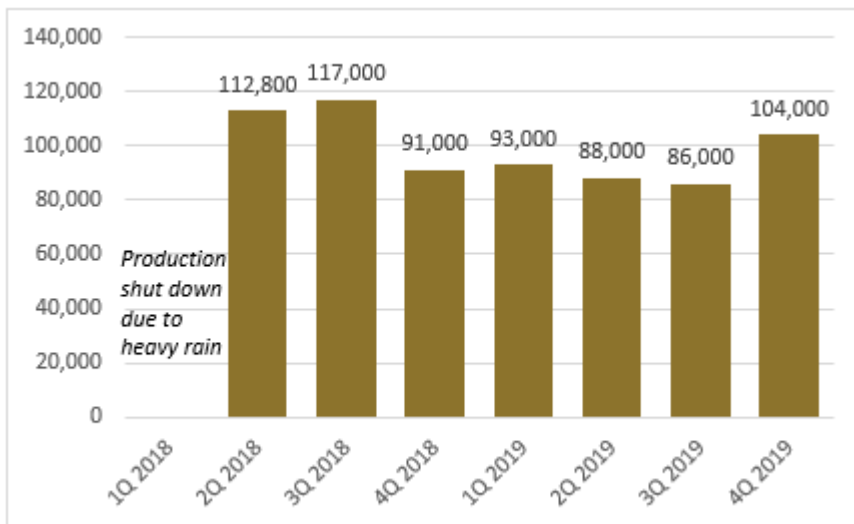


Buru Energy Limited (ASX:BRU)

December quarter production up QoQ

Production from BRU's Ungani Oilfield (BRU 50% and operator) in the December 2019 quarter totalled ~104,000bbls (gross) at an average daily rate over the period of ~1,130bopd, including well offline time. This represents a 21% increase on the September 2019 quarter's output of 86,000bbls and a 14% increase on the pcp. The increase was due to the Ungani 7H (horizontal) well being brought onto online in November 2019; note: in an Operations Update on 18 November 2019, BRU announced that field production had increased to some 1,700bopd. BRU indicate that current field production is averaging some 1,400 to 1,500bopd; planned operations in the June 2020 quarter include completing the Ungani 6H well, plus well workovers and enhancements, which have the potential to materially increase production rates.

Ungani Oilfield – historical quarterly oil production (bbls) (gross)



Source: Company, compiled by State One Stockbroking

Note: BRU interest reduced to 50% following sale of 50% interest to Roc Oil effective 21 May 2018

Valuation and Recommendation: A\$0.24ps, Hold

We value the Ungani conventional oilfield's NPV₁₀ at A\$45m (BRU, 50%). This is below the A\$64m paid by Roc Oil for its 50% stake in the field. The lower valuation seems reasonable in our opinion bearing in mind, 1) the higher US\$ oil price environment in mid-2018, 2) the fall-off in field production rates since 2Q 2018 and, 3) the premium that Roc Oil is likely to have paid to get the acquisition across the line. Attaching a A\$50m value to the Butler Sand Prospect (~2,000PJ Prospective Resource @ 2.5c/GJ), A\$44m to the Yulleroo Gasfield (~1,230PJe @ 3.5c/GJe), and a nominal A\$15m for exploration upside, we forecast BRU's SOTP enterprise value at A\$154m. Adjusted for forecast 10-year admin /corporate costs, exploration expenses and FY19E's net cash balance of A\$29m, **we calculate BRU's equity value at A\$103m (equivalent to A\$0.24 per share)**. At current share price levels, our target price offers some 100% upside potential. While this upside is not immaterial, **our recommendation on BRU at this juncture is a Hold (Higher Risk)**. We would prefer to see sustainable production (several quarters) from Ungani of 1,400-1,500bopd, more clarity on the group's 2020 drilling program, and progress on the proposed EP farmout, before upgrading our recommendation.

6 March 2020

Share Price: A\$0.12

Target Price: A\$0.24

Target upside: 100%

Recommendation
Hold

Risk Assessment
Higher

Resources – Oil & Gas

David Brennan, CFA

Senior Investment Analyst

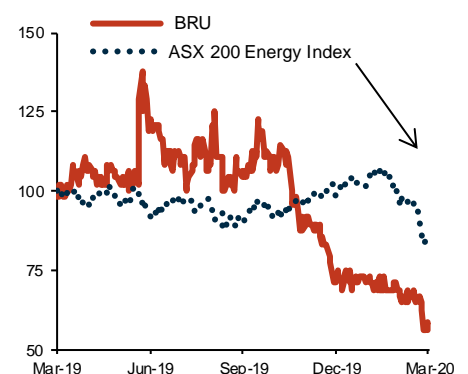
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Buru Energy Limited

ASX Code	BRU
52- week range	A\$0.12-A\$0.36
Market Cap (diluted) (ASm)	54
Shares (diluted) (m)	447m
Av Daily Turnover (shares)	430k
ASX All Ordinaries	6,472
FY19E BV per share (A\$c)	19
FY19E EPS (A\$c)	-2.2
FY19E Net Cash/(Debt) (A\$m)	29

Relative price performance



Financial Statements

Buru Energy Ltd

Year ending December

Profit & Loss Statement (A\$m)	FY18A	FY19E	FY20E	FY21E	FY22E
Revenue	20	14	21	20	20
COGS	(10)	(7)	(11)	(10)	(11)
Corporate costs	(6)	(5)	(5)	(5)	(5)
Exploration expenses	(5)	(7)	(7)	(7)	(7)
EBITDA	(1)	(6)	(2)	(3)	(3)
Depreciation & Amortisation	(5)	(5)	(3)	(3)	(10)
Operating profit	(7)	(11)	(5)	(6)	(13)
NOI	35.7	(0.9)	(0.9)	(0.9)	(1)
EBIT	29	(12)	(6)	(7)	(14)
Interest income	1.0	1.3	0.7	0.5	0.4
Interest expense	(0.4)	(0.4)	(0.4)	(0)	(0)
Tax expense	0	0	0	0	0
Reported NPAT	30	(11)	(6)	(7)	(14)
Normalised NPAT	(6)	(10)	(5)	(6)	(13)
EBITDA Margin (%)	n/a	n/a	n/a	n/a	n/a
Operating profit margin (%)	n/a	n/a	n/a	n/a	n/a
EPS Reported (A\$c)	6.65	(2.43)	(1.28)	(1.47)	(3.05)
EPS Normalised (A\$c)	(1.33)	(2.23)	(1.09)	(1.28)	(2.85)
EPS growth (%)	n/a	n/a	n/a	n/a	n/a
DPS - Declared (A\$c)	0.00	0.00	0.00	0.00	0.00
Avg. no. of fully-diluted shares (m)	447	447	447	447	447
YE no. of fully-diluted shares (m)	447	447	447	447	447

Cash Flow Statement (A\$m)	FY18A	FY19E	FY20E	FY21E	FY22E
EBITDA	(1)	(6)	(2)	(3)	(3)
Investment in working capital	(5)	0	(1)	0	(0)
Tax expense	0	0	0	0	0
Operating Cash Flow	(7)	(5)	(3)	(3)	(3)
Capex	(13)	(25)	(3)	(3)	(3)
Other investments	0	0	0	0	0
Investing Cash Flow	(13)	(25)	(3)	(3)	(3)
Net interest received / (paid)	1	1	0	0	0
Debt draw down / (repayment)	(3)	(1)	0	0	0
Dividends paid	0	0	0	0	0
Equity raised / (repaid)	0	0	0	0	0
Financing Cash Flow	(1)	0	0	0	0
Non-operating & Other (R&D rebate)	68	(1)	(1)	(1)	(1)
Incl(Dec) in Cash	47	(31)	(6)	(7)	(7)

Balance Sheet (A\$m)	FY18A	FY19E	FY20E	FY21E	FY22E
Cash & Equivalents	64	33	27	20	13
Receivables	3	2	3	3	3
Inventories	2	2	3	2	2
Other Current Assets	0	0	0	0	0
PPE and Exploration & Development	40	60	60	60	53
Deferred tax asset	0	0	0	0	0
Other Non Current Assets	0	0	0	0	0
Total Assets	109	97	92	85	72
Payables and other current Liabilities	6	4	6	6	6
Short Term Debt	3	3	3	3	3
Long Term Debt	2	2	2	2	2
Other Non Current Liabilities	4	4	4	4	4
Total Liabilities	15	13	14	14	14
Total Equity	94	83	78	71	58
Net Cash / (Debt)	59	29	22	16	9

Top 3 Registered Shareholders	%	Date
HSBC Custody Nominees	9.8	
Birkdale Enterprises	8.1	Feb-19
Chemco Pty Ltd	4.0	

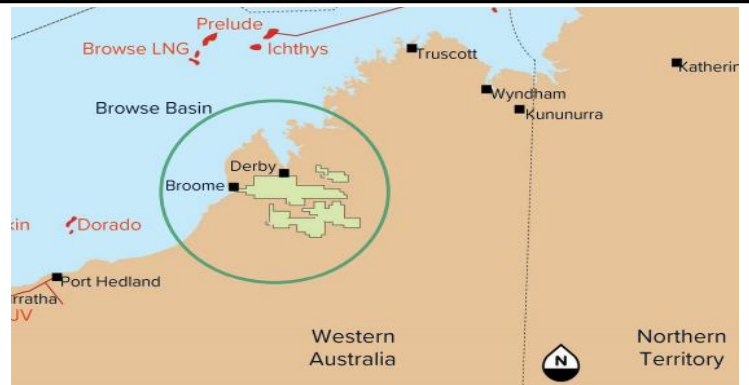
Source: Company, IRESS, State One Stockbroking forecasts

Revenue Forecast (A\$m)	FY18A	FY19E	FY20E	FY21E	FY22E
Gas sales (PJ)	-	-	0.0	0.0	0.0
ARP (A\$/GJ)	n/a	n/a	n/a	n/a	n/a
Revenue - Gas (gross)	0.0	0.0	0.0	0.0	0.0
Oil sales (MMbbl)	-	-	0.54	0.50	0.50
ARP (A\$/bbl)	-	-	78.2	79.8	81.4
Revenue - Oil (gross)	0.0	0.0	42.2	39.9	40.7
Revenue - Gas & Oil (gross)	-	-	42.2	39.9	40.7
BRU % interest	-	-	50%	50%	50%
Revenue net to BRU	19.9	13.6	21.1	3.0	3.0

Gas contribution to sales volume	-	-	0%	0%	0%
Oil contribution to sales volume	-	-	100%	100%	100%
Gas contribution to revenue	-	-	0%	0%	0%
Oil contribution to revenue	-	-	100%	100%	100%

Crude Oil ARP calc	FY18A	FY19E	FY20E	FY21E	FY22E
Brent crude oil price (US\$/bbl)	-	-	61.5	62.7	64.0
AUD/USD exchange rate	-	-	0.7	0.7	0.7
Brent crude oil price (A\$/bbl)	-	-	87.9	89.6	91.4
Marine transport discount	-	-	-11%	-11%	-11%
BRU ARP (A\$/bbl)	-	-	78.2	79.8	81.4

Reserves & Resources	Prospective Resource	2C Resource
Ungani Oilfield (100%) (MMbbls)	0	6.65
Butler Sand Prospect (100%) (BCF)	1,875	0
Yulleroo Gasfield (100%) (PJe)	0	863
Yulleroo Gasfield (100%) (PJe)	374	0
Total (PJe)	2,374	903



Valuation Ratios (x)	FY18A	FY19E	FY20E	FY21E	FY22E
Normalised P/E	2.6	-7.2	-13.7	-11.9	-5.7
Price/OP Cash Flow	-12.0	-14.4	-29.1	-27.8	-27.6
Book value per share (A\$c)	21.1	18.7	17.4	15.9	12.9
EV (A\$m)	19	50	56	62	69
EV/EBITDA	-ve	-ve	-ve	-ve	-ve
ROE (%)	n/a	n/a	-ve	-ve	-ve

SOTP Valuation	A\$m	A\$ps	Comment
NPV Ungani Oilfield (BRU 50%)	45	0.10	Estimated Project NPV
Butler Sand Prospect	50	0.12	2,000PJ @ 2.5c / GJe
Yulleroo Gasfield	44	0.10	1,237PJe @ 3.5c/GJe
Exploration upside	15	0.03	Nominal value
Enterprise value	154	0.36	
Admin/Corporate expenses	(33)	(0.08)	NPV of A\$5mpa for 10 years
Exploration expenses	(46)	(0.11)	NPV of A\$7mpa for 10 years
Net Cash / (Debt) (FY19E)	29	0.07	Estimate
Equity value	103	0.24	

Note: Per share data based on 447m shares

Recommendation & Risks

Our SOTP valuation of A\$0.24ps offers some 100% potential upside relative to BRU's current share price levels of A\$0.12. **Recommendation: Hold (Higher Risk)**. Risks to our estimated target price and forecast earnings profile include, but are not limited to:

- **Commodity prices/ exchange rates** – specifically the US dollar Brent crude oil price and the AUD/USD/exchange rate.
- **Ungani Oilfield** – production profile, oil inventory (production life), operating costs, and development capex.
- **Butler Sand Prospect** – a significant portion (33%) of our estimated group enterprise value is based on attaching a valuation of 2.5c/GJ to the Butler Sand Prospect's 1,875BCF Prospective Resource. Exploration programs at the Lennard Shelf (Miani and Butler) are under review.
- **Yulleroo Gasfield** – some 29% of our estimated group enterprise value is based on attaching valuations to the Yulleroo Gasfield's 2C and Prospective (unconventional gas) Resources. There is no guarantee that exploration and development programs at Yulleroo will lead to a commercial Project. In addition, it is uncertain if WA regulations re hydraulic fracture stimulation will impede project development.
- **Exploration upside**. Some A15m or 10% of our estimated SOTP enterprise valuation is derived from exploration upside. Exploration programmes may not result in favourable results relative to expectations.
- **Other**. Regulatory or compliance change, key personnel risk.

Directors Source: Company website.

Mr Eric Streitberg, Executive Chairman

Mr Streitberg has more than 40 years of experience in petroleum geology and geophysics, oil and gas exploration and oil and gas company management. He was a founding shareholder and held the position of Managing Director of ARC Energy Limited from 1997 until August 2008, during which time ARC Energy Limited was transformed from a junior oil and gas exploration company into a mid-size Australian oil and gas producer. He was also the founding shareholder and Managing Director of Discovery Petroleum which was a key participant in the renaissance of the Perth Basin as a significant gas producer until the takeover of that company in 1996. Prior to that he held various senior international exploration roles with Occidental Petroleum and BP. He was a founding shareholder and Non-Executive Director of Adelphi Energy Limited from 2005 until its takeover in 2010. He is a founding shareholder of Buru Energy and has been a Director since its listing in October 2008.



Ms Eva Howell, Independent Non-Executive Director

Ms Howell has over 40 years of experience in the oil and gas industry in several technical and managerial roles, primarily with Amoco Corporation, Apache Energy Ltd and Woodside Energy Ltd. She is currently a director of MMA Offshore Ltd.

Ms Howell has previously served on ASX-listed company boards including Downer EDI Ltd and Tangiers Petroleum (as Executive Chairman). She also served on the boards of the Fremantle Port Authority, the Australian Petroleum Production and Exploration Association, and as a board member and President of the Australian Mines and Metals Association. She is a graduate of the Australian Institute of Company Directors.



Mr Robert Willes, Independent Non-Executive Director

Mr Willes has over 25 years of extensive international experience in the oil and gas and energy industries. He is the Managing Director of Challenger Energy Ltd (ASX:CEL) and has previously served on a number of boards including the Australian Petroleum Production and Exploration Association (APPEA), North West Shelf Gas Pty Ltd, North West Shelf Liaison Co. Pty Ltd, North West Shelf Australia LNG Pty Ltd, North West Shelf Shipping Services Co. Pty Ltd, Carbon Reduction Ventures Pty Ltd and Perth Centre for Photography.

His early career with BP involved several positions in petroleum product supply, trading and marketing, and as a lead negotiator for numerous gas transactions in Europe. He subsequently joined BP's Group Mergers and Acquisitions team, where he led the divestments of Burmah Castrol's Chemicals Division and Great Yarmouth Power Ltd, and advised the Corporation on a number of acquisition opportunities. In Australia, Robert was BP's General Manager of the North West Shelf LNG Project. Robert also had overall accountability for BP's interests in the Browse LNG and Greater Gorgon LNG Projects, and for Business Development activities in Asia Pacific.



Mr Shane McDermott, CFO and Company Secretary

Mr McDermott, CA, AGIA, BComm (Accounting and Finance) has an accounting and auditing background having worked at a large international accounting practice for five years at its Perth office before joining Buru Energy in 2009. He is a member of the Institute of Chartered Accountants Australia and an Associate of the Governance Institute of Australia.



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