

Playing the waiting game

Australis Oil & Gas (ASX:ATS) is an oil and gas producer/developer, with a strategic and controlling position in the emerging Tuscaloosa Marine Shale (TMS) oil play, onshore US. The TMS is an Eagle Ford-equivalent but early-stage oil play with recoverable oil potential of around 7bn barrels – this is the next big thing. Australis represents a highly leveraged and attractive exposure to the transformational potential of the TMS oil play. As more developed and mature oil plays exhibit diminishing returns and declining inventories, operators will need to look to new plays for growth and earnings. The quarterly report continues to underscore the quality of the TMS, with production tracking according to the model type curve which is considered to be as good as if not better than more highly developed plays in the Bakken, Eagle Ford, Powder River and DJ Basin. The macro environment continues to support the contention of ‘next big thing’ although corporate activity is taking a while to manifest. Industry noise points to the potential consolidation at scale, which at some stage translates to a squeeze on mid-cap operators and increasing focus on plays like the TMS – proven, underdeveloped, with a relatively inexpensive entry position. The company continues to pursue partnering discussions.

Business model

Australis Oil & Gas (ATS) is a development and production company, focused on progressing its strategic position in the emerging Tuscaloosa Marine Shale (TMS) oil play, onshore US. The company holds some 77,200 net acres within the TMS Core which compares favourably with more established and mature provinces like the Bakken, Permian and Eagle Ford. As an emerging play, the operating model is evolving with type curves and well recoveries becoming better defined, however, the oil-prone nature and relatively low production costs suggest material upside can be delivered through continuing activity and learning curve optimisation.

Working within capital constraints

In comparative terms, the TMS is an under-drilled and under-developed play, but the data set to date demonstrates production and earnings characteristics on a par with the more developed areas. The quarterly data continues to show the play evolving with well data confirming the type curve model and utility increasing with material improvements in uptime. Activity remains capital constrained with most of the focus in the quarter being work-over related and the purchase of long-lead-time items. Prudent lease management activity is continuing with some 50% of its portfolio held by production. As described by the company “...interactions with several potential partners continued through the quarter”. Delivering a material growth outlook is dependent on financing, however, the next 12-24 months could deliver a major re-rating of the play and the company.

Our NAV is unchanged at \$307m (\$0.25ps at the mid-point)

Whilst valuing pre-development is a subjective exercise, particularly considering financing and timing uncertainties, well performance data continues to de-risk the economics of the TMS play, increasing confidence in the commercial potential and highlighting the embedded value within the contingent resources. The resource opportunity remains massive based on consistent geology and the next 12 months, in particular, could deliver further material de-risking outcomes – further type curve definition and financing (partnering) options. We value the reserves and resources against the WTI forward curve (as of 13-Apr) adding a premium for the LLS benchmark and overlaying a discretionary RaaS risk to define a low-high NAV range. We set a mid-point (after adjustments) valuation of \$307mn (\$0.25ps) to ATS, with an upside case to \$395mn (\$0.32ps). This is against a reference share price of \$0.037ps, suggesting the market is risk weighting the developed producing reserves alone at around 65% of our ascribed value. Partnering success could unlock material reserves value and deliver valuation upside well in excess of our base case...such is the nature and attraction of oil plays in the US onshore.

Energy

3 May 2023

Share Details

ASX code	ATS
Share price (2-May)	\$0.034
Market capitalisation	\$43M
Shares on issue	1,243M
Net debt (as at 31-Mar)	~\$5.6M
Free float	~47%

Share Performance (12 months)



Upside Case

- Securing a partner to underpin funding for an expanded drilling programme to drive production and earnings growth
- Oil price upside - the company is a highly leveraged exposure to oil price
- Continuing positive look-through from third-party activity further de-risking the operating model as an analogue to already developed plays

Downside Case

- Finance constrained with risk to lease holdings
- Oil price downside – forward curves point to weaker outcomes versus 2022
- Weaker and slower outcomes from third-party drilling and continuing higher perceived risks to the play

Board of Directors

Ian Lusted	Managing Director/CEO
Jon Stewart	Non-Executive Chairman
Graham Dowland	Executive Director/CFO
Alan Watson	Non-Executive Director
Stephen Scudamore	Non-Executive Director

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A Weaker Quarter-On-Quarter Outcome, But No Change To Outlook

A 'maintenance' first quarter with output and financials impacted by higher downtime and lower realised oil prices. We are encouraged by the reported well productivity and increasing operational uptime which continues to support the development opportunity.

Partnering discussions are continuing and we await material progress on this financing option.

Exhibit 1: March quarter highlights and comments (financials in US\$)

Production and financials		Q2 22	Q3 22	Q4 22	Q1 23	ΔQoQ	
Lower sales volumes through natural decline and increased downtime related to higher and longer workover activity	Production volumes (kb)*	85.9	87.6	84.3	75.4	(11%)	
...translating to lower revenue and netback compounded by weaker oil prices	Sales volumes (kb)	82.9	89.6	83.3	76.2	(9%)	
	Net sales revenue (\$mn)	5.6	5.7	5.3	4.4	(17%)	
	Field netback (\$mn)	2.9	3.5	2.8	1.7		
	Netback (pre/post hedging) (\$/b)	34 / \$43	39 / \$48	33 / \$42	22 / \$27		
	EBITDA (\$mn)	1.0	1.8	1.1	0.1		
	Cash (\$mn)	8.7	8.3	7.8	5.4		
	Debt (\$mn)	14.0	13.0	12.0	11.0		
	Capex (\$mn)	(1.1)	(1.9)	(0.7)	(0.9)		
Commodity price volatility is likely to persist through the remainder of 2023	Realised oil price (US\$/b)	110	95	85	77	(10%)	
	(after hedging)	88	83	80	73	(9%)	
Corporate							
ATS continues to manage its lease position within the financial constraints of the company	TMS Core holdings (acres)	83,500	81,900	79,600	77,200	(3%)	
There are ~20,100 acres subject to expiry through 2023	Held by production %	46	47	49	50		
	Net drilling locations			300	280	(7%)	
	Net oil resource [2P + 2C] (Mb)	153	153	153	120		
Third-party discussions with a number of potential partners continued through the period and are ongoing	<p><i>The corporate strategy remains unchanged – securing a low-cost entry into a proven but underdeveloped shale play, capitalising on management's expertise and record of success; then leveraging that position by securing financing through partnering to accelerate and optimise production growth.</i></p> <p><i>The macro elements, particularly with respect to weakening conditions (declining number and quality of drilling inventory) in existing mature and highly developed play remain prevalent – with costs rising and productivity falling.</i></p> <p><i>There is 'speculative movement' on a large-scale with Exxon reportedly interested in Pioneer Natural Resources (a Permian Basin play with a nominally deep inventory of potentially high-returning wells). Bigger companies require scale and 'instant gratification' to support capital management programmes, which at some point squeezes mid-tier companies growth opportunities.</i></p> <p><i>Whilst we cannot say with certainty that ATS will secure a partner by end-2023, we can only highlight that we believe the operating environment is conducive to increasing interest in undeveloped areas where economies of scale and improvements from rising up the knowledge curve can deliver growth with high margins.</i></p> <p><i>Well productivity data continues to support the claim that TMS wells are as productive, if not better than, equivalents in the Eagleford, Permian, Powder River and DJ Basin plays.</i></p>						
Hedging remains in place as follows with the portfolio continuing to transfer the weighting towards zero cost collars.	Period	Q2 23	Q3 23	Q4 23	Total/Ave	2024	2025
	Volumes (kb)	9	11	11	31	24	12
	Swap price (\$/b)	65	66	65	65	\$67	\$65
	Volumes	23	20	11	54	17	17
	Low collar price (\$/b)	53	51	71	56	\$50	\$50
	High collar price (\$/b)	78	73	86	78	\$80	\$80
Cash and debt position	<p>The cash balance as at 31-Mar is \$5.3mn / Outstanding debt balance is \$11mn</p> <p>Capex for the period totalled \$0.9mn covering a small land management programme and securing of key inventory items</p>						

Source: Company data; Analyst commentary

Exhibit 2: Financial Summary

AUSTRALIS OIL & GAS LTD		ATS						
YEAR END		Dec						
NAV	A\$m	\$0.25						
SHARE PRICE	A\$cps	\$0.034 priced as of close trading						
MARKET Cat	A\$m	43						
ORDINARY SHARES	M	1,243						
OPTIONS	M							
COMMODITY ASSUMPTIONS		2021	2022	2023E	2024E	2025E		
Realised oil price	US\$/b	68.99	96.62	81.78	77.77	72.59		
Realised oil price after hedging	US\$/b	55.89	81.78	88.52	80.98	73.77		
Exchange Rate	A\$:US\$	0.7514	0.6946	0.6819	0.6873	0.6829		
RATIO ANALYSIS		2021	2022	2023E	2024E	2025E		
Shares Outstanding	M	1,238	1,243	1,243	1,243	1,243		
EPS (pre sig items)	UScps	(0.2)	0.2	0.1	0.1	0.1		
EPS	Acps	(0.3)	0.2	0.2	0.1	0.1		
PER	x			nm	nm	nm		
OCFPS	Acps	0.3	0.8	0.5	0.5	0.4		
CFR	x			7.0x	7.2x	8.7x		
DPS	Acps							
Dividend Yield	%							
BVPS	Acps			8.6	8.6	8.8		
Price/Book	x			0.4x	0.4x	0.4x		
ROE	%			nm	nm	nm		
ROA	%			nm	nm	nm		
(Trailing) Debt/Cash	x							
Interest Cover	x							
Gross Profit/share	Acps	0.3	0.5	0.3	0.2	0.1		
EBITDAX	A\$m	3.7	8.8	7.7	5.9	4.8		
EBITDAX Ratio	%							
EARNINGS		US\$000s	2021	2022	2023E	2024E	2025E	
Revenue		22,909	28,378	25,331	20,922	17,017		
Cost of sales		(17,341)	(19,097)	(19,165)	(17,199)	(14,645)		
Gross Profit		5,568	9,281	6,166	3,723	2,372		
Other revenue								
Other income		769	841	250	250	250		
Exploration written off								
Finance costs		(1,906)	(1,113)	(1,047)	(1,009)	(544)		
Impairment								
Other expenses		(6,839)	(7,042)	(3,768)	(2,240)	(1,451)		
EBIT		(502)	3,080	2,647	1,733	1,172		
Profit before tax		(2,408)	1,967	1,600	724	628		
Taxes								
NPAT Reported		(2,408)	1,967	1,600	724	628		
Underlying Adjustments								
NPAT Underlying		(2,408)	1,967	1,600	724	628		
CASHFLOW		US\$000s	2021	2022	2023E	2024E	2025E	
Operational Cash Flow		4,304	7,750	4,508	3,924	2,483		
Net Interest		(1,199)	(1,217)	(1,397)	(880)	(432)		
Taxes Paid								
Other		43	144	1,000	1,000	1,250		
Net Operating Cashflow		3,148	6,677	4,111	4,044	3,301		
Exploration		(571)	0	(500)	(500)	(500)		
PP&E		(80)	(374)	(100)	(100)	(100)		
Petroleum Assets		(1,066)	(2,264)	(1,000)	(1,000)	(500)		
Net Asset Sales/other		505	0	0	0	0		
Net Investing Cashflow		(1,212)	(2,638)	(1,600)	(1,600)	(1,100)		
Dividends Paid								
Net Debt Drawdown		(4,505)	(5,239)	(4,000)	(4,000)	(4,000)		
Equity Issues/(Buyback)		7,898						
Other						1,000		
Net Financing Cashflow		2,980	(5,243)	(4,500)	(4,500)	(3,500)		
Net Change in Cash		4,916	(1,204)	(1,989)	(2,056)	(1,299)		
BALANCE SHEET		US\$000s	2021	2022	2023E	2024E	2025E	
Cash & Equivalents		9,253	7,848	5,859	3,803	2,504		
O&G Properties		55,522	57,016	57,016	57,016	57,016		
Exploration & Evaluation		13,379	13,238	13,238	13,238	13,238		
Total Assets		90,828	90,383	87,174	83,138	80,128		
Debt		16,697	11,870	8,000	4,000			
Total Liabilities		28,991	24,344	14,386	9,390	5,204		
Total Net Assets/Equity		61,837	66,039	72,789	73,748	74,924		
Net Cash/(Debt)		(7,444)	(4,022)	(2,141)	(197)	2,504		
Gearing dn/(dn+e)								
NET PRODUCTION			2021	2022	2023E	2024E	2025E	
Crude Oil	kb		410	347	286	258	231	
Nat Gas	mmcf							
TOTAL	kboe							
Product Revenue	US\$m		22.9	28.4	25.3	20.9	17.0	
Cash Costs	US\$m		(14.4)	(16.2)	(14.4)	(12.1)	(9.9)	
Ave Price Realised	US\$/b		55.89	81.78	88.52	80.98	73.77	
Cash Costs	US\$/b		(35.12)	(46.57)	(50.45)	(46.97)	(42.78)	
Cash Margin	US\$/b		20.77	35.21	38.06	34.01	30.98	
RESOURCES and RESERVES			Reserves			Contingent Resources		
kb unless otherwise stated			1P	2P	3P	1C	2C	3C
Proved Developed	Producing	2,475						
	Non-Producing	29						
Probable Developed	Producing	631						
	Non-Producing							
Possible Developed	Producing				812			
	Non-Producing							
Oil	kb					21,070	117,058	211,981
Gas	Bcf					9	66	145
TOTAL	kboe	2,504	3,135	3,947	21,072	117,069	212,005	
EQUITY VALUATION			Risked Range			Low	Mid	High
A\$m			Low	Mid	High	per share		
Reserves		\$75	\$94	\$119	\$0.06	\$0.08	\$0.10	
Contingent Resources		\$79	\$223	\$288	\$0.06	\$0.18	\$0.23	
			\$154	\$318	\$406	\$0.12	\$0.26	\$0.33
Net Cash/(debt)				(\$6)				
Corporate costs				(\$5)				
TOTAL			\$143	\$307	\$395	\$0.12	\$0.25	\$0.32

Source: RaaS Advisory, Company data, priced close of trading (2-May)



FINANCIAL SERVICES GUIDE

RaaS Advisory Pty Ltd
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Corporate Authorised Representative, number 1248415

of

BR SECURITIES AUSTRALIA PTY LTD
ABN 92 168 734 530
AFSL 456663

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

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