

12 October 2023

Blue Energy Limited (BLU)

BUY

Share Price: A\$0.02

Sapphire Reserve build

Target Price: A\$0.12

BLU has increased 2P Reserves by 36% to 91 PJ at Sapphire, its flagship project in QLD's North Bowen Basin (Figure 1). In addition, 2C Resources increased 18% to 252 PJ. Geological data obtained from Sapphire drilling (pre-production test) was the basis for the NSAI upgrade while further success with flow testing is expected to drive additional upgrades in early 2024. BLU now has 80% 2P Reserve coverage on its agreement to supply 112 PJ to QPM. BLU's flow test is ongoing with dewatering continuing, pressure building, and gas production to recommence shortly. Notwithstanding, gas production rates to date remain below our expectations for this stage in the program. We therefore reduce our PT to \$0.12/sh (from \$0.18/sh), reflecting the removal of our risked 'upside' case and lower future equity raise price assumptions.

Reserve build at Sapphire (Figure 2)

- 2P Reserves increased 36% to 91 PJ
- 2C Resources increased 18% to 252 PJ.
- Review undertaken by NSAI, experts QLD CSG.
- BLU's 2022/23 Sapphire drilling program was the basis for the Reserve update, with a further Reserve assessment to follow the ongoing production pilot test.
- We expect the aim of the next Reserve update will be to transition the majority of 2C Resource into 2P Reserve.

Sapphire pilot test

- The Sapphire pilot has been shut-in for 5 weeks to build pressure for an imminent return to gas production.
- We expect gas rates to rise towards +500mcf/d following a period of flush production when the lateral wells are reopened (Figure 3).

Path to market realised through MGP transition

- QPM has completed its acquisition of the Moranbah Gas Project (MGP) from Arrow Energy (Figure 4).
- We see this as a positive for BLU's prospects; QPM is seeking an additional ~55 TJ/d to reach nameplate.

Cash is tight but receipts are incoming

- BLU had ~\$3.5m as at end-June (incl. insurance recovery); cash burn is extremely low (likely <\$1m in Sep.Q) with the flow test in 'steady state'.
- BLU is set to receive ~\$5m in refunds from the ATO over the new year period.
- We have reduced our PT to A\$0.12/sh. Changes incl. the removal of our risked 'upside' case and a reduction to our assumed future equity raise price (Figure 5).

Key Dates Ahead

- Ongoing – Sapphire flow test
- Late '23 / early '24 – R&D refunds

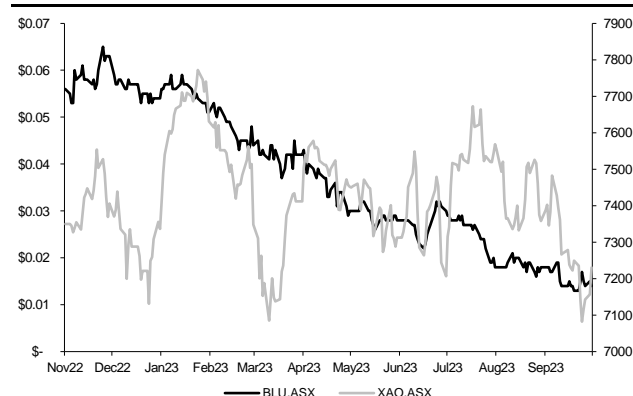
Company Data

Shares – ordinary (M)	1,851
Dilution (M)	10
Total (fully diluted) (M)	1,861
Market capitalisation (\$M)	30
12 month low/high (\$)	0.012/ 0.07
Average monthly turnover (\$M)	0.96
GICS Industry	Oil, Gas & Consumable Fuels

Financial Summary (fully diluted/normalised)

Year end June	2024F	2025F	2026F	2027F	2028F
Revenue (\$M)	-	14	93	174	266
Costs (\$M)	(1)	(7)	(40)	(76)	(116)
EBITDAX (\$M)	(1)	7	53	98	150
Exploration (\$M)	(1)	(1)	(1)	(1)	(1)
NPAT (\$M)	(3)	(1)	24	40	60
EPS (¢ps)	(0.1)	(0.0)	0.6	1.0	1.6
EPS Growth (%)	n.m.	n.m.	>100%	68%	51%
PER (x)	n.m.	n.m.	2.6	1.6	1.0
Op. Cashflow (\$M)	(1)	3	49	90	117
OCFPS (¢ps)	(0.1)	0.2	2.6	4.9	6.3
POCFPS (x)	n.m.	10.6	0.6	0.3	0.3
Enterprise Value (\$M)	(35)	8	24	17	1
EV / EBITDAX (x)	27.2	1.1	0.4	0.2	0.0
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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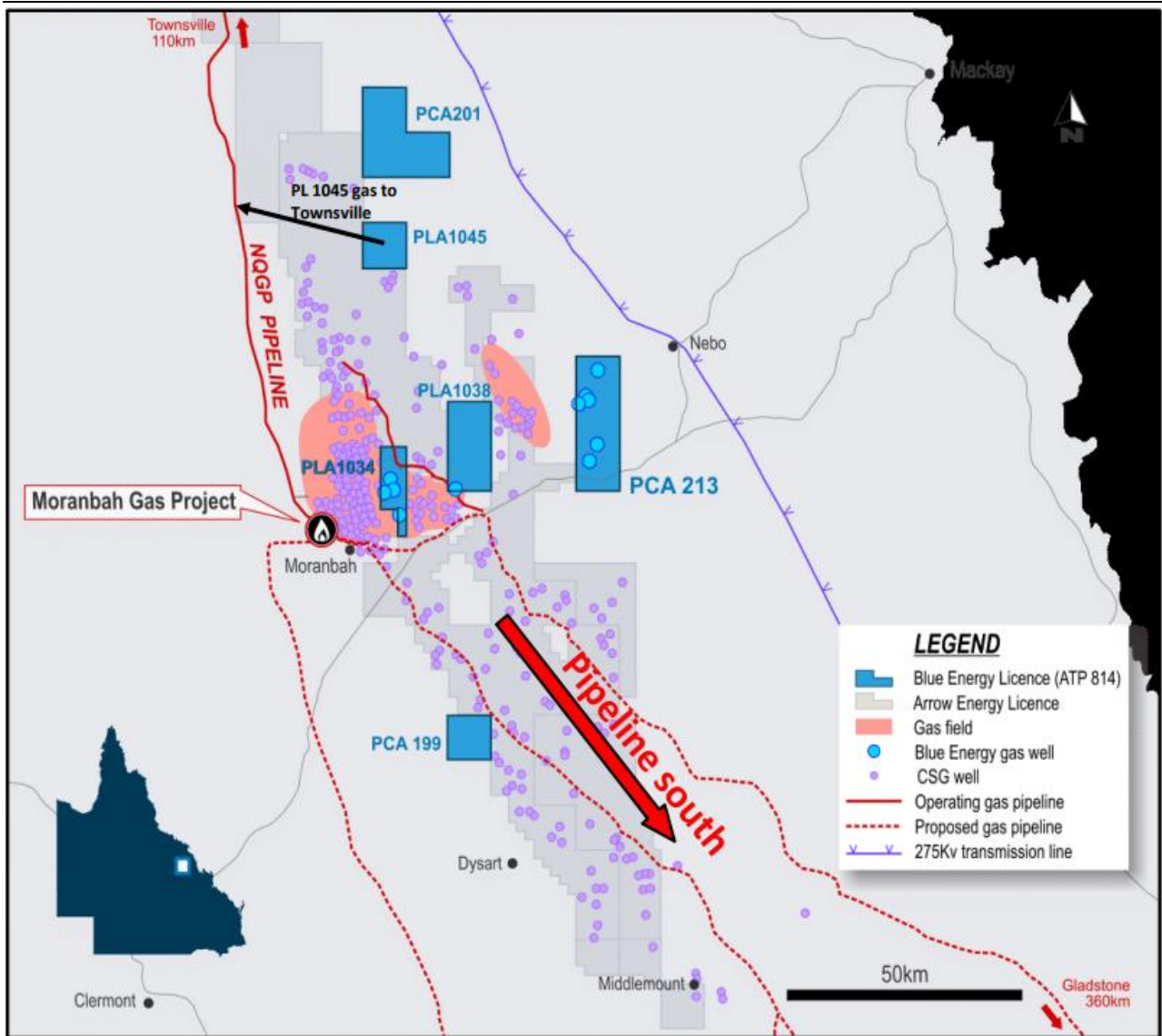
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Analysis

Blue Energy (BLU)										
11-Oct-23										
Year End June										
PROFIT & LOSS		2023A	2024F	2025F	2026F	2027F	2028F			
Revenue	ASM	0	0	14	93	174	266			
Operating Costs	ASM	-2	-1	-7	-40	-76	-116			
Other	ASM	0	0	0	0	0	0			
EBITDAX	ASM	-2	-1	7	53	98	150			
Exploration	ASM	0	-1	-1	-1	-1	-1			
D&A	ASM	0	0	-3	-19	-35	-53			
EBIT	ASM	-2	-3	4	34	63	96			
Net Interest	ASM	0	0	-4	-5	-5	-5			
Pre-Tax Profit	ASM	-2	-3	-1	29	58	92			
Tax (incl. PRRT)	ASM	0	0	0	-5	-18	-32			
Net Profit	ASM	-2	-3	-1	24	40	60			
Abnormal	ASM	0	0	0	0	0	0			
Reported Profit	ASM	-2	-3	-1	24	40	60			
Dividends Paid	ASM	0	0	0	0	0	0			
CASHFLOW		2023A	2024F	2025F	2026F	2027F	2028F			
Operating Cash Flow	ASM	-2	-1	3	49	90	117			
Net Capex	ASM	-22	-3	-46	-65	-83	-101			
Other investing cash flow	ASM	0	7	0	0	0	0			
Investing Cash Flow	ASM	-22	-3	-46	-65	-83	-101			
Free cash flow	ASM	-24	-4	-43	-16	7	16			
Net Borrowings	ASM	0	50	0	0	0	-5			
Dividends	ASM	0	0	0	0	0	0			
Net Equity Issues	ASM	19	30	0	0	0	0			
Other	ASM	0	7	0	0	0	0			
Financing Cash Flow	ASM	19	87	0	0	0	-5			
Net Increase Cash	ASM	-4	83	-43	-16	7	12			
BALANCE SHEET		2023A	2024F	2025F	2026F	2027F	2028F			
Cash	ASM	2	85	42	26	33	45			
Other Current	ASM	0	0	0	0	0	0			
Current Assets	ASM	3	85	42	27	34	45			
Fixed Assets	ASM	0	0	0	0	0	0			
Capitalised exploration	ASM	86	88	131	176	224	272			
Other	ASM	0	0	0	0	0	0			
Non Current Assets	ASM	87	88	131	176	224	272			
Total Assets	ASM	89	174	173	203	258	317			
Borrowings	ASM	0	0	0	0	0	0			
Payables	ASM	1	1	1	1	1	1			
Other	ASM	1	1	1	1	1	1			
Current Liab	ASM	1	1	1	1	1	1			
Borrowings	ASM	0	50	50	50	50	46			
Provisions	ASM	0	0	0	0	0	0			
Other	ASM	0	0	0	0	0	0			
Non Current Liab	ASM	0	50	50	50	50	46			
Total Liabilities	ASM	2	52	52	52	52	47			
Total Equity	ASM	87	122	121	151	206	270			
Net debt/(cash)	ASM	-2	-35	8	24	17	1			
RATIO ANALYSIS		2023A	2024F	2025F	2026F	2027F	2028F			
EPS	€	(0.0)	(0.1)	(0.0)	0.6	1.0	1.6			
PER	x	n.m.	n.m.	n.m.	2.6	1.6	1.0			
EPS Growth	%	n.m.	n.m.	n.m.	>100%	68%	51%			
CFPS	€	(0.1)	(0.1)	0.2	2.6	4.9	6.3			
P / Op.CF	x	n.m.	n.m.	10.6	0.6	0.3	0.3			
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)	%	-3%	-41%	6%	14%	7%	0%			
Interest Cover	x	14.9	121.3	n.m.	n.m.	13.2	20.8			
Enterprise Value	ASM	(2)	(35)	8	24	17	1			
EV/EBITDAX	x	1.5	27.2	1.1	0.4	0.2	0.0			
EBITDAX Margin	%	n.m.	n.m.	0.5	0.6	0.6	0.6			
EBIT Margin	%	n.m.	n.m.	0.3	0.4	0.4	0.4			
Return On Assets	%	n.m.	n.m.	0.0	0.2	0.2	0.3			
Eff Tax rate	%	0.0	0.0	0.2	0.2	0.3	0.3			
Share Price	(\$)						0.02			
Issued shares	(M)						1,851			
Other	(M)						10			
Fully Diluted	(M)						1,861			
Equity raise assumption*	(M)						2,000 * Assumes \$30m raised @ 1.5c			
Mkt Cap.	(\$M)						30			
ASSUMPTIONS		2023A	2024F	2025F	2026F	2027F	2028F			
Brent Crude (US\$/bbl)		87	85	88	90	90	90			
WTI (US\$/bbl)		82	80	83	85	85	85			
East Coast Wallumbilla Gas Price (A\$/GJ)		12.00	12.00	12.00	12.00	12.00	12.00			
West Coast Gas (A\$/GJ)		5.50	6.50	6.50	6.50	6.50	6.50			
AUD/USD		0.67	0.66	0.68	0.69	0.70	0.70			
OPERATIONS (net to BLU)		2023A	2024F	2025F	2026F	2027F	2028F			
Sales										
Natural Gas (PJ)		0.0	0.0	1.2	7.8	14.5	22.0			
Condensate (mmboe)		0.0	0.0	0.0	0.0	0.0	0.0			
NGL's (mmboe)		0.0	0.0	0.0	0.0	0.0	0.0			
Total Sales (mmboe)		0.0	0.0	0.2	1.3	2.5	3.8			
Revenue (A\$m)		2023A	2024F	2025F	2026F	2027F	2028F			
Natural Gas		0	0	14	93	174	266			
Condensate		0	0	0	0	0	0			
NGLs		0	0	0	0	0	0			
Other		0	0	0	0	0	0			
Total		0	0	14	93	174	266			
Percentage Split (Revenue)										
East Coast Gas (%)		0%	0%	100%	100%	100%	100%			
West Coast Gas (%)		0%	0%	0%	0%	0%	0%			
Oil (%)		0%	0%	0%	0%	0%	0%			
Opex & Capex (A\$m)		2023A	2024F	2025F	2026F	2027F	2028F			
OPEX										
Operating & Processing		0	0	-3	-23	-45	-69			
Distribution		0	0	-1	-9	-16	-25			
Administration		-2	-1	-1	-2	-3	-3			
Royalty		0	0	-1	-7	-12	-19			
Total		-2	-1	-7	-40	-76	-116			
CAPEX										
Wells (Drilling, Completions & Tie-ins)		0	0	-45	-59	-72	-90			
Facilities (Plant, Hubs, Compression)		0	0	0	0	0	0			
Sustaining		0	0	0	-5	-10	-10			
Exploration		-18	-3	-1	-1	-1	-1			
Total		-18	-3	-46	-65	-83	-101			
FREE CASH FLOW CHART										
		225								
		175								
		125								
		75								
		25								
		-25								
		2028F	2029F	2030F	2031F	2032F	2033F	2034F	2035F	2036F
EBITDAX (A\$m)		2023A	2024F	2025F	2026F	2027F	2028F			
ATP 814P		0	0	8	54	100	152			
Corporate / Other		-2	-1	-1	-2	-3	-3			
Total		-2	-1	7	53	98	150			
NPV10										
Risk										
ATP 814P - base case		80%					438	0.11		
Exploration							20	0.01		
Corporate							-20	-0.01		
Adjusted Net Cash/(Debt)							35	0.01		
Total							473	0.12		

Source: Petra Capital

Figure 1: ATP814P location map



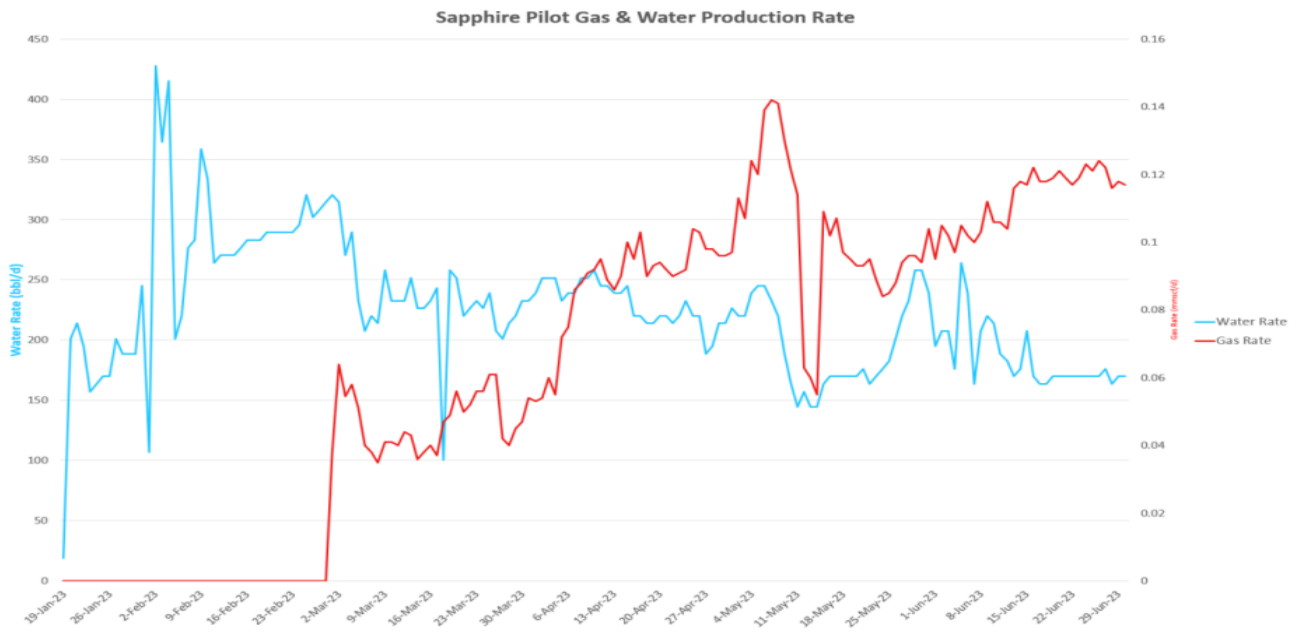
Source: BLU

Figure 2: ATP 814P Sapphire Reserve & Resource

Permit	1P (PJ)		2P (PJ)		3P (PJ)		1C (PJ)		2C (PJ)		3C (PJ)	
	new	*old	new	*old	new	*old	new	*old	new	*old	new	*old
ATP 814P, Sapphire Block, Qld	-	-	90.7	66.5	287.0	253.2	171.2	154.3	251.7	213.9	256.0	214.4
% change	-	-	+36.4%	-	+13.0%	-	+11.0%	-	+17.7%	-	+19.4%	-

Source: BLU, NSAI

Figure 3: Pilot Gas & Water Production Rates



Source: BLU

Figure 4: Sapphire pilot location relative to QPM's Moranbah Gas Project



Source: BLU

Figure 5: Summary of changes table

		FY24			FY25			FY26		
		New	Old	% var.	New	Old	% var.	New	Old	% var.
Revenue	A\$m	0	0	0%	14	14	0%	93	93	0%
EBITDAX	A\$m	-1	-1	0%	7	7	0%	53	53	0%
EBITDA	A\$m	-3	-3	0%	6	6	0%	52	52	0%
NPAT	A\$m	-3	-3	0%	-1	-1	0%	24	24	0%
EPS	Acps	-0.1	-0.1	-17%	0.0	0.0	-17%	0.6	0.7	-17%
DPS	Acps	0	0	0%	0	0	0%	0	0	0%
NPV/sh	Acps	0.12	0.18	-30%						
Price Target	Acps	0.12	0.18	-30%						
Production	PJ	0	0	0%	1.2	1.2	0%	7.8	7.8	0%
QLD Gas Price (Wallumbilla)	A\$/GJ	12.0	12.0	0%	12.0	12.0	0%	12.0	12.0	0%

Source: Petra Capital

Earnings revisions include:

- Removal of our risked 150 TJ/d 'upside' case. This reflects lower than expected production rates to date; however, we will further reassess at the conclusion of the appraisal campaign. This reduces our PT by 3cps.
- Reduction in assumed equity raise price (from \$0.024/sh to \$0.015/sh) to fund development of Sapphire. This results in an additional 750m shares on issue and reduces our PT by 3cps.



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