



Strike Energy Limited (ASX:STX)

Exploration update

On 17 February 2020, STX disclosed an update on its exploration portfolio, which is progressing in parallel with appraisal and pre-development activities at its West Erregulla gas field in the Perth Basin.

Perth Basin

South Erregulla: P50 Prospective Resource of 1,600BCF (STX:100%)

The Permian gas fairway in the Perth Basin, which currently has a 100% success rate for exploration wells and is host to greater than 3,000BCF of recent discoveries at West Erregulla (STX 50%, Warrego Energy (ASX:WGO) 50%), Waitsia ((Mitsui 50% and operator, Beach Energy (ASX:BPT) 50%) and Beharra Springs (BPT 50% and operator, Mitsui 50%) is interpreted to be pervasive, extending into the Dandaragan Trough to the southeast and within STX's extensive 100% owned acreage. STX has used analogue data from West Erregulla in its assessment of the volumetrics of South Erregulla and, due to its early stage in terms of data acquisition, the Prospective Resource estimate will be subject to change as further data becomes available. However, given the proximity of the target to the West Erregulla gas field (<1km), and that the Permian sequence appears to be approximately at the same depth, the confidence in the current understanding of a potential discovery at South Erregulla is high. Note: the current P50 Prospective Resource estimate of 1,600BCF gas (STX:100%) compares to West Erregulla's 2C Contingent Resource of 1,185BCF (100%) (593BCF STX 50% interest).

STX believes the Permian gas fairway is likely to have further exploration upside to the southeast not currently captured by existing datasets. West Erregulla is just the beginning of what STX believes to be a basin-shaping discovery and may become known as the **Greater Erregulla Gas Project**.

Cooper Basin

STX's PEL 515 prospective oil exploration acreage in the Cooper Basin continues to improve in attractiveness through the activity of adjacent operator Senex Energy (ASX:SXY). SXY has recently processed and interpreted 600km² of data and mapped several material exploration targets with drilling planned in the second half of 2020. This news is seen as a positive development for STX's geological interpretation of its tenements; STX is currently seeking a farmin partner with a view to acquiring 100-200km² of 3D seismic survey later in 2020.

Valuation and Recommendation: A\$0.45ps, Buy

Underpinned by our NPV₁₀ valuation of A\$292m for West Erregulla (STX, 50% interest), we forecast STX's SOTP enterprise value at A\$761m. Adjusted for FY19A's net cash balance of A\$9m, **we calculate STX's equity value at A\$770m (equivalent to A\$0.45 per share).**

We note that West Erregulla (including resource upside from the Wagina formation) accounts for 45% or A\$0.20ps of our forecast EV, with the SCBGP accounting for 40% or A\$0.17ps. At current share price levels, this indicates to us that STX is effectively valued at either one or other of STX's assets – but not both. **Further support that STX is undervalued lies in a peer EV/GJ comparison.** At STX's current enterprise value (EV) and 2C Resources of 1,121PJ, we calculate that the group's resource base is currently valued at ~A\$0.25/GJe (rounded). This is significantly below the (simple) average of A\$0.80/GJe calculated for our peer sample of ASX-listed oil and gas plays.

5 March 2020

Share Price: A\$0.15

Target Price: A\$0.45

Target upside: 200%

Recommendation
Buy

Risk Assessment
Higher

Resources – Oil & Gas

David Brennan, CFA

Senior Investment Analyst

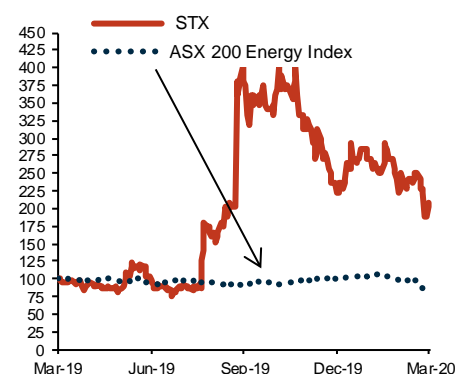
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Strike Energy Limited

ASX Code	STX
52- week range	A\$0.05-A\$0.32
Market Cap (diluted) (A\$m)	254
Shares (diluted) (m)	1,696m
Av Daily Turnover (shares)	4.4 million
ASX All Ordinaries	6,468
FY20E BV per share (A\$c)	7.6
FY20E EPS (A\$c)	-0.29
FY20E Net Cash/(Debt) (A\$m)	14

Relative price performance



Financial Statements

Strike Energy Ltd

Year ending June

Profit & Loss Statement (A\$m)	FY19A	FY20E	FY21E	FY22E	FY23E
Revenue	0	0	0	0	48
COGS	0	0	0	0	(16)
Corporate costs	(3)	(4)	(5)	(5)	(5)
Exploration expenses	0	(1)	(1)	(1)	(1)
EBITDA	(3)	(5)	(6)	(6)	26
Depreciation & Amortisation	0	0	0	0	(10)
Operating profit	(3)	(5)	(6)	(6)	16
NOI	1.2	(0.9)	(0.9)	(0.9)	0
EBIT	(2)	(6)	(7)	(7)	16
Interest income	0	0	0	0	0
Interest expense	(0.5)	(0.2)	(0.2)	(1)	(1)
Tax expense	0	0	0	0	0
Reported NPAT	(3)	(6)	(7)	(8)	15
Normalised NPAT	(4)	(5)	(6)	(7)	15
EBITDA Margin (%)	n/a	n/a	n/a	n/a	54%
Operating profit margin (%)	n/a	n/a	n/a	n/a	33%
EPS Reported (A\$c)	(0.17)	(0.34)	(0.36)	(0.37)	0.75
EPS Normalised (A\$c)	(0.25)	(0.29)	(0.31)	(0.32)	0.75
EPS growth (%)	n/a	n/a	7%	4%	-329%
DPS - Declared (A\$)	0.00	0.00	0.00	0.00	0.00
Avg. no. of fully-diluted shares (m)	1,273	1,620	1,784	1,959	2,046
YE no. of fully-diluted shares (m)	1,544	1,696	1,871	2,046	2,046

Cash Flow Statement (A\$m)	FY19A	FY20E	FY21E	FY22E	FY23E
EBITDA	(3)	(5)	(6)	(6)	26
Investment in working capital	2	0	0	0	0
Tax expense	0	0	0	0	0
Operating Cash Flow	(2)	(5)	(6)	(6)	26
Capex	(17)	(22)	(37)	(42)	(7)
Other investments	0	0	0	0	0
Investing Cash Flow	(17)	(22)	(37)	(42)	(7)
Net interest received / (paid)	(0)	0	0	(1)	(1)
Debt draw down / (repayment)	(5)	0	0	15	(15)
Dividends paid	0	0	0	0	0
Equity raised / (repaid)	39	35	35	35	0
Financing Cash Flow	34	35	35	49	(16)
Non-operating & Other (R&D rebate)	(7)	(3)	(1)	(1)	0
Inc/(Dec) in Cash	8	5	(9)	0	3

Balance Sheet (A\$m)	FY19A	FY20E	FY21E	FY22E	FY23E
Cash & Equivalents	11	16	8	8	11
Receivables	2	2	2	2	2
Inventories	0	0	0	0	0
Other Current Assets	0	0	0	0	0
PPE and Exploration & Development	114	136	173	215	212
Deferred tax asset	0	0	0	0	0
Other Non Current Assets	0	0	0	0	0
Total Assets	127	154	183	225	225
Payables and other current Liabilities	6	6	6	6	6
Short Term Debt	0	0	0	15	0
Long Term Debt	2	2	2	2	2
Other Non Current Liabilities	20	17	17	17	17
Total Liabilities	28	25	25	40	25
Total Equity	100	129	157	185	200
Net Cash / (Debt)	9	14	5	(9)	9

Top 3 Registered Shareholders	%	Date
MHC Fund Services	4.7	
JP Morgan Nominees Australia	3.2	Aug-19
HSBC Custody Nominees	2.5	

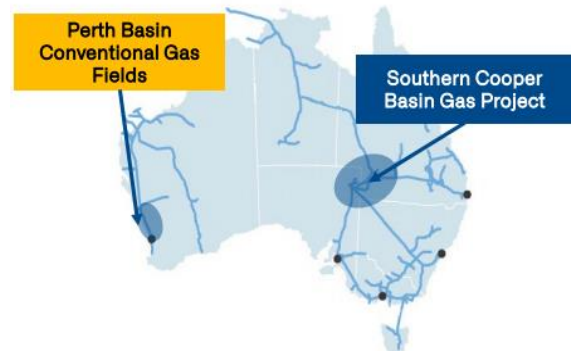
Source: Company, IRESS, State One Stockbroking forecasts

Revenue Forecast (A\$m) (100%)	FY19A	FY20E	FY21E	FY22E	FY23E
Gas sales (PJ)	0.0	0.0	0.0	0.0	18.0
ARP (A\$/GJ)	-	5.0	5.1	5.2	5.3
Revenue - Gas	0.0	0.0	0.0	0.0	95.5
Oil sales (MMbbl)	0.00	0.00	0.00	0.00	0.00
ARP (A\$/bbl)	-	89.6	91.4	93.2	95.1
Revenue - Oil	0.0	0.0	0.0	0.0	0.0
Revenue - Gas & Oil	0.0	0.0	0.0	0.0	95.5
Annual % change in revenue	n/a	n/a	n/a	n/a	n/a
Total sales volume (PJe)	0.0	0.0	0.0	0.0	18.0
Annual % change sales volume	n/a	n/a	n/a	n/a	n/a
Gas contribution to sales volume	n/a	n/a	n/a	n/a	100%
Oil contribution to sales volume	n/a	n/a	n/a	n/a	0%
Gas contribution to revenue	n/a	n/a	n/a	n/a	100%
Oil contribution to revenue	n/a	n/a	n/a	n/a	0%

Reserves & Resources (PJ)	Prospective Resource	2C Resource
West Erregulla (WE)	0	629
Wagina Formation (within WE)	145	0
Ocean Hill	0	382
Walvering	120	0
SCBGP - PEL96	4,700	109
SCBGP - Other permits	7,500	0
Total	12,465	1,120

Note: 2.5MMbbl Prospective Resource at Walvering converted to gas at: 1bbl oil = 6 GJ gas

Strike Portfolio – West & East



Valuation Ratios (x)	FY19A	FY20E	FY21E	FY22E	FY23E
Normalised P/E	-104.2	-52.2	-49.9	-49.0	24.2
Price/OP Cash Flow	-149.3	-55.6	-46.3	-46.3	10.7
Book value per share (A\$c)	6.5	7.6	8.4	9.0	9.8
EV (A\$m)	269	264	273	287	269
EV/EBITDA	-ve	-ve	-ve	-ve	10.4
ROE (%)	n/a	n/a	-ve	-ve	8%

SOTP Valuation	A\$m	A\$/share	A\$/GJ
NPV West Erregulla (WE) (STX 50%)	292	0.17	0.46
WE Resource upside - Wagina formation	51	0.03	0.35
Exploration upside - Ocean Hill	89	0.05	0.23
Exploration upside - Walvering	14	0.01	0.12
Exploration upside - Other	10	0.01	
Perth Basin, Western Australia	456	0.27	0.36
Southern Cooper Basin - PEL96	219	0.13	0.05
Southern Cooper Basin - other permits	87	0.05	0.01
Southern Cooper Basin Gas Project	306	0.18	0.03
Enterprise value	761	0.45	
Net Cash / (Debt) (FY19A)	9	0.01	
Equity value	770	0.45	

Note: Per share data based on diluted number of shares

Recommendation & Risks

Our SOTP valuation of A\$0.45ps offers some 200% potential upside relative to STX's current share price levels of A\$0.15.

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 domestic west coast gas price. Depending on project development at the Perth Basin and the Southern Cooper Basin, STX could be one of the few junior ASX-listed energy plays simultaneously exposed to the different supply/demand and gas pricing mechanisms in east and west Australia. A softening in gas prices in one or both markets may curtail project development in one or both Basins.
- **West Erregulla development.** Some 38% of STX's enterprise value is derived from our estimated NPV value of A\$292m for West Erregulla (STX, 50%) – with this percentage increasing to 45% including potential Resource upside from the Wagina formation. However, the project is in a relatively early stage of development (with its Maiden Resource announced only in mid-November 2019). While management has indicated a targeted timeline for the project, the timeline is indicative and subject to a number of uncertainties including: appraisal results, JV discussions/processes, infrastructure access, capital procurement, offtake market conditions, land access and regulatory approvals.
- **Southern Cooper Basin Gas Project.** Some 40% of STX's enterprise value is derived from the estimated A\$306m value we attach to the group's Southern Cooper Basin (Coal Seam) Gas Project (SCBGP). While the Prospective Resource estimated for the SCBGP is significant at over 11Tcf of gas (12,200PJ) net to STX, the exploration/development program currently being undertaken at PEL96 (the Jaws 1 vertical and horizontal well program) may not result in a favourable result. The coal seams containing the CSG are at 2,0000m depth, significantly deeper than typical east coast CSG plays. A technical set-back early in 2019 forced the Jaws 1 Project to adopt a more cautious approach.

Our approach to "capturing" this risk has been to attach deeply discounted EV/GJ value of (only) A\$0.03/GJ to the SCBGP Prospective Resource – A\$0.05/GJ to the PEL96 Prospective Resource of 4,700PJ and A\$0.01/GJ to the aggregate Prospective Resource of 7,500PJ at other permits. In comparison, we calculate that CSG plays are typically valued at closer to 14c per GJ (of 2P+2C Resource). Thus, we believe that confirming (even a portion) of the Prospective Resource to a Contingent Resource, and further to a Reserve, could have a significant positive impact on our SCBGP valuation.

- **Exploration upside.** Some A113m or 15% of our estimated SOTP 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, 2019 Annual report.

Note: Nev Power (ex-MD of Fortescue Metals (ASX:FMG)) was appointed to the STX Board in September 2019 as Non-Executive Director and Deputy Chairman.

Information about the Directors

The directors of the Company during the year ended 30 June 2019 and up to the date of this report are:

JOHN POYNTON CHAIRMAN (NON-EXECUTIVE), AO; CITWA; B COM; HON D COM; SF FIN; FAICD; FAIM

Mr Poynton is Chair of Jindalee Partners and Sapien Cyber Limited. He is a Board Member of the Future Fund Board of Guardians and a Director of Crown Resorts Limited. He has previously served as the Chair, Deputy Chair or Non-Executive Director of a number of ASX listed companies, Federal Government boards, education institutions and not-for-profit enterprises. Mr Poynton is an Officer in the General Division of the Order of Australia and is a past recipient of a WA Citizen of the Year award in the industry and commerce category. He holds a Bachelor of Commerce and an honorary Doctor of Commerce from the University of Western Australia. Mr Poynton was appointed to the Board as Chairman on 10 April 2017.

STUART NICHOLLS MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER

Mr Nicholls is an energy industry professional having worked in both the up and downstream. Mr Nicholls has spent most of his time at Royal Dutch Shell within finance, commercial joint ventures, economics, strategy and exploration. Mr Nicholls joined Strike as Chief Executive Officer on 10 April 2017 and quickly went about rebuilding the company's Cooper Basin position and took the company into Western Australia where it has executed several transactions to build its highly attractive operated positions within the Perth Basin. Mr Nicholls has extensive knowledge across global gas markets and his previous experience also includes six years with the Australian Army in senior leadership positions. Mr Nicholls has worked in Australia, The Netherlands, Myanmar and Malaysia in both a corporate and operational capacity. He holds a Bachelor of Commerce (Finance and Accounting). Mr Nicholls was appointed to the Board as Managing Director on 18 August 2017.

STEPHEN BIZZELL DIRECTOR (NON-EXECUTIVE)

Mr Bizzell was appointed to the Board as a Non-Executive Director on 31 December 2018. He is Chairman of boutique corporate advisory and funds management group, Bizzell Capital Partners Pty Ltd. He is currently also a director of ASX listed Armour Energy Ltd, Stanmore Coal Ltd, Renascor Resources Ltd and Laneway Resources Ltd. Mr Bizzell was previously an Executive Director of Arrow Energy Ltd from 1999 until its \$3.5 billion acquisition by Shell and PetroChina in 2010. Mr Bizzell was a co-founder and Non-Executive Director of Bow Energy Limited until its takeover by Arrow Energy Ltd in January 2012 for approximately \$550 million. He qualified as a Chartered Accountant, has considerable experience and success in the fields of corporate restructuring, debt and equity financing, and mergers and acquisitions and has over 25 years' corporate finance and public company management experience.

JODY ROWE DIRECTOR (NON-EXECUTIVE), DIP ACC; DIP FM; MAICD; MCIP

Ms Rowe's previous work experience includes senior commercial roles in Australia and the United Kingdom working with organisations such as BG Group-(Shell) QGC, Santos and Rio Tinto Mining with particular focus on mega projects such as GLNG and QCLNG and large-scale mining operations. Ms Rowe is a Director and member of the senior leaders' group of Safer Together group, an Oil and Gas Industry Association and also performs humanitarian work as a board member for Sight for All. In addition to her public boards, advisory boards and private equity Ms Rowe is the Chief Executive Officer of Rowe Advisory working within the oil and gas, mining, industrial, construction and agriculture industries. Ms Rowe was appointed to the Board as a Non-Executive Director on 30 June 2014.

ANDREW SEATON DIRECTOR (NON-EXECUTIVE), BE (CHEM) HONS; GRAD DIP BUS ADMIN; GAICD

Mr Seaton is an experienced energy executive with a background in finance, project management and investment banking. Mr Seaton was a senior executive with Santos Limited for twelve years, the last six of which he served as Chief Financial Officer. Prior to joining Santos, Mr. Seaton worked in investment banking with Merrill Lynch in Melbourne and New York. His early career included 10 years as a process engineer and project manager working across a range of upstream oil and gas projects and operating plants. Mr Seaton was appointed to the Board as a Non-Executive Director on 18 August 2017.

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