

SELAN EXPLORATION | BUY | Rs. 300

23 SEPT, 2009

STOCK DATA	
Revenue	106 Cr.
Net Profit	46 Cr.
EPS	32
Price Earning	9
Book Value	70
Equity	14.3 Cr.
Market Cap	420 Cr.
Year High	324
Year Low	100

"Selan could be a multi-bagger even from the current levels. 5% valuation of 2P Reserves of the company means the stock price in four digits!"

Selan Exploration Technology Limited (SELAN) is engaged in oil exploration and production with a right to develop three discovered oilfields situated in the state of Gujarat namely Bakrol, Indrora and Lohar, all with proven oil and gas reserves. SELAN was subsequently awarded two more fields in Gujarat namely Ognaj Oilfield and Karjisan Gas field.

The Proven and Probable (2P) Reserves of Bakrol Oilfield alone are 73 Million Barrels as per the latest annual report. Management has indicated that Indrora Oilfield contain far larger quantities of recoverable oil than Bakrol. Let us conservatively assume 100 Million Barrels of Oil Reserves under Selan. At \$ 70 per barrel, Selan's reserve could be valued at Rs. 33,000 Cr.

Selan's production cost is \$11 per barrel, which is reasonably low. Rawa Field has the cost of production at around \$7 per barrel and considered to be one of the lowest cost. Company has to pay \$5 per barrel as Royalty to the government. Better technology in oil production and increased capex could result in dramatic change in the scale of production from next couple of years. Selan has budgeted for Rs100 Cr. capital expenditure for next one year. Conservative management and low-debt balance sheet makes it a safe investment opportunity.

I have been buying Selan from the time it used to be quoted at single digit. It could be a multi-bagger even from the current levels. An Enterprise Valuation of 5% of 2P Reserves could lead to market capitalization of Rs.1650 Cr and that means a share price in four digits!!

Disclaimer: This note is prepared by our Portfolio Manager for information to the company's PMS clients. Equity Intelligence India Pvt Limited is SEBI Registered Portfolio Manager and has investment in Selan Exploration Technology Ltd.