

# Otto Energy Ltd

## (OEL \$0.01) Buy

EUROZ HARTLEYS

Analyst	Date	Price Target
Jon Bishop	21 <sup>st</sup> April 2021	\$0.03/sh

### Green Canyon Update

#### Investment case

Review of current Green Canyon production from the deeper reservoir has prompted the JV to recomplete the well in Jun H 2022, to access the larger and shallower DTR-10 Reserves. OEL is currently a c2,500boepd producer in the GoM and exceedingly cheap in the listed ASX peer space. Green Canyon, should underwrite a lift in group production to c4,000boepd in CY'22 once remediation works are undertaken. The production generates cUS\$35-40m in op FCF annualised on that basis. This compares to a pro forma EV of less than US\$32m post Alaska divestment. This suggests to us that resolution of Green Canyon and clear guidance thereafter represents a material catalyst, particularly in a rising oil price environment. Our 3cps Price Target reflects DCF analysis of existing development and producing reserves. Our Buy remains.

#### Key points

- Green Canyon 21 continues to produce on a moderated basis from the deeper and smaller MP sand reservoir;
- Production analysis warrants recompletion of the well to access the larger reserve volumes (net 1.09mmbboe 2P) in the shallower DTR-10 sand unit;
- This work is planned for mid CY'22 subject to rig availability;
- Long lead capex net to OEL is est. at c.US\$0.6m due mid CY'21;
- The total capex exposure net to OEL on our assumptions is less than US\$5m;
- Cash of US\$9.7m and Debt of US\$14.2m (US\$8m current) as at Dec 31;
- Production c.2,500kbboepd generated underlying cUS\$8m EBITDA in the 6mths to Dec 31;
- Deferring onset of production from DTR-10 sands to Dec H CY'22, as well as writing down GC carrying value by US\$12m (per HY Result) reduces GC Valuation to A\$8m (from \$16m last published);
- We have also reduced mkt-to-mkt value for OELs holding in Pantheon Resources LLC (per Talitha-1 divestment) per 20/04 closing price;
- Our SOTP Valuation falls to 2.9cps (from 3.2cps last pub);
- Our 3cps Price Target and Buy recommendation remain unchanged;
- Our revised production and earnings profiles are summarised in the Sensitivity page accompanying this report.

Otto Energy Ltd	Year End 30 June	
Share Price	0.010	A\$/sh
Price Target	0.03	A\$/sh
Valuation	0.029	A\$/sh

Shares on issue*	4842	m, diluted
Market Capitalisation	48	A\$m
Enterprise Value	54	A\$m
Debt	-18	A\$m
Cash	13	A\$m
Largest Shareholder	Molton Holdings Ltd	48.1% *fully diluted

Production F/Cast	2020A	2021F	2022F
Attrib. Prod'n (mmbboe)	0.8	0.8	1.2

Assumptions	2020A	2021F	2022F
Avg LLS Oil Price Rec'd (A\$/bbl)	43	43	56
AUDUSD	0.67	0.75	0.75

Key Financials	2020A	2021F	2022F
Revenue (US\$m)	24	26	48
EBITDA (US\$m)	14	17	35
NPAT (US\$m)	0	-7	22
Cashflow (US\$m)	14	19	35

CFPS (Ac)	0	1	1
P/CFPS (x)	2.0	1.9	1.0

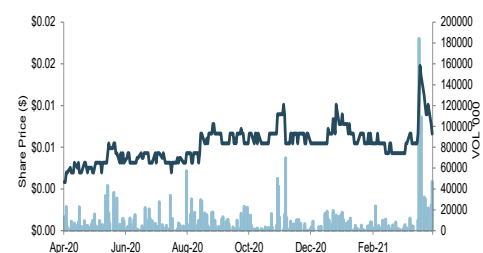
EPS (Ac)	0	0	1
EPS growth (%)	na	na	na
PER (x)	na	na	1.6

EV:EBITDA (x)	2.7	2.4	1.2
EV:EBIT (x)	58.7	-7.4	1.9

DPS (Ac)	0.0	0.0	0.0
Dividend Yield (%)	0%	0%	0%

ND:Net Debt+Equity (%)	2%	3%	na
Interest Cover (x)	16.5	11.9	na

#### Share Price Chart



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# Otto Energy Ltd

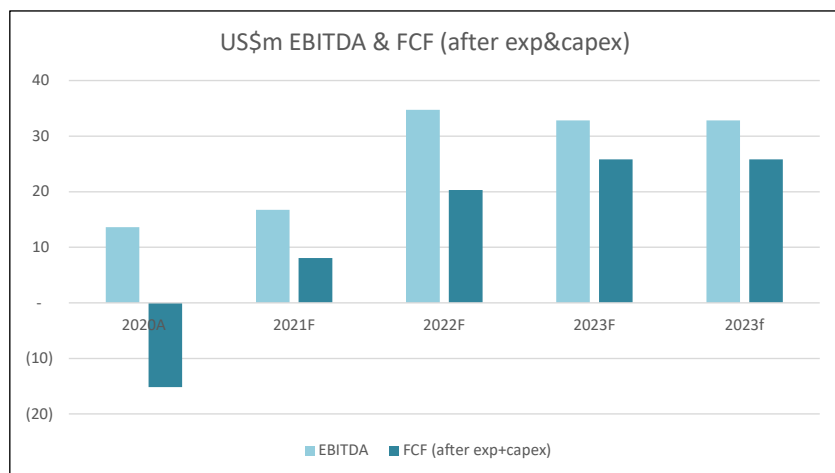
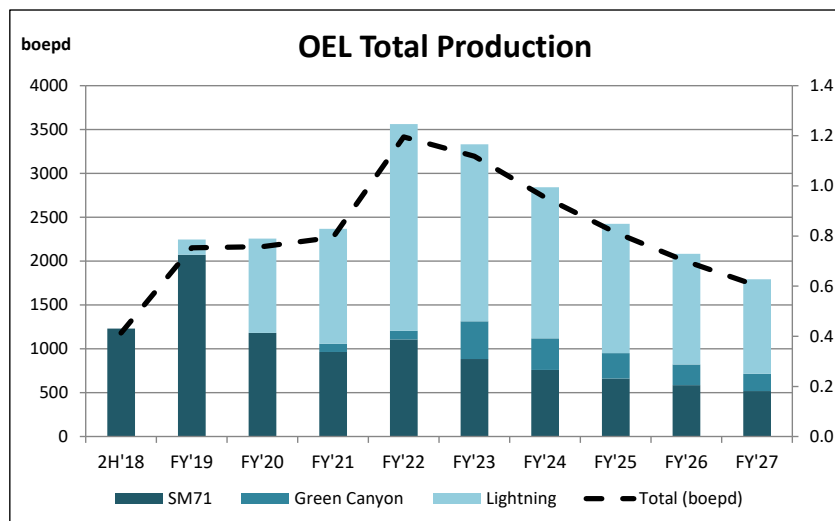
(OEL \$0.01) Buy



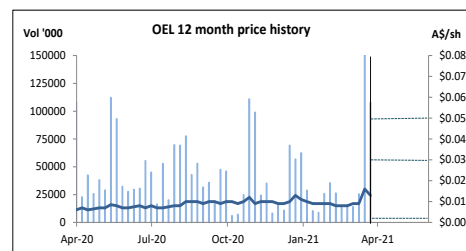
## Key Variables

Val/ Sh		Brent \$/bbl								
0.029		-20%	-15%	-10%	-5%	0%	5%	10%	15%	20%
AUDUSD	15%	\$0.024	\$0.026	\$0.027	\$0.029	\$0.030	\$0.032	\$0.033	\$0.035	\$0.036
	10%	\$0.025	\$0.027	\$0.029	\$0.030	\$0.032	\$0.033	\$0.035	\$0.036	\$0.038
	5%	\$0.027	\$0.028	\$0.030	\$0.032	\$0.033	\$0.035	\$0.037	\$0.038	\$0.040
	0%	\$0.028	\$0.030	\$0.031	\$0.033	\$0.035	\$0.037	\$0.038	\$0.040	\$0.042
	-5%	\$0.029	\$0.031	\$0.033	\$0.035	\$0.037	\$0.039	\$0.040	\$0.042	\$0.044
	-10%	\$0.031	\$0.033	\$0.035	\$0.037	\$0.039	\$0.041	\$0.043	\$0.045	\$0.046
-15%	\$0.033	\$0.035	\$0.037	\$0.039	\$0.041	\$0.043	\$0.045	\$0.047	\$0.049	

Euroz Forecast	FY'18	FY'19	FY'20	FY'21	FY'22	FY'23
Sales Gas TERM (A\$)	\$3.24	\$2.79	\$2.09	\$2.32	\$2.70	\$2.70
LLS US\$/bbl	\$62	\$67	\$52	\$52	\$65	\$65
AUDUSD	\$0.78	\$0.74	\$0.67	\$0.75	\$0.75	\$0.74



## Our Share Price Sensitivity



## Our Market Sensitivity

Valuation - \$0.029/sh

Price Target - \$0.030/sh

**Bull Scenario - \$0.050/sh**

Oil prices rise beyond our long term US\$65/bbl forecast in the medium term and Green Canyon development is executed on time and budget. Exploration and appraisal activity is reinvigorated.

**Base Scenario - \$0.030/sh**

Oil prices recover to pre-crash levels; Lightning and SM71 continue to perform in line with recent levels; Green Canyon is delivered on time and budget.

**Bear Scenario - \$0.002/sh**

Low prevailing oil prices remain and OEL is required to source additional equity capital in shore up the Balance Sheet to protect the business from any credit default risk.

## Company Summary

Otto Energy Ltd (OEL) is a US Gulf Coast oil & gas exploration and production company. OEL currently on production, brownfields appraisal and exploration of conventional shallow water and onshore oil and gas fields.

SM71 (South Marsh Island) located in shallow GoM is OEL's first production asset, producing gross +1mmboe since commissioning in Mar'18. Current 50% working interest (NRI 40%) and net 2P reserves are -6.6mmboe (90% oil). The Lightning discovery (37.5% WI) commenced commercial sales from Jun Q, 2019.

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The projections and information above is based on the set assumptions outlined. Due care and attention has been used in the preparation of this information. However actual results may vary from forecasts and any variation may be materially positive or negative. Forecasts by their very nature, are subject to uncertainty and contingencies, many of which are outside the control of Euroz.

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### Market Statistics

		Year End 30 June		
<b>Share Price</b>	<b>\$0.010</b>	<b>A\$/sh</b>	<b>Directors</b>	
Issued Capital			J Jetter	Chair
FP Ord	4,795.0	m	M Utsler	MD
Opt. (var)	42.5	m	P Senyca	NED
Perf Rights	46.8	m	K Small	NED
<b>Total Dil. FPOrd</b>	<b>4,841.8</b>	<b>m</b>	G Page	NED
<b>Market Capitalisation</b>	<b>\$48</b>	<b>m</b>	<b>Shareholders</b>	
Enterprise Value	\$54	m	Molton Holdings Ltd	48.1%
Debt	-\$18	m		
Cash	\$13	m		

Asset Valuation	US\$m	A\$m	A\$/sh
South Marsh 71	48	63	0.013
Lightning	64	83	0.017
Green Canyon	6	8	0.002
Corporate	(14)	(18)	(0.004)
Alaska	7	9	0.002
Hedging	0	0	0.000
unpaid capital	-	-	-
Debt	(14)	(18)	(0.004)
Cash	10	13	0.003
<b>Total</b>	<b>107</b>	<b>139</b>	<b>0.029</b>

F/Cast Production (US\$m)	2020A	2021F	2022F	2023F
Attrib. Prod'n (mmbboe)				
SM 71	0.41	0.34	0.39	0.31
Lightning	0.38	0.46	0.83	0.71
Green Canyon	-	0.03	0.03	0.15
Total Gas (Bscf)	2.53	3.05	4.98	4.30
Total Oil-cond (mmbbls)	0.44	0.38	0.46	0.47
Total Attrib (mmbboe)	0.79	0.83	1.25	1.17
Av. net Production (kbbboe/d Pre-royalty)	2.16	2.27	3.42	3.19
Op. Costs (inc. roy. & state tax) - \$/boe	12.30	12.88	15.60	15.55
Assumptions				
Avg LLS Oil Price (US\$/bbl)	50.22	50.15	63.00	63.00
Avg LLS Oil Price Rec'd (A\$/bbl)	43.22	43.15	56.00	56.00
Avg Henry Hub Price (A\$/GJ)	2.09	2.32	2.70	2.70
US\$:A\$	0.67	0.75	0.75	0.74

Ratio Analysis (US\$m)	2020A	2021F	2022F	2023F
CF (US\$m)	14.4	18.8	35.3	34.0
CF / Sh (Ac/sh)	0.4	0.5	1.0	0.9
CF Ratio (x)	2.0	1.9	1.0	1.1
Earnings (A\$m)	(0.3)	(9.2)	29.9	26.7
EPS (Ac/sh)	(0.0)	(0.2)	0.6	0.6
EPS Growth (%)	na	na	na	-11%
Earnings Ratio (x)	na	na	2	2
E'prise Val. (A\$m)	69	55	28	(6)
EV : EBITDA (x)	3	2	1	1
EV : EBIT (x)	59	(7)	2	2
Net Debt / ND+Eq (%)	2%	3%	na	na
Interest Cover (x)	17	12	na	na
EBIT Margin (%)	3%	na	46%	42%
ROE (%)	0%	-15%	33%	23%
ROA (%)	1%	-9%	29%	20%
Div. (Ac/sh)	-	-	-	-
Div. payout ratio	0%	0%	0%	0%
Div. Yield	0%	0%	0%	0%
Div. Franking	0%	0%	0%	0%

Profit and Loss (US\$m)	2020A	2021F	2022F	2023F
Oil Equivalent Sales	28	30	58	55
LESS Royalties	(5)	(6)	(11)	(10)
Hedging impact	2	3	-	(0)
Deferred Revenue	(1)	(1)	-	-
Interest Revenue	1	0	1	1
Other Revenue	-	-	-	-
<b>TOTAL REVENUE</b>	<b>24</b>	<b>26</b>	<b>48</b>	<b>46</b>
Operating Costs	4	5	9	8
Dep/Amort	3	5	8	9
Writeoffs (explor)	8	15	5	5
Corp O/H	6	4	4	4
Provisions	2	3	-	-
<b>EBITDA</b>	<b>14</b>	<b>17</b>	<b>35</b>	<b>33</b>
<b>EBIT</b>	<b>1</b>	<b>(5)</b>	<b>22</b>	<b>19</b>
Interest Expense	1	2	0	-
NPBT	(0)	(7)	22	20
Tax	-	-	-	-
NPAT	(0)	(7)	22	20
Minority Interest	-	-	-	-
<b>NET PROFIT</b>	<b>(0)</b>	<b>(7)</b>	<b>22</b>	<b>20</b>
Net Abnormal Profit/(Loss) after Tax	-	-	-	-
<b>Net Profit After Abnormal</b>	<b>(0)</b>	<b>(7)</b>	<b>22</b>	<b>20</b>

Cash Flow (US\$m)	2020A	2021F	2022F	2023F
+ Net Profit	(0)	(7)	22	20
+ Working Capital Adjustment	1	2	-	-
+ Dep/Amort	3	5	8	9
+ Provisions, W/O	10	17	5	5
+ Tax Expense	-	-	-	-
- Tax Paid	-	-	-	-
- Deferred Revenue	(1)	(1)	-	-
<b>= Operating Cashflow</b>	<b>14</b>	<b>19</b>	<b>35</b>	<b>34</b>
-Capex + Development	22	14	9	2
-Exploration	8	4	6	6
-Assets Purchased	-	-	-	-
+Asset Sales	-	7	-	-
+Other	-	-	-	-
<b>= Investing Cashflow</b>	<b>(30)</b>	<b>(11)</b>	<b>(15)</b>	<b>(8)</b>
+ Equity Issues (Rts,plc,opts)	8	-	-	-
+Loan Drawdown/Receivable	22	-	-	-
+Other	(1)	-	-	-
-Loan Repayment	6	12	7	-
-Dividends	-	-	-	-
<b>= Financing Cashflow</b>	<b>24</b>	<b>(11)</b>	<b>(7)</b>	<b>-</b>
<b>Period Surplus</b>	<b>9</b>	<b>(3)</b>	<b>13</b>	<b>26</b>
Adj. FX effects	-	-	-	-
<b>CASH</b>	<b>17</b>	<b>14</b>	<b>27</b>	<b>53</b>

Balance Sheet (US\$m)	2020A	2021F	2022F	2023F
<b>Assets</b>				
Cash	17	14	27	53
Current Receivables	2	3	3	3
Other Current Assets	1	1	1	1
Non-Current Assets	55	45	46	39
<b>Total Assets</b>	<b>75</b>	<b>62</b>	<b>76</b>	<b>95</b>
<b>Liabilities</b>				
Borrowings	19	7	-	-
Current Accounts Payable	8	5	5	5
Non-Current Liabilities	3	3	3	3
Other Liabilities	2	2	2	2
<b>Total Liabilities</b>	<b>32</b>	<b>17</b>	<b>10</b>	<b>10</b>
<b>Net Assets</b>	<b>43</b>	<b>46</b>	<b>67</b>	<b>86</b>

### Reserves and Resources

	Oil mmbbls	Gas Bcf	Total mmboe
2P (Net Revenue Interest)			
SM71	1.9	1.5	2.2
Lightning	0.6	20.6	4.0
Green Canyon	1.6	1.6	1.8
Total	4.1	23.7	8.1
<b>EV / 2P boe (A\$)</b>			<b>8.7</b>
<b>EV / 2P+2C boe (A\$)</b>			<b>8.7</b>

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