

# Mossberg's Investor Digest

## Best Idea Profile:

## InterOil Corporation (NYSE:IOC)

### DESCRIPTION:

Headquartered in Cairns, Queensland (Australia) InterOil Corporation engages in the exploration and development of crude oil and natural gas properties in Papua New Guinea. The company is vertically integrated in its target market and has midstream and downstream activities in addition to its exploration activities. InterOil is a refiner of jet fuel, diesel, and gasoline. The company is also a wholesaler and retail distributor of diesel, jet fuel, gasoline, kerosene, fuel oil and industrial lubricants. InterOil has 52 retail service stations, including 42 operating under the InterOil brand name and 10 operating under its own independent brand. InterOil also operates approximately 11 aviation refueling facilities in Papua New Guinea.

### KEY INVESTMENT CONSIDERATIONS:

**Valuable Assets/Reserves** – InterOil has a world class hydrocarbon province. The company has 3.9 million acres in Petroleum Prospecting Licenses in Papua New Guinea that includes 40 identified exploration leads and prospects. The properties have both proven reserves and potential for future exploration. InterOil has best case estimates (net to the company) for Initial Recoverable Sales of 5.03 (Tcf) for Gas and 75.5 (MMBbls) for Condensate. The company is in the process of monetizing a mega discovery of Natural Gas.

**Proximity to Markets** –The Company's properties are onshore or near the coast. InterOil has its own 65 mile pipeline to coastal facilities. Papua New Guinea is strategically situated close to the Asian LNG market-which is the largest in the world.

**New LNG Plant** – The company is in negotiations with Japanese investors to build a large LNG plant. InterOil has recently raised \$266 million and is now capable of funding its discussed portion of the project. InterOil is currently developing the project by working on government permitting, designs and collecting resources for construction.

**Project Economics** – The Economics for the LNG plant, a pipeline and associated projects (combined) is very strong. Current company estimates show that all sunk costs are repaid by 2015. From 2016 to 2020 current projections estimate annual cash flows of \$1.2 to \$1.3 billion per year. Long-term project estimates show cash flows of \$2.5 to \$2.9 million from 2014 to 2020.

**Experienced LNG Management Team** – InterOil employs a number of Marathon EGLNG Team Members throughout its business units.

**Vertical Integration** – Unlike many pure exploration plays InterOil is vertically integrated. The company has a near monopoly on gasoline and petroleum based products in its home market of exploration and production. Additionally, the company has a built in source of cash flows to help offset developmental costs. For Q1FY2011 InterOil reported a profit of \$0.7 million, compared with a net loss of \$3.1 million for the same period in 2010. The operating segments of Corporate, Midstream Refining and Downstream collectively returned a net profit for the quarter of \$21.2 million. Upstream and Midstream Liquefaction yielded a net loss of \$20.5 million which were more than covered by the other business units.

### VALUATION:

InterOil is currently trading at less than \$0.50 per mcf with spot prices above \$4.30 per mcf. Future projected cash flows on current projects and reserves could give the company a valuation of \$80 to \$120.

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Investment Data (as of 6/21/11)

<b>Recent Price</b>	<b>\$58.25</b>
52-Week Range	\$42.6 - \$81.98
Fiscal Year End	Dec
Dividend	NA
Yield	NA
Shares Outstanding	48MM
Average Trading Volume (3 mos)	607k
Market Capitalization	\$2.8B
Cash	\$232MM
Long Term Debt	\$131MM
Enterprise Value (EV)	\$2.6B
BV/ Share	\$14.55
TTM Revenue	\$871MM
P/ Revenue	2.8x
TTM EPS	\$(0.93)
P/ EPS	NA
TTM EBITDA	\$46MM
EV/ EBITDA	50x