

12 August 2020

Empire Energy Group Ltd

Schlumberger picked to lead Carpentaria-1 drilling

Empire Energy Group Limited (EEG.ASX) is a junior oil and gas producer and explorer with onshore NT and US oil & gas assets. EEG holds the largest acreage position (>14.5m acres) in the highly prospective, potentially global-scale NT McArthur-Beetaloo basins. The province is fast developing as a gas-rich (*and potentially liquids-rich*) strategic bolster for east coast Australia's future energy needs and Darwin's expanding LNG export terminals, amid strong policy support from both the Northern Territory (NT) and Federal governments. The Beetaloo Sub-basin alone is considered to contain recoverable unconventional shale dry gas volumes of over 100 Tcf, with liquids upside. EEG also owns conventional gas/oil assets in the US Appalachia, 80%-hedged at 2020 floor prices of US\$2.50/mcf. EEG's 2D seismic results aided a recent 22% uplift of its NT P50 prospective resources to 13.5 Tcf gas (up from 11 Tcf). Crystallising EEG's longer-term potential rests on successful drilling and production testing. EEG aims to begin a ~45-day vertical drill program to ~2900m, with its COVID-19 safe-work plan cleared by NT authorities. We believe the A\$7-8m drill program to test the Velkerri/Kyalla Shales can be comfortably funded from current cash. Global oilfields service provider, Schlumberger Land Rigs, has been contracted to drill, case & suspend the Carpentaria-1 vertical well, spudding mid-September; results due in November.

Business model

Empire Energy Group (EEG) is a junior oil & gas producer/exploration company, focused on maturing its portfolio of onshore, long-life oil & gas fields. EEG is the 2nd largest conventional gas producer in the US NY State and holds substantial exploration acreage (14.5m acres) in Australia's Northern Territory McArthur-Beetaloo basin. Given the region's high prospectivity, success from future drilling works may generate cashflows within 36-48 months, assuming links & upgrades to existing pipeline infrastructure are delivered in parallel. Positive read-throughs from Beetaloo neighbours (eg Origin/Santos) are also likely to inject value. COVID-19 disruptions delay, not dent, the opportunity.

Countdown to mid-September Carpentaria-1 spudding

Empire Energy Group (EEG) is within weeks of commencing its Carpentaria-1 vertical drill program, with civil works to begin next week and Schlumberger selected as contractor to the 45-day program, with drill rig #183 on its way to site, for a mid-September well spudding date. Key upcoming events include: a) EP187 drilling commencement; b) 26 September option expiration (36.2m @ A\$0.30); c) November drill results and d) Carpentaria-1 vertical hydraulic fracturing approvals for 2021. Robust results from EEG's 20/21 drill programs could evolve its P50 13.46 Tcf resource estimate into a 2C contingent resource, positioning EEG to attract strong funding partners.

Valuation

We assign a base case valuation of \$153m or \$0.58/share using the RaaS 3Q FY20 commodity price deck. Our valuation includes a 10% risk weighting to development risk expectations until the 22 August Northern Territory election results are known. EEG has several event drivers over the next 6-12 months which we view hold potential to generate a sizeable uplift in NAV.

Historical earnings and RaaS Advisory estimates

Year end	Revenue (US\$m)	Gross Profit (US\$m)	NPAT reported (US\$m)	OCFPS (AUD cps)	EPS Adj (AUD cps)	Price/Book (x)
12/18a	6.6 [^]	1.9 [^]	(5.3) [^]	(0.15)	(1.41)	25.8
12/19a	5.4	1.2	(12.0)	(4.12)	(9.29)	4.3
12/20e	4.3	1.0	(3.8)	0.43	(1.84)	4.2
12/21e	4.8	1.5	(3.1)	1.83	(1.57)	5.2

Source: : Company data, RaaS estimates for FY20e & FY21e [^]restated for US Marcellus asset sale

Share details

ASX Code	EEG
Share Price (intraday)	\$0.32
Market Capitalisation	\$84.3M
Number of shares	263.3M
Net cash	(US\$0.14M)
Gross cash	~US\$7.1M
Sector	Energy

Share price performance (12-months)



Upside Case

- EEG's Carpentaria-1 drill program confirms the Beetaloo Velkerri/Kyalla shales extend into EP187; holding both gas & liquids
- Further McArthur-Beetaloo work programs generate significant commercial outcomes
- EEG drilling success generates high-value LT strategic partnership(s) & funding options

Downside Case

- McArthur-Beetaloo Basin EP 187 2Q 2020 drilling is unsuccessful, negatively impacting remaining NT permits (EP180-188) values
- Continuing financing through equity issues highly dilutive to future capital growth
- Reinstatement of a NT fracking ban

Catalysts

- 26 Sept: ITM option exercise raises A\$10.86m
- Mid-Nov: Positive Carpentaria drill program results
- Ongoing: Upgrades to NT P50 13.5 Tcf resource est.

Comparative companies (Australia & NZ)

AJQ, STX, WGO

Company contacts

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Substantial Shareholders

Macquarie Group 10.05%
Global Energy & Resources Development 9.77%
Liangrove Media 4.65%
Elphinstone Group 4.56%

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FINANCIAL SERVICES GUIDE

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AFSL 456663

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- how we transact with you
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