

# Buru Energy Limited (ASX:BRU)

## International crude oil prices collapse

Brent crude oil prices have fallen by almost a half since January 2020 to just under US\$36/bbl on the back of a slow-down in global energy demand as a result on the ongoing coronavirus (COVID-19) outbreak, and a concomitant step up in supply. Prices fell by 9% on Friday 6 March on news that marathon talks at Opec's headquarters in Vienna collapsed when Russia refused to join an Opec plan to cut supplies. **In trading today (Monday 9 March), Brent has so far fallen by a further 20% to ~US\$36/bbl** in response to Saudi Arabia, the world's top oil exporter, stating that it will step up crude oil production from next month. Other Opec producers, such as Iraq, Kuwait and the UAE, are expected to follow Saudi Arabia's lead.



### Valuation and Recommendation. A\$0.21ps (A\$0.24ps previously)

Considering the sudden deterioration in the international crude oil price environment, we have downwardly revised our forecast Brent crude oil price for FY20E by ~25% to US\$47/bbl from US\$61.50/bbl. We also assume a significantly weaker (-17%) oil price of US\$52/bbl in FY21E (vs our previous FY21E forecast of US\$62.70/bbl). Mitigating this, we assume a weaker AUD/USD exchange rate of US\$0.68 in FY20E (US\$0.70 previously) and US\$0.66 in FY21E (US\$0.70 previously). **With 100% of BRU's current revenues derived from oil sales from the Ungani Oilfield (BRU 50% and operator), BRU's performance is very much exposed to moves in the international oil price.** Downward revisions to our near-term A\$ oil price forecasts have lowered our NPV valuation for BRU's Ungani Oil Field by 22% to A\$35m from A\$45m, and lowered the group's SOTP equity value by 13% to A\$93m (equivalent to A\$0.21 per diluted share) from A\$103m (A\$0.24ps).

While our target price offers upside potential, **we maintain our Hold recommendation.** In the current oil price environment, we believe energy stocks will remain under selling pressure. In addition, we would prefer to see sustainable production (over several quarters) from Ungani of 1,400-1,500bopd, more clarity on the group's 2020 drilling program, and progress on the proposed farmout of exploration permits, before upgrading our recommendation.

9 March 2020

Share Price: A\$0.10

Target Price: A\$0.21

Target upside: 110%

**Recommendation**  
**Hold**

**Risk Assessment**  
**Higher**

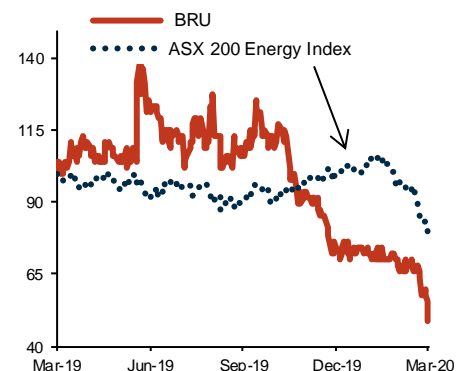
### Resources – Oil & Gas

David Brennan, CFA  
 Senior Investment Analyst  
[dbrennan@stateone.com.au](mailto:dbrennan@stateone.com.au)  
 +61 (0)2 9024 9142

### Buru Energy Limited

ASX Code	BRU
52- week range	A\$0.10-A\$0.36
Market Cap (diluted) (A\$m)	44
Shares (diluted) (m)	447m
Av Daily Turnover (shares)	430k
ASX All Ordinaries	5,928
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	17	18	19
COGS	(10)	(7)	(11)	(10)	(10)
Corporate costs	(6)	(5)	(5)	(5)	(5)
Exploration expenses	(5)	(7)	(7)	(7)	(7)
<b>EBITDA</b>	<b>(1)</b>	<b>(6)</b>	<b>(6)</b>	<b>(5)</b>	<b>(4)</b>
Depreciation & Amortisation	(5)	(5)	(3)	(3)	(10)
<b>Operating profit</b>	<b>(7)</b>	<b>(11)</b>	<b>(9)</b>	<b>(8)</b>	<b>(14)</b>
NOI	35.7	(0.9)	(0.9)	(0.9)	(1)
<b>EBIT</b>	<b>29</b>	<b>(12)</b>	<b>(10)</b>	<b>(9)</b>	<b>(15)</b>
Interest income	1.0	1.3	0.7	0.5	0.3
Interest expense	(0.4)	(0.4)	(0.4)	(0)	(0)
Tax expense	0	0	0	0	0
<b>Reported NPAT</b>	<b>30</b>	<b>(11)</b>	<b>(10)</b>	<b>(9)</b>	<b>(15)</b>
<b>Normalised NPAT</b>	<b>(6)</b>	<b>(10)</b>	<b>(9)</b>	<b>(8)</b>	<b>(14)</b>
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)	(2.14)	(1.95)	(3.32)
<b>EPS Normalised (A\$c)</b>	<b>(1.33)</b>	<b>(2.23)</b>	<b>(1.94)</b>	<b>(1.75)</b>	<b>(3.12)</b>
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)	(6)	(5)	(4)
Investment in working capital	(5)	0	(0)	(0)	(0)
Tax expense	0	0	0	0	0
<b>Operating Cash Flow</b>	<b>(7)</b>	<b>(5)</b>	<b>(6)</b>	<b>(5)</b>	<b>(4)</b>
Capex	(13)	(25)	(3)	(3)	(3)
Other investments	0	0	0	0	0
<b>Investing Cash Flow</b>	<b>(13)</b>	<b>(25)</b>	<b>(3)</b>	<b>(3)</b>	<b>(3)</b>
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
<b>Financing Cash Flow</b>	<b>(1)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(0)</b>
Non-operating & Other (R&D rebate)	68	(1)	(1)	(1)	(1)
<b>Inc/(Dec) in Cash</b>	<b>47</b>	<b>(31)</b>	<b>(10)</b>	<b>(9)</b>	<b>(8)</b>

Balance Sheet (A\$m)	FY18A	FY19E	FY20E	FY21E	FY22E
Cash & Equivalents	64	33	23	14	6
Receivables	3	2	2	2	3
Inventories	2	2	2	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
<b>Total Assets</b>	<b>109</b>	<b>97</b>	<b>88</b>	<b>79</b>	<b>64</b>
Payables and other current Liabilities	6	4	5	5	5
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
<b>Total Liabilities</b>	<b>15</b>	<b>13</b>	<b>14</b>	<b>14</b>	<b>14</b>
<b>Total Equity</b>	<b>94</b>	<b>83</b>	<b>74</b>	<b>65</b>	<b>50</b>
Net Cash / (Debt)	59	29	19	10	2

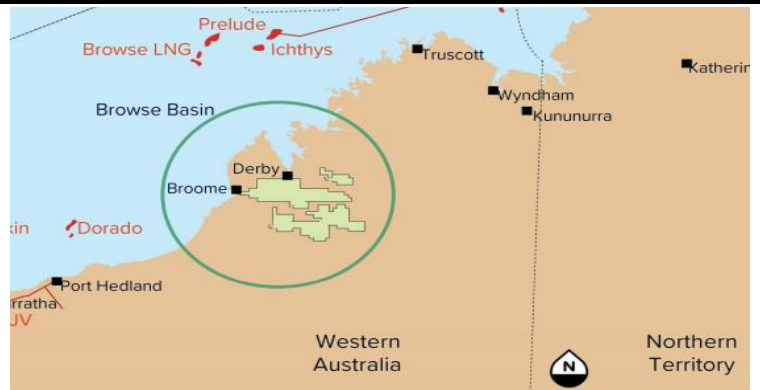
Top 3 Registered Shareholders	%	Date
HSBC Custody Nominees	9.8	
Birkdale Enterprises	8.1	Feb-19
Chemco Pty Ltd	4.0	

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
<b>Revenue -Gas (gross)</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
Oil sales (MMbbl)	-	-	0.54	0.50	0.50
ARP (A\$/bbl)	-	-	61.5	70.1	76.3
<b>Revenue -Oil (gross)</b>	<b>0.0</b>	<b>0.0</b>	<b>33.2</b>	<b>35.1</b>	<b>38.1</b>
<b>Revenue - Gas &amp; Oil (gross)</b>	<b>-</b>	<b>-</b>	<b>33.2</b>	<b>35.1</b>	<b>38.1</b>
BRU % interest	-	-	50%	50%	50%
<b>Revenue net to BRU</b>	<b>19.9</b>	<b>13.6</b>	<b>16.6</b>	<b>3.0</b>	<b>3.0</b>
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)	-	-	47.0	52.0	60.0
AUD/USD exchange rate	-	-	0.7	0.7	0.7
Brent crude oil price (A\$/bbl)	-	-	69.1	78.8	85.7
Marine transport discount	-	-	-11%	-11%	-11%
<b>BRU ARP (A\$/bbl)</b>	<b>-</b>	<b>-</b>	<b>61.5</b>	<b>70.1</b>	<b>76.3</b>

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



Valuation Ratios (x)	FY18A	FY19E	FY20E	FY21E	FY22E
Normalised P/E	1.5	-4.1	-4.6	-5.1	-3.0
Price/OP Cash Flow	-6.8	-8.1	-7.1	-8.8	-11.1
Book value per share (A\$c)	21.1	18.7	16.5	14.6	11.3
EV (A\$m)	-15	16	25	34	42
EV/EBITDA	12.1	-ve	-ve	-ve	-ve
ROE (%)	n/a	n/a	-ve	-ve	-ve

SOTP Valuation	A\$m	A\$ps	Comment
NPV Ungani Oilfield (BRU 50%)	35	0.08	Estimated Project NPV
Butler Sand Prospect	50	0.12	2,000PJ @ 2.5c / GJe
Yulleroo Gasfield	44	0.10	1,237PJ @ 3.5c/GJe
Exploration upside	15	0.03	Nominal value
Enterprise value	143	0.33	
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
<b>Equity value</b>	<b>93</b>	<b>0.21</b>	

Note: Per share data based on 447m shares

## Recommendation & Risks

Our SOTP valuation of A\$0.21ps offers some 110% potential upside relative to BRU's current share price levels of A\$0.10. **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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Alan Hill  
Executive Chairman  
Phone: +61 8 9288 3388  
[ahill@stateone.com.au](mailto:ahill@stateone.com.au)

Ric Heydon  
Equities & Derivatives Advisor  
Phone: +61 8 9288 3307  
[rheydon@stateone.com.au](mailto:rheydon@stateone.com.au)

Mark Sullivan  
Institutional Dealer  
Phone: +61 2 9024 9134  
[msullivan@stateone.com.au](mailto:msullivan@stateone.com.au)

Thomas Tan  
Equities Advisor  
Phone: +61 2 9024 9131  
[ttan@stateone.com.au](mailto:ttan@stateone.com.au)

Morris Levitzke  
Equities Advisor  
Phone: +61 8 9288 3315  
[mlevitzke@stateone.com.au](mailto:mlevitzke@stateone.com.au)

Graeme Johnson  
Equities & Derivatives Advisor  
Phone: +61 8 9288 3316  
[gjohnson@stateone.com.au](mailto:gjohnson@stateone.com.au)

Yitz Barber  
Equities Advisor  
Phone: +61 2 9024 9124  
[ybarber@stateone.com.au](mailto:ybarber@stateone.com.au)

Tammie Wong  
Equities Advisor  
Phone: +61 2 9024 9133  
[twong@stateone.com.au](mailto:twong@stateone.com.au)

Dawn Chia  
Business Development  
Manager  
Phone: +61 8 9288 3336  
[dawn.chia@amscot.com.au](mailto:dawn.chia@amscot.com.au)

David Zhang  
Equities Advisor  
Phone: +61 2 9024 9130  
[dzhang@stateone.com.au](mailto:dzhang@stateone.com.au)

David Brennan  
Senior Investment Analyst  
Phone: +61 2 9024 9142  
[dbrennan@stateone.com.au](mailto:dbrennan@stateone.com.au)