

22 November 2022

## Blue Energy Limited (BLU)

BUY

Share Price: A\$0.06

### Drilling completed; flow testing imminent

Target Price: A\$0.40

BLU has finalised the drilling component of its appraisal campaign in the North Bowen Basin (NBB). In total, c.8,000m of coal in-seam has been drilled from 7 horizontal sections across 2 well pads. Completion of drilling paves the way for production testing to start in late November. Data obtained from flow testing will be critical to transition 2C Resources to 2P Reserves across the Sapphire block and help underpin the balance of its existing MoUs with Origin Energy (300PJ) and EnergyAustralia (100PJ). Maintain BUY, PT A\$0.40/sh.

#### Drilling completed; flow testing imminent

- BLU has completed drilling at Sapphire, hosting a 3P+3C Resource of 467PJ in QLD's NBB (Figure 1).
- Drilling consisted of 2 vertical wells and 7 horizontal sections for a total of c.8,000m in seam (Figures 2, 3).
- Surface facilities are currently being installed and connected for first production testing in late November.
- Results from production testing will provide the foundation for a Reserves upgrade next year.
- If BLU can achieve a flow rate of c.0.5MMscf/d per 1,000m of lateral, we believe this would be a successful outcome and assist with the Reserve upgrade.

#### Next steps for Blue

- Concurrent with the dewatering of the pilot wells as the first phase of the production test, the Government is set to release Phase 2 of its Bowen Basin Pipeline Study in Dec.'22 underscoring the economics of the Basin.
- The pipeline will open up the NBB to the east coast market, which currently only supplies the Townsville market in small volumes.
- We expect the pipeline to be awarded Project of State Significance status and therefore provide for an accelerated development timeline.

#### Tight gas market provides pricing tailwinds

- ACCC data released last week indicates that retailer offers (buyers) prices for +1yr contracts are A\$20-35/GJ (Figure 4). This is substantially above the longer-term average of A\$8-9/GJ.
- BLU is well placed to access these high priced contracts as it markets its gas to Tier 1 utilities including Origin Energy and EnergyAustralia over the next 12 months.
- At the peer average multiple for domestic 2P Reserve of A\$1.45/GJ (Fig. 5) BLU's implied market cap if it were to underpin its existing MoUs post the appraisal campaign would be c.A\$580m (4.3x current m'cap).

#### Key Dates Ahead

- Ongoing – North Bowen flow test
- Dec. Q'22 – Phase 2 Govt Pipeline Study
- 2023 – Reserves upgrade from NBB

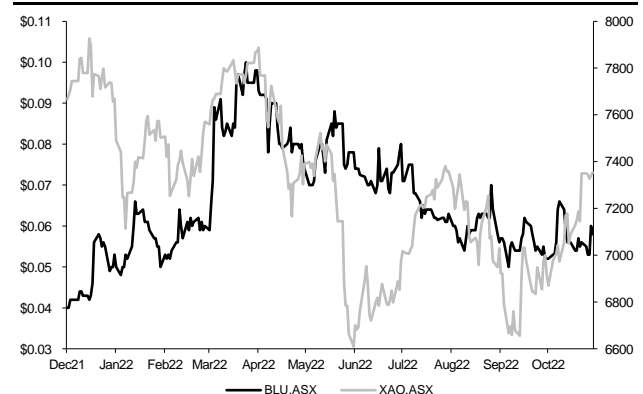
#### Company Data

Shares – ordinary (M)	1,851
Dilution (M)	1
Total (fully diluted) (M)	1,851
Market capitalisation (\$M)	109
12 month low/high (\$)	0.04/ 0.11
Average monthly turnover (\$M)	3.5
GICS Industry	Oil, Gas & Consumable Fuels

#### Financial Summary (fully diluted/normalised)

Year end June	2023F	2024F	2025F	2026F	2027F
Revenue (\$M)	-	-	19	123	304
Costs (\$M)	(1)	(1)	(9)	(52)	(128)
EBITDAX (\$M)	(1)	(1)	10	71	176
Exploration (\$M)	(6)	(2)	(1)	(1)	(1)
NPAT (\$M)	(7)	(3)	4	40	91
EPS (¢ps)	(0.4)	(0.2)	0.2	2.2	4.9
EPS Growth (%)	n.m.	n.m.	>100%	>100%	124%
PER (x)	n.m.	n.m.	24	3	1
Op. Cashflow (\$M)	(1)	(1)	8	65	143
OCFPS (¢ps)	(0.1)	(0.1)	0.4	3.5	7.7
POCFPS (x)	n.m.	n.m.	14	2	1
Enterprise Value (\$M)	99	91	114	116	74
EV / EBITDAX (x)	n.m.	n.m.	11.4	1.6	0.4
Payout Ratio (%)	n.m.	n.m.	n.m.	n.m.	n.m.
Dividends (¢ps)	n.m.	n.m.	n.m.	n.m.	n.m.
Yield (%)	n.m.	n.m.	n.m.	n.m.	n.m.

#### BLU – 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 acted as Joint Lead Manager and Bookrunner for a placement to raise \$20m at A\$0.062/sh on 26 July 2022, for which fees were received.

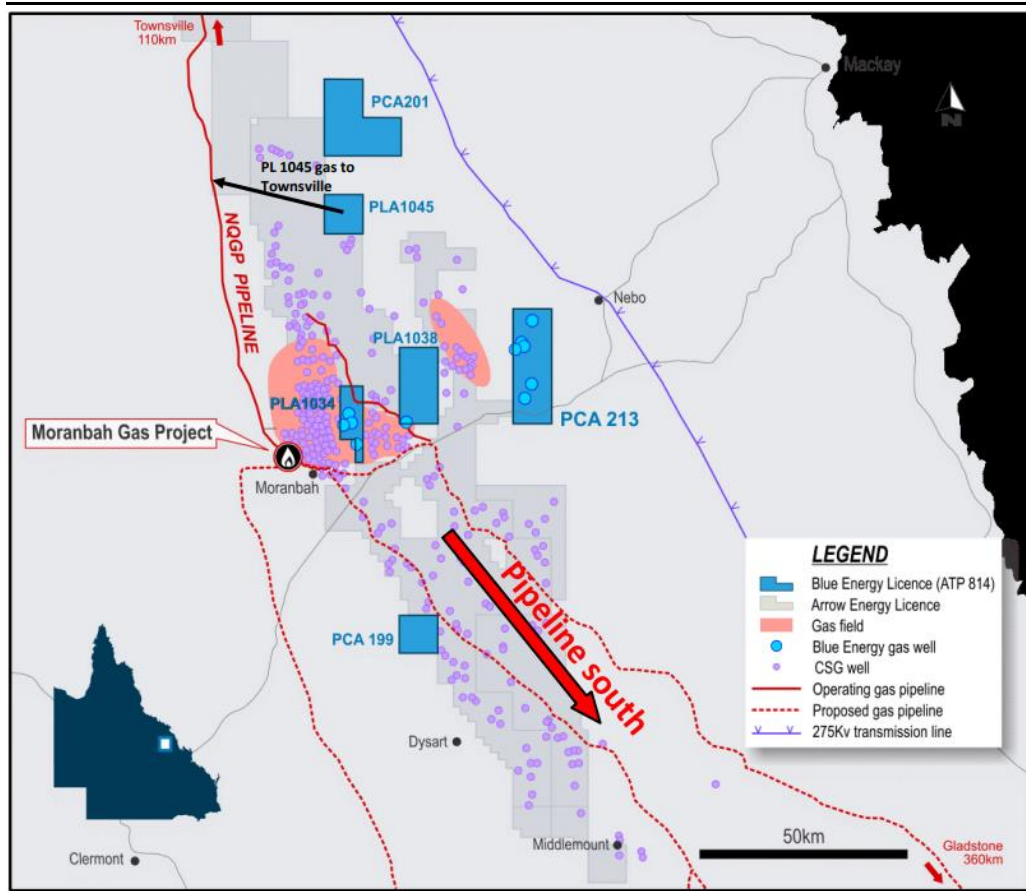
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## Analysis

Blue Energy (BLU)																																																							
21-Nov-22																																																							
<table border="0" style="width:100%"> <tr> <td style="width:60%">Share Price</td> <td style="width:10%">(\$)</td> <td colspan="5"></td> <td style="width:10%">0.06</td> </tr> <tr> <td>Issued shares</td> <td>(M)</td> <td colspan="5"></td> <td>1,851</td> </tr> <tr> <td>Other</td> <td>(M)</td> <td colspan="5"></td> <td>1</td> </tr> <tr> <td>Fully Diluted</td> <td>(M)</td> <td colspan="5"></td> <td>1,851</td> </tr> <tr> <td>Equity raise assumption*</td> <td>(M)</td> <td colspan="5"></td> <td>178 * Assumes \$16m raised @ \$0.09/sh</td> </tr> <tr> <td>Mkt Cap.</td> <td>(\$M)</td> <td colspan="5"></td> <td>109</td> </tr> </table>								Share Price	(\$)						0.06	Issued shares	(M)						1,851	Other	(M)						1	Fully Diluted	(M)						1,851	Equity raise assumption*	(M)						178 * Assumes \$16m raised @ \$0.09/sh	Mkt Cap.	(\$M)						109
Share Price	(\$)						0.06																																																
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Mkt Cap.	(\$M)						109																																																
<b>Year End June</b>																																																							
<b>PROFIT &amp; LOSS</b>																																																							
		2022A	2023F	2024F	2025F	2026F	2027F																																																
Revenue	AS\$M	0	0	0	19	123	304																																																
Operating Costs	AS\$M	-1	-1	-1	-9	-52	-128																																																
Other	AS\$M	0	0	0	0	0	0																																																
<b>EBITDAX</b>	<b>AS\$M</b>	<b>-1</b>	<b>-1</b>	<b>-1</b>	<b>10</b>	<b>71</b>	<b>176</b>																																																
Exploration	AS\$M	0	-6	-2	-1	-1	-1																																																
D&A	AS\$M	0	0	0	-3	-20	-47																																																
<b>EBIT</b>	<b>AS\$M</b>	<b>-2</b>	<b>-7</b>	<b>-3</b>	<b>6</b>	<b>51</b>	<b>128</b>																																																
Net Interest	AS\$M	0	0	0	-2	-2	-2																																																
<b>Pre-Tax Profit</b>	<b>AS\$M</b>	<b>-1</b>	<b>-7</b>	<b>-3</b>	<b>4</b>	<b>49</b>	<b>126</b>																																																
Tax (incl. PRRT)	AS\$M	0	0	0	0	-9	-35																																																
<b>Net Profit</b>	<b>AS\$M</b>	<b>-1</b>	<b>-7</b>	<b>-3</b>	<b>4</b>	<b>40</b>	<b>91</b>																																																
Abnormal	AS\$M	0	0	0	0	0	0																																																
<b>Reported Profit</b>	<b>AS\$M</b>	<b>-1</b>	<b>-7</b>	<b>-3</b>	<b>4</b>	<b>40</b>	<b>91</b>																																																
Dividends Paid	AS\$M	0	0	0	0	0	0																																																
<b>CASHFLOW</b>																																																							
		2022A	2023F	2024F	2025F	2026F	2027F																																																
<b>Operating Cash Flow</b>	<b>AS\$M</b>	<b>-2</b>	<b>-1</b>	<b>-1</b>	<b>8</b>	<b>65</b>	<b>143</b>																																																
Net Capex	AS\$M	-3	-15	-7	-31	-66	-101																																																
Other investing cash flow	AS\$M	0	0	0	0	0	0																																																
<b>Investing Cash Flow</b>	<b>AS\$M</b>	<b>-3</b>	<b>-15</b>	<b>-7</b>	<b>-31</b>	<b>-66</b>	<b>-101</b>																																																
Free cash flow	AS\$M	-5	-16	-8	-23	-2	41																																																
Net Borrowings	AS\$M	0	0	24	0	0	0																																																
Dividends	AS\$M	0	0	0	0	0	0																																																
Net Equity Issues	AS\$M	10	19	16	0	0	0																																																
Other	AS\$M	0	0	0	0	0	0																																																
<b>Financing Cash Flow</b>	<b>AS\$M</b>	<b>10</b>	<b>19</b>	<b>40</b>	<b>0</b>	<b>0</b>	<b>0</b>																																																
<b>Net Increase/Cash</b>	<b>AS\$M</b>	<b>5</b>	<b>3</b>	<b>32</b>	<b>-23</b>	<b>-2</b>	<b>41</b>																																																
<b>BALANCE SHEET</b>																																																							
		2022A	2023F	2024F	2025F	2026F	2027F																																																
Cash	AS\$M	7	10	42	19	18	59																																																
Other Current	AS\$M	0	0	0	0	0	0																																																
<b>Current Assets</b>	<b>AS\$M</b>	<b>7</b>	<b>10</b>	<b>42</b>	<b>19</b>	<b>18</b>	<b>59</b>																																																
Fixed Assets	AS\$M	0	0	0	0	0	0																																																
Capitalised exploration	AS\$M	65	74	78	106	152	205																																																
Other	AS\$M	0	0	0	0	0	0																																																
<b>Non Current Assets</b>	<b>AS\$M</b>	<b>65</b>	<b>74</b>	<b>78</b>	<b>106</b>	<b>152</b>	<b>205</b>																																																
<b>Total Assets</b>	<b>AS\$M</b>	<b>72</b>	<b>84</b>	<b>121</b>	<b>125</b>	<b>170</b>	<b>264</b>																																																
Borrowings	AS\$M	0	0	0	0	0	0																																																
Payables	AS\$M	1	1	1	1	1	1																																																
Other	AS\$M	1	1	1	1	1	1																																																
<b>Current Liab</b>	<b>AS\$M</b>	<b>2</b>	<b>2</b>	<b>2</b>	<b>2</b>	<b>2</b>	<b>2</b>																																																
Borrowings	AS\$M	0	0	24	24	24	24																																																
Provisions	AS\$M	0	0	0	0	0	0																																																
Other	AS\$M	0	0	0	0	0	0																																																
<b>Non Current Liab</b>	<b>AS\$M</b>	<b>0</b>	<b>0</b>	<b>24</b>	<b>24</b>	<b>24</b>	<b>24</b>																																																
<b>Total Liabilities</b>	<b>AS\$M</b>	<b>2</b>	<b>2</b>	<b>26</b>	<b>26</b>	<b>26</b>	<b>26</b>																																																
<b>Total Equity</b>	<b>AS\$M</b>	<b>70</b>	<b>81</b>	<b>94</b>	<b>99</b>	<b>143</b>	<b>238</b>																																																
Net debt/(cash)	AS\$M	-7	-10	-18	5	6	-35																																																
<b>RATIO ANALYSIS</b>																																																							
		2022A	2023F	2024F	2025F	2026F	2027F																																																
EPS	¢	(0.1)	(0.4)	(0.2)	0.2	2.2	4.9																																																
PER	x	n.m.	n.m.	n.m.	24.3	2.7	1.2																																																
EPS Growth	%	n.m.	n.m.	n.m.	>100%	>100%	124%																																																
CFPS	¢	(0.1)	(0.1)	(0.1)	0.4	3.5	7.7																																																
P / Op.CF	x	n.m.	n.m.	n.m.	13.6	1.7	0.8																																																
DPS	¢	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.																																																
Yield	%	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.																																																
Payout Ratio	%	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.																																																
Gearing (ND / ND+E)	%	-11%	-14%	-24%	5%	4%	-17%																																																
Interest Cover	x	100.7	56.4	43.7	3.1	22.8	57.3																																																
Enterprise Value	AS\$M	102	99	91	114	116	74																																																
EV/EBITDAX	x	(70.2)	(76.4)	(79.2)	11.4	1.6	0.4																																																
EBITDAX Margin	%	n.m.	n.m.	n.m.	0.5	0.6	0.6																																																
EBIT Margin	%	n.m.	n.m.	n.m.	0.3	0.4	0.4																																																
Return On Assets	%	n.m.	n.m.	n.m.	0.1	0.3	0.5																																																
Eff Tax rate	%	0.0	0.0	0.0	(0.0)	0.2	0.3																																																
<b>ASSUMPTIONS</b>																																																							
		2022A	2023F	2024F	2025F	2026F	2027F																																																
Brent Crude (US\$/bbl)		90	96	94	91	90	90																																																
WTI (US\$/bbl)		85	91	89	86	85	85																																																
East Coast Wallumbilla Gas Price (A\$/GJ)		8.00	12.00	12.00	12.00	12.00	12.00																																																
West Coast Gas (A\$/GJ)		4.75	5.50	5.50	5.50	5.50	5.50																																																
AUD/USD		0.73	0.67	0.70	0.73	0.75	0.75																																																
<b>OPERATIONS (net to BLU)</b>																																																							
		2022A	2023F	2024F	2025F	2026F	2027F																																																
<b>Sales</b>																																																							
Natural Gas (PJ)		0	0	0	2	10	34																																																
Condensate (mmboe)		0	0	0	0	0	0																																																
NGL's (mmboe)		0	0	0	0	0	0																																																
<b>Total Sales (mmboe)</b>		<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>2</b>	<b>6</b>																																																
<b>Revenue (A\$m)</b>																																																							
Natural Gas		0	0	0	19	123	165																																																
Condensate		0	0	0	0	0	0																																																
NGLs		0	0	0	0	0	0																																																
Other		0	0	0	0	0	0																																																
<b>Total</b>		<b>0</b>	<b>0</b>	<b>0</b>	<b>19</b>	<b>123</b>	<b>165</b>																																																
<b>Percentage Split (Revenue)</b>																																																							
East Coast Gas (%)		0%	0%	0%	100%	100%	100%																																																
West Coast Gas (%)		0%	0%	0%	0%	0%	0%																																																
Oil (%)		0%	0%	0%	0%	0%	0%																																																
<b>Opex &amp; Capex (A\$m)</b>																																																							
		2022A	2023F	2024F	2025F	2026F	2027F																																																
<b>OPEX</b>																																																							
Operating & Processing		0	0	0	-5	-31	-76																																																
Distribution		0	0	0	-2	-11	-27																																																
Administration		-1	-1	-1	-1	-2	-4																																																
Royalty		0	0	0	-1	-9	-22																																																
<b>Total</b>		<b>-1</b>	<b>-1</b>	<b>-1</b>	<b>-9</b>	<b>-52</b>	<b>-128</b>																																																
<b>CAPEX</b>																																																							
Wells (Drilling, Completions & Tie-ins)		0	0	0	-30	-60	-90																																																
Facilities (Plant, Hubs, Compression)		0	0	0	0	0	0																																																
Sustaining		0	0	0	0	-5	-10																																																
Exploration		-2	-12	-4	-1	-1	-1																																																
<b>Total</b>		<b>-2</b>	<b>-12</b>	<b>-4</b>	<b>-31</b>	<b>-66</b>	<b>-101</b>																																																
<b>FREE CASH FLOW CHART</b>																																																							
<b>EBITDAX (A\$m)</b>																																																							
		2022A	2023F	2024F	2025F	2026F	2027F																																																
ATP 814P		0	0	0	11	73	180																																																
Corporate		-1	-1	-1	-1	-2	-4																																																
<b>Total</b>		<b>-1</b>	<b>-1</b>	<b>-1</b>	<b>10</b>	<b>71</b>	<b>176</b>																																																
<b>NPV10</b>																																																							
		Risk		A\$m		A\$/sh																																																	
ATP 814P - base case 150TJ/d		80%		657		0.32																																																	
ATP 814P - incremental upside to 250TJ/d		20%		105		0.05																																																	
Exploration				40		0.02																																																	
Corporate				-26		-0.01																																																	
Adjusted Net Cash/(Debt)				26		0.01																																																	
<b>Total</b>				<b>802</b>		<b>0.40</b>																																																	

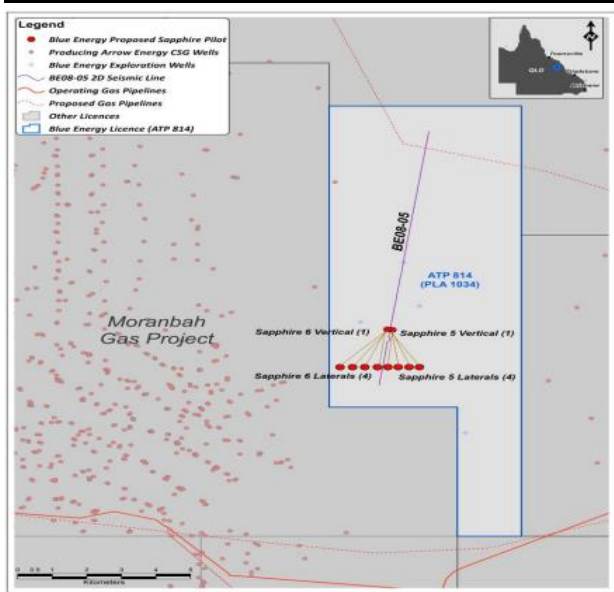
Source: Petra Capital

**Figure 1: Map of ATP 814P incl. Sapphire (PLA 1034) in North Bowen Basin**



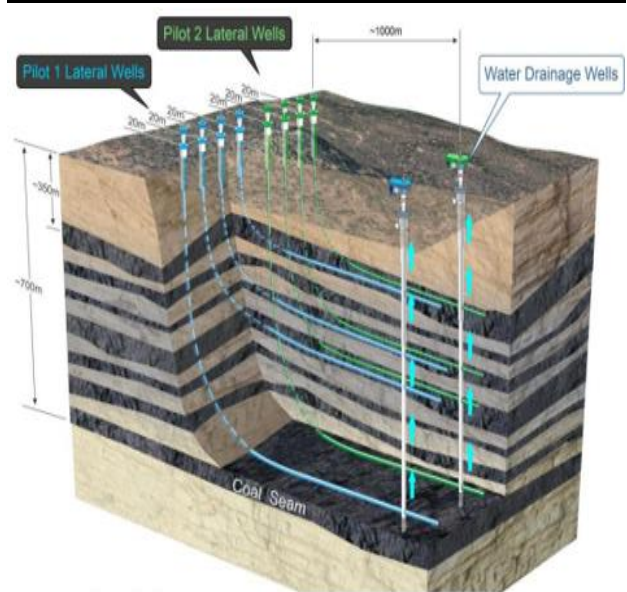
Source: BLU

**Figure 2: BLU well pads adjacent to Arrow Energy**



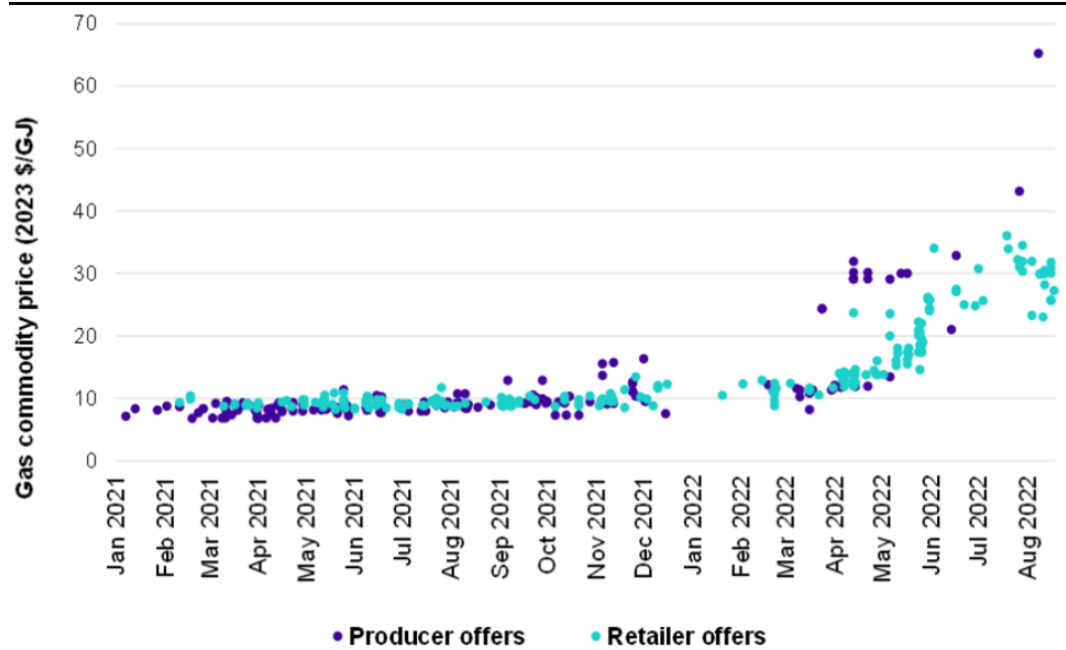
Source: BLU

**Figure 3: Schematic overview of pilot operations**



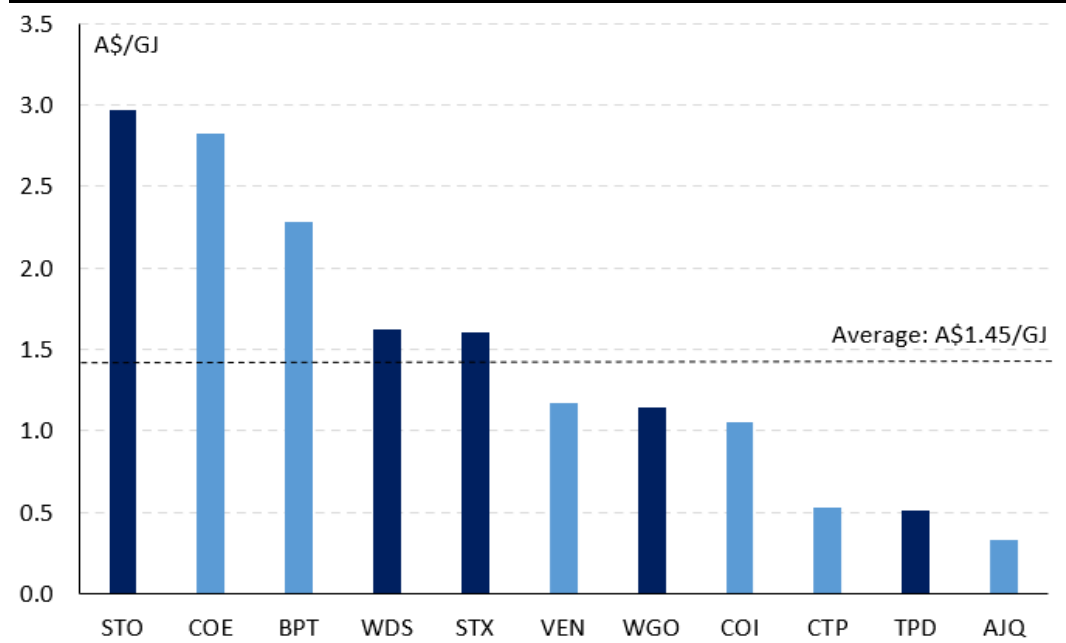
Source: BLU

**Figure 4: ACCC assessed producer and retailer offers for +1yr east coast gas contracts**



Source: ACCC

**Figure 5: Comparison of EV/2P Reserve valuations across domestic gas peers**



Source: Iress, Petra Capital. \*Dark blue = majority west coast, light blue = majority east coast



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