

11 May 2023

## Blue Energy Limited (BLU)

BUY

Share Price: A\$0.03

### Production rates accelerating

Target Price:

A\$0.29

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 200-250bbbls/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 BLU's 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

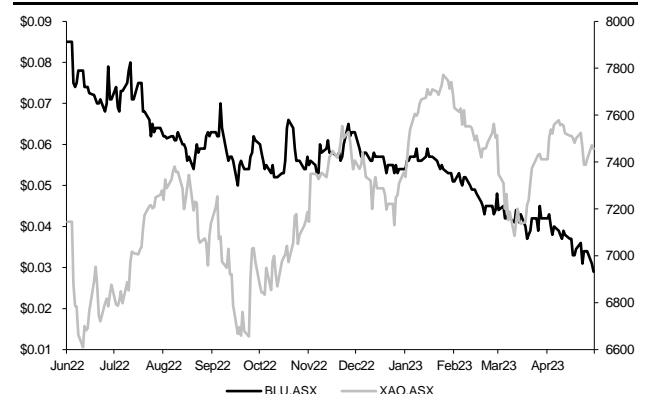
### Company Data

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



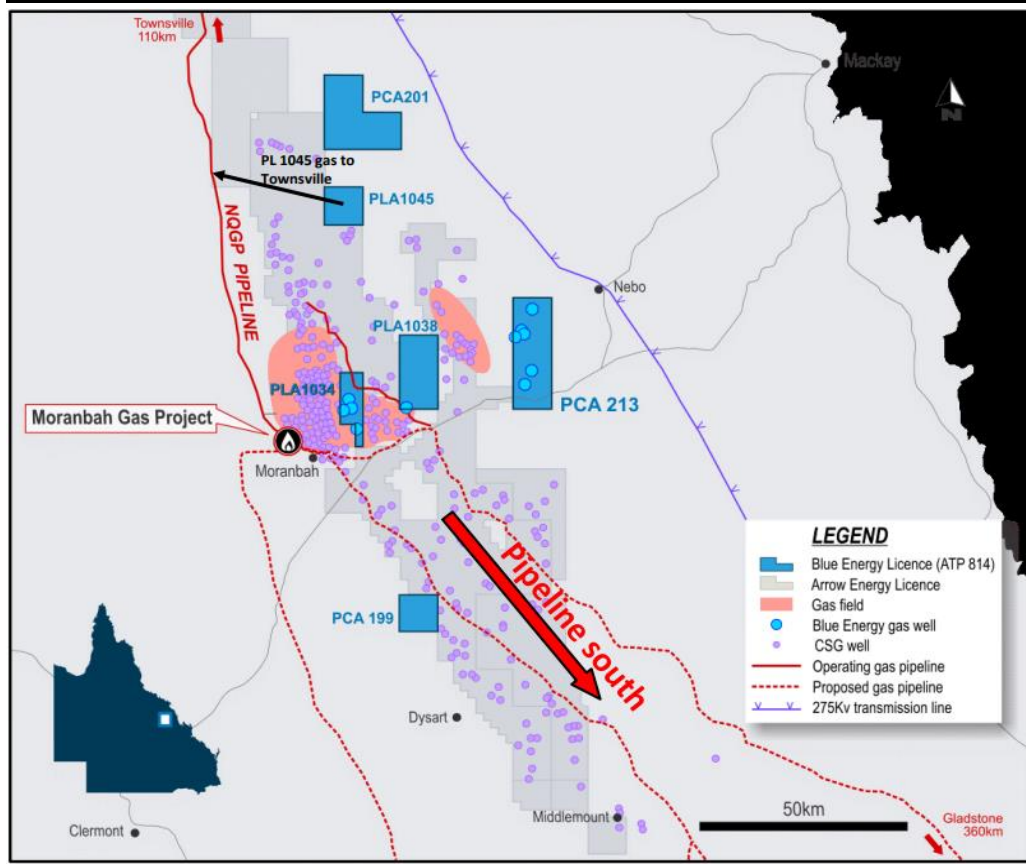
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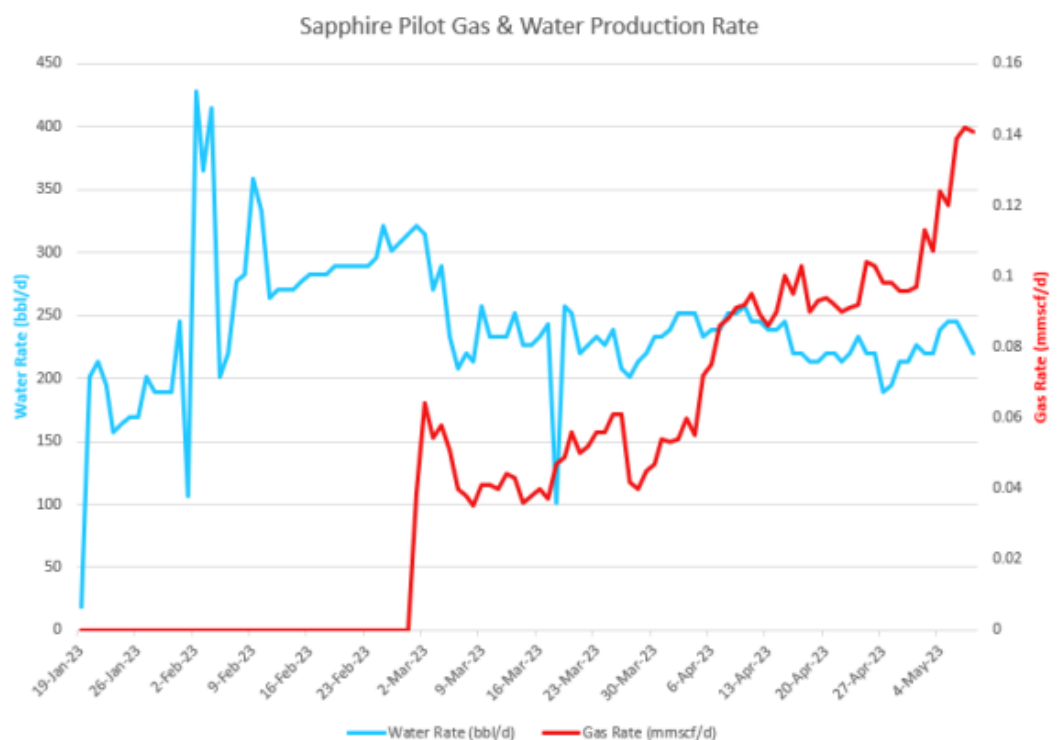


**Figure 1: Map of ATP 814P incl. Sapphire (PLA 1034) in North Bowen Basin**



Source: BLU

**Figure 2: Pilot Gas & Water Production Rates**



Source: BLU

**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%						
<b>Pricing</b>										
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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