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Central Petroleum Limited

FY2020 interim results: maiden NPAT

5 March 2020

Highlights

- Maiden NPAT of A$3.2m versus a loss of A$19.1m in the pcp.
- Operating revenue +78% to A$35.7m from the pcp's A$20m.
- Gas sales volume +135%, reflecting the commencement of gas sales through the Northern Gas Pipeline in January 2019.
- EBITDAX of A$17.2m, up from the pcp's A$2.6m.
- An upcoming pilot well programme and FEED is anticipated to result in a FID and the conversion of 270PJ of 2C contingent gas Resource at Project Range (135PJ net to CTP) to a certified 2P Reserve.
- Farmout process underway to secure funding for the group's exploration programme in the Amadeus Basin. The programme has a risked mean estimated prospective Resource of 205PJ gas and 9MMbbl oil.
- Executed a new joint gas sales agreement (GSA) for the supply of 21.9PJ of "firm" gas over three years from 1 January 2020, partially replacing maturing contracts.
- Subsequent to the end of the reporting period, CTP's A$72.8m finance facility has been successfully extended for 12 months to 30 September 2021.
- CEO comment: "Although the short-term gas market remains challenging, we are well positioned with over 10PJpa of our sales contracted via long term fixed-price contracts. This provides us with significant downside protection and allows us to remain focused on advancing both the Range gas project and our 2020 exploration programme which each have significant upside and the potential to drive a substantial re-rating of our Company".

Predicated on forecast annual production of 14.1PJ, a received gas price of A$5.00/GJ (real) and COGS of A$2.80/GJe (real), we calculate that CTP's 2P Reserve of 150PJe has an NPV_{10} value of A$115m. This equates to A$0.15 per diluted share (774 million shares). Thus, at current share price levels of A$0.11, we suggest that the market is valuing CTP below its Reserve value while attaching no value to the group's 2C Resource base, or to exploration upside.

CY2020 exploration program: CTP is targeting an aggregated best estimate (P50) prospective resource of up to 465PJe; this is above the group's current Resource of 390PJe. Although CTP's ultimate equity interest in this Resource after a proposed sell-down/farmout to fund the A$51m program is not known, it points to the potential for significant value uplift.

Valuation and Recommendation. A$0.26ps, Buy

Underpinned by NPV valuation for CTP's 2P Reserves, we forecast CTP's SOTP enterprise value at A$252m. Adjusted for forecast net debt of A$52m in FY20E, we calculate CTP's equity value at A$200m (equivalent to A$0.26 per diluted share). Recommendation: Buy (Higher Risk). **We believe that CTP offers exciting capital upside for investors on the back of an expected uplift in financial performance from the group's producing assets, with significant upside potential on the back of a re-rating in Project Range as the CSG Resource is converted to Reserves. In addition, CTP's CY2020 exploration programme has the potential to significantly increase the group's Resource base.**

Share Price: A$0.11

Target Price: A$0.26

Target upside: 136%

Recommendation
Buy

Risk Assessment
Higher

Resources – Oil & Gas

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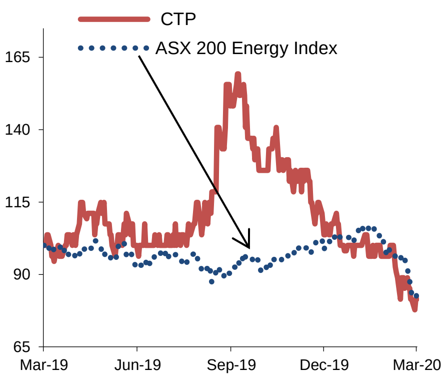
Central Petroleum Ltd	
ASX Code	CTP
52- week range	A$0.09-A$0.22
Market Cap (diluted) (ASm)	81
Shares (diluted) (m)	774
Av Daily Turnover (shares)	1.19 million
ASX All Ordinaries	6,509
2020E BV per share (A$c)	-0.6
2020E EPS (A$c)	0.16
2020E Net Cash/(Debt) (A$m)	-52

Relative price performance



Financial Statements

Central Petroleum Ltd

Year ending June

Profit & Loss Statement (A$M)	FY19A	FY20E	FY21E	FY22E	FY23E
Revenue	59.4	73.6	73.8	75.3	76.8
COGS	(30.4)	(39.5)	(39.5)	(39.5)	(39.5)
Corporate costs	(6.8)	(6.2)	(6.3)	(6.5)	(6.6)
Exploration expenses	(15.8)	(3.0)	(3.1)	(3.1)	(3.2)
EBITDA	**6.4**	**24.9**	**24.9**	**26.2**	**27.5**
Depreciation & Amortisation	(12.7)	(18.0)	(18.0)	(18.0)	(18.0)
Operating profit	**(6.3)**	**6.9**	**6.9**	**8.2**	**9.5**
NOI	0.0	0.0	0.0	0.0	0.0
EBIT	**(6.3)**	**6.9**	**6.9**	**8.2**	**9.5**
Interest income	0.4	0.4	0.3	0.5	0.7
Interest expense	(8.6)	(6.1)	(5.4)	(5.1)	(4.8)
Tax expense	0.0	0.0	0.0	0.0	0.0
Reported NPAT	(14.5)	1.2	1.9	3.7	5.5
Normalised NPAT	**(14.5)**	**1.2**	**1.9**	**3.7**	**5.5**
EBITDA Margin (%)	11%	34%	34%	35%	36%
Operating profit margin (%)	-11%	9%	9%	11%	12%
EPS Reported (A$c)	(1.88)	0.16	0.24	0.47	0.70
EPS Normalised (A$c)	(1.88)	0.16	0.24	0.47	0.70
EPS growth (%)	n/a	n/a	53%	95%	50%
DPS - Declared (A$)	0.00	0.00	0.00	0.00	0.00
Avg. no. of fully-diluted shares (m)	770	778	783	783	783
YE no. of fuly-diluted shares (m)	774	783	783	783	783

Cash Flow Statement (A$M)	FY19A	FY20E	FY21E	FY22E	FY23E
EBITDA	6.4	24.9	24.9	26.2	27.5
Investment in working capital	2.1	(0.7)	(0.0)	(0.1)	(0.1)
Tax expense	0.0	0.0	0.0	0.0	0.0
Operating Cash Flow	**8.5**	**24.3**	**24.9**	**26.2**	**27.5**
Capex	(15.4)	(7.0)	(7.1)	(7.3)	(7.4)
Other investments	0.0	0.0	0.0	0.0	0.0
Investing Cash Flow	**(15.4)**	**(7.0)**	**(7.1)**	**(7.3)**	**(7.4)**
Net interest received / (paid)	(8.2)	(5.7)	(5.1)	(4.6)	(4.0)
Debt draw down / (repayment)	3.4	(12.0)	(4.0)	(4.0)	(4.0)
Dividends paid	0.0	0.0	0.0	0.0	0.0
Equity raised / (repaid)	1.9	0.0	0.0	0.0	0.0
Financing Cash Flow	**(2.9)**	**(17.7)**	**(9.1)**	**(8.6)**	**(8.0)**
Non-operating & Other (R&D rebate)	0.5	0.0	0.0	0.0	0.0
Inc/(Dec) in Cash	**(9.4)**	**(0.4)**	**8.7**	**10.3**	**12.0**

Balance Sheet (A$M)	FY19A	FY20E	FY21E	FY22E	FY23E
Cash & Equivalents	17.8	17.4	26.2	36.5	48.5
Receivables	9.1	9.1	9.1	9.1	9.1
Inventories	2.7	3.4	3.4	3.4	3.5
Other Current Assets	0.0	0.0	0.0	0.0	0.0
PPE and Exploration & Development	132.4	121.4	110.5	99.8	89.2
Deferred tax asset	0.0	0.0	0.0	0.0	0.0
Other Non Current Assets	6.8	6.8	6.8	6.8	6.8
Total Assets	**168.7**	**158.0**	**155.9**	**155.6**	**157.1**
Payables and other current Liabilities	20.2	20.2	20.2	20.2	20.2
Short Term Debt	11.0	11.0	11.0	11.0	11.0
Long Term Debt	70.8	58.8	54.8	50.8	46.8
Other Non Current Liabilities	72.5	72.5	72.5	72.5	72.5
Total Liabilities	**174.4**	**162.4**	**158.4**	**154.4**	**150.4**
Total Equity	**(5.6)**	**(4.3)**	**(2.5)**	**1.2**	**6.7**
Net Cash / (Debt)	(63.9)	(52.3)	(39.6)	(25.3)	(9.3)

Top 3 Registered Shareholders	%	Date
UBS Nominees	4.4	
Citicorp Nominees	2.7	Sep-19
Chris Wallin Super Fund	2.4	

Source: Company, IRESS, State One Stockbroking forecasts

Revenue Forecast (A$m)	FY19A	FY20E	FY21E	FY22E	FY23E
Gas sales (PJ)	10.2	13.0	12.8	12.8	12.8
ARP (A$/GJ)	4.9	5.0	5.1	5.2	5.3
Revenue -Gas	49.7	65.0	65.0	66.3	67.7
Oil sales (MMbbl)	0.10	0.10	0.10	0.10	0.10
ARP (A$/bbl)	99.6	86.1	87.8	89.6	91.4
Revenue -Oil	9.7	8.6	8.8	9.0	9.1
Revenue - Gas & Oil	**59.4**	**73.6**	**73.8**	**75.3**	**76.8**
Annual % change in revenue	70%	24%	0%	2%	2%
Total sales volume (PJe)	10.8	13.6	13.4	13.4	13.4
Annual % change sales volume	97%	26%	-2%	0%	0%
Gas contributon to sales volume	95%	96%	96%	96%	96%
Oil contribution to sales volume	5%	4%	4%	4%	4%
Gas contributon to revenue	84%	88%	88%	88%	88%
Oil contribution to revenue	16%	12%	12%	12%	12%

Crude oil price forecast	FY19A	FY20E	FY21E	FY22E	FY23E
Brent crude oil price (US$/bbl)	69.1	61.5	62.7	64.0	65.3
AUD/USD exchange rate	0.72	0.70	0.70	0.70	0.70
Brent crude oil (A$/bbl)	96.0	87.9	89.6	91.4	93.2
ARP oil as % A$ Brent	3.8%	-2.0%	-2.0%	-2.0%	-2.0%

Reserves & Resources	*2P Reserve*	*2C*	*2P + 2C*
Mereenie, Gas (PJ)	81.6	91.2	172.8
Mereenie, Oil (MMbbl)	0.87	0.1	0.97
Palm Valley, Gas (PJ)	25.8	13.6	39.4
Palm Valley, Oil (MMbbl)	0.0	0.0	0.0
Dingo, Gas (PJ)	37.3	0.0	37.3
Dingo, Oil (MMbbl)	0.0	0.0	0.0
Range Project, Gas (PJ)	0.0	135.0	135.0
Range Project, Oil (MMbbl)	0.0	0.0	0.0
Gas - total (PJ)	144.7	239.8	384.5
Oil - total (MMbbl)	0.87	0.10	0.97
Gas & Oil (PJe)	149.9	240.4	390.3
Gas as % Group Resource	96.5%	99.8%	98.5%

Note: Oil converted to gas using rate of 1bbl oil = 6 GJ gas

	2P Reserve	*2C*	*2P + 2C*
Mereenie as % Group Resource	58%	38%	46%

Leverage	FY19A	FY20E	FY21E	FY22E	FY23E
Net Debt/Equity	cash	cash	cash	-2116%	-138%
Gearing (ND/ND+E)	92%	92%	94%	105%	360%
Interest Cover (x)	-0.8	1.2	1.4	1.8	2.4

Valuation Ratios (x)	FY19A	FY20E	FY21E	FY22E	FY23E
Normalised P/E	-9.0	108.4	71.0	36.4	24.2
Price/OP Cash Flow	15.5	5.4	5.3	5.0	4.8
Book value per share (A$c)	-0.7	-0.6	-0.3	0.2	0.9
EV (A$m)	195	184	171	157	141
EV/EBITDA	30.7	7.4	6.9	6.0	5.1
ROE (%)	n/a	n/a	-ve	306%	82%

SOTP Valuation	(A$m)	(A$/share)	Resource (PJe)
NPV-derived 2P Reserve valuation	115	0.15	150
2C Resource (including Project Range)	101	0.13	240
Current Resource (total)	**215**	**0.28**	**390**
Exploration upside - Gas: CY2020 program	21	0.03	205
Exploration upside - Oil: CY2020 program	11	0.01	57
Exploration upside: Dukas-1 /Other	5	0.01	
Enterprise value	**252**	**0.33**	
Net Debt (FY20E)	(52)	(0.07)	
Equity value	**200**	**0.26**	

Note: Per share data based on diluted number of shares

Recommendation & Risks

At current share price levels of A$0.11, CTP offers significant upside relative to our SOTP valuation of A$0.26. **Recommendation: Buy (Higher Risk).**

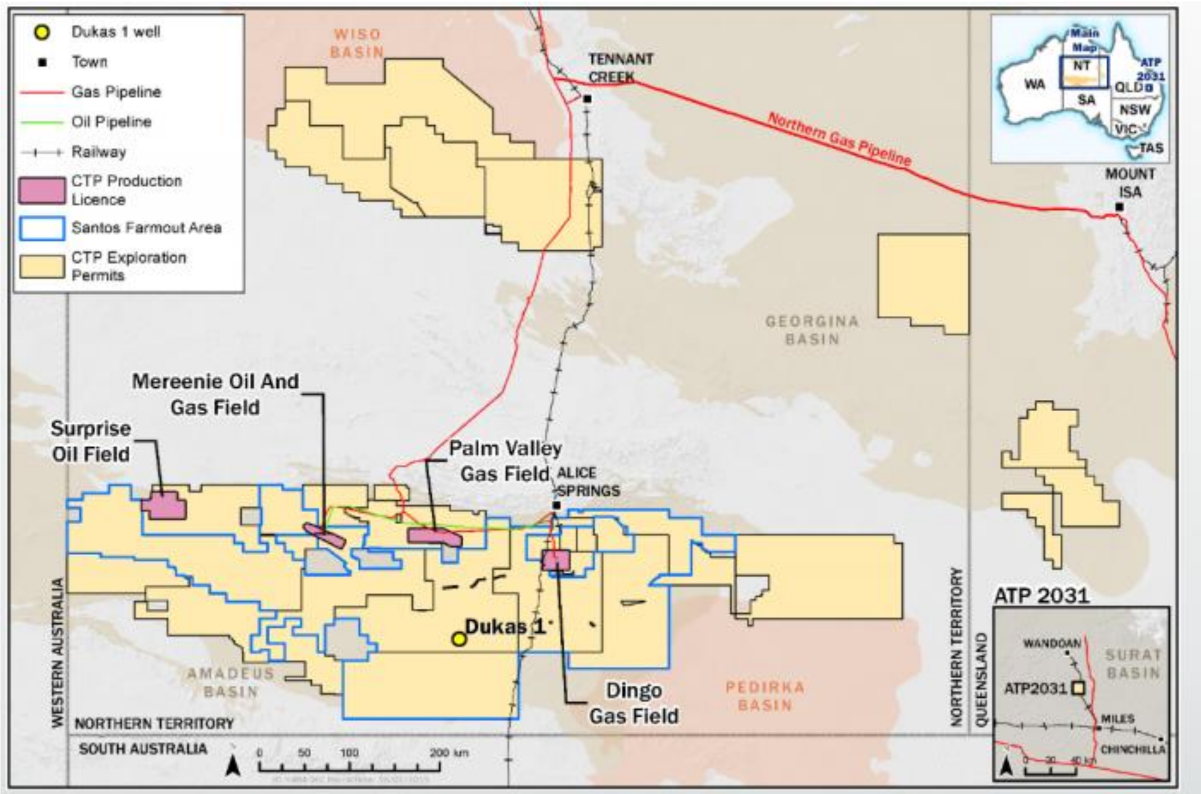
Risks to our estimated target price and forecast earnings profile include, but are not limited to:

- **Commodity prices – specifically the domestic (east coast) gas price** and the international crude oil price (translated into Australian dollars). With gas accounting for some 96% of PJe sales volume and 90% of revenue, CTP's earnings profile is particularly sensitive to the domestic gas price environment. At forecast average annual gas production/sales of 13.5PJ, we calculate that a A$1/GJ increase/(decrease) in the average received gas price (relative to our base-case ARP forecast of A$5/GJ) will increase / (decrease) gas revenues by A$13.5m (+/-19%). While east coast domestic gas prices are currently under pressure, we believe that in the medium to longer term, underlying tight supplydemand conditions will support a robust price environment. We believe that our base-case ARP forecast is conservative and could surprise on the upside.
- **Production profile**. Our base case forecast assumes (1) steady-state annual production of 14.1PJe - based on annualised September 2019 quarter output of 3.5PJe – and (2) A$10m in annual sustaining capex to support this level of output. Reservoir/field performance is subject to operating and subsurface uncertainty; lower than forecast production and sales and/or higher than forecast sustaining capex will reduce CTP's earnings profile and target price.
- **Access to pipeline infrastructure**. The increase in sales volume from 2H FY19 was due to CTP successfully securing capacity in the newly built 33PJpa NGP. Any increase in production levels above the current level of 14PJpa - from new NT discoveries or field developments - will most likely require CTP securing additional pipeline capacity. While the NGP has 20% (7PJpa) spare capacity at present, the pipeline owner – Jemena - is currently in negotiations to fill this. Thus, without securing additional pipeline capacity, future NT resource discoveries could be "stranded", reducing their value.
- **CY2020 exploration program**. Some 13% of our SOTP valuation is from forecast Resources stemming from a proposed CY2020 exploration program. The exploration program may not result in a favourable result relative to expectations. In addition, CTP intends to fund the A$51m program through a formal farmout process with a target completion in mid-2020. There is no guarantee that the farmout/sell-down process will be successful or will be completed in the targeted timeframe.
- **Financial / Debt.** CTP has successfully extended the group's A$72.8m finance facility out to 30 September 2021 – when it is due is full. Refinancing the debt facility after this date is not guaranteed, or the conditions could be onerous.
- **Other**. Regulatory or compliance change, environmental and social licence to operate, key personnel risk, change in tax or royalty environment.

Assets

Over the past five years Central Petroleum (ASX: CTP) has built up equity interests in a significant portfolio of conventional oil and gas production licenses and exploration permits, largely located in the Northern Territory, plus a 50% interest in a coal seam gas (CSG) Authority to Prospect (ATP) license (ATP 2031, the Range Gas Project) in the Surat Basin, Queensland.

Figure 5: Geographic location of assets



Source: Company

Reserves and Resources

Figure 6: CTP Reserves and Resources (CTP interest)

Reserves & Resources	2P Reserve	2C	2P + 2C
Mereenie, Gas (PJ)	81.6	91.2	172.8
Mereenie, Oil (MMbbl)	0.87	0.1	0.97
Palm Valley, Gas (PJ)	25.8	13.6	39.4
Palm Valley, Oil (MMbbl)	0.0	0.0	0.0
Dingo, Gas (PJ)	37.3	0.0	37.3
Dingo, Oil (MMbbl)	0.0	0.0	0.0
Range Project, Gas (PJ)	0.0	135.0	135.0
Range Project, Oil (MMbbl)	0.0	0.0	0.0
Gas - total (PJ)	144.7	239.8	384.5
Oil - total (MMbbl)	0.87	0.10	0.97
Gas & Oil (PJe)	149.9	240.4	390.3
Gas as % Group Resource	96.5%	99.8%	98.5%

Resource summary	2P PJe	2P + 2C PJe
Mereenie	87	179
Palm Valley	26	39
Dingo	37	37
Range Project	0	135
Total	150	390
	%	%
Mereenie	58%	46%
Palm Valley	17%	10%
Dingo	25%	10%
Range Project	0%	35%
Total	100%	100%

Source: Company, compiled by State One Stockbroking. Note: PJe = Petajoule equivalent, with oil converted at 1bbl = 6GJ gas

Following the August 2019 announcement of a NSAI certified maiden 2C Resource of 270PJ (135PJ net to CTP) at the Range CSG Project in Queensland, we calculate CTP's total Resource (2P+2C) at 390PJe.

CTP's Resource is very much gas-based; we calculate that some 97% of the group Reserve is gas, with gas accounting for a higher 99% of the total Resource (2P+2C).

Producing

Mereenie Oil & Gas Field – Northern Territory

(CTP – 50% interest (and Operator), Macquarie Mereenie Pty Ltd – 50% interest)

The Mereenie oil and gas field was discovered in 1963 and commenced production in 1984, delivering hydrocarbon liquids for sale in South Australia and gas to Northern Territory markets. CTP's 50% interest was acquired from Santos (ASX:STO) in September 2015. In 2019 the Northern Gas Pipeline (NGP) commenced operations, enabling Mereenie gas to access the east coast market for the first time. As a result, sales volumes increased to 7.68PJe (CTP share) in FY19 from 4.6PJe in FY18. September 2019 quarter (1Q FY20) production declined to 40.1TJ/d (100% JV) from 48.3TJ/d in the June 2019 quarter (4Q FY19). To mitigate ongoing field decline, a campaign of targeted recompletions (targeting new potential hydrocarbon formations) is being planned. Timing for conversion of injector wells to production wells, and new development wells, to optimize field production capacity is also under consideration.

Palm Valley Gas Field – Northern Territory

(CTP – 100% interest)

Acquired from Magellan in April 2014. Production ceased in FY16; in FY19 the field was successfully restarted to deliver gas into the broader gas market available via the NGP connection. Production in FY19 (1.9PJ) was however less than anticipated and resulted in a downward adjustment to reserves (to 2C from 2P). The focus is now on increasing field production capacity through the installation of either additional compressors or via reconfiguring the existing compressors. September 2019 quarter (1Q FY20) production increased to 9.4TJ/d (100% JV) from 8.7TJ/d in the June 2019 quarter (4Q FY19).

Dingo Gas Field – Northern Territory

(CTP – 100% interest)

Acquired from Magellan in April 2014 with development completed in April 2015. The field was developed to supply 1.55PJpa (31PJ over 20 years) to the Owen Springs Power Station. While offtake is running below this (0.8PJ in FY18, 0.9PJ in FY19) CTP is entitled to payment for the difference via a "Take or Pay" provision in the supply agreement. Owen Spring Power Station gas consumption is increasing as commissioning progresses and in the September 2019 quarter, Dingo gas field production/sales increased to 3.3TJ/d (or 1.2PJ annualised).

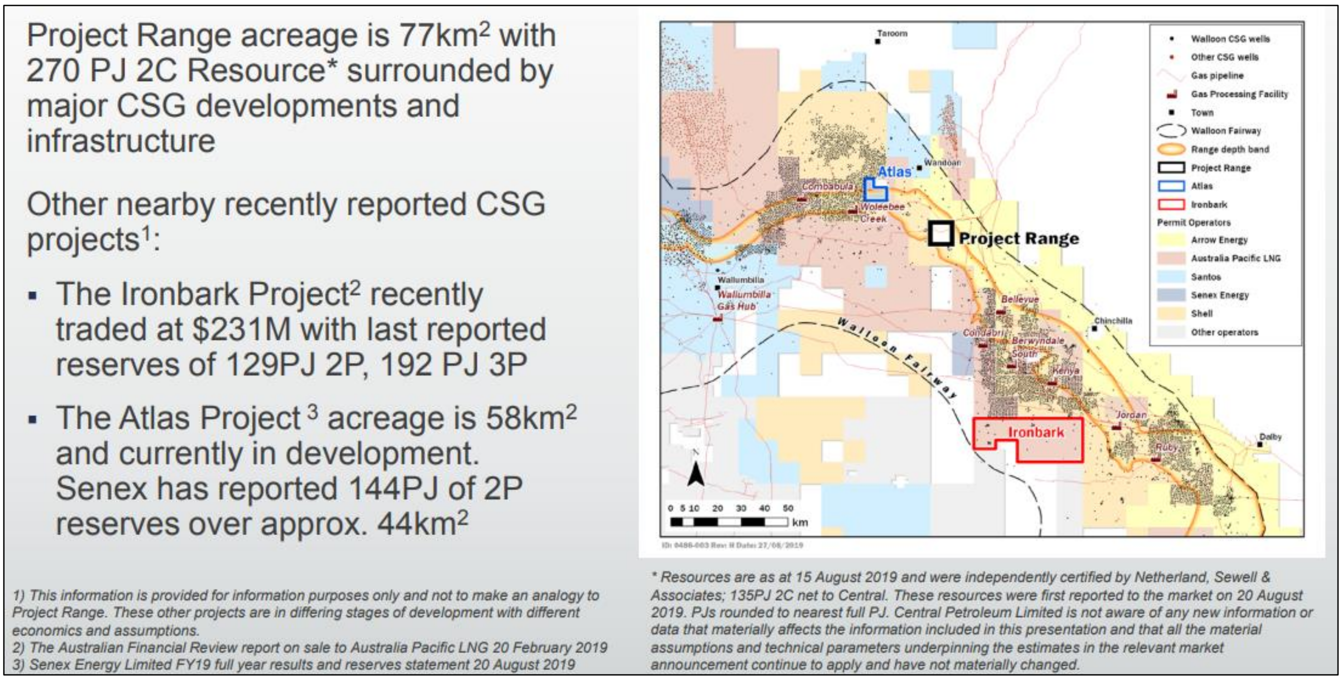
Development

Range Gas Project (ATP 2031) – Queensland

(CTP – 50% interest, Incitec Pivot Queensland Gas Pty Ltd ("Incitec") – 50% interest)

In August 2019, CTP booked a maiden 2C contingent gas resource of 270PJ (100% basis). Completion of pre-FID activities, including an appraisal pilot commencing in 1Q CY2020, will look to upgrade the 2C Resources to 2P certified reserves. The permit area covers 77km^2 in Queensland Surat Basin and is adjacent to a number of producing and developed CSG wells. We note that in February 2019, Australia Pacific LNG acquired Origin's Energy's 129PJ 2P Reserve Ironbark Gas Project – located some 100km south-east of Project Range - for US$165m of A$1.79/GJ. A similar acquisition metric would value CTP's interest in Project Range at A$242m.

Figure 7: Range Gas Project (Surat Basin, QLD)



Source: Company

Exploration

Dukas-1 (EP112) – Northern Territory

(CTP – 30% interest, Santos (and Operator) currently 40%, earning up to 70%)

The Dukas-1 well was spudded in April 2019 and suspended in September 2019 due to high formation pressures (>10,000psi) at a depth of ~3,700m - some 100m short of its target, the sub-salt section of the Amadeus Basin. Further technical work, including finalizing well design and data interpretation is required to formulate a definitive forward plan but CPT indicate that, at this point, a return to Dukas-1 (operated and fully funded by Santos) is unlikely before 2021.

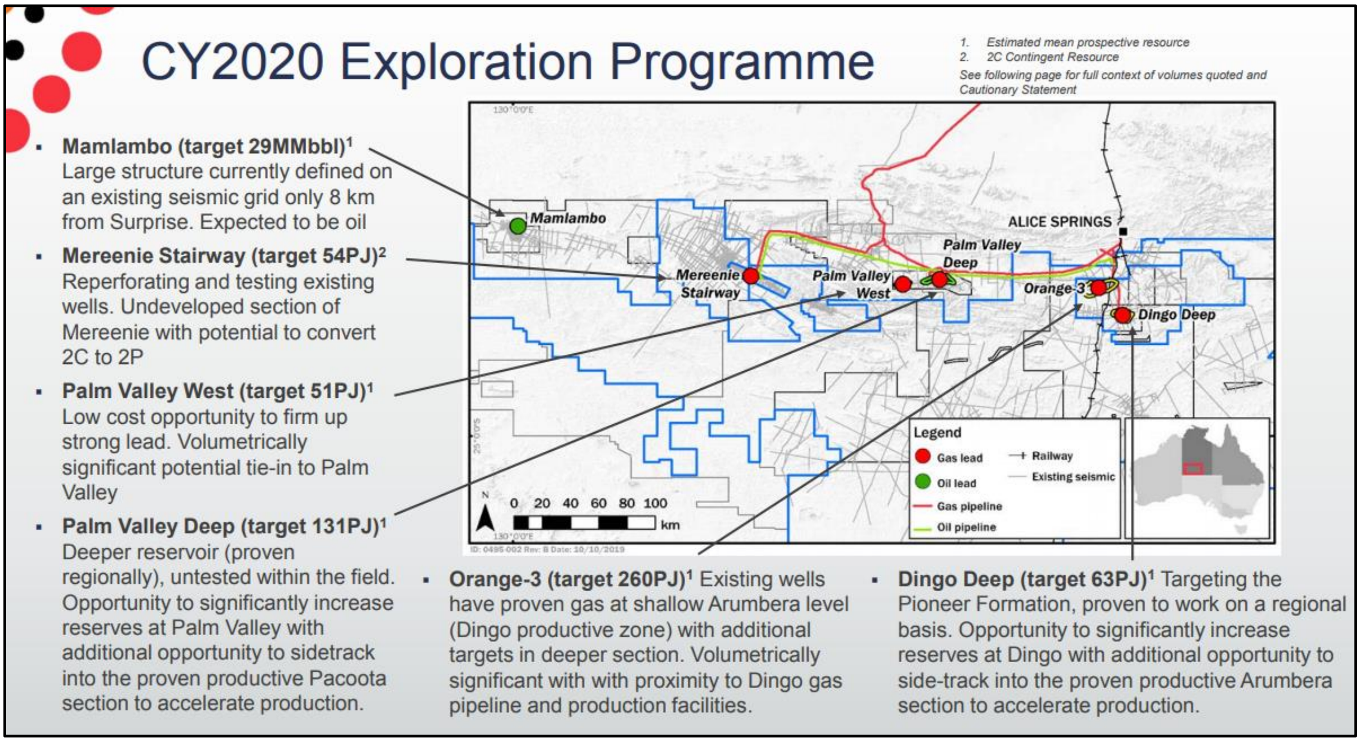
2020 exploration plan

Following connection to the east coast gas market via the NGP in January 2019, CTP's Northern Territory exploration assets now have a pathway to a new market. Recognising this new market dynamic, CTP has significantly augmented its exploration capabilities, including a new GM exploration (April 2019) and a new experienced Reservoir Engineer (March 2019). While the Dukas-1 2019 drilling program was disappointing – in terms of technical difficulties encountered - the Amadeus Basin remains largely unexplored, is a large structure with multi-TCF gas potential, and will be the target of a significant (A$51m) exploration program in 2020.

The CY2020 exploration program (announced in October 2019) consists of five (5) drill-ready low to moderate-risk brownfield targets, close to existing CPT production facilities and infrastructure, in 100%-owned CPT tenements.

Management estimates the P50 aggregate prospective Resource contained within the prospects at 465PJe (321PJ gas and 24MMbbl oil). This is more than CTP's current 2P+2C Resource base of 390PJe. On a risked-basis, CTP estimates an aggregate prospective Resource of 262PJe (205PJ gas and 9.5MMbbl oil). In addition, the program aims to provide a potential pathway to convert 54PJ of 2C Resources (CTP interest) to Reserves with a targeted Mereenie Stairway appraisal program.

Figure 8: CY20 exploration program – Amadeus Basin



Prospective Resources (net to Central)

Lead / Prospect	Target formation	Depth (mMD)	Licenses / Permits	License / Permit Interest	Low Estimate P90 Recoverable (PJ)	Best Estimate P50 Recoverable (PJ)	High Estimate P10 Recoverable (PJ)	Mean Recoverable (PJ)
Dingo Deep	Pioneer	3600	L7	100%	13	41	135	63
Orange-3	Arumbera	2800	EP82(DSA)	100%	17	81	296	131
	Pioneer	3500	EP82(DSA)	100%	23	84	275	129
Palm Valley Deep	Arumbera	3600	OL3	100%	17	80	299	131
Palm Valley West	Pacoota	1900	OL3	100%	7	35	114	51
Aggregate gas						321		505
Oil prospects					(mmbbl)	(mmbbl)	(mmbbl)	(mmbbl)
Mamlambo	Pacoota	1500	L6	100%	7	24	60	29

Contingent Resources (net to Central)*

Appraisal target	Target formation	License	License Interest	2C Contingent (PJ)
Mereenie Stairway	Stairway	OL4/5	50%	54

Source: Company

Selected Management Profiles (Source: Company)

Leon Devaney | Managing Director & Chief Executive Officer | BSc MBA

- Finance
- Commercial
- Strategy

Background

- 19 years of experience within the Australian oil and gas sector
- Strategic, finance and commercial consulting to junior CSG companies, including QGC, Deloitte (2000-2005)
- Pivotal role in QGC's growth from a small cap gas exploration company into a multi-billion dollar takeover target in 2008.
- Continued with BG(QGC) as Commercial Manager for domestic gas and electricity portfolio.
- Central from 2012 - commercial, finance and BD responsibilities, including: acquisition of Mereenie, Palm Valley and Dingo Gas fields and securing and progressing Project Range.

Ross Evans | Chief Operations Officer | GAICD MBA BE(Hons 1)

- Operations
- Projects & Engineering
- Subsurface Engineering

Background

- 20+ years upstream experience in technical and commercial roles
- Executive GM for Exploration & Development at Lattice Energy (acquired by Beach for $1.6bn)
- Instrumental in the acquisition, conception and delivery of the $25bn APLNG CSG to LNG Project
- Deep experience operating in QLD (APLNG project) and the NT (Beetaloo drill / frack)
- Prior experience with Origin & BHP

Robin Polson | Chief Commercial Officer | BCom GDipAppFinInv MAICD

- M&A
- Strategy
- Commercial

Background

- 30+ years experience in audit, advisory, independent expert valuation, M&A and strategy – 13 years as partner of Deloitte and three years as a director of and investment banking business
- Independent expert or strategic advisor in respect of most of the significant Australia east coast on-market and other corporate oil & gas transactions since 2003
- Most recently lead financial and commercial adviser to CNOOC, as participant in QCLNG, with respect to an AUD35 billion long term gas purchase from Arrow Energy

General Advice Warning

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