

Gold rush at the small end of town



Strike, Elixir and the Beetaloo Basin-focused Empire Energy, pictured, are “big game hunting” and working to “define very large resources that can underpin markets”, says Strike Energy’s managing director Stuart Nicholls.

Retail shareholders are keeping the faith in Australia’s junior oil and gas sector with a slew of oversubscribed share purchase plans pointing to a growing risk appetite.

Elixir Energy is hunting for coal seam gas in Mongolia’s southern Gobi Desert across 2.3 million hectares and believes the Covid-19 demand shock — which saw prices plunge — gave some retail investors both time and money to commit funds to the sector.

The number of shareholders on Elixir’s register has increased more than 10-fold since early 2020.

“Interest rates going to zero has meant that growth stocks face less of a penalty,” says Elixir’s MD, Neil Young. “Punters have wanted risk — to give reward — and some oil and gas stocks have provided this tradeoff to these investors. Retail care less for issues like the energy transition’s effect on oil and gas stocks.”

Elixir secured \$10m from a placement and then asked its 7000-strong retail arm for double that. They came through with \$16.6m after its first share placement in May 2020 was oversubscribed, forging a new focus on smaller investors.

“We were very pleasantly surprised with a SPP take-up of many multiples of what had been envisaged. This encouraged us in our recent raising to aim for the majority of funds to come from a share purchase plan,” Young says.

K1 Capital director John Young has long watched the small end of town and still advises on IPOs.

"Retail interest in junior oil and gas has increased — as has interest with mining and resources — in part because the stock market overall has been doing well since weathering the initial Covid impact early last year," he says. "Retail investors see the market moving upwards and want to be part of the action. Sentiment is positive and risk appetite appears to have increased. I think you are seeing this behaviour in a range of speculative sectors, such as cryptocurrencies as well."

Many smaller players have recovered share price falls after the turmoil of the oil price crash, bucking the trend of larger producers who have found it more difficult to recoup losses.

Strike Energy recently doubled its share purchase plan, reaping strong support since it debuted its plans to drill its West Erregulla acreage in the Perth Basin in 2019. Managing director Stuart Nicholls agrees there is an increased appetite for risk among investors.

"There are a lot of big blue chip miners trading at all-time highs and they're looking for capital growth and not just dividends," he says.

"A lot of money has come into play at the moment, a lot of money is being printed, a lot of investments have matured, interest rates are low, housing appears expensive and people are in the equity markets."

Oil and gas companies are also facing higher hurdles to secure cash from larger funds as ESG concerns expand.

"Net zero commitments are a minimum for institutional participation," Nicholls notes. Strike has a net zero by 2030 commitment for its wider Perth Basin plans, where it will build a urea plant and use geothermal wells as an energy source.

Nicholls describes Strike, Elixir and the Beetaloo Basin-focused Empire Energy as "big game hunting" and says all are working to "define very large resources that can underpin markets".

Not all share purchase plans are seeking cash for large exploration projects. Australis, which has a large swathe of land in the US shale patch, also reported an oversubscribed plan earlier this year. ADX Energy, one of many juniors headquartered in West Perth, was chasing \$1m but wound up with over 3½ times that.

On the east coast, Queensland coal seam gas explorer Real Energy sought only \$200,000 but wound up with commitments for \$1m, and increased its plan to \$650,000. The company recently merged with Strata-X and expanded into hydrogen under the new name Pure Hydrogen. Meanwhile, Perth Basin offshore oil producer Triangle Energy asked for \$1m last year and achieved commitments close to \$5m. Triangle scaled its share plan up to \$3.9m and investor support came before BP announced it would shut its Kwinana oil refinery, where the company trucks its oil.

The retail arm of investing more broadly has been helped along by new forums for discussion such as Reddit threads and Twitter. In Australia the local version of Wall-StreetBets — responsible for the Game Stock debacle — is ASXBets.

"Hot Copper and the Reddits and any forums where people are discussing stock performance is a really interesting indicator for what the average investor is thinking," Nicholls says.