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Lambouka could be game changer for AuDax

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The Sambuca oil/gas prospect in waters offshore Tunisia has been renamed Lambouka. It's the name of a local fish that authorities in Tunis thought was more appropriate for an oil prospect than the name of the occasionally fiery Italian liqueur served with three coffee beans – one for health, one for happiness and one for prosperity.

Whatever its name, the oil/gas prospect is a potential game changer for AuDax Resources (ASX:ADX) and the rest of the junior groups involved. Certainly one capable of delivering them a two-bean sambuca sort of success - happiness and prosperity. We will know soon enough because Lambouka is to be put to the test with drill-bit next month.

Straddling the water between Tunisia and Italy, the $20 million well will test a structure with three potential pay zones rated as having a 50 per cent probability to contain a combined "resource potential 'of 270 million barrels of oil equivalent, 640 million boe if you like your chances with a 10 per cent probability. Needless to say, the leverage to success by AuDax and its partners to a discovery is something special.

The "resource potential" bit is important to recognise because that is all it is at this stage, potential. Still, the well is bound to generate interest among the punters once the well spuds in and the drill bit heads off to the first target zone.

AuDax (16 cents a share for a market cap of $54 million) is operator and has a 30 per cent carried interest in the well. The other ASX-listed partners in Lambouka are Carnavale Resources (CAV:20 per cent), PharmAust (PAA:10 per cent) and Xstate (XST:10 per cent through its deal to acquire the unlisted Bombara). Filling out the joint venture is the AIM-listed Gulfsands (30 per cent).

The drilling of Lambouka is the culmination of years of planning by AuDax managing director Wolfgang Zimmer, a seasoned oil man best known in this part of the world for once heading up OMV's push in to the Australia oil and gas scene. More recently, Zimmer has been joined at AuDax by former Nexus Energy chief executive, Ian Tchacos, as chairman.

They are a good combination. Zimmer likes to find things and Tchacos likes to build things. If Lambouka fails, Zimmer and Tchacos have made sure that it does not suffer from the one trick pony syndrome. There is an onshore Tunisia prospect with a 20-80 million barrel "recoverable" oil potential ready to be drilled in the fourth quarter, as well as follow up work to a 1980s gas/condensate discovery called Dougga back out in the Mediterranean to be done. A push in to Romania is also planned.

AuDax plans a name change to its ticker of ADX. The change reflects its move out of the minerals exploration game – the remnant interests are to be floated off in to a new company – and its focus on oil and gas. It is also in the process of raising $7.2 million from an underwritten one-for-six share issue at 15 cents a share. The new shares come with attached options on a one-for-two basis. Veritas is the underwriter.

Mount Gibson Iron (ASX:MGX)

Much has been made of the 10-15 per cent decline in spot iron ore prices since mid-April. But it has to be remembered that at a little more than $US150 a tonne, the spot price is still well ahead of the $US120 a tonne producer price achieved for the June quarter. It is also well ahead of market consensus for prices to bounce between $US100-$US120 a tonne in the long run.

It's for that reason that there is a lot of head scratching over the treatment being dealt out to the second tier iron ore producers. There is the big downer that has come with the proposed 40 per cent resource rent tax. And then there is the broader risk aversion among investors that the Euro credit crisis has delivered, plus the fears that China's efforts to cool down parts of its economy will pull the rug from under commodity prices.

But none of that adequately explains the savage treatment dealt out to the second tier iron ore stocks. It's starting to look like the multi-factor sell-off has been overdone. Mount Gibson Iron (ASX:MGX) is an example. Since mid-April its shares have fallen from $2.05 to $1.29 a share at the close of trade yesterday.

That 37 per cent price dump has prompted some broker upgrades for the stock. UBS has upgraded its recommendation of the stock to a "buy," setting a price target of $1.85 a share, matching a reduction in its net present valuation following discussions with management that prompted it to lower production volumes expectations for 2010, through to 2012.

On UBS figures, Mount Gibson is trading at 3.9 times forecast 2011 earnings and 3 times the expectation for 2012. Mount Gibson is not without its challenges, which is part of the reason it is trading on such low prospective PE multiples. It needs to secure a new project to pick up the slack beyond 2015/2016, be it in iron ore or one of the other steelmaking related sectors of coking coal, nickel or manganese.

UBS estimates that Mount Gibson will be sitting on cash of $204 million (19 cents a share) come June 30. So it has the firepower to both grow the business and lengthen its production profile at the same time. There are alternatives to that in the short-term. Conduct a share buyback while the share price is the doldrums or pay out some thumping dividends.

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