

May 31, 2024

EMERGING COMPANY
SPECULATIVE BUY (no change)

Stock code:	EEG AU
Price:	A\$0.185
12-month target price:	A\$0.76
Previous target price:	A\$1.11
Up/downside to target price:	310.8%
Dividend yield:	0.0%
12-month TSR*:	310.8%
Market cap:	A\$179m
Average daily turnover:	A\$0.08m
Index inclusion:	N/A

* Total stock return – Up/downside to target price + 12-month forward dividend yield.

Price performance

(%)	1M	3M	12M	3Y
Absolute	12.1	-2.6	-7.5	-46.4
Rel ASX/S&P200	11.8	-2.7	-13.8	-53.1



Source: IRESS

Financial summary

	Dec-23A	Dec-24F	Dec-25F	Dec-26F
Revenue (A\$m)	6.1	0.0	15.8	40.2
EBITDA Norm (A\$m)	-16.7	-12.6	-2.9	13.1
Net Profit (A\$m)	-21.8	-12.6	-8.1	-1.0
EPS Norm (A\$)	-0.03	-0.01	-0.01	-0.00
EPS Growth Norm (%)	222.3%	-55.8%	-36.1%	-88.0%
P/E Norm (x)	NA	NA	NA	NA
DPS (A\$)	0.00	0.00	0.00	0.00
Dividend Yield (%)	0.0%	0.0%	0.0%	0.0%
Franking (%)	NA	NA	NA	NA
EV/EBITDA (x)	-7.4	-9.8	-42.9	9.5
Gearing (Net Debt/EBITDA)	0.00	0.00	0.00	0.00

Source: Company data, Morgans estimates

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Analyst(s) own shares in the following stocks mentioned in this report:

– N/A

Empire Energy Group

Tapping into Australia's hidden gas giant

- Following a change of analyst coverage we reiterate our Speculative Buy rating on Empire Energy (EEG).
- EEG is advancing its plans to drill, frac, test and connect the Carpentaria-5H well in 2H 2024, with potential for first gas sales in 1H 2025.
- We have changed valuation methodology to SOTP DCF and in situ valuation from a multiple valuation. We also provide earnings estimates for the first time.
- Post changes our target price has been updated to A\$0.76 (from A\$1.11).

Carpentaria pilot project moving ahead

- The recent capital raising has equipped EEG with the necessary funds to achieve first sales gas production, targeted for the first half of calendar year 2025.
- Following recent successful appraisal drilling and high-flow rates from Carpentaria-2H and Carpentaria-3H wells, EEG is transitioning to pilot production and subsequently full-scale development at its Carpentaria Gas Project in the Beetaloo Basin (NT).
- The pilot program is focused on the drilling, fracture stimulation, and production testing of the Carpentaria-5H (C-5H) well. This will be the longest horizontal shale well (3,000m) and the largest frac job (60 stages) executed in Australia.
- Given the scale of the horizontal section and size of the fracs, the C-5H will be important for EEG as it continues to work on developing type curves for the Velkerri B and Velkerri C shale pay zones.
- EEG's bolstered cash reserves will also allow for the construction of essential midstream facilities and a gas gathering network.
- If C-5H is successful and produces comparable results to Carpentaria-2H and Carpentaria-3H, it will position EEG to start selling gas from the three horizontal wells into the existing McArthur River Gas Pipeline which has capacity of up to 25TJ/d for the pilot phase (connection already installed in the pipeline to allow EEG access for gas sales).
- Longer term there is also potential for a larger scale development of EEG's Beetaloo interests. Our production scenario model only assumes a portion of EEG's current resource is ultimately produced. This could take the form of feeding existing LNG operations that sit in close proximity in NT, with the Beetaloo offering scale but also low CO₂ emissions (<1%) which could be a helpful mix for LNG producers in the region dealing with high CO₂ levels across their own fields.

Price catalysts

- We expect 2024 to be a news-heavy year for EEG as it aims to: a) execute gas sales and transportation agreements, b) contract drilling rig and frac spreads for C-5H, c) obtain necessary regulatory and Indigenous approvals, d) drill, complete, test and connect the C-5H well, e) achieve resource growth/conversion at both Carpentaria and Carpentaria East (with the latter holding material 3C) and f) secure debt funding to support construction of surface facilities.

Investment view

- Following a change in analyst coverage, we maintain our Speculative Buy rating on EEG with a revised target price of A\$0.76 (previously A\$1.11). This update reflects a shift to a SOTP DCF and in situ valuation from a multiple valuation. Successful pilot phase production could significantly re-rate EEG, with substantial further upside risk also on offer from the larger development of its extensive 3 million net effective acres in the Beetaloo Basin.

Risks

- Given the Beetaloo Basin is a new gas frontier, and EEG's position as an early-stage aspiring gas producer, the risk profile for EEG is a speculative rating. Development and production expectations are likely to evolve as EEG advances the Carpentaria project towards commercialisation.
- Key risks include necessary approvals, drilling and operational risks, and project execution risks to budget and timelines.

Empire Energy Group

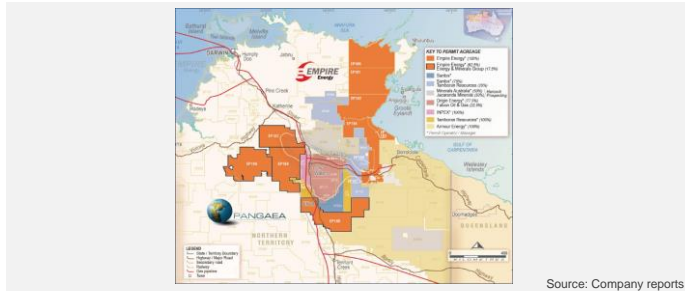
SPECULATIVE BUY

as at May 31, 2024

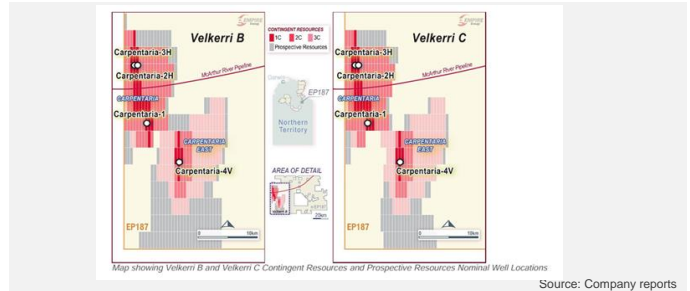
Price (A\$):	0.185	12-month target price (A\$):	0.76
Market cap (A\$m):	179	Up/downside to target price (%):	310.8
Free float (%):	31.9	Dividend yield (%):	0.0
Index inclusion:	N/A	12-month TSR (%):	310.8

Empire Energy is a junior oil and gas company who previously focused on assets in the USA, but is now focused on the Northern Territory. The Northern Territory assets are being explored and appraised. The company is focused on proving up its 42Tcf (following acquisition of Pangaea and EMG's NT assets) of prospective resource in the Beetaloo Sub-basin and McArthur Basin. It's first exploration well, Carpentaria-1 intersected gas and liquids in the Velkerri shale formation and is located near to the McArthur River zinc-lead mine. Origin (ORG) and Santos (STO) are also exploring in the basin and Santos holds tenure adjacent to EEG's.

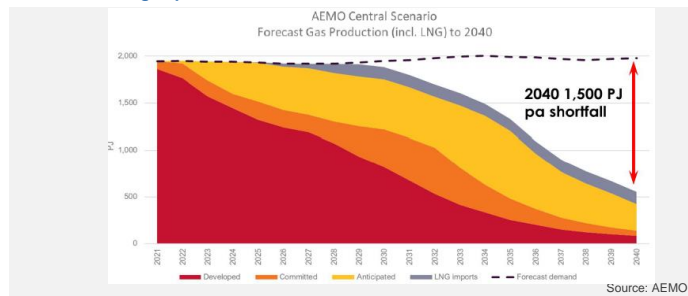
Map of EEG interests



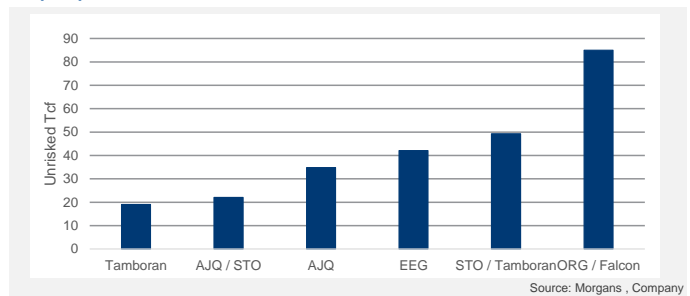
Resource map - Velkerri B & Velkerri C



AEMO forecast gas production central scenario



NT prospective resources



Bull points

Carpentaria Pilot Program / cash flow

Comparing EEG's current market capitalisation to our base case valuation implies that the market is factoring in a significant discount for the remaining hurdles EEG faces to commercialise the Carpentaria project. Delivery would be a significant positive.

Scalable resource

EEG's 3 million net effective acres presents substantial upside risk as the new gas play continues to gain momentum. A larger development scenario would likely present much larger value potential if EEG can execute.

Remaining funding considerations

We expect success at Carpentaria-5H will support A\$30-\$40m of potential debt funding capable of driving EEG's perceived WACC lower and a valuation re-rate.



Bear points

Execution risk

The Beetaloo has abundant gas but is in its early stages of development. This presents a material set of risks to commercialising the gas present. Poor results from C-5H and subsequent wells would see a deterioration in value and earnings potential.

Regulatory environment

A risk and a perhaps a potential positive. The government support for gas at both a state and federal level appears to be on the rise, but the risk of government intervention remains high.

Cost performance

EEG and its service partners ability to leverage down current capex and opex levels in full-scale development will be a large hurdle to unlocking significant value.



Environmental, Social and Governance

ESG
Exposure
Management



Exposure

Empire Energy Group (EEG) faces significant ESG exposures in the oil and gas sector, including high carbon emissions, resource management challenges, and biodiversity impacts. Social risks involve community relations, health and safety, and labor practices. Governance exposures include board oversight, transparency, and ethical conduct.

Management

Empire Energy Group (EEG) manages ESG issues by implementing carbon reduction initiatives, optimising resource use, and protecting biodiversity. It fosters community relations, prioritises health and safety, and ensures fair labour practices. Governance efforts include strong board oversight, transparent ESG reporting, and strict ethical standards. These measures aim to mitigate risks, enhance sustainability, and create long-term stakeholder value.

Source: Morgans

Figure 1: Financial summary

Profit & Loss (A\$m)						
	Dec-22A	Dec-23A	Dec-24E	Dec-25E	Dec-26E	Dec-27E
Sales revenue	13.4	6.1	-	15.8	40.2	66.6
Operating expenses	5.8	5.3	0.6	6.5	14.7	22.7
G&A	8.0	8.4	8.0	8.2	8.4	8.5
EBITDAX	-0.4	-7.6	-8.6	1.1	17.1	35.3
Exploration	2.2	9.1	4.0	4.0	4.0	4.0
EBITDA	-2.5	-16.7	-12.6	-2.9	13.1	31.3
D&A	1.1	1.5	-	5.1	12.8	20.8
EBIT	-3.6	-18.2	-12.6	-8.0	0.3	10.5
Net Interest Income	-2.3	-3.3	0.2	0.1	-1.1	-3.7
Pre-tax Profit	-5.9	-21.5	-12.5	-7.9	-0.8	6.8
Tax	0.2	0.3	0.2	0.2	0.2	0.2
Reported NPAT	-6.1	-21.8	-12.6	-8.1	-1.0	6.6
Exceptional items	-	-	-	-	-	-
Underlying NPAT	-6.1	-21.8	-12.6	-8.1	-1.0	6.6

Cash Flow Statement (A\$m)						
	Dec-22A	Dec-23A	Dec-24E	Dec-25E	Dec-26E	Dec-27E
Cash Receipts	10.7	12.0	-	15.8	40.2	66.6
Cash Opex Payments	-20.0	-35.6	-8.6	-14.7	-23.1	-31.3
Government Grants	15.3	23.0	-	-	-	-
Net Interest Received	-0.7	-1.6	0.2	0.1	-1.1	-3.7
Tax Paid	-0.2	-0.3	-0.2	-0.2	-0.2	-0.2
Operating cash flow	5.1	-2.5	-8.6	1.1	15.8	31.5
Capex	-50.4	-20.1	-24.2	-19.4	-39.7	-40.5
Asset Sales/Purchases	-	0.4	5.9	-	-	-
Investing cash flows	-50.4	-19.7	-18.3	-19.4	-39.7	-40.5
Increase / Decrease in Equity	29.4	-	53.9	-	-	-
Increase / Decrease in Debt	-0.8	1.0	-0.9	-0.9	19.1	19.1
Other financing cash flows	-0.2	-0.3	-	-	-	-
Financing cash flows	28.4	0.7	53.0	-0.9	19.1	19.1

Balance Sheet (A\$m)						
	Dec-22A	Dec-23A	Dec-24E	Dec-25E	Dec-26E	Dec-27E
Assets						
Cash And Deposits	21.9	13.6	39.7	20.4	15.7	25.8
Receivables	6.1	1.9	1.9	1.9	1.9	1.9
Inventory	0.1	0.0	0.0	0.0	0.0	0.0
Other Current Assets	4.2	4.6	4.6	4.6	4.6	4.6
Total Current Assets	32.2	20.1	46.2	26.9	22.2	32.3
Oil & Gas Properties	36.6	38.2	52.5	62.7	85.4	100.8
PP&E	0.6	0.6	0.6	0.6	0.6	0.6
Exploration Assets	127.0	111.5	111.5	111.6	111.8	112.1
Other Non-Current Assets	1.1	1.1	1.1	1.1	1.1	1.1
Total Non-Current Assets	165.4	151.4	165.7	175.9	198.8	214.5
Total Assets	197.6	171.5	211.9	202.9	221.0	246.8
Liabilities						
Payables	18.5	8.5	8.5	8.5	8.5	8.5
Borrowings	7.8	8.8	7.9	7.0	26.1	45.2
Other Current Liabilities	0.7	0.9	0.9	0.9	0.9	0.9
Other Non-Current Liabilities	37.1	41.1	41.1	41.1	41.1	41.1
Total Liabilities	64.0	59.2	58.3	57.4	76.5	95.6
Equity						
Contributed Equity	255.9	255.9	309.8	309.8	309.8	309.8
Reserves	10.4	11.2	11.2	11.2	11.2	11.2
Accumulated Earnings/(Losses)	-132.7	-154.8	-167.5	-175.5	-176.5	-169.9
Total Equity	133.6	112.3	153.6	145.5	144.5	151.2

Production					
	Dec-23A	Dec-24E	Dec-25E	Dec-26E	Dec-27E
Sales Gas (PJ)	1.4	-	1.3	3.2	5.2
Oil (kbbbl)	3.0	-	-	-	-
Total Production (kboe)	248	-	229	572	930

Assumptions					
	Dec-23A	Dec-24E	Dec-25E	Dec-26E	Dec-27E
Sales Gas (A\$/GJ)	1.4	13.1	13.3	13.6	13.8

Valuation			Risky Valuation	
	A\$m	A\$ps		
Carpentaria	639.8	0.63		
Carpentaria East (in situ)	112.5	0.11		
Prospective Resource	0.0	0.00		
Gas Assets Total	752.3	0.74		
Net cash	37.3	0.04		
Corporate	-17.8	-0.02		
Other Total	19.5	0.02		
Total Valuation	771.8	0.76		
WACC	11.0%			

Resource Summary				Contingent Resource (PJ)		
		1C	2C	3C		
Carpentaria						
Velkerri C		113	666	846		
Velkerri B		120	678	844		
Velkerri Intra A/B		0	8	16		
Velkerri A		0	12	24		
Total Carp	233	1,364	1,730			
Carpentaria East						
Velkerri C		35	185	871		
Velkerri B		36	190	906		
Total Carp East	71	375	1,777			
Total Resource	304	1,739	3,507			

Key Metrics/Ratios					
	Dec-23A	Dec-24E	Dec-25E	Dec-26E	Dec-27E
Shares on Issue	773.1	1,016.9	1,016.9	1,016.9	1,016.9
EPS	-2.8	-1.2	-0.8	-0.1	0.7
EV/EBITDAX	nmf	nmf	nmf	136.4	8.8
PE Ratio	nmf	nmf	nmf	-194.6	28.3
EBITDA Ratio	nmf	nmf	-18%	33%	47%
ND/EBITDAX	-38.7	-0.6	-3.7	12.2	-0.6

Source: Morgans estimates, company data

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Morgans Corporate Limited was a Joint Lead Manager to the Placement of Shares for Empire Energy Group in April 2024 and may receive fees in this regard.

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