

29 November 2019

Strike Energy Limited (STX)**BUY****Share Price: A\$0.18****Significantly undervalued on multiple valuation metrics Target Price:****A\$0.55**

With the recent pull back in STX share price following its significant success at West Erregulla, we highlight a number of the key valuation metrics which make STX stand out against its peer group. STX recently announced a 2C Contingent Resource of 1,185Bcf (gross), from the Kingia and High Cliff sandstone and a further P50 of 273Bcf in the Wagina sandstone (729Bcf attributable to STX). Using this, we assess current trading multiples across the ASX oil & gas peer group (Figure 1), determining that STX remains very cheap. STX remains our top pick of the sector as it moves towards first production by 2022. Maintain BUY with an updated PT of A\$0.55/sh (A\$0.56/sh prev).

STX is too cheap compared to peers

- STX has a current EV of A\$283m, with a conventional Resource of 729Bcf at West Erregulla, Perth Basin.
- What is surprising is the discount STX is trading on vs its peer group. Using EV/Resource on a BOE or \$/GJ basis (2P + 2C), STX is trading on a 67% discount to its peers which we think is unwarranted (Figure 2).
- Following the recent \$30m equity raise, STX is now fully funded to move to first production by 2022; two appraisal wells will be completed in CY2020 as well as FEED and 3D seismic over existing acreage.
- As this progresses, we believe STX will trade closer to its peer group value of A\$5.11/boe or A\$0.83/GJ on a 2P + 2C basis. This demonstrates STX should move toward a valuation between A\$605m – A\$621m, equivalent to A\$0.35-\$0.36/sh for West Erregulla before factoring any additional value for its exploration acreage or its Cooper Basin assets.

Conventional plays trade at a premium

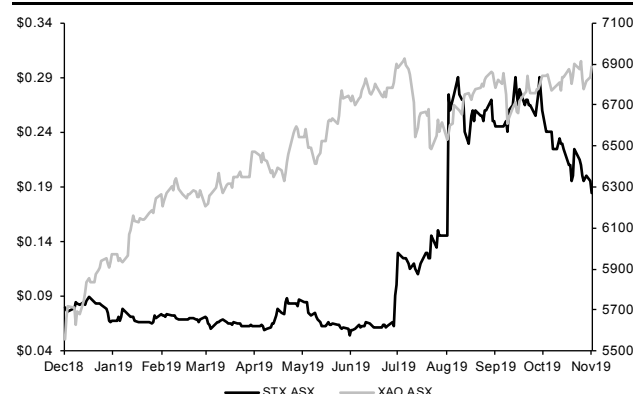
- ASX listed conventional plays trade at a premium to unconventional plays due to the fact continuous capital is required to fund unconventional projects.
- Coal seam gas/shale typically have much lower production rates resulting in more wells and ongoing capex to fund development than conventional assets, leading to balance sheet pressure and ultimately trading at a discount to conventional plays.
- Our analysis shows unconventional plays trade at a 60% discount to conventional plays at A\$2.14/boe or A\$0.35/GJ vs A\$5.11/boe or A\$0.83/GJ regardless of whether you're a producer, developer or explorer.
- We also highlight recent oil and gas transaction multiples (figure 3) which supports our view of STX being significantly undervalued at A\$1.66/boe or A\$0.27/GJ on a 2P + 2C basis.

Company Data

Shares – ordinary (M)	1,704.6
Dilution (M)	69.2
Total (fully diluted) (M)	1,773.8
Market capitalisation (\$M)	307
12 month low/high (\$)	0.05/ 0.31
Average monthly turnover (\$M)	35
GICS Industry	Oil, Gas & Consumable Fuels

Financial Summary (fully diluted/normalised)

Year end June	2021F	2022F	2023F	2024F	2025F
Revenue (\$M)	-	28	29	128	231
Costs (\$M)	(4)	(16)	(17)	(47)	(79)
EBITDAX (\$M)	(4)	12	12	81	152
Exploration (\$M)	(4)	(5)	(5)	(5)	(5)
NPAT (\$M)	(6)	4	3	50	92
EPS (¢ps)	(0)	0	0	3	5
EPS Growth (%)	nm	nm	22%	1630%	84%
PER (x)	(53)	87	112	6	4
Op. Cashflow (\$M)	(5)	13	13	40	71
OCFPS (¢ps)	(0)	1	1	2	4
POCFPS (x)	(66)	25	25	8	5
Enterprise Value (\$M)	313	317	354	378	315
EV / EBITDAX (x)	nm	nm	28.8	4.7	2.1
Payout Ratio (%)	-	-	-	-	-
Dividends (¢ps)	-	-	-	-	-
Yield (%)	-	-	-	-	-

STX – performance over one year**Disclosure and Disclaimer**

This report must be read with the disclosure and disclaimer on the final page of this document. Petra Capital Pty Ltd acted as the Exclusive lead manager, for STX's \$12m equity raise at \$0.065/share on 30 May 2019, and for STX's \$30m equity raise at \$0.23/share on 1 Nov 2019, for which fees were received.

Craig Brown

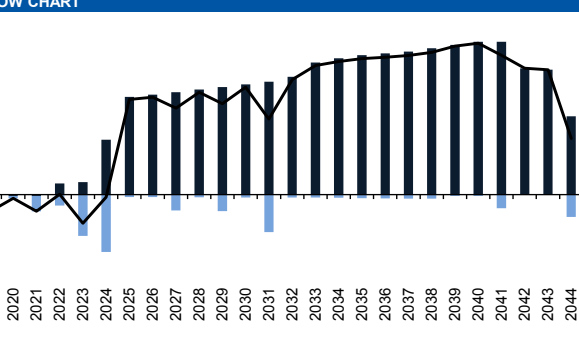
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Analysis

Strike Energy (STX)

28-Nov-19

Year End June

PROFIT & LOSS									ASSUMPTIONS									2019A 2020F 2021F 2022F 2023F 2024F 2025F																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																
Revenue	A\$M	1	0	0	28	29	128	231	Brent Crude (US\$/bbl)	60	67	65	65	65	65	65	65																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																	
Operating Costs	A\$M	0	0	0	-12	-13	-43	-75	WTI (US\$/t)	55	59	55	55	55	55	55	55																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																	
Other	A\$M	-3	-4	-4	-4	-4	-4	-4	East Coast Gas (A\$/GJ)	8.50	8.50	9.00	9.50	9.50	9.50	9.50	9.50																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																	
EBITDAX	A\$M	-2	-4	-4	12	12	81	152	West Coast Gas (A\$/GJ)	4.50	4.50	5.13	5.50	5.50	5.50	5.50	5.50																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																	
Exploration	A\$M	-3	-4	-4	-5	-5	-5	-5	AUD/USD	0.73	0.70	0.69	0.69	0.70	0.70	0.70	0.70																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																	
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EBIT	A\$M	-5	-8	-8	6	6	75	137	OPERATIONS (net to STX)									2019A	2020F	2021F	2022F	2023F	2024F	2025F																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																										
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Pre-Tax Profit	A\$M	-6	-9	-9	5	4	72	132	Natural Gas (PJ)	0	0	0	9	9	27	46																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																		
Tax	A\$M	0	3	3	-2	-1	-22	-40	Condensate (mmboe)	0	0	0	0	0	0	0																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																		
Net Profit	A\$M	-6	-6	-6	4	3	50	92	NGL's (mmboe)	0	0	0	0	0	0	0																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																		
Abnormal	A\$M	0	0	0	0	0	0	0	Total Sales (mmboe)	0	0	0	1.6	1.6	4.7	7.8																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																		
Reported Profit	A\$M	-6	-6	-6	4	3	50	92	Revenue									2019A	2020F	2021F	2022F	2023F	2024F	2025F																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																										
Dividends Paid	A\$M	0	0	0	0	0	0	0	Natural Gas	0	0	0	28	29	128	231																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																		
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Net Interest	A\$M	0	0	0	-1	-2	-3	-6	Other	1	0	0	0	0	0	0																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																		
Tax Paid	A\$M	0	0	0	0	0	-22	-40	Total	1	0	0	28	29	128	231																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																		
Operating Cash Flow	A\$M	-2	-2	-5	13	13	40	71	Percentage Split (Revenue)																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																									
Net Capex	A\$M	-14	-3	-18	-12	-44	-60	-1	Natural Gas (Mboe)	0	0	0	100%	100%	100%	100%																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																		
Exploration	A\$M	-3	-4	-4	-5	-5	-5	-5	Condensate (Mboe)	0	0	0	0%	0%	0%	0%																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																		
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Investing Cash Flow	A\$M	-18	-7	-23	-16	-49	-65	-6	Opex & Capex									2019A	2020F	2021F	2022F	2023F	2024F	2025F																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																										
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Net Borrowings	A\$M	-5	0	5	-1	38	28	-5	Operating & Processing	0	0	0	5	5	16	28																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																		
Dividends	A\$M	0	0	0	0	0	0	0	Distribution	0	0	0	2	2	7	13																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																		
Equity Issues	A\$M	27	30	0	0	0	0	0	Administration	0	0	0	3	4	11	18																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																		
Other	A\$M	5	0	0	0	-1	1	-2	Royalty	0	0	0	2	2	9	16																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																		
Financing Cash Flow	A\$M	27	30	5	-1	37	28	-7	Total	0	0	0	12	13	43	75																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																		
Net IncreaseCash	A\$M	7	21	-23	-5	1	4	58	CAPEX																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																									
BALANCE SHEET									Wells (Drilling, Completions & Tie-ins)	14	3	18	0	0	12	0																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																		
Cash	A\$M	11	32	9	5	6	10	68	Facilities (Plant, Hubs, Compression)	0	0	0	11	43	46	0																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																		
Other Current	A\$M	2	2	2	2	2	4	4	Sustaining	0	0	0	1	1	1	1																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																		
Current Assets	A\$M	13	34	11	6	7	14	72	Exploration	3	4	4	5	5	5	5																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																		
Fixed Assets	A\$M	0	16	32	42	86	145	137	Total	17	7	23	16	49	65	6																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																		
Exploration	A\$M	114	109	105	101	96	91	86	CASHFLOW CHART																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																									
Other	A\$M	0	0	0	2	1	3	3																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																										</

Source: Petra Capital

STX – Significantly undervalued on multiple valuation metrics

In this note we have analysed the entire E&P sector on the ASX from Large caps to micro caps across producers, developers and explorers down to A\$12m in market capitalisation (Figure 1). We have broken these down by play type (conventional vs unconventional) including those with North American assets.

What we have identified is the trading and transaction multiples are similar, but dependent on size and play type. Large cap conventional producers for example are trading at higher valuation multiples than their mid to small cap peers on all valuation metrics including EV/2C Resource, EV/2P + 2C, and on an EV/EBITDAX basis (figure 2 & 3). Likewise this is the case on a transaction multiple basis, so we believe STX is well positioned as a future conventional producer with material valuation upside.

Figure 1: Peer Group Analysis – Oil & Gas

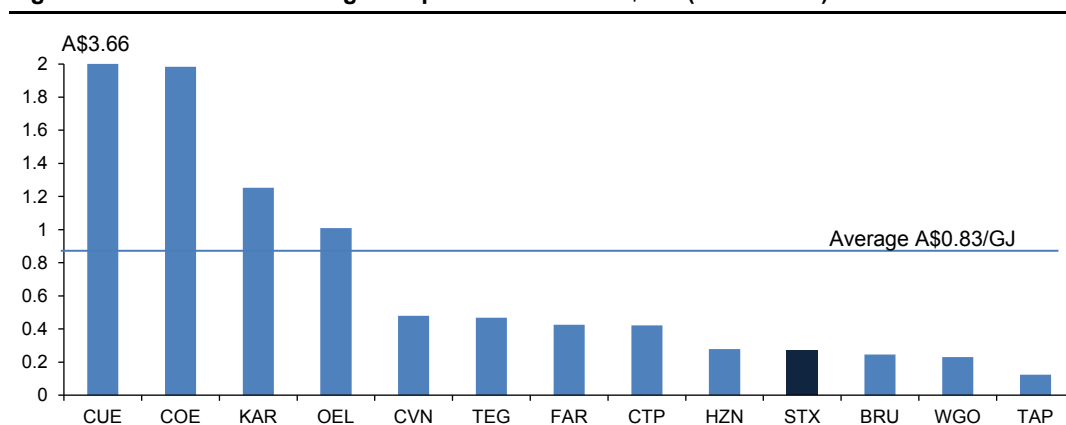
Oil & Gas	Code	Stage	Play type	Price A\$/sh	EV AUD\$m	Resource 2C mboe	Reserve 2P mboe
<u>Australia</u>							
<u>Large Cap</u>							
WOODSIDE PETROLEUM LTD	WPL	Producer	Conventional	34.56	36,011	5,517	1,238
SANTOS LTD	STO	Producer	Conventional	8.13	23,552	2,290	1,072
OIL SEARCH LTD	OSH	Producer	Conventional	7.38	15,718	807	461
BEACH ENERGY LTD	BPT	Producer	Conventional	2.38	5,208	185	326
Large Cap average					20,122	2,200	774
<u>Australia</u>							
<u>Mid/Small Cap</u>							
KAROON ENERGY LTD	KAR	Producer	Conventional	1.06	1,183	101	53
COOPER ENERGY LTD	COE	Producer	Conventional	0.54	923	24	52
SENEX ENERGY LTD	SXY	Producer	Unconventional	0.34	455	8	111
CARNARVON PETROLEUM LTD	CVN	Developer	Conventional	0.34	316	108	0
STRIKE ENERGY	STX	Developer	Conventional	0.18	275	181	0
GALILEE ENERGY	GLL	Developer	Unconventional	0.85	228	492	0
FAR LTD	FAR	Developer	Conventional	0.05	223	88	0
HORIZON OIL LTD	HZN	Producer	Conventional	0.14	196	114	9
CENTRAL PETROLEUM LTD	CTP	Producer	Conventional	0.16	171	39	24
COMET RIDGE LTD	COI	Developer	Unconventional	0.20	158	100	30
WARREGO ENERGY	WGO	Developer	Conventional	0.20	126	97	0
OTTO ENERGY LTD	OEL	Producer	Conventional	0.04	108	0	18
STATE GAS LTD	GAS	Explorer	Unconventional	0.78	101	0	0
EMPIRE ENERGY	EEG	Explorer	Unconventional	0.43	94	0	0
ARMOUR ENERGY	AJQ	Producer	Unconventional	0.06	85	0	20
LEIGH CREEK ENERGY	LCK	Explorer	Unconventional	0.18	90	240	189
TAP OIL LTD	TAP	Producer	Conventional	0.13	75	94	2
CUE ENERGY RESOURCES LTD	CUE	Producer	Conventional	0.12	69	2	1
BLUE ENERGY	BUL	Explorer	Unconventional	0.05	59	169	12
BURU ENERGY LTD	BRU	Producer	Conventional	0.19	35	22	5
TLOU ENERGY LTD	TOU	Explorer	Unconventional	0.09	37	42	7
VINTAGE ENERGY	VEN	Explorer	Unconventional	0.18	36	7	0
NUENERGY GAS LTD	NGY	Explorer	Unconventional	0.02	27	18	12
MELBANA ENERGY LTD	MAY	Explorer	Conventional	0.01	16	0	0
TRIANGLE ENERGY GLOBAL LTD	TEG	Producer	Conventional	0.05	15	4	2
METGASCO LTD	MEL	Explorer	Conventional	0.04	13	0	0
NORWEST ENERGY LTD	NEW	Explorer	Conventional	0.00	11	0	0
Mid/Small Cap average					190	72	20
<u>ASX Listed US/North America Plays</u>							
SUNDANCE ENERGY AUSTRALIA LT	SEA	Producer	Unconventional	17.65	679	0	93
ELK PETROLEUM LTD	ELK	Producer	Unconventional	0.01	327	86	40
HELIOS ENERGY LTD	HE8	Exploration	Unconventional	0.19	272	0	0
BYRON ENERGY LTD	BYE	Producer	Conventional	0.30	216	0	42
AUSTRALIS OIL & GAS LTD	ATS	Producer	Unconventional	0.13	146	206	50
88 ENERGY LTD	88E	Exploration	Conventional	0.02	126	0	0
FREEDOM OIL AND GAS LTD	FDM	Producer	Unconventional	0.01	33	0	10
MOLOPO ENERGY LTD	MPO	Producer	Conventional	0.14	22	0	0
CALIMA ENERGY LTD	CE1	Development	Unconventional	0.01	8	196	0
Mid/Small Cap average					203	54	26

Source: Petra Capital, IRESS *excludes outliers

Figure 2: Trading Multiples – Oil & Gas

E&P Companies	Ticker	EV/Resource 2C \$/boe	EV/ 2P +2C \$/boe	EV/ 2P +2C \$/GJ	EV/EBITDAX
Large Cap - Conventional	OSH	19.32	12.29	2.01	7.83
	BPT	27.66	10.01	1.64	3.57
	STO	10.20	6.95	1.14	4.58
	WPL	6.43	5.25	0.86	5.17
Average		15.90	8.63	1.41	5.29
Mid Cap - Conventional	CUE	37.44	22.39	3.66	7.30
	COE	39.09	12.14	1.98	6.64
	KAR	11.66	7.67	1.25	2.88
	OEL	n.a.	6.18	1.01	3.60
	CVN	2.93	2.93	0.48	n.a.
	TEG	4.16	2.86	0.47	3.70
	FAR	2.60	2.60	0.43	n.a.
	CTP	4.18	2.57	0.42	5.40
	HZN	1.84	1.71	0.28	3.84
	STX	1.66	1.66	0.27	n.a.
	BRU	1.81	1.50	0.24	4.70
	WGO	1.41	1.41	0.23	n.a.
	TAP	0.77	0.76	0.12	7.70
Average		9.13	5.11	0.83	5.08
Mid Cap - Unconventional	SEA	n.a.	7.20	1.18	3.40
	VEN	4.82	4.82	0.79	n.a.
	AJQ	n.a.	4.11	0.67	29.60
	SXY	55.71	3.86	0.63	5.57
	FDM	n.a.	3.29	0.54	2.45
	COI	1.80	1.39	0.23	n.a.
	NGY	1.51	0.90	0.15	n.a.
	TOU	0.77	0.66	0.11	n.a.
	ATS	0.65	0.53	0.09	12.20
	GLL	0.46	0.46	0.07	n.a.
	BUL	0.34	0.32	0.05	n.a.
	LCK	0.36	0.20	0.03	n.a.
	CE1	0.04	0.04	0.01	n.a.
	GAS	n.a.	n.a.	n.a.	n.a.
	EEG	n.a.	n.a.	n.a.	n.a.
	HE8	n.a.	n.a.	n.a.	n.a.
Average*		6.65	2.14	0.35	3.81

Source: Petra Capital, IRESS *excludes outliers

Figure 3: Conventional trading multiples – Oil & Gas A\$/GJ (EV/2P + 2C)

Source: Petra Capital, IRESS

Transaction multiples also imply STX's significant discount

We have broken down all the recent ASX listed acquisitions or asset sales in the oil and gas market since 2016 (figure 4 & 5) to identify what corporates are willing to pay to get access to barrels in the ground. Our assessment identifies a transaction average on a 2P + 2C basis for this period was equivalent to A\$5.23/boe or A\$0.87/GJ.

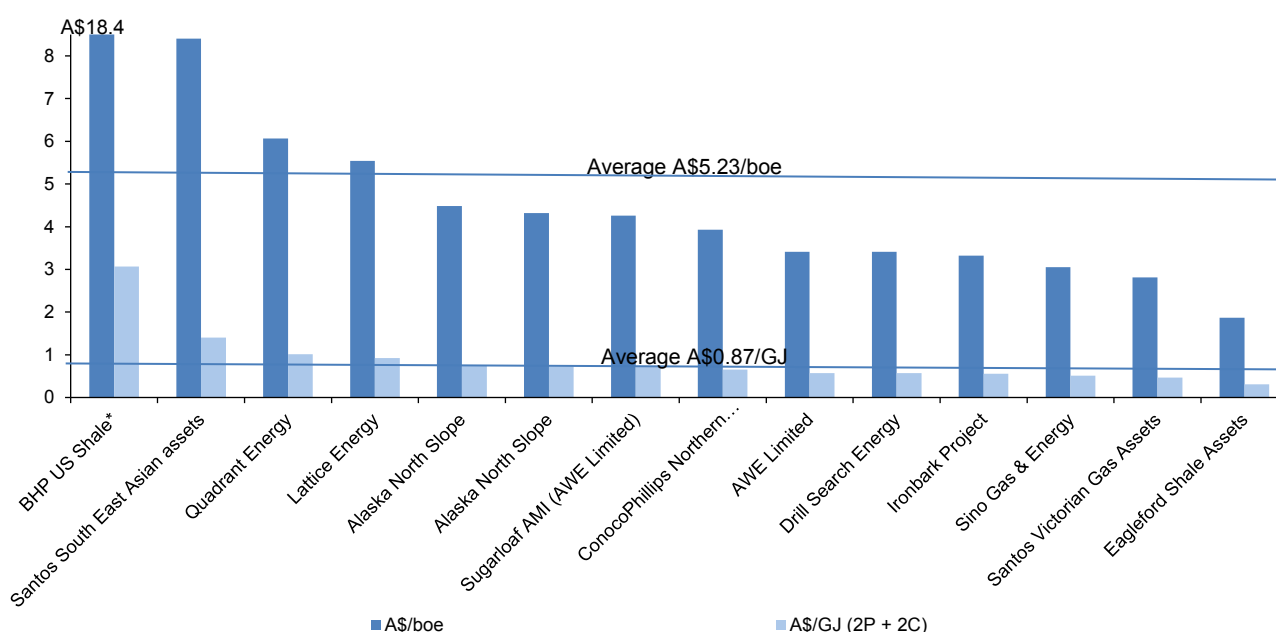
Using this metric for STX generates a value for West Erregulla only of A\$635m or equivalent to A\$0.37/sh. This value uplift in our view, comes with conversion to 2P Reserves which we expect will happen at STX over the next 12 month period. Typically, if we look at the most relevant transaction here being Waitsia, Mitsui paid an equivalent A\$1.22/GJ for an equivalent net 410PJ of 2P Reserves. Using this metric for just the Kingia High Cliff sands at West Erregulla, implies a valuation of \$723m or A\$0.42/sh excluding any Wagina sands or any additional upside on exploration acreage or its Cooper Basin assets.

Figure 4: Transaction Multiples – Oil & Gas

Oil & Gas Transactions	Acquirer	Type	2P (mmboe)	2C (mmboe)	2P+2C	A\$m	A\$/boe	2P+2C A\$/GJ	2P A\$/GJ	Date
ConocoPhillips Northern Aust Interests	Santos	Conventional	50	490	540	2,123	3.93	0.66	7.08	Oct-19
Alaska North Slope	Oil Search	Conventional		128	128	551	4.32	0.72	n.a.	Jun-19
Ironbark Project	APLNG	Unconventional	22	48	70	231	3.32	0.55	1.79	Feb-19
Quadrant Energy	Santos	Conventional	220	294	514	3,116	6.06	1.01	2.36	Aug-18
BHP US Shale*	BP	Unconventional	794		794	14,600	18.39	3.07	3.07	Jul-18
Santos South East Asian assets	Ophir	Conventional	21	17	38	320	8.41	1.40	2.53	May-18
Sino Gas & Energy	Lone Star	Unconventional	42	132	174	530	3.05	0.51	2.11	May-18
Eagleford Shale Assets	Sundance Energy	Unconventional	171		171	319	1.87	0.31	0.31	Apr-18
AWE Limited	Mitsui	Conventional	82	94	176	602	3.41	0.57	1.22	Feb-18
Alaska North Slope	Oil Search	Conventional		128	128	571	4.48	0.75	n.a.	Nov-17
Lattice Energy	Beach	Conventional	232	54	286	1,585	5.54	0.92	1.14	Sep-17
Santos Victorian Gas Assets	Cooper Energy	Conventional	9	20	29	82	2.81	0.47	1.52	Oct-16
Drill Search Energy	Beach	Conventional	26	87	112.6	384	3.41	0.57	2.49	Feb-16
Sugarloaf AMI (AWE Limited)	Carrier Energy Partners	Unconventional	47	17	64	271	4.26	0.71	0.97	Jan-16
Average							5.23	0.87	2.22	

Source: Petra Capital, IRESS *2P only shown

Figure 5: Transaction Multiples – Oil & Gas A\$/boe & A\$/GJ



Source: Petra Capital, IRESS *2P only shown



29 November 2019

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