

11 May 2023

Blue Energy Limited (BLU)

Production rates accelerating

BLU's pilot production testing program in QLD's North Bowen Basin ("NBB", Figure 1) has achieved a gas flow rate of 140k mcf/d, a 40% improvement in only the last 2 weeks (Figure 2). The acceleration of gas production is consistent with our pre-test expectations. We would expect gas rates to continue to accelerate as the pilot program evolves, consistent with testing from regional peer Comet Ridge (COI). Further, the recent ownership transition of the adjacent Moranbah Gas Project (MGP) from Arrow Energy to Queensland Pacific Metals (QPM) provides a possible low-cost tolling route for future gas developed. Maintain BUY, PT reduced to A\$0.29/sh (prior A\$0.36/sh) on increased assumed dilution.

Production accelerating

- Gas production from the NBB pilot has hit 140k mcf/d a 40% improvement in just 2 weeks (Figure 2).
- Gas production rates at this stage in the program are consistent with our pre-test expectations, and are ~25% ahead of COI's successful Mahalo North test at the same point in time, which hit a peak of 1,700k mcf/d.
- Water production rates remain consistent at 200-250bbls/d - with water quality in spec for domestic use.
- The objective of the NBB campaign has been to build the 2P gas reserve base from the existing inventory of 3C resources situated in the Sapphire Block, and to test the productivity of the target Permian coals (Figure 3).
- Results from production testing will provide the foundation for a Reserves upgrade.

Optionality over development

- The MGP, adjacent to BLUs NBB acreage (Figure 1), has transferred ownership from Arrow Energy to QPM.
- BLU has an existing relationship and MoU with QPM, making it more amenable to strategic partnering.
- MGP is currently operating at 10PJ pa, or 30% of capacity. QPM will be looking to maximise MGP gas feedstock to secure long-term supply for its Ni & Co TECH Project.
- Hence, we see tolling opportunities emerging if BLU can successfully prove commerciality.
- We have updated our modelling to account for a reduction in our future equity price assumption from 6cps to 3cps, resulting in additional dilution, and a 10% uplift in capex due to sector wide inflationary pressures. Our PT reduces to A\$0.29/sh (from A\$0.36/sh; Figure 4).

Key Dates Ahead

- Ongoing NBB flow test
- 2H 2023 Reserves upgrade from NBB

BUY Sha

Share Price: A\$0.03

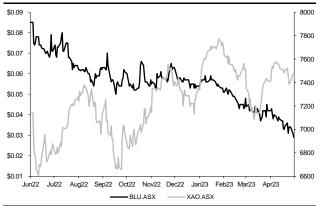
Target Price: A\$0.29

Company Data	
Shares – ordinary (M)	1,851
Dilution (M)	10
Total (fully diluted) (M)	1,861
Market capitalisation (\$M)	56
12 month low/high (\$)	0.03/ 0.09
Average monthly turnover (\$M)	1.1
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)	(9)	(2)	(1)	(1)	(1)
NPAT (\$M)	(10)	(4)	3	40	86
EPS (¢ps)	(0.6)	(0.2)	0.2	2.2	4.6
EPS Growth (%)	n.m.	n.m.	>100%	>100%	115%
PER (x)	n.m.	n.m.	16	1	1
Op. Cashflow (\$M)	(1)	(2)	7	67	145
OCFPS (¢ps)	(0.1)	(0.1)	0.4	3.6	7.9
POCFPS (x)	n.m.	n.m.	7	1	0
Enterprise Value (\$M)	50	39	69	80	53
EV / EBITDAX (x)	n.m.	n.m.	6.9	1.1	0.3
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 (Bl	LU)													
	ĺ.							Share Price (\$)	0.03					
								Issued shares (M)	1,851					
10-May-23								Other (M)	10					
								Fully Diluted (M)	1,861					
								Equity raise assumption* (M)		* Assume	es \$20m r	aised @ 9	\$0.03/sh	
Year End June								Mkt Cap. (\$M)	56					
PROFIT & LOSS		2022A	2023F	2024F	2025F	2026F	2027F	ASSUMPTIONS	2022A	2023F	2024F	2025F	2026F	2027F
Revenue	ASM	0	0	0	19	123	304	Brent Crude (US\$/bbl)	90	96	94	91	90	90
Operating Costs	ASM	-1	-1	-1	-9	-52	-128	WTI (US\$/bbl)	85	91	89	86	85	85
Other EBITDAX	ASM	0	0	0	0	0	0	East Coast Wallumbilla Gas Price (A\$/GJ)	8.00	12.00	12.00	12.00	12.00	12.00
Exploration	A\$M ASM	-1 0	-1 -9	-1 -2	10 -1	71 -1	176 -1	West Coast Gas (A\$/GJ) AUD/USD	4.75 0.73	5.50 0.67	6.50 0.70	6.50 0.73	6.50 0.75	6.50 0.75
D&A	ASM	0	-9	-2	-1	-23	-55	A00/030	0.75	0.07	0.70	0.75	0.75	0.75
EBIT	A\$M	-2	-10	-3	-0	-23	121	OPERATIONS (net to BLU)	2022A	2023F	2024F	2025F	2026F	2027F
Net Interest	ASM	-2	0	-1	-3	-3	-3	Sales	LULLA	20231	20241	20231	20201	20211
Pre-Tax Profit	A\$M	-1	-10	-4	3	45	118	Natural Gas (PJ)	0	0	0	2	10	34
Tax (incl. PRRT)	ASM	0	0	0	0	-5	-32	Condensate (mmboe)	0	0	0	0	0	0
Net Profit	A\$M	-1	-10	-4	3	40	86	NGL's (mmboe)	0	0	0	0	0	0
Abnormal	ASM	0	0	0	0	0	0	Total Sales (mmboe)	0	0	0	0	2	6
Reported Profit	A\$M	-1	-10	-4	3	40	86	. ,						
Dividends Paid	ASM	0	0	0	0	0	0	Revenue (A\$m)	2022A	2023F	2024F	2025F	2026F	2027F
CASHFLOW		2022A	2023F	2024F	2025F	2026F	2027F	Natural Gas	0	0	0	19	123	165
Operating Cash Flow	A\$M	-2	-1	-2	7	67	145	Condensate	0	0	0	0	0	0
Net Capex	ASM	-3	-21	-7	-37	-78	-119	NGLs	0	0	0	0	0	0
Other investing cash flow	v A\$M	0	0	0	0	0	0	Other	0	0	0	0	0	0
Investing Cash Flow	A\$M	-3	-21	-7	-37	-78	-119	Total	0	0	0	19	123	165
Free cash flow	A\$M	-5	-22	-9	-30	-11	26							
Net Borrowings	A\$M	0	0	30	0	0	0	Percentage Split (Revenue)						
Dividends	A\$M	0	0	0	0	0	0	East Coast Gas (%)	0%	0%	0%	100%	100%	100%
Net Equity Issues	A\$M	10	19	20	0	0	0	West Coast Gas (%)	0%	0%	0%	0%	0%	0%
Other	ASM	0	0	0	0	0	0	Oil (%)	0%	0%	0%	0%	0%	0%
Financing Cash Flow	A\$M	10	19	50	0	0	0	Opex & Capex (A\$m)	2022A	2023F	2024F	2025F	2026F	2027F
Net IncreaseCash	A\$M	5	-3	41	-30	-11	26	OPEX				-		
BALANCE SHEET Cash	ASM	2022A 7	2023F 3	2024F 44	2025F 15	2026F 4	2027F 30	Operating & Processing Distribution	0	0	0	-5 -2	-31 -11	-76
Other Current	ASM	0	0	44	15	4	0	Administration	-1	-1	-1	-2	-11	-27 -4
Current Assets	A\$M	7	4	45	15	4	31	Royalty	-1	- 1	- 1	-1	-2	-22
Fixed Assets	ASM	0	0	0	0	0	0	Total	-1	-1	-1	-9	-52	-128
Capitalised exploration	ASM	65	77	82	115	169	233	- Cult		-		-0	-01	-120
Other	ASM	0	0	0	0	0	0	CAPEX						
Non Current Assets	A\$M	65	77	82	115	170	233	Wells (Drilling, Completions & Tie-ins)	0	0	0	-36	-72	-108
Total Assets	A\$M	72	81	126	130	174	264	Facilities (Plant, Hubs, Compression)	0	0	0	0	0	0
Borrowings	A\$M	0	0	0	0	0	0	Sustaining	0	0	0	0	-5	-10
Payables	A\$M	1	1	1	1	1	1	Exploration	-2	-18	-4	-1	-1	-1
Other	A\$M	1	1	1	1	1	1	Total	-2	-18	-4	-37	-78	-119
Current Liab	A\$M	2	2	2	2	2	2	FREE CASH FLOW CHART						
Borrowings	A\$M	0	0	30	30	30	30	45-						
Provisions	A\$M	0	0	0	0	0	0	225 ASm						
Other	ASM	0	0	0	0	0	0	175						
Non Current Liab	A\$M	0	0	30	30	30	30							1
Total Liabilities	A\$M	2	2	32	32	32	32	125						
Total Equity	A\$M	70 -7	78 -3	94	97	141	232	75						
Net debt/(cash) RATIO ANALYSIS	A\$M	-/ 2022A	-3 2023F	-14 2024F	15 2025F	26 2026F	0 2027F	75						
EPS	¢	(0.1)	(0.6)	(0.2)	0.2	2.2	4.6	25						
PER	x	n.m.	n.m.	n.m.	16.1	1.4	0.6				,			4
EPS Growth	ŵ	n.m.	n.m.	n.m.	>100%	>100%	115%	-25			200		-	0005
CFPS	¢	(0.1)	(0.1)	(0.1)	0.4	3.6	7.9	2020A 2022A 2024F	2026F	20	28F	2030F	2	032F
P / Op.CF	x	n.m.	n.m.	n.m.	7.5	0.8	0.4	EBITDAX (A\$m)	2022A	2023F	2024F	2025F	2026F	2027F
DPS	¢	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	ATP 814P	0	0	0	11	73	180
Yield	%	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	Corporate	-1	-1	-1	-1	-2	-4
Payout Ratio	%	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	Total	-1	-1	-1	10	71	176
Gearing (ND / ND+E)	%	-11%	-5%	-18%	13%	16%	0%		-					
Interest Cover	x	100.7	129.6	(2.5)	2.3	16.5	40.2	NPV10	Risk				A\$M	A\$/sh
Enterprise Value	A\$M	49	52	41	71	81	55	ATP 814P - base case 150TJ/d	80%				627	0.25
EV/EBITDAX	x	(33.4)	(40.1)	(35.8)	7.1	1.1	0.3	ATP 814P - incremental upside to 250TJ/d	20%				100	0.04
EBITDAX Margin	%	n.m.	n.m.	n.m.	0.5	0.6	0.6	Exploration					20	0.01
EBIT Margin	%	n.m.	n.m.	n.m.	0.3	0.4	0.4	Corporate					-26	-0.01
Return On Assets	%	n.m.	n.m.	n.m.	0.0	0.3	0.5	Adjusted Net Cash/(Debt)					18	0.01
Eff Tax rate	%	0.0	0.0	0.0	(0.0)	0.1	0.3	Total					738	0.29
-														

Source: Petra Capital



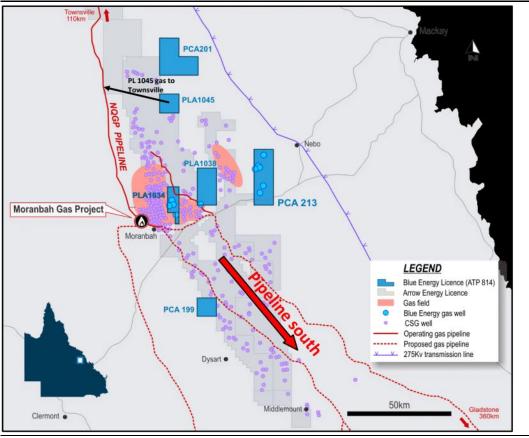


Figure 1: Map of ATP 814P incl. Sapphire (PLA 1034) in North Bowen Basin

Source: BLU

Figure 2: Pilot Gas & Water Production Rates

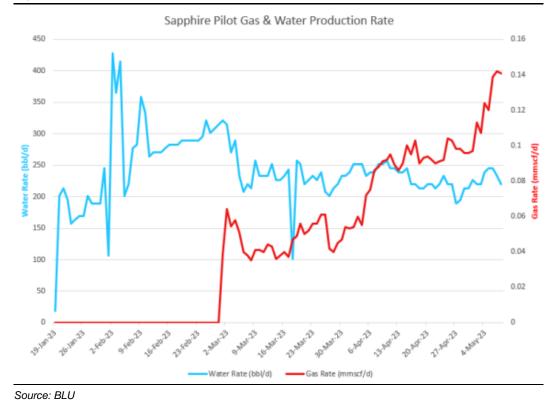




Figure 3: Gas flaring at Sapphire pilot

Source: BLU

Figure 4: Summary of changes

			FY25F			FY26F			FY27F	
		New	Old	% var	New	Old	% var	New	Old	% var
Revenue	A\$m	19	19	0%	123	123	0%	304	304	0%
EBITDAX	A\$m	10	10	0%	71	71	0%	176	176	0%
EBITDA	A\$m	10	10	0%	71	71	0%	175	175	0%
NPAT (normalised)	A\$m	3	3	0%	40	40	0%	86	86	0%
EPS	Ac/sh	0.2	0.2	-15%	2.2	2.6	-15%	4.6	5.5	-15%
DPS	Ac/sh	0	0	0%	0	0	0%	0	0	0%
NPV/sh	A\$/sh	0.29	0.36	-19%						
Price target	A\$/sh	0.29	0.36	-19%						
Pricing										
Contract QLD Gas Price (ex-Wallumbilla)	A\$/GJ	12.0	12.0	0%	12.0	12.0	0%	12.0	12.0	0%

Source: Petra estimates



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11 May 2023

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