

27 August 2020

Empire Energy Group Ltd

Strong confidence votes all-round

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 territory 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 NT 2D seismic results aided a recent 22% uplift of its P50 prospective resources to 13.5 Tcf gas (up from 11 Tcf). EEG will begin a ~45-day vertical drill program to ~2900m at its Carpentaria-1 well, spudding mid-September. Schlumberger Land Rigs is appointed as contractor for the A\$7-8m drill program, to acquire formation evaluation data across the Velkerri/Kyalla Shales which will inform planning for the vertical fracture stimulation programme in early 2021. A\$10m oversubscribed placement at \$0.30/share and options conversion by directors at \$0.30/share demonstrate a strong mandate for EEG's onshore energy investments.

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 delayed, not dented, the opportunity.

Votes of Confidence: NT Voters; EEG Directors; Investors

Empire Energy Group (EEG) has received three positive votes of confidence in recent days. A) NT voters resoundingly endorsed the 2 major parties (+70% primary vote), both support onshore NT energy developments; B) EEG directors will exercise 100% of their Aug-2018 A\$0.30 options, exercisable by 26 Sept 2020, raising A\$1.86m and C) A\$10m placement has been executed at \$0.30/share. Key upcoming events include: i) EP187 drilling commencement; ii) 26 September option expiration (30.03m @ A\$0.30); iii) November drill results and iv) 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, placing EEG to attract strong funding partners.

Base valuation is \$0.61/share

Following positive weekend NT Election results, we have removed the 10% NT frack-ban development risk weighting we had added to our base case. Our valuation lifts to \$183m or \$0.61/share from \$153m or \$0.58/share. 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)	27.4
12/19a	5.4	1.2	(12.0)	(4.12)	(9.29)	4.5
12/20e	4.3	1.0	(3.8)	0.38	(1.65)	4.9
12/21e	4.8	1.5	(3.1)	1.59	(1.36)	5.2

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

Share details

ASX Code	EEG
Share Price (i24 August)	\$0.345
Market Cap post raise	\$104.5M
No of shares post raise	~303M
Net cash post raise	~US\$12M
Gross cash post raise	~US\$16M
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
- Fracking success in NT/Qld pushes onshore energy prices to sub-economic levels.

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, CTP, GLL, STX, WGO

Company contacts

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Substantial Shareholders (Pre Capital Raise)

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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of

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AFSL 456663

Effective Date: 26th November 2018

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- how we transact with you
- how we are paid, and
- complaint processes

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