



Perennial Value Smaller Companies Team: US asset inspection in 2012 and March 2013



Andrew Smith, Eric McCrady (Sundance CEO) and Paul Durham



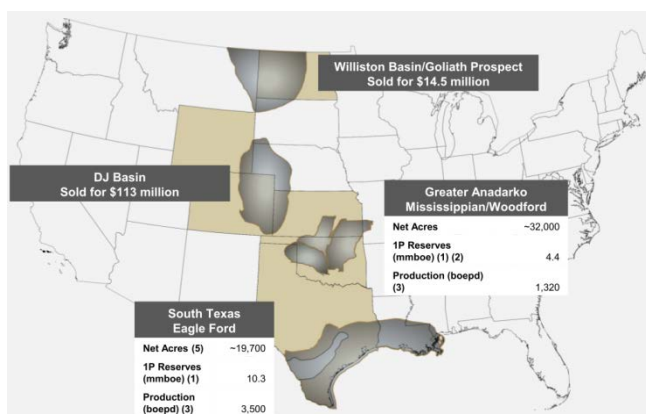
### SEA in brief:

- ▶ Listed on the ASX in 2005.
- ▶ Based in Denver, Colorado the company has upgraded its portfolio of assets to focus on premium plays.
- ▶ Market capitalisation: ~\$720 million.
- ▶ Sector: Energy.

## Active research delivers results: Sundance Energy Australia Limited

### About the stock

Sundance Energy Australia Limited (SEA) is an US onshore oil and gas company focused on the development of unconventional oil and gas plays. Following a series of profitable divestments, SEA has focused its asset base on the Eagleford and Great Anadarko basins.



The company has an established track record of project acquisition, value enhancement and subsequent divestment, netting a weighted average IRR of 85% on investment across four transactions to date. The more recent of these transactions resulted in a material cash injection for the company, which SEA has funnelled into its higher returning projects.

As SEA matures as a company, its record of astute asset transactions is being outshone by its growing reputation for operational and technical excellence. This is most readily observed in like-for-like well performance improvements within its Eagleford acreage position. The sum of the above is that SEA has the balance sheet and land position to continue its solid growth in production and profitability for the foreseeable future.

SEA's listing on the ASX in 2005 was a function of the company's initial strategy of exploring for unconventional oil and gas plays in the Cooper Basin. Upon review, it was decided the risk/reward balance of US unconventional assets was more appealing, which led the company to exit the Cooper Basin and establish a portfolio of US based assets.

### Adding Sundance to the Trust: Our fundamental research approach

Based on our analysis of the shale oil and gas sector in 2010, we identified the sector as one that could deliver substantial and impressive results for our investors. At that time, while hydrocarbon production from shales was being investigated in Australia, the process was largely unproven and so the Portfolio Managers looked for ASX listed companies with proven shale oil operations offshore.

Through Perennial Value's fundamental research process, we identified and invested in Aurora Oil & Gas Limited in June 2010 as a core holding in this sector. Given our assessment of the value that successful companies in this area could add to the Trust, we sought to diversify the Trust's exposure to the unconventional gas and liquids sector in the US, and later, China.

Sundance was added to the Trust in February 2012 at an average price of \$0.63 per share, as part of this diversification strategy. The investment case for the stock was based on the quality of the management team as well as SEA's established land positions within fields of proven economic viability with major partners, and its track record of five successful value adding acquisitions and divestments.

### Why we took and held a position in Sundance

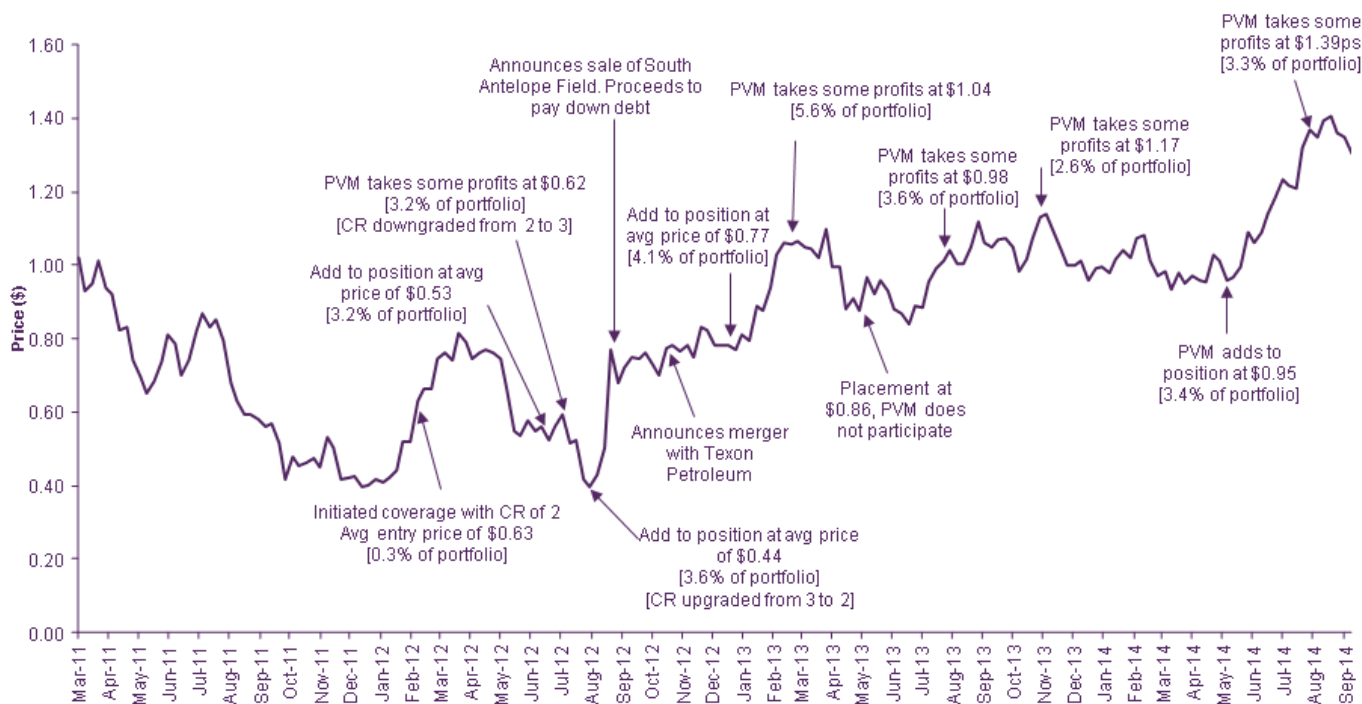
- ▶ Best in class management team that has a proven track record of consistently delivering on its asset trading strategy.
- ▶ The company's unwavering focus on the return on capital of its assets and its rigorous financial analysis give it a significant competitive advantage.
- ▶ Market valuations versus our assessment of fair value.

The initial investment case was further supported by our view that the market was at that time, attributing limited value to SEA assets despite transactions supporting higher valuations. Indeed, transactions subsequently completed by SEA confirmed the company's assets were being undervalued at that time.

From a small position of less than 1% of the portfolio, we added substantially to our holdings through 2012 based on our assessment of management's ability to deliver on its strategy and on the back of share price weakness due to market speculation of a capital-raising. Following strong share price gains in late 2012, we traded around our core position through 2013 as SEA went sideways while the market digested a capital raising and an potential US listing. To SEA's credit, it withdrew from the listing at the last minute due to unfavourable deal metrics, again displaying its decision making discipline and focus on per share returns. We added to our position in April of 2014, taking SEA to 3.1% of the portfolio at \$0.95 per share.

As part of the investment process, members of the team have travelled to SEA's US assets three times over the past 18 months, with the most recent trip in March 2013. The purpose of these visits is to reconcile company guidance with activities on the ground, as well as assess SEA's operational approach and performance against its sector peers. On each occasion we have found SEA's depth of technical expertise and operational achievements to be best in class, which is consistent with management's strategy of investing heavily in internal technical ability. A more general observation on our most recent trip was a broader trend of improving operational results across the unconventional oil and gas space. We consider this to be a positive for the sector.

### Portfolio Managers Grant Oshry and Andrew Smith



Source: Perennial, Iress. As at September 2014.

Signatory of:



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