

1 September 2020

Strike Energy Limited (STX)

BUY

Share Price: **A\$0.24**

CSBP commits to West Erregulla phase 1

Target Price: **A\$0.54**

STX has announced Wesfarmers subsidiary CSBP has converted its gas option to a firm 100 PJ gas offtake agreement at 25 TJ/d for 11 years. This contract is a fixed price agreement with annual escalation, subject to FID on West Erregulla Phase 1, which is expected by the end of 2020. The offtake represents only a small portion of STX's current 2C Resource (16%) with first gas targeted for 1H 2022. STX continues to execute its Perth Basin strategy giving the market confidence in project delivery supported by a high quality tier 1 customer base. Maintain our BUY & TP of A\$0.54/sh.

CSBP Gas offtake – Phase 1

- STX has agreed with CSBP to convert its gas supply option to a firm 100PJ gas offtake agreement at 25TJ/day for approximately 11 years.
- CSBP is a tier 1 foundation customer for the development of West Erregulla Phase 1.
- The conversion of the CSBP option to a firm supply agreement is another box ticked by STX's management team as they progress towards development of the West Erregulla gas project.
- The firm gas agreement will allow STX to move forward in securing a high quality debt financing solution for the construction of Phase 1, supported by the AGIG deal.

Countdown for WE-3 spud is fast approaching

- STX expects spudding to occur in early September on WE-3 targeting an additional 20% upside to the current 2C Resource of 1,185 Bcf (Gross).

Tightening gas market in WA

- The State government has recently tightened its WA domestic gas policy to secure local supply, and has made West Erregulla a project of strategic importance to WA (Lead Agency Status). As a result, we expect any future development for Phase 1 & 2 to be fast tracked and relatively de-risked.
- We also highlight STX is in a very strong position to market decent volumes of gas for Phase 2 with high quality tier 1 industries in WA, including Iron Ore, Gold, Battery minerals (lithium, nickel & cobalt) as well as chemicals and manufacturing sectors.
- STX's West Erregulla project is a Tier-1 asset due to its low cost, low capex nature within proximity to existing infrastructure. This will enable STX to achieve strong & stable margins for WE not linked to commodity prices.

Key Dates Ahead

- West Erregulla 3 & 4 Spud Q3/20, WE-5 decision Q4/20.
- FID & debt financing – Phase 1 Q4/20.

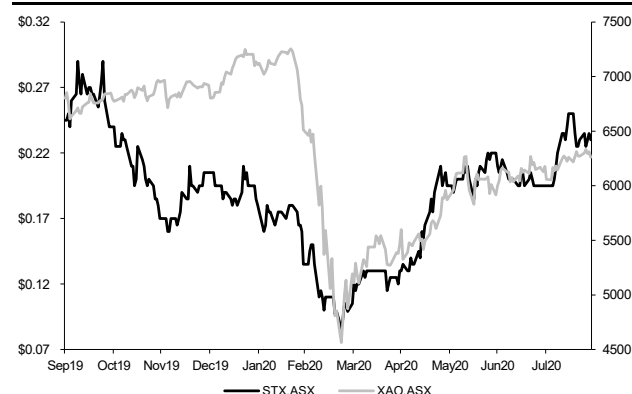
Company Data

Shares – ordinary (M)	1,720
Dilution (M)	47
Total (fully diluted) (M)	1,767
Market capitalisation (\$M)	413
12 month low/high (\$)	0.08/ 0.31
Average monthly turnover (\$M)	20.3
GICS Industry	Oil, Gas & Consumable Fuels

Financial Summary (fully diluted/normalised)

Year end June	2021F	2022F	2023F	2024F	2025F
Revenue (\$M)	-	28	30	128	231
Costs (\$M)	(4)	(16)	(17)	(47)	(79)
EBITDAX (\$M)	(4)	12	14	81	152
Exploration (\$M)	(4)	(4)	(4)	(4)	(5)
NPAT (\$M)	(6)	5	1	48	98
EPS (¢ps)	(0)	0.3	0.0	3	6
EPS Growth (%)	nm	nm	nm	>100%	104%
PER (x)	nm	nm	nm	9	5
Op. Cashflow (\$M)	(3)	12	13	39	69
OCFPS (¢ps)	(0)	1	1	2	4
POCFPS (x)	(131)	38	33	11	6
Enterprise Value (\$M)	439	445	437	426	363
EV / EBITDAX (x)	nm	nm	32.2	5.3	2.4
Payout Ratio (%)	-	-	-	-	-
Dividends (¢ps)	-	-	-	-	-
Yield (%)	-	-	-	-	-

STX – performance over one year



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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

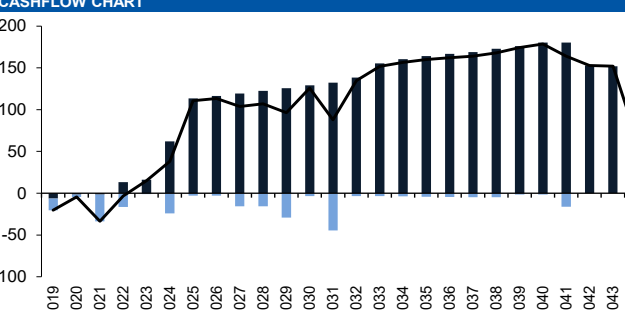
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Analysis

Strike Energy (STX)

31-Aug-20

Year End June

PROFIT & LOSS									ASSUMPTIONS																
		2019A	2020F	2021F	2022F	2023F	2024F	2025F		2019A	2020F	2021F	2022F	2023F	2024F	2025F									
Revenue	A\$M	1	0	0	28	30	128	231	Brent Crude (US\$/bbl)	60	48	43	50	60	65	65									
Operating Costs	A\$M	0	0	0	-12	-13	-43	-75	WTI (US\$/t)	55	43	41	45	55	60	60									
Other	A\$M	-3	-4	-4	-4	-4	-4	-4	East Coast Gas (A\$/GJ)	8.50	8.50	9.00	9.00	9.00	9.00	9.00									
EBITDAX	A\$M	-2	-4	-4	12	14	81	152	West Coast Gas (A\$/GJ)	4.50	4.50	4.75	5.50	5.75	5.50	5.50									
Exploration	A\$M	-3	-4	-4	-4	-4	-4	-5	AUD/USD	0.73	0.70	0.68	0.72	0.70	0.70	0.70									
D&A	A\$M	0	0	0	1	-5	-5	-4																	
EBIT	A\$M	-5	-8	-8	9	4	71	142	OPERATIONS (net to STX)								2019A	2020F	2021F	2022F	2023F	2024F	2025F		
Net Interest	A\$M	0	0	0	-2	-3	-3	-2	Production																
Pre-Tax Profit	A\$M	-6	-8	-8	7	1	69	140	Natural Gas (PJ)	0	0	0	9	9	27	46									
Tax	A\$M	0	2	2	-2	0	-21	-42	Condensate (mmboe)	0	0	0	0	0	0	0									
Net Profit	A\$M	-6	-6	-6	5	1	48	98	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	5	1	48	98	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	30	128	231									
CASHFLOW																									
		2019A	2020F	2021F	2022F	2023F	2024F	2025F	Condensate	0	0	0	0	0	0	0									
Net Op Cash Flow	A\$M	-2	-2	-3	13	16	62	114	NGL's	0	0	0	0	0	0	0									
Net Interest	A\$M	0	0	0	-2	-3	-3	-2	Other	1	0	0	0	0	0	0									
Tax Paid	A\$M	0	0	0	0	0	-21	-42	Total	1	0	0	28	30	128	231									
Operating Cash Flow	A\$M	-2	-2	-3	12	13	39	69	Percentage Split (Revenue)																
Net Capex	A\$M	-14	-3	-32	-12	-1	-24	-1	Natural Gas (Mboe)	0	0	0	100%	100%	100%	100%									
Exploration	A\$M	-3	-4	-4	-4	-4	-4	-5	Condensate (Mboe)	0	0	0	0%	0%	0%	0%									
Net proceeds A&D	A\$M	-1	0	0	0	0	0	0	NGL's (Mboe)	0	0	0	0%	0%	0%	0%									
Investing Cash Flow	A\$M	-18	-7	-36	-16	-5	-29	-6	Opex & Capex								2019A	2020F	2021F	2022F	2023F	2024F	2025F		
Free cash flow		-20	-8	-39	-5	8	10	63	OPEX																
Net Borrowings	A\$M	-5	5	28	-2	-2	-2	-2	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	4	4	11	18									
Other	A\$M	5	0	0	-1	0	0	0	Royalty	0	0	0	2	2	9	16									
Financing Cash Flow	A\$M	27	35	28	-4	-2	-2	-2	Total	0	0	0	12	13	43	75									
Net Increase/Cash	A\$M	7	26	-11	-8	6	8	61	CAPEX																
BALANCE SHEET																									
		2019A	2020F	2021F	2022F	2023F	2024F	2025F	Wells (Drilling, Completions & Tie-ins)	14	3	32	11	0	23	0									
Cash	A\$M	11	38	27	18	24	32	93	Facilities (Plant, Hubs, Compression)	0	0	0	0	0	0	0									
Other Current	A\$M	2	2	2	2	4	4	21	Sustaining	0	0	0	1	1	1	1									
Current Assets	A\$M	13	40	29	20	28	36	113	Exploration	3	4	4	4	4	4	5									
Fixed Assets	A\$M	0	16	45	58	55	74	71	Total	17	7	36	16	5	29	6									
Exploration	A\$M	114	101	98	94	90	85	81	CASHFLOW CHART																
Other	A\$M	0	0	1	1	1	1	1																	
Non Current Assets	A\$M	114	117	144	153	146	161	153																	
Total Assets	A\$M	127	157	173	174	174	197	266																	
Borrowings	A\$M	0	0	0	0	0	0	0																	
Payables	A\$M	5	0	0	0	0	1	1																	
Other	A\$M	1	1	1	1	1	1	1																	
Current Liab	A\$M	6	1	1	1	2	2	7																	
Borrowings	A\$M	2	7	36	33	31	28	26																	
Provisions	A\$M	2	2	2	2	2	2	2																	
Other	A\$M	17	17	17	17	17	17	17																	
Non Current Liab	A\$M	22	27	55	53	50	48	45																	
Total Liabilities	A\$M	27	28	56	53	52	49	52																	
Total Equity	A\$M	100	129	117	120	122	147	214																	
RATIO ANALYSIS																									
		2019A	2020F	2021F	2022F	2023F	2024F	2025F																	
EPS	¢	(0)	(0)	(0)	0	0	3	6																	
PER	x	nm	nm	nm	nm	nm	9	4																	
EPS Growth	%	nm	nm	nm	nm	nm	>100%	104%																	
CFPS	¢	(0)	(0)	(0)	1	1	2	4																	
PCFR	x	(219)	(229)	(126)	37	32	11	6																	
DPS	¢	0	0	0	0	0	0	0																	
Yield	%	0%	0%	0%	0%	0%	0%	0%																	
Payout Ratio	%	0%	0%	0%	0%	0%	0%	0%																	
Gearing ND/E	%	-9%	-24%	7%	12%	5%	-3%	-31%																	
Interest Cover	x	nm	nm	nm	nm	1	28	61																	
Enterprise Value	A\$M	404	382	422	427	419	409	346																	
EV/EBITDAX	x	nm	nm	nm	nm	31	5	2																	
EBITDAX Margin	%	nm	nm	nm	nm	45%	63%	66%																	
EBIT Margin	%	nm	nm	nm	nm	13%	56%	62%																	
Return On Assets	%	nm	nm	nm	nm	2%	36%	53%																	
Eff Tax rate	%	nm	nm	nm	nm	30%	30%	30%																	
									EBITDAX								2019A	2020F	2021F	2022F	2023F	2024F	2025F		
									West Erregulla								0	0	0	16	18	85	156		
									Corporate								-1	-4	-4	-4	-4	-4	-4		
									Total								-1	-4	-4	12	14	81	152		
									NPV (+1Yr)								Risk				A\$M				A\$/sh.
									West Erregulla - Phase 1 (STX, 50%)												135				0.08
									West Erregulla - Phase 2 (STX, 50%)												678				0.38
									Wagina Gas (STX, 50%)								75%				113				0.06
									Cooper Basin (PEL96, 66.7%)												0				0.00
									Other Exploration (Perth Basin)												50				0.03
									Corporate												-44				-0.02
									Debt												0				0.00
									Cash												22				0.01
									Total												953				0.5

Source: Petra Capital

Figure 1: West Erregulla – Milestones

Discovered Resource	✓	High Confidence
Additional subsurface info	—	Drilling program 2H20
Foundation Gas Sales	✓	Wesfarmers
Concept Select	✓	Australian Gas Infrastructure Group Initial 50 TJ/d in FEED
Post FID Finance	—	In progress
Final Investment Decision		Targeting Q4 /20
Phase 2 Expansion	—	Gas Marketing & Studies

Source: STX

Figure 2: STX – Share performance chart



Source: Bloomberg, Petra Capital



1 September 2020

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