



# Strike Energy Limited (ASX:STX)

## International crude oil prices collapse

Brent crude oil prices have fallen by over 50% 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. On Monday 9 March, **Brent prices plummeted by a further 26.8% to US\$33.34/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\$0.45ps (unchanged)

Considering the sudden deterioration in the international crude oil price environment, we have downwardly revised our forecast Brent crude oil price for FY20E by 15% to US\$52/bbl from US\$61.50/bbl. We also assume a significantly weaker (-28%) oil price of US\$45/bbl in FY21E (vs our previous FY21E forecast of US\$62.73/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). However, with STX's two development projects – conventional gas in the North Perth Basin (WA) and deep CSG at Southern Cooper Basin (SA) – not exposed (directly) to movements in the international oil price, nor unlikely to come onstream within the next 24 months, **our valuation for STX is unaffected by the downward revision to the near-term A\$ oil price forecasts.**

The expression "a rising tide lifts all boats" however, operates in reverse. We note that STX's share price fell 10% on Friday 6 March and a further 18.5% on Monday 9 March. Energy stocks across the board, irrespective of their exposure to oil or gas, or indeed whether they are producers or explorers/developers, have been hit hard by the rapid deterioration in the bell-weather crude oil price environment. While energy plays are likely to be volatile in this uncertain market, we believe that STX offers significant upside potential for investors with a longer time horizon. We maintain a Buy (Higher Risk) recommendation.

10 March 2020

Share Price: A\$0.10

Target Price: A\$0.45

Target upside: 350%

Recommendation  
**Buy**

Risk Assessment  
**Higher**

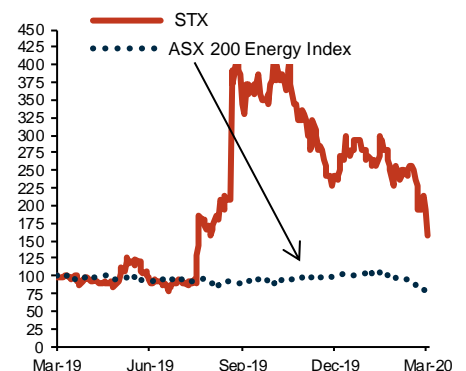
#### Resources – Oil & Gas

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

#### Strike Energy Limited

ASX Code	STX
52- week range	A\$0.05-A\$0.32
Market Cap (diluted) (A\$m)	187
Shares (diluted) (m)	1,696m
Av Daily Turnover (shares)	7.47 million
ASX All Ordinaries	5,822
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)
<b>EBITDA</b>	<b>(3)</b>	<b>(5)</b>	<b>(6)</b>	<b>(6)</b>	<b>26</b>
Depreciation & Amortisation	0	0	0	0	(10)
<b>Operating profit</b>	<b>(3)</b>	<b>(5)</b>	<b>(6)</b>	<b>(6)</b>	<b>16</b>
NOI	1.2	(0.9)	(0.9)	(0.9)	0
<b>EBIT</b>	<b>(2)</b>	<b>(6)</b>	<b>(7)</b>	<b>(7)</b>	<b>16</b>
Interest income	0	0	0	0	0
Interest expense	(0.5)	(0.2)	(0.2)	(1)	(1)
Tax expense	0	0	0	0	0
<b>Reported NPAT</b>	<b>(3)</b>	<b>(6)</b>	<b>(7)</b>	<b>(8)</b>	<b>15</b>
<b>Normalised NPAT</b>	<b>(4)</b>	<b>(5)</b>	<b>(6)</b>	<b>(7)</b>	<b>15</b>
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\$)	(0.17)	(0.34)	(0.36)	(0.37)	0.75
<b>EPS Normalised (A\$)</b>	<b>(0.25)</b>	<b>(0.29)</b>	<b>(0.31)</b>	<b>(0.32)</b>	<b>0.75</b>
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
<b>Operating Cash Flow</b>	<b>(2)</b>	<b>(5)</b>	<b>(6)</b>	<b>(6)</b>	<b>26</b>
Capex	(17)	(22)	(37)	(42)	(7)
Other investments	0	0	0	0	0
<b>Investing Cash Flow</b>	<b>(17)</b>	<b>(22)</b>	<b>(37)</b>	<b>(42)</b>	<b>(7)</b>
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
<b>Financing Cash Flow</b>	<b>34</b>	<b>35</b>	<b>35</b>	<b>49</b>	<b>(16)</b>
Non-operating & Other (R&D rebate)	(7)	(3)	(1)	(1)	0
<b>Inc/(Dec) in Cash</b>	<b>8</b>	<b>5</b>	<b>(9)</b>	<b>0</b>	<b>3</b>

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
<b>Total Assets</b>	<b>127</b>	<b>154</b>	<b>183</b>	<b>225</b>	<b>225</b>
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
<b>Total Liabilities</b>	<b>28</b>	<b>25</b>	<b>25</b>	<b>40</b>	<b>25</b>
<b>Total Equity</b>	<b>100</b>	<b>129</b>	<b>157</b>	<b>185</b>	<b>200</b>
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	

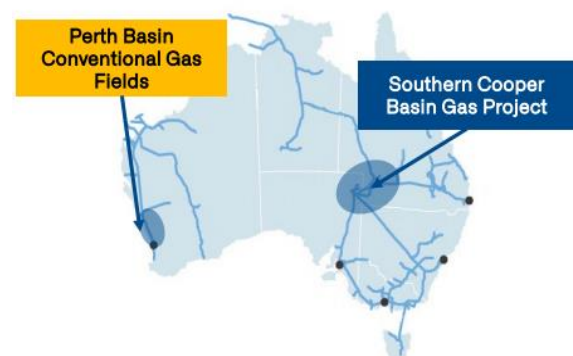
Source: Company, IRESS, State One Stockbroking forecasts

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
<b>Revenue -Gas</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>95.5</b>
Oil sales (MMbbl)	0.00	0.00	0.00	0.00	0.00
ARP (A\$/bbl)	-	89.6	91.4	93.2	95.1
<b>Revenue -Oil</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>Revenue - Gas &amp; Oil</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>95.5</b>
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 (w ithin WE)	145	0
Ocean Hill	0	382
Walvering	120	0
SCBGP - PEL96	4,700	109
SCBGP - Other permits	7,500	0
<b>Total</b>	<b>12,465</b>	<b>1,120</b>

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\$)	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	
<b>Perth Basin, Western Australia</b>	<b>456</b>	<b>0.27</b>	<b>0.36</b>
Southern Cooper Basin - PEL96	219	0.13	0.05
Southern Cooper Basin - other permits	87	0.05	0.01
<b>Southern Cooper Basin Gas Project</b>	<b>306</b>	<b>0.18</b>	<b>0.03</b>
Enterprise value	761	0.45	
Net Cash / (Debt) (FY19A)	9	0.01	
<b>Equity value</b>	<b>770</b>	<b>0.45</b>	

Note: Per share data based on diluted number of shares

## Recommendation & Risks

Our SOTP valuation of A\$0.45ps offers some 350% potential upside relative to STX's current share price levels of A\$0.10.

### **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.

---

### General Advice Warning

The contents of this document have been prepared without taking account of your objectives, financial situation or needs. You should, before taking any action to acquire or deal in, or follow a recommendation (if any) in respect of any of the financial products or information mentioned in this document, consult your own investment advisor to consider whether that is appropriate having regard to your own objectives, financial situation and needs.

Whilst State One Stockbroking Ltd believes information contained in this document is based on information which is believed to be reliable, its accuracy and completeness are not guaranteed and no warranty of accuracy or reliability is given or implied and no responsibility for any loss or damage arising in any way for any representation, act or omission is accepted by State One Stockbroking Ltd or any officer, agent or employee of State One Stockbroking Ltd. If applicable, you should obtain the Product Disclosure Statement relating to the relevant financial product mentioned in this document (which contains full details of the terms and conditions of the financial product) and consider it before making any decision about whether to acquire the financial product.

### Disclosure

The directors and associated persons of State One Stockbroking Ltd may have an interest in the financial products discussed in this document and they may earn brokerage, commissions, fees and advantages, pecuniary or otherwise, in connection with the making of a recommendation or dealing by a client in such financial products.

*This report was prepared solely by State One Stockbroking Limited. ASX Limited ABN 98 009 642 691 and its related bodies corporate ("ASX") did not prepare any part of the report and has not contributed in any way to its content. The role of ASX in relation to the preparation of the research reports is limited to funding their preparation by State One Stockbroking Limited, in accordance with the ASX Equity Research Scheme. ASX does not provide financial product advice. The views expressed in this research report may not necessarily reflect the views of ASX. To the maximum extent permitted by law, no representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by ASX as to the adequacy, accuracy, completeness or reasonableness of the research reports.*

The Research Analyst who prepared this report hereby certifies that the views expressed in this research document accurately reflect the analyst's personal views about the company and its financial products. The research analyst has not been and will not be receiving direct or indirect compensation for expressing the specific recommendations or views in this report. This research at all times remains the property of State One Stockbroking Ltd. And as such cannot be reprinted, distributed, copied, posted on the internet, in part or whole, without written prior approval from an Executive Director of State One Stockbroking Ltd.

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)