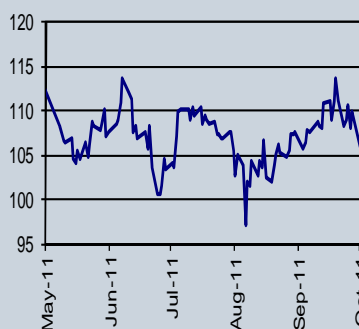
**All Ordinaries**



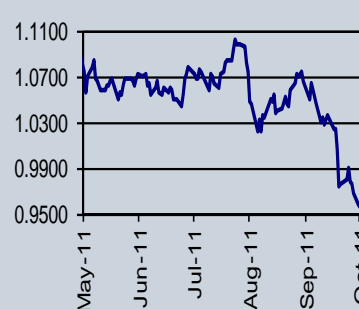
**S&P ASX 200 Energy Index**



**Brent Crude Oil \$A/barrel**



**A\$/US\$**



## In this Issue

**New Stock Market Please:** Serious investors deserve a better managed market

**Golden Week in China:** Distorts economic flows temporarily

**LME week:** Sets the scene for base metals

**Heavy Winter Harvest:** Should work wonders for rural economies

**Sidi Dhaher:** Small oil discovery, testing awaited, capital raising first?

**PrimeAg:** Back to buying range, 41% discount to asset value

**Texon:** Could realise +70 cps net on sale of EFS assets

**Azimuth Resources:** Heading in the right direction

**Range Resources:** It's not what you know

**7 billion of us!** This month marks another unsustainable population peak

## Time for a New Stock Market

StockAnalysis is calling for stockbrokers and major listed companies to step up and band together now to establish a new stock market. This market will be free of high frequency trading (HFT) and naked short selling. Furthermore, it will monitor and publish total gearing by shareholders on each registry and publish a register of any gearing by senior management and Board members of each company, so that other shareholders can measure the potential collateral risks associated with buying shares in a company where other shareholders are dangerously over leveraged to shares.

Let the ASX and Chi-X fight their turnover driven game to the bottom, in markets where most of the turnover will be machines trading against each other and where the market's integrity is so hopelessly compromised that investors will walk away in droves to the safe harbour of this new, well regulated marketplace. Today, more than 20% of turnover on Australian markets is carried out by HFT. This activity, involving thousands of trades per second, is effectively market manipulation. It has nothing to do with liquidity and investing or speculating on the market, but everything to do with playing the mechanism of the market. It is effectively not playing the market game, but playing the machine that operates the market game.

Companies that now despair of a market trading on a PER of less than 10 times historical earnings, where many blue chip stocks have higher effective yields than PERs, will soon look to the root cause of this de-rating, past the current economic circumstances and they should work together with the Stockbroking association to establish a new market.

(Continued on page 2)

The ASX and Chi-X are all about making money for their owners. They have no direct interest in the welfare of companies or shareholders, which is in reality a derivative of their actions. Their business model involves promoting contracts for difference (CFD) and other cancers on the market like HFT, in the belief that companies and investors will just have to suck it up and put up with this casino like environment. Most well regulated casinos around the world would not allow this sort of shenanigans at their betting tables or machines, but apparently, The ASX is quite happy to let it all rip for the short term benefit of their shareholders. This strategy will eventually kill the stock market as we know it. Products and tactics being employed and promoted by the ASX are driving up risk and hence volatility, which reduces the overall PER rating, lifting the cost of new equity for all listed companies and forcing savers out of a market which has become too risky as a place to invest.

The new, StockAnalysis stock market should attract almost all of the current 2,218 odd ASX listed companies, leaving the ASX and Chi-X to play their casino games or whatever they can do to make money for their owners.

## Market Moves

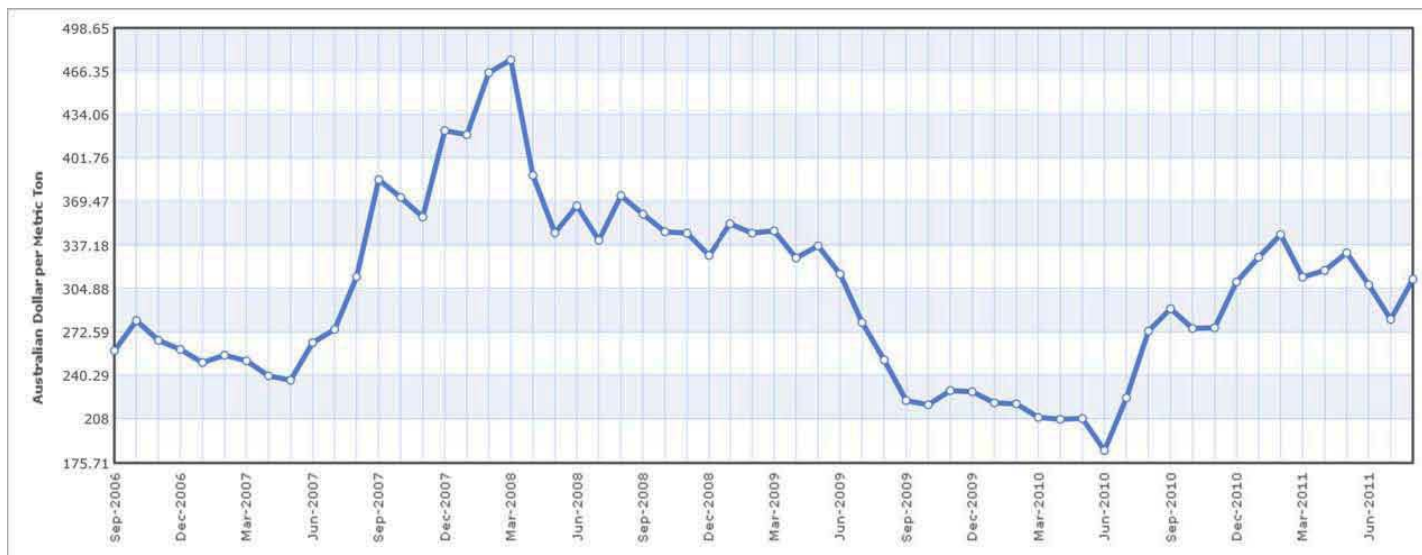
China's **Golden Week** holiday period is upon us during October 1st – 9th. During this period, many city workers return to their village to celebrate with families. While factories close, the shops reportedly do strong business during this period. Inventories, which may have been run down in the lead up to the holiday period will be re-evaluated next week to match expected activity levels through the winter period. There is no doubt that costs are rising rapidly in China. Wages, along with power and energy costs and higher material inflation is now filtering back to consumers at the end of export pipelines in Australia and everywhere. A slowing rising Yuan will compound this trend, exporting inflation globally.

Another important period is the **LME week** from October 3rd to 10th, when metal producers, traders and consumers meet in London to drink a lot of red wine and talk about the outlook for metal prices over the coming year. Some clarity may emerge from this jamboree which could stem the price falls seen over the past month or that clarity may result in further price falls, time will tell.

Australia is looking towards a **bumper grain crop this year**, with excellent finishing rains over growing areas from Western Australia and South Australia, Queensland, Victoria and NSW. Provided there is no flooding or damage from hail or other disturbance, this year could be a record in many areas. Farmers will now be hoping that the rain eases off during October so that crops can ripen for harvest, beginning in October in the north, through until Christmas in the south of the nation. The main problem in many areas will be storage for the bumper crop and the potential for spoilage. Transport logistics will be a key component, with ships lining up to take the golden bounty to export customers as fast as it can be loaded.

If all goes to plan, agricultural areas will be the recipients of some very large pay cheques for crops delivered during the March quarter and beyond. Money will be applied to reducing debt levels which are reportedly at high levels in 'the bush' but some of that flow of gold will work its way into capital spending and general retail sales.

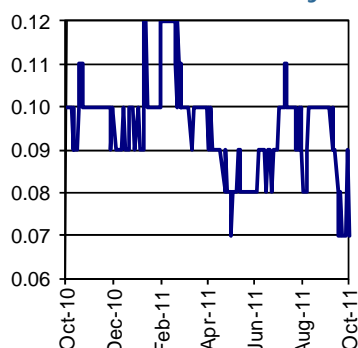
Wheat Price (5 Years)



## Oil at Sidi Dhaher Well

## ADX, XST, VIL

ADX Price History



After seeming to be lost in space for a few days and following an overnight report by Gulfsands on well evaluation progress, ADX Energy finally reported that its onshore Tunisian well has intersected what looks like a 30 metre oil column at a depth of 1,156 metres. While this result is not the 310 mmbbls of oil that Xstate was hoping for, nor is it likely to be the 44 mmbbls plus 175 Bcf of gas that ADX had targeted, even a small discovery of say 7 mmbbls would provide a solid value underpinning, which StockAnalysis estimates at 10 cps for ADX, 9 cps for Xstate and 1 cps for Verus, when applying an NPV for recoverable oil of \$16 per barrel.

Over-pressured drilling mud used in the drilling process appears to have penetrated into a highly permeable reservoir zone, masking petroleum indications while drilling and possibly restricting early oil flow back. Detailed analysis of well bore logs, along with formation tests, which recovered return mud, filtrate (from the drilling mud) and light oil, will be used to guide well testing, which will be undertaken once a suitable coiled tubing unit can be located.

Testing is still required to determine if Sidi Dhaher is a commercial discovery. Final value analysis will need to wait on flow tests to determine if a useful cash flow can be established from the discovery.

Interestingly, the much flaunted flat spot DHI may well have turned out to be an unconformity in the sedimentary sequence, where much of the predicted sedimentary column appears to have been eroded, leaving ADX to discover oil in an older sequence which is productive at a nearby oilfield.

## PrimeAg - Moves into Funds Management (PAG)

PAG Price History



**Recommendation:** *Following our sell recommendation at around \$1.50 per share, PrimeAg has moved back to buying range. While earnings per share this year will be poor, StockAnalysis estimates that the stock has an underlying asset value of \$1.91 per share. Ambitions to boost income from rural property management should show fruit in FY 2013.*

### PAG - Capital Structure

Shares	266.4 m.
Perf & Promo Rts	3.9 m.
Total Potential	270.3 m.
Net cash & Investments (est)	\$120 m.
Share Price	\$1.10
Market Cap	\$292 m.
NTA	\$419 m.
NTA/shr	\$1.57

PAG Estimated Profit YE 30 June	2011(a)	2012(e)
Operating Income	51.4	58.4
Other Income	5.7	5.0
Total Revenue	57.1	63.4
COS	(35.3)	(36.3)
Wages	(4.8)	(4.9)
Admin & other	(3.1)	(2.0)
EBITDA	14.0	20.1
D&A	(2.2)	(2.3)
EBIT	11.8	17.9
Interest	(1.0)	(0.6)
profit before tax	10.8	17.3
Impairment expense	(0.7)	
Tax	(3.0)	(4.3)
Net Profit	7.0	12.9
EPS cts	4.7	5.8
DPS cts	1.0	2.0

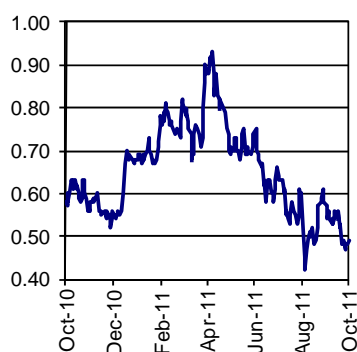
PrimeAg is about to harvest 6,200 acres of winter wheat crop and begin planting an estimated 11,000 acres of cotton. Forward sales of cotton cover 50% of the estimated 7,000 acres of irrigated cotton crop at a price of about \$565/bale, which compares favourably to the current price of around \$500 per bale. The price of wheat has recently taken a battering on the back of a weaker corn price, resulting from unexpectedly high US inventories of that grain, while the price for sorghum and chick pea has risen to attractive levels.

StockAnalysis estimates that the company has underlying asset value of around \$1.91 per share, including the value of its water rights and its investments in a newly created PrimeAg Fund, which was seeded with \$125 million each by the company and the Future Fund. PrimeAg aims to stabilise its earnings base by running the Fund to achieve a more predictable stream of management fees as well as income from the Fund's distributions, if any.

The company has given guidance for pre-tax profit of \$20 million, but StockAnalysis has estimated \$17.3 million, resulting in earnings per share of just over 5 cents and a likely 2 cent dividend for FY '12. Earnings are not attractive, but the stock has a strong underlying asset value and longer term plans to extract an earnings stream from its funds management activities. **Over the long term, PrimeAg should target earnings of over \$20 m pa, which would equate to earnings of 8 cps and a dividend of 3 cps.**

## Texon Value (TXN)

TXN Price History

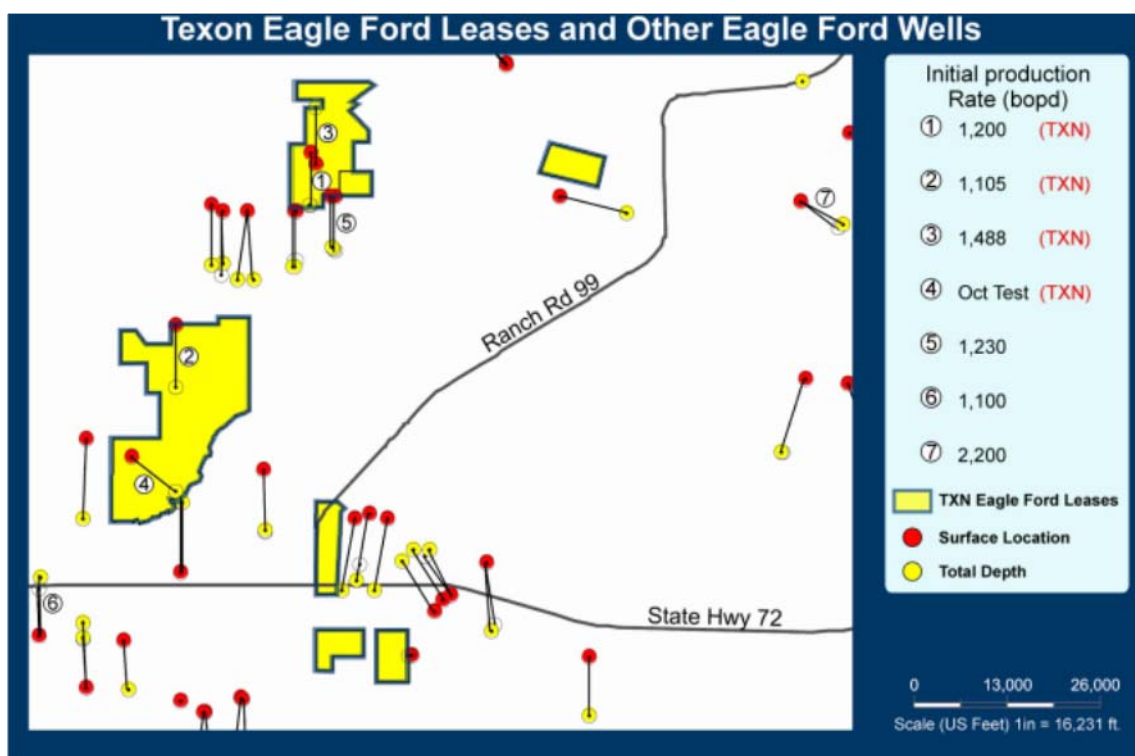


**Recommendation:** *While Texon appears to be undervalued, so do most of its peers. The addition of a 4th EFS well should lift the company's production towards 3,000 BOEPD during November '11. StockAnalysis assesses a risked value target of 67 cps, with upside for success of over \$1 per share.*

### Texon Capital Structure

Shares	242.5 m.
Options	18.8 m.
Fully Diluted	261.3 m.
Price	\$ 0.47
Market Cap	\$ 113 m.
Cash (est)	\$ 27 m.

Texon continues to kick goals at its McMullen County leases in Texas. A third and most recent Eagle Ford Shale (EFS) well to come on production, has been producing at an impressive average rate of 1,235 BOEPD over its first 17 days, with 92% of that production being oil. At that rate, revenue is accumulating at about \$1.8 million per month and the well should pay out initial capital within 12 months. Well 3, adds production to the first two EFS wells and will soon be joined by a 4th well which is waiting on stimulation prior to going on production later in October.



Source: Texon

Meanwhile, the company's small, 32% owned Iluka discovery has kicked off producing about 31 bbls of condensate plus 1.2 mmcuft of gas per day, which will contribute about \$50K per month to the company's cash flow.

The company has expanded exposure to oil production from the overlying Olmos Formation, adding new production wells. A recent test of the shallow Wilcox zone intersected a total of about 12 metres of promising reservoir target at a depth of about 2,011 metres and testing of several zones will be undertaken in October.

## TXN Valuation

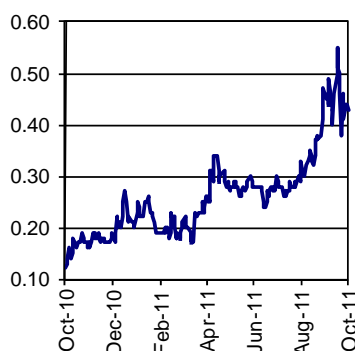
TXN - Valuation	A\$m	\$/shr	
Discovered Gas	3	0.01	Other Texas Gulf
Leighton Olmos	21	0.08	Atsale value
Risked EFS	36	0.14	@\$8K/acre
Risked Exploration	83	0.32	
Data Value	1	0.00	
Un-issued Equity	14	0.05	Options
Cash (est)	37	0.14	including assumed debt/note
Debt/note (est)	(10)	(0.04)	Assumes debtfunded
Corporate	(9)	(0.03)	
<b>Total</b>	<b>176</b>	<b>\$ 0.67</b>	

Source: Strachan Corporate Pty Ltd

With cash holdings currently estimated at about \$27 million and net outflows running at around \$3-\$4 million per quarter for capital development, StockAnalysis assumes that a small amount of debt will be added to Texon's balance sheet at some point over the coming 6 months, to bolster development funding. Alternatively, Texon is in a strong position to monetise its holdings in this very hot location. Based on recent multiples for daily oil production, plus underlying lease value, Texon could be looking at total pre-tax value of around \$230 million or 88 cps for its McMullen County activities, which would leave the company free to pursue its other exploration activities, including the large, Scarborough gas prospect and many others which are being generated from the company's extensive database.

## Azimuth Resources AZH

### AZH Price History

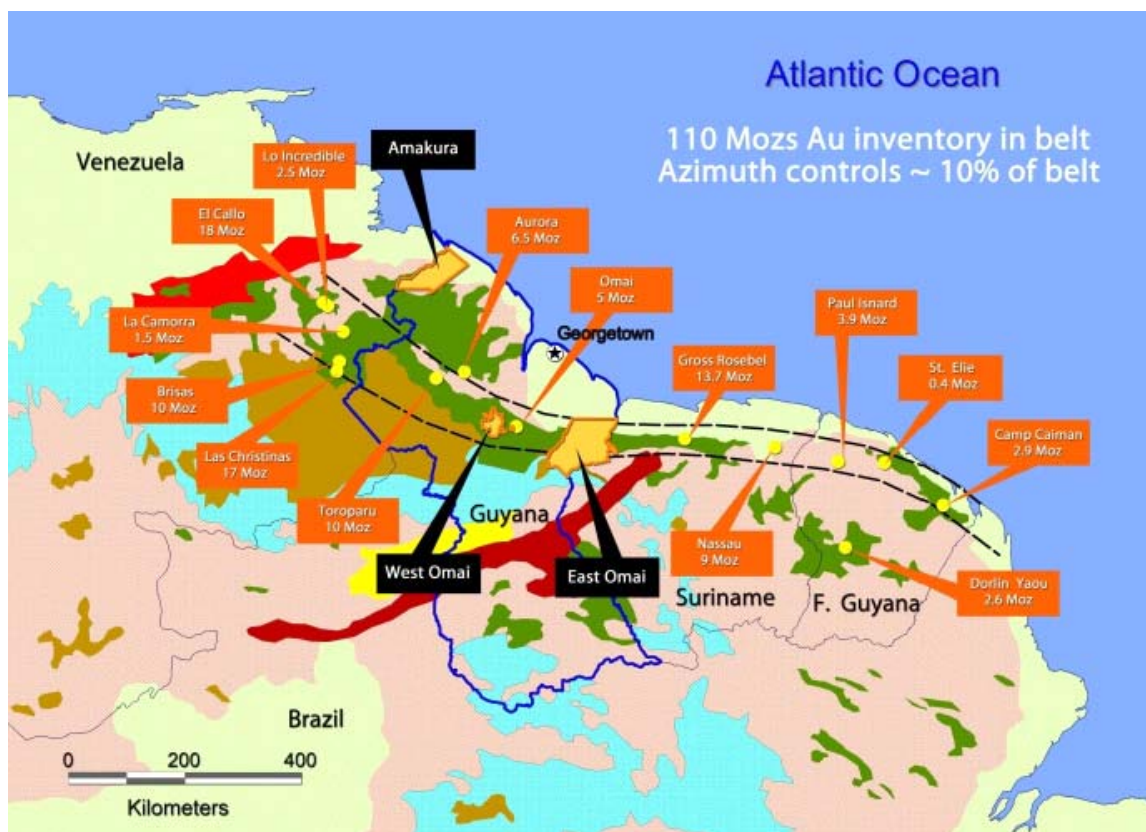


**Recommendation:** *Azimuth is a speculative Buy. An imminent Resource upgrade along with a new listing in Toronto, will re-rate the stock, which is well backed and managed by a team with the credentials to take this stock to \$1 bn over a three year period.*

Code	AZH
Shares	336.8
Options	37.6 Av 13.5 cts
Price	\$ 0.43
Mkt Cap	\$ 145 m.
Cash (est)	\$ 5 m.

Based on an expected initial Resource estimate of 1-1.2 moz due in December, the company is presently trading on a prospective multiple of \$120 to \$145 per ounce of gold in Resources. A listing in Toronto during December will open up the stock to more buyers from North America. Azimuth's Chairman took Redback Mining's Ghanaian project to a \$7 billion takeover and many will be expecting a similar trajectory for Azimuth.

### AZH Lease Locations



Source: Azimuth

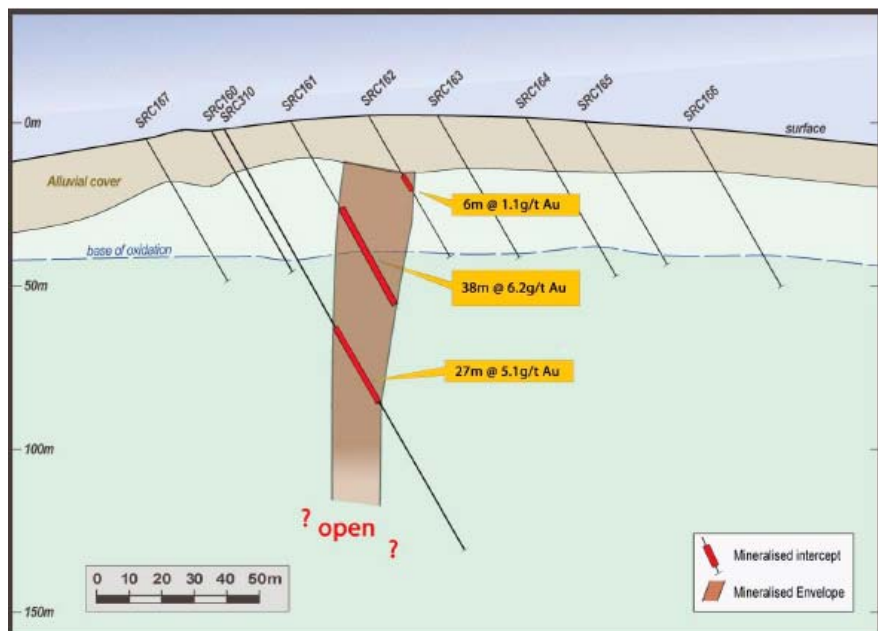
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Azimuth holds two large permits in Guyana covering over 8,000 km<sup>2</sup> of granted permits. Guyana is a sparsely populated country which operates under English law and where English is widely spoken. The geology of this region, running north from Brazil through French Guyana, Suriname, through Guyana and into Venezuela, mimics the gold regions of West Africa, with which this part of South America was once attached. There have been several multi-million ounce deposits discovered along this Greenstone Belt.

Azimuth is expanding Resources on its West Omai lease. The company is defining gold Resources at its Smarts and Hicks prospects and plans to commence work at the nearby Kaburi prospect, where artisanal workers have established a shallow pit of 400 metres in diameter to a maximum of 5 metres deep.

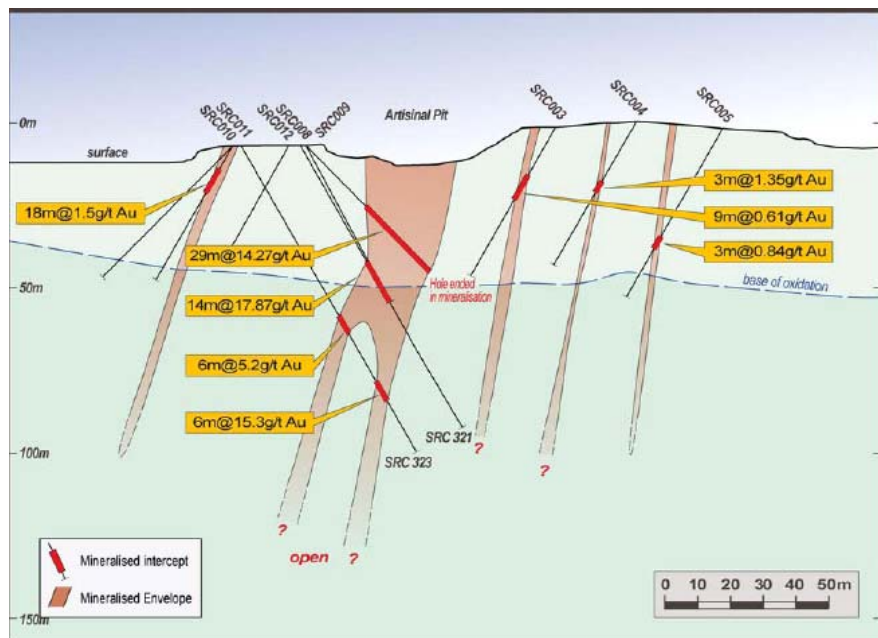
The West Omai lease contains alluvial gold throughout the permit, giving strong geochemical evidence for primary gold mineralisation. Two RC rigs and one diamond rig are currently drilling at its Smarts project where so far, over 26K metres of reverse circulation scout and Resource definition drilling and 151 metres of Resource definition diamond drilling has been completed. The prospect has been mapped and sampled along 3,800 metres of strike while drilling shows a multi-locale gold occurrence with a high grade central lode. Recent results point to a high grade zone at Smarts.

## Smarts Section



Source: Azimuth

## Smarts Section



Source: Azimuth

Results include: -

- **SRC161: 38m @ 6.2g/t Au**
- **SRC232: 30m @ 8.1g/t Au;**
- ◊ **including 6m @ 36.3 g/t Au**
- **SRC317: 3m @ 16.4 g/t Au**
- **SRC321: 8m @ 5.9g/t Au**
- **SRC327: 9m @ 5.5g/t Au**

StockAnalysis estimates that work to date has outlined about 840,000 ounces at a grade of around 2.6 g/t Au along 2,000 metres of total strike, but final calculations are expected in December '11.

The Hicks deposit contains non-JORC mineralisation of about 290Koz grading 2.2 g/t, but the company's drilling program looks capable of expanding this mineralisation to a compliant Resource of over 400 Koz, with results also expected in December '11. Hicks shows a relatively consistent mineralisation width of 10-15 metres along 2 kilometres of strike, where recent scout drill results including 12 metres of 2.5 g/t Au and 9 metres at 4.5 g/t Au show potential to expand this Resource.

At the Kaburi prospect copper, molybdenum and tungsten is associated with gold. The company plans an initial scout drilling programme in the December quarter in an attempt to understand its geology.

Azimuth has so far explored along a total of 11 kilometres of strike at its West Omai lease, containing several mineralised shear zones. StockAnalysis thinks that over the coming 2-3 years, the company should be targeting a resource of over 40 million tonnes containing over 3 million ounces of Resource at West Omai. However an initial Resource of around 1.2 million ounces could be announced from the Hicks and Smarts prospects in December.

(Continued on page 7)

Metallurgical testing shows high recovery rates of over 90% for gold. StockAnalysis expects that a high percentage of gravity gold recovery will keep operating costs low for an eventual mining project.

The virgin East Omai lease covers 110 kilometres of potential mineralised strike. The company intends to undertake a \$1.3 million geophysical data collection programme in October and November to guide initial scout drilling, based on alluvial sampling. The project area is adjacent to a planned 165 MW hydropower project, whose transmission line will pass within 6 kilometres of the Hicks deposit.

Azimuth is fairly valued by the market for its current stage of exploration, but risking its exploration upside sets an initial target of 61 cps. As the company drills deeper at the Smarts and Hicks deposits as well as opening up more of its exploration targets to demonstrate potential Resource upside, more speculative upside valuation will be created.

### Azimuth Valuation

	Moz	Factor	\$m	\$/shr
Resource Est	1.2	\$140	168	0.45
Mardie			1	0.00
Cash			5	0.01
Options			5	0.01
Corporate			(6)	(0.02)
			173	0.46
Risked Expn	2.0	\$28	56	0.15
Target value			229	0.61

Source: Strachan Corporate Pty Ltd

The company's Managing Director Dominic O'Sullivan is a Geologist who has worked on projects in Ghana, Jamaica and Guyana. He was involved in several discoveries including Plutonic Deeps (6 Moz) and Santrese (200 koz) near Konogo, Ghana. Executive Director Richard Monti has qualifications in geology and finance, but has experience with the technical, commercial, marketing and financial fields of various international exploration and mining companies such as Anaconda Nickel, RTZ Exploration, the North Group and Normandy. Michael Hunt was Chairman of Redback Mining which made a motza for many shareholders who will be eager to repeat the exercise by following him into Azimuth.

## Range of Values

## RRS



**Recommendation:** *Range is an expensive and high risk exploration and development company by comparison with its peers. Ongoing exploration work in Texas, Puntland and Georgia holds potential for over 30 cps of value accretion, with results to be known by November or December.*

Code	RRS
Shares	1803 m.
Performance	36 m.
Options	303 m. @ av 8.9 cts
Price	0.165
Market Cap	\$ 298
Cash (est)	\$30

Previously, StockAnalysis commented that it found the ~\$300 million market value of Range Resources to be difficult to justify for a company which recorded revenue of \$759K in the June '11 quarter, when excellent companies such as Cue Energy, which produces about 2,500 BOEPD has a market capitalisation of just \$139 million and a substantial producer with excellent development and exploration appeal such as Horizon Oil, is valued at \$230 million. So I have had a closer look at Range's assets and exploration appeal.

The company is currently producing around 1,500 barrels of oil per day from its recently acquired, shallow oil fields in **Trinidad**, where 2P recoverable resources are stated at 4.8 mmbbls. Deeper targets in the Herrera Formation, which are shown to be productive in adjacent permits, will be assessed using 3D seismic data. The company owns its own drilling rigs and is spending heavily to expand production towards a target of 4,000 BOPD over 3 years, while seeing upside for a further 20 mmbbls from exploration and development.

In **Texas**, the company holds a 20% WI in the North Chapman Ranch gas and condensate field which, after just two successful wells, according to Lonquist & Co, apparently has 1P reserves of 2 mmbbls of liquids plus 12 Bcf to the company's account. Appraisal drilling is expected to substantially increase 1P as it brings 2P and 3P reserves into that category. Let's wait and see.

In the quiet backwater of **Georgia** where the company has a 40% working interest, partners have acquired 410 km of 2D seismic data over the Vani 3 project and are now drilling the Mukhiani well, targeting about 23 mmbbls of recoverable oil, which will be followed by a second well.

Much excitement is centred on the company's involvement in the autonomous African province of **Puntland** in northern Somalia. The partners have identified several prospects and now plan to test one or two. Drilling equipment is on its way to the site (heavily guarded and with significant "logistical" support) to test a prospect with potential to yield +300 mmbbls of oil. Puntland has all the same geology as Yemen and about the same sort of bleak security assessment right now! Success at this project could be worth over 25 cps to Range.

### Range Resources – Valuation Matrix

Asset	BOE		\$m	A\$/shr	
	1P	2P		Un'dil	FD
Nth Chapman Ranch	4.0	9.5	63	0.04	0.03
East Texas Cotton Valley			3	0.00	0.00
Trinidad Oil		4.8	67	0.04	0.03
Trinidad Oil Drilling			20	0.01	0.01
Investment (TPT)			3	0.00	0.00
Corporate			(40)	(0.02)	(0.02)
Options			27		0.01
Cash			30	0.02	0.01
<b>Sub total</b>			173	0.08	0.08
Risked Explortation			167	0.09	0.08
Target Price				0.17	0.16

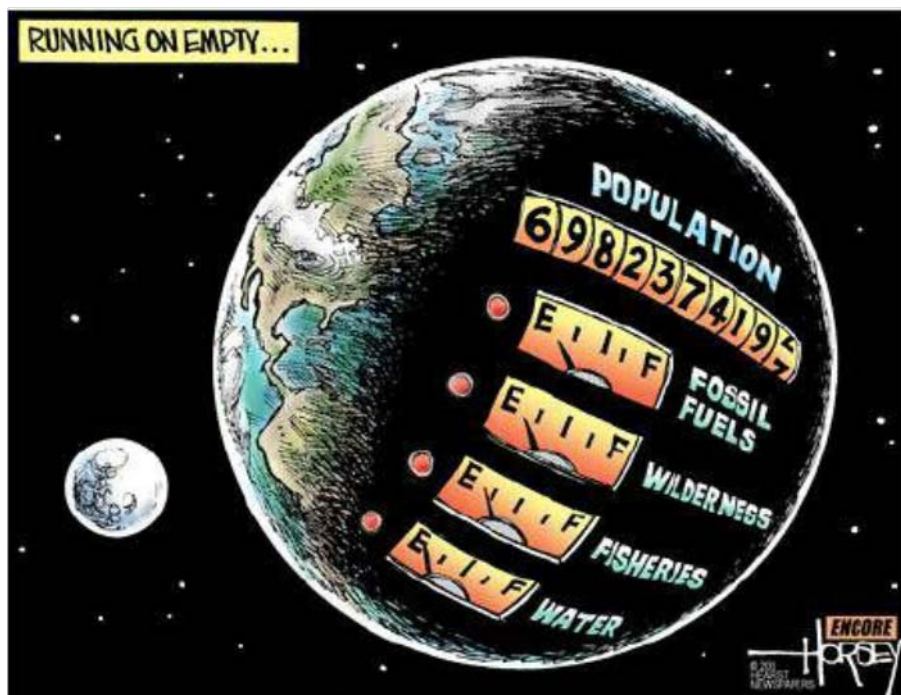
Source: Strachan Corporate Pty Ltd.

Tallying all this up, delivers an assessed value for the company of \$173 million or 8 cps, before exploration upside. Risked exploration takes target valuation to 16 cps, but the market is seldom (except in this case) willing to pay for such upside. StockAnalysis thinks that the key to Range's valuation premium is the quality and backing received by its African exploration partner African Oil, which comes with strong credentials and will be dragging all of its partners along on its coattails. Success at all of the company's current exploration plays would boost valuation by at least 24 cps and support follow-on exploration appeal.

**Despite obvious exploration and development appeal, Range Resources still looks expensive by comparison with its lower risk peers.**

## World 7 Billion Day

The UN will declare a global population of 7 billion in late October. Some may still think that this is a cause for celebration, but with over 1 billion of those people in permanent hunger, spiralling deforestation, mass extinction of species, the arrival of peak oil which has fuelled an enormous jump in economic growth over the past 150 years and constant denuding of the oceans, there can be little cause for joy, so I offer you this cartoon for a moment of reflection.



Cartoon by Fred Stanback

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