StockAnalysis
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By Peter Strachan

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Antares' day of reckoning

Antares Energy (AZZ: ASX) is about to effectively place its future in the hands of its convertible note holders.

The company has been unable to consummate an agreed US$250 million asset sale contract with private equity outfit, Wade Energy Co. Falling oil and gas prices have seen Wade go to water on its commitments and despite the agreement still being on-foot, there appears to be little chance of a final resolution. In this case, litigation would be a wasteful and costly exercise that would not deliver a timely outcome.

At a meeting convened by the company for the 31st of March, holders of 23.75 million convertible notes will be asked to approve a moratorium on interest payments and a push back of the next reset date until 31 March 2017. This proposal would provide an extra year for the company to achieve a reasonable sales outcome as the oil price recovers. In return, note holders will be entitled to all accrued interest payments once the moratorium has ended and they will be able to convert the $2 notes into four AZZ shares instead of the current 1 for 3 conversion rate setting.

This change holds out the promise of considerable capital gains for note holders, dependent on the sale of Northern and Big Star project areas for a price of more than A$220 million (~US$165 million).

Effectively, note holders are being asked for time to allow the oil price to recover and to enable AZZ's management to secure a viable sale agreement for the company's Big and Northern Star projects in the Permian Basin.

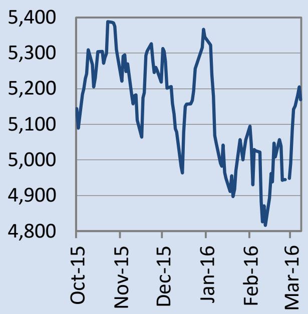
The company is also offering to run an independent review of the sales process over the past 18 months, to shine a light on what transpired. However, the company is recommending that note holders vote against such a costly and ultimately futile, backward looking and value destroying process.

The note's Trustees have also called a meeting on the 21st of March to ask note holders for authority to conduct an investigation into the failed sales process. StockAnalysis cannot see how a positive response to this resolution will make anything better for Antares or its note holders.

Should the note holders fail to ratify an interest rate moratorium, it is almost certain that Antares will fall into administration with all creditors lining up to feast on the AZZ carcass. An administration process would ultimately be prioritised to preserve $47.5 million of value for note holders through the orderly sale of assets, but after fees and costs associated with the process, little value is likely to be left behind for shareholders, unless the whole company can be recapitalised. Given that an orderly sale of assets is what has already been underway and would continue under existing management, changing operator mid-stream is likely to be costly and disruptive to that process.

Indices and Prices	
All Ordinaries	5,169.50
Energy Index	8,050.90
Brent AU$/bbl	53.15
AUS$/US$	0.743
As at close 8 March 2016	

All Ordinaries



S&P ASX 200 Energy Index

Brent Crude Oil $A/barrel

A$/US$

ACN: 59 077 704 146

Clearly, Antares is asset rich but cash flow poor, but any rational analysis of its asset value must conclude that it is not insolvent if given enough time to meet its commitments.

At the time of its sale of the Southern Star project to BreitBurn Energy Partners, AZZ received 4.3 million unlisted BBEP shares with a market value of US$82 million. However at current market, these shares are only valued at ~US$2.6 million. Theoretically, those BBEP shares could be converted into listed stock and sold, which might support AZZ until March 2017.

In any event, Antares is likely to need additional capital to support it through the coming 12 months, so a new issue is highly likely. Alternatively, the sale of 4.3 million BreitBurn shares could see AZZ though until March 2017, with cost cutting at corporate level.

StockAnalysis has previously opined that the best outcome for Antares would be to let its existing Board complete the asset rationalisation process. All the 'could haves' and 'would haves' in the world will not change today's situation, which has occurred because of market conditions that were out of the company's hands.

Perhaps a sales process like that undertaken by AWE for its Sugarloaf assets might have been successful, but really the Antares assets are at a much less advanced stage of development than is Sugarloaf and that sort of process would have been unlikely to result in a sales price that reflects the assets true, underlying value in a more reasonable oil price environment.

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