

February 21, 2025

Empire Energy Group

Empire building

EMERGING COMPANY

SPECULATIVE BUY (no change)

Stock code:	EEG AU
Price:	A\$0.19
12-month target price:	A\$0.74
Previous target price:	A\$0.76
Up/downside to target price:	289.5%
Dividend yield:	0.0%
12-month TSR*:	289.5%
Market cap:	A\$193m
Average daily turnover:	0.18m
Index inclusion:	N/A

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

Price performance

(%)	1M	3M	12M	3Y
Absolute	-5.0	-5.0	2.7	-45.7
Rel ASX/S&P200	-6.3	-6.1	-7.2	-62.3



Source: IRESS

Financial summary

	Dec-23A	Dec-24F	Dec-25F	Dec-26F
Revenue (A\$m)	6.1	0.0	5.4	29.1
EBITDA Norm (A\$m)	-16.7	-12.6	-9.4	6.0
NPAT (A\$m)	-21.8	-12.6	-12.8	-7.2
EPS Norm (A\$)	-0.028	-0.012	-0.013	-0.007
EPS Growth Norm (%)	222.3%	-55.8%	1.1%	-44.0%
P/E Norm (x)	NA	NA	NA	NA
DPS (A\$)	0.000	0.000	0.000	0.000
Dividend Yield (%)	0.0%	0.0%	0.0%	0.0%
Franking (%)	NA	NA	NA	NA
EV/EBITDA (x)	-5.6	-9.7	-13.1	20.5
Gearing (Net Debt/EBITDA)	0.00	0.00	0.00	0.00

Source: Company data, Morgans estimates

Related research

[Sector report - 28 Oct 2024](#)
[EEG \(SPEC BUY - TP A\\$0.76\) - 31 May 2024](#)

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

– N/A

- A pivotal year for Empire, who is preparing to frac its huge Carpentaria-5H well (3.3km long lateral) that will support maiden gas sales by year end.
- If C-5H performs inline with C-2H then we would expect IP of circa 9mmcfpd, before considering the upside risk from upgrades made to frac and well design.
- Key milestones are being knocked over, although a delay in a Traditional Owner meeting has pushed back the expected timeline for pilot program.
- EEG enjoys several competitive advantages given the size of its still-scalable gas resources, secured debt-funding package, and flexible long-term offtake.
- We updated our 12-month target price to A\$0.74ps, factoring in updated timing.

Update on key catalyst:

▪ **Carpentaria-5H:** Empire Energy (EEG) is preparing to frac and flow test the Carpentaria-5H (C-5H) well at its Carpentaria Gas Project in the Beetaloo Basin. We eager to see the results of this big well, given it has: a) 5.5-inch diameter casing (prev. wells 4.4”), b) larger frac kit with 40,000 horsepower (prev. wells 14-15,000 HP), c) increased proppant concentration by 25%, and d) a ~3.3km lateral section. Ignoring the enhancements to the design, and extrapolating the results of C-2H, would see initial production of circa ~9mmcfpd. We would view results around that level or higher as a success.

▪ **Flexible GSA:** EEG is benefiting from the flex built into its GSA (gas sales agreement) with the NT-Government owned Power and Water Corporation. We do not expect any penalties or requirement for gas purchases from the new timeline for the ex-field take-or-pay agreement (up to 25TJ/d for 10 years) as the first three years in particular are highly flexible.

▪ **Balance sheet.** EEG finished 31 December with a cash balance of A\$25.6m and A\$6.7m of debt. Undrawn credit facilities total A\$28.3m.

Analysis:

▪ **Some delay in pilot:** A delay in a Traditional Owner meeting required to receive consent to alter the exploration permit to allow gas sales has pushed back the timing of C-5H and the 3-well pilot program. First sales gas is now expected in late 2025.

▪ **Size of the prize:** EEG has the third biggest 2C gas resource on the ASX, and is trading on a mere A\$0.09 per GJ (or A\$0.52 per boe). A deep discount to EEG’s peers which are currently trading on an average US\$3.91/boe. The current discount can be partly explained by the execution risk, but also demonstrates the kind of upside risk possible if EEG can execute in the Beetaloo.

Forecast and valuation update:

▪ In line with EEG’s new timeline, we have pushed back assumed first sales gas to late 2025, while also rolling our model forward. We have also updated EEG’s net cash balance. Post these changes our valuation-based target price has been updated to A\$0.74 (from A\$0.76).

Investment view:

▪ EEG is making solid progress in developing the Carpentaria Gas Project, while continuing to scale up its gas resources ahead of a pilot program planned for later in 2025. A catalyst heavy year, we expect delivery of this program will also further support the potential for a larger pipeline allowing the Beetaloo (EEG and its peers) to directly supply east coast gas markets. At an early stage in its overall development, but having already unlocked significant value from its core interests, we maintain a Speculative Buy rating on EEG with an A\$0.74 target price.

Price catalysts:

- Frac and flow test of C-5H (2Q 2025).
- Traditional Owner consent (2Q 2025).
- Pilot program gas production (late 2025).

Risks:

- Execution risk is significant for this emerging gas project.

Empire Energy Group

SPECULATIVE BUY

as at February 21, 2025

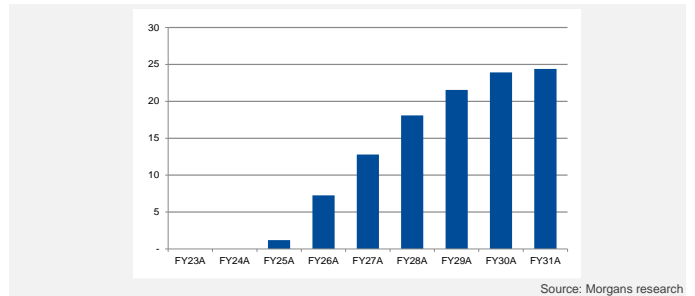
Price (A\$):	0.19	12-month target price (A\$):	0.74
Market cap (A\$m):	193	Up/downside to target price (%):	289.5
Free float (%):	32	Dividend yield (%):	0.0
Index inclusion:	N/A	12-month TSR (%):	289.5

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. Its 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.

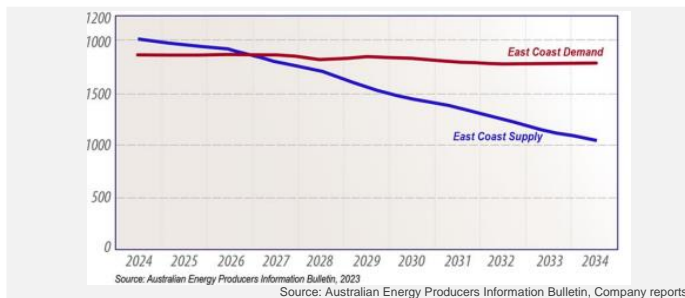
Map of EEG acreage



Gas production forecasts



East coast gas demand vs supply forecasts



Resource estimate

Contingent and Prospective Resources		
2C Contingent Resources	1.65 TCFe	1,927 PJe
2U Prospective Resources	46.6 TCFe	49,125 PJe

Source: Company reports

Bull points

Significant resource supported by path to market

A core bull argument for EEG is the size of its significant gas resource, which remains scalable to further appraisal. Supported by a secured funding package, with access to an existing pipeline (MRP) and GSA capable of supporting pilot production.

Carpentaria-5H upside

C-5H is the longest horizontal shale well drilled in Australia, with 60-70 stages planned for the fracture stimulation. The potential results could create further upside risk beyond our base assumptions.

Larger pipeline going east or LNG from Darwin

Infrastructure operator APA Group has commented that it is exploring the possibility of developing a large-capacity pipeline that could link the Beetaloo players to the supply-constrained east coast gas market. Alternatively EEG & peers are exploring LNG.



Bear points

Execution risk

C-5H frac and flow test results remain a significant risk event. Any execution risk realised from the well would likely represent a material downside risk for the project, setting back the planned pilot program.

Debt risk

EEG has secured a debt funding package to support development of the Carpentaria project. While a cheaper form of capital, this brings with it additional balance sheet risk as EEG executes its growth plans.

The need for critical mass

It is likely that both EEG and its fellow Beetaloo peers will collectively need success in order to reach the critical mass needed to justify a larger pipeline or LNG development.



Environmental, Social and Governance



Exposure

Empire Energy (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 (EEG) manages ESG issues by implementing carbon reduction initiatives

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	-	5.4	29.1	51.9
Operating expenses	5.8	5.3	0.6	2.6	10.7	17.9
G&A	8.0	8.4	8.0	8.2	8.4	8.5
EBITDAX	-0.4	-7.6	-8.6	-5.4	10.0	25.5
Exploration	2.2	9.1	4.0	4.0	4.0	4.0
EBITDA	-2.5	-16.7	-12.6	-9.4	6.0	21.5
D&A	1.1	1.5	-	1.7	9.3	16.2
EBIT	-3.6	-18.2	-12.6	-11.2	-3.3	5.3
Net Interest Income	-2.3	-3.3	0.2	-1.4	-3.7	-5.5
Pre-tax Profit	-5.9	-21.5	-12.5	-12.6	-7.0	-0.2
Tax	0.2	0.3	0.2	0.2	0.2	0.2
Reported NPAT	-6.1	-21.8	-12.6	-12.8	-7.2	-0.3
Exceptional items	-	-	-	-	-	-
Underlying NPAT	-6.1	-21.8	-12.6	-12.8	-7.2	-0.3

Cash Flow Statement (A\$m)	Dec-22A	Dec-23A	Dec-24E	Dec-25E	Dec-26E	Dec-27E
Cash Receipts	10.7	12.0	-	5.4	29.1	51.9
Cash Opex Payments	-20.0	-35.6	-8.6	-10.8	-19.1	-26.4
Government Grants	15.3	23.0	-	-	-	-
Net Interest Received	-0.7	-1.6	0.2	-1.4	-3.7	-5.5
Tax Paid	-0.2	-0.3	-0.2	-0.2	-0.2	-0.2
Operating cash flow	5.1	-2.5	-8.6	-7.0	6.1	19.9
Capex	-50.4	-20.1	-24.2	-45.2	-22.0	-40.5
Asset Sales/Purchases	-	0.4	5.9	-	-	-
Investing cash flows	-50.4	-19.7	-18.3	-45.2	-22.0	-40.5
Increase / Decrease in Equity	29.4	-	53.9	-	-	-
Increase / Decrease in Debt	-0.8	1.0	-0.9	19.1	19.1	14.1
Other financing cash flows	-0.2	-0.3	-	-	-	-
Financing cash flows	28.4	0.7	53.0	19.1	19.1	14.1

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	6.6	9.7	3.3
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	13.1	16.3	9.8
Oil & Gas Properties	36.6	38.2	52.5	91.8	100.4	120.4
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	205.1	213.9	234.1
Total Assets	197.6	171.5	211.9	218.2	230.1	243.9
Liabilities						
Payables	18.5	8.5	8.5	8.5	8.5	8.5
Borrowings	7.8	8.8	7.9	27.0	46.1	60.2
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	77.4	96.5	110.6
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	-180.3	-187.4	-187.7
Total Equity	133.6	112.3	153.6	140.8	133.6	133.3

Production	Dec-23A	Dec-24E	Dec-25E	Dec-26E	Dec-27E
Sales Gas (PJ)	1.4	-	0.4	2.3	4.1
Oil (kbbbl)	3.0	-	-	-	-
Total Production (kboe)	248	-	78	413	725

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	Risked Valuation	
	A\$m	A\$ps
Carpentaria	625.4	0.61
Carpentaria East (in situ)	112.5	0.11
Prospective Resource	0.0	0.00
Gas Assets Total	737.9	0.73
Net cash	37.3	0.04
Corporate	-18.3	-0.02
Other Total	19.0	0.02
Total Valuation	756.8	0.74
WACC	11.0%	

Resource Summary	Contingent Resource (PJ)		
	2C	2U	
Contingent Resources - Gas	PJ	1,906	44,540
Contingent Resources - Liquids	mmbbl	3.5	764.0
Total Resource	PJe	1,927	49,125

Key Metrics/Ratios	Dec-23A	Dec-24E	Dec-25E	Dec-26E	Dec-27E
Shares on Issue	773.1	1,017.3	1,017.3	1,017.3	1,017.3
EPS	-2.8	-1.2	-1.3	-0.7	-0.0
EV/EBITDAX	nmf	nmf	nmf	-15.8	8.6
PE Ratio	nmf	nmf	nmf	-27.0	-568.0
EBITDA Ratio	nmf	nmf	-175%	21%	41%
ND/EBITDAX	-38.7	-0.6	-3.7	3.8	-3.6

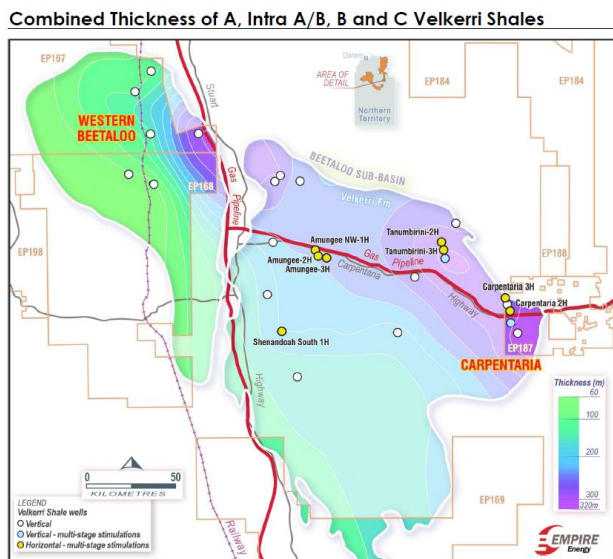
Source: Morgans estimates, company data

Carpentaria-5H

Empire Energy (EEG) is developing the Carpentaria-5H (C-5H) well. C-5H is the longest horizontal shale well drilled in Australia, successfully drilled to a total depth of 5,310m (including a 3,310m lateral section). Impressively EEG landed the entire horizontal section in the target Velkerri B shale, drilled and cased, and ended up extending for an extra ~300m. EEG plans to frac the C-5H well (a whopping 60-70 frac stages) and flow test it.

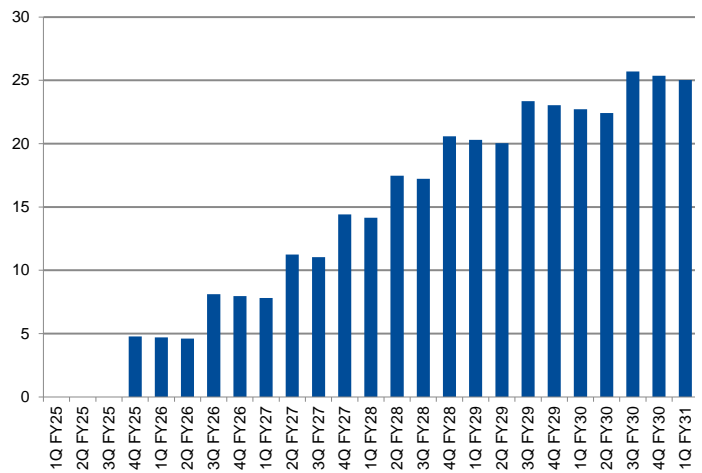
If C-5H posts similar results to C-2H then EEG plans pilot production of up to 25TJ/d through the existing MacArthur River Gas Pipeline, with an installed connection for EEG gas already in place.

Figure 2: Overview of Beetaloo thickness & project location



Source: EEG

Figure 3: Pilot program production – Morgans assumed base case



Source: Morgans Research

Updated timing

Making progress, but it is happening at a slower-than-expected pace. All required environmental approvals have been received, but a key remaining approval from Traditional Owners is the consent to amend the exploration agreement to allow the sale of gas during the appraisal phase. This approval is now expected at a meeting scheduled for April 2025 (just after wet season). Not wanting to keep >\$10m of fracking equipment and materials on site until then, EEG has similarly delayed the planned frac of C-5H until 2Q 2025, putting the pilot program on track for first sales gas by the end of 2025.

Flexible GSA

EEG is benefiting from the flex built into its GSA (gas sales agreement) with the NT-Government owned Power and Water Corporation. We do not expect any penalties or requirement for gas purchases from the new timeline for the ex-field take-or-pay agreement (up to 25TJ/d for 10 years) as the first three years in particular are highly flexible.

Balance sheet

EEG finished 31 December with a cash balance of A\$25.6m and A\$6.7m of debt. Undrawn credit facilities total A\$28.3m.

Comparison analysis

The comparison table tells the story with EEG. Mammoth resource base in a pivotal year. EEG's 1,927 PJe of 2C resource amounts to an attractive A\$0.52 per boe resource multiple, compared to a peer average A\$3.91 per boe. Some peers with stranded resources trading on a lower resource multiple, but with access to an existing pipeline and plans to frac and complete its third producer well (C-5H) that should support its pilot program production and initial sales/cash flow, slated for late 2025, we would have expected EEG to be trading closer to circa A\$0.70 per boe at this stage of development. While a positive result at C-5H could support further resource growth and deliver upside before any resource multiple rerating.

Figure 4: Oil & gas comparison table

Company	ASX	EV A\$m	Reserve + Resource			Reserve	R+R	Production	Production	Reserve Life
			2P	2C	2P+2C	EV / boe	EV / boe	mmboe	EV/boepd	Years
Woodside	WDS	53,850	3,092	5,870	8,962	17.41	6.01	195.0	276	15.9
Santos	STO	29,420	1,559	3,338	4,897	18.87	6.01	93.0	316	16.8
Beach	BPT	3,650	205	181	386	17.80	9.46	19.8	184	10.4
Empire Energy	EEG	167	-	321	321	na	0.52	0.0	na	na
Blue Energy	BLU	11	16	278	294	0.71	0.04	0.0	na	na
Karoon	KAR	1,470	78	103	181	18.97	8.13	10.0	147	7.8
TMK Energy	TMK	28	-	148	148	na	0.19	0.0	na	na
Strike	STX	544	51	64	116	10.59	4.70	1.4	389	36.7
Comet Ridge	COI	146	34	66	100	4.34	1.47	0.0	na	na
Amplitude	AEL	757	33	48	81	22.94	9.30	4.4	174	7.6
Australis	ATS	13	2	63	65	6.16	0.20	0.2	52	8.5
Conrad	CRD	143	-	60	60	na	2.38	0.0	na	na
Canarvon	CVN	215	-	49	49	na	4.37	0.0	na	na
Hartshead	HHR	18	25	10	35	0.71	0.51	0.0	na	na
Horizon	HZN	333	10	13	23	33.64	14.35	2.0	167	5.0
Central Petroleum	CTP	47	13	9	22	3.72	2.17	0.8	59	15.9
Vintage	VEN	7	9	3	12	0.74	0.56	0.1	74	na
Average						12.05	3.91		184	13.8
Median						10.59	2.27		170	10.4

Source: Morgans estimates, company data

Against a tough backdrop for the sector EEG share price performance has held up well relative to its peers and in line with the performance of the ASX200.

Figure 5: Share price performance last 12 months

Company	ASX	12mth Share Price %Δ
Central Petroleum	CTP	43%
Amplitude	AEL	36%
Horizon	HZN	25%
Empire Energy	EEG	9%
Santos	STO	-8%
Conrad	CRD	-15%
Strike	STX	-18%
Beach	BPT	-19%
Woodside	WDS	-23%
Karoon	KAR	-25%
TMK Energy	TMK	-30%
Comet Ridge	COI	-31%
Australis	ATS	-33%
Canarvon	CVN	-40%
Hartshead	HHR	-56%
Blue Energy	BLU	-65%
Vintage	VEN	-79%

Source: Morgans estimates, IRESS



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