

Otto Energy Ltd

(OEL \$0.009) Buy

Analyst
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Date
March 2021

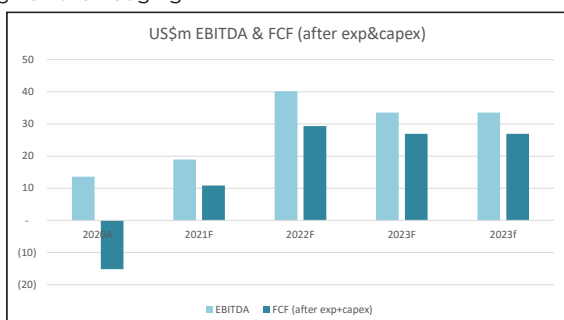
Price Target
\$0.03/sh

Investment Case

OEL is a c2,500boepd producer in the GoM and exceedingly cheap in the listed ASX peer space. The third producing asset, Green Canyon, should underwrite a lift in group production to nearly 4,000boepd in FY'22 once remediation works are undertaken later this H. The production generates over US\$40m in op FCF in FY'22 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.

Comments

- Green Canyon, commenced first oil in the Dec Q of CY'20 however, has encountered downhole issues requiring well intervention in the coming months;
- Once rectified, production from the main reservoir should underpin production growth from c.2,500boepd FY'21 to nearly 4,000boepd in FY'22 across the assets;
- The Business is otherwise in good shape, after surviving the oil price crash in Jun CY'20 that coincided with peak cash outflows relating to Green Canyon and a disappointing appraisal campaign at SM71;
- Recapitalised and largely ex-capex, recent divestment of its Alaskan interests could bolster current cash of c.US\$9.7m by up to US\$12m (mk-to-mkt) equating to a pro forma EV of <A\$40m;
- Debt of US\$16m would otherwise be extinguished in FY'22 regardless, noting the asset base generates +US\$40m in op FCF in FY'22 on our commodity price assumptions and given the hedging



Val/ Sh	Brent \$/bbl								
	-20%	-15%	-10%	-5%	0%	5%	10%	15%	20%
0.031									
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

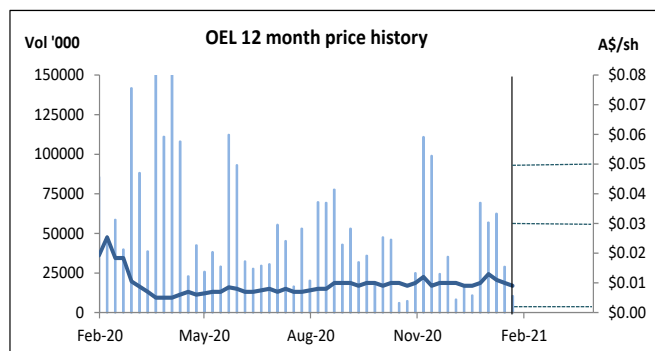
Euroz Forecast	FY'18	FY'19	FY'20	FY'21	FY'22	FY'23
Sales Gas TERM (A\$)	\$3.24	\$2.79	\$2.09	\$2.32	\$2.70	\$2.70
LLSUS\$/bbl	\$62	\$67	\$52	\$52	\$65	\$65
AUDUSD	\$0.78	\$0.74	\$0.67	\$0.75	\$0.75	\$0.74

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 RESOURCES COMPENDIUM MARCH 2021

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Share Price Performance



Market Statistics

Share Price	\$0.009	A\$/sh	Directors	
Issued Capital			J Jetter	NE Chair
FP Ord	4,795.0	m	M Utsler	MD
Opt. (var)	42.5	m	P Senyica	NED
Perf Rights	46.8	m	K Small	NED
Total Dil. FPOrd	4,841.8	m	G Page	NED
Market Capitalisation	\$44	m	Shareholders	
Enterprise Value	\$52	m	Molton Holdings Ltd	48.1%
Debt	-\$21	m		
Cash	\$13	m		

Year End 30 June

Our Market Sensitivity

Valuation - \$0.031/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 +1mmbboe since commissioning in Mar'18. Current 50% working interest (NRI 40%) and net 2P reserves are ~6.6mmbboe (90% oil). The Lightning discovery (37.5% WI) commenced commercial sales from Jun Q, 2019.

Asset Valuation	US\$m	A\$m	A\$/sh
South Marsh 71	48	63	0.013
Lightning	64	83	0.017
Green Canyon	12	16	0.003
Corporate	(15)	(20)	(0.004)
Alaska	10	12	0.003
Hedging	3	3	0.001
unpaid capital	-	-	-
Debt	(16)	(21)	(0.004)
Cash	10	13	0.003
Total	115	149	0.031

F/Cast Production (US\$m)	2019a	2020f	2021f	2022f
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	-	0.08	0.20	0.17
Total Gas (Bscf)	2.53	3.22	5.22	4.33
Total Oil-cond (mmbbls)	0.44	0.40	0.59	0.48
Total Attrib (mmbboe)	0.79	0.88	1.42	1.19

Av. net Production (kbbboe/d Pre-royalty) 2.16 2.41 3.88 3.26

Op. Costs (inc. roy. & state tax) - \$/boe 12.30 12.74 15.35 15.51

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)

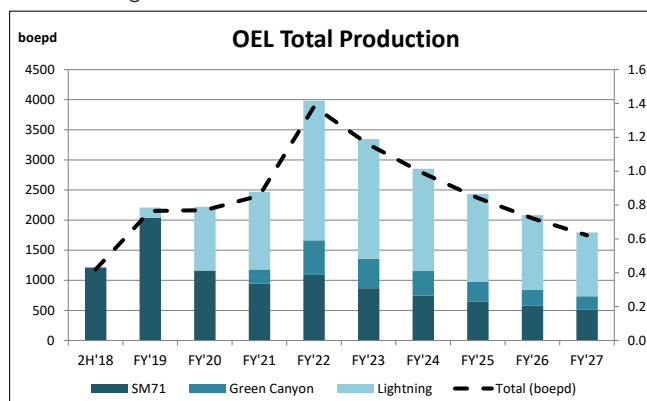
	2019a	2020f	2021f	2022f
CF (US\$m)	14.4	18.7	40.8	35.1
CF / Sh (Ac/sh)	0.4	0.5	1.1	1.0
CF Ratio (x)	2.0	1.7	0.8	0.9

Earnings (A\$m)	(0.3)	16.3	33.5	28.7
EPS (Ac/sh)	(0.0)	0.3	0.7	0.6
EPS Growth (%)	na	na	105%	-14%
Earnings Ratio (x)	na	3	1	2

E'prise Val. (A\$m)	69	47	8	(29)
EV : EBITDA (x)	3	2	1	1
EV : EBIT (x)	56	3	2	2

Net Debt / ND+Eq (%)	2%	0%	na	na
Interest Cover (x)	17	64	na	na
EBIT Margin (%)	3%	44%	46%	43%
ROE (%)	0%	19%	28%	19%
ROA (%)	1%	15%	24%	16%

Div. (Ac/sh)	-	-	-	-
Div. payout ratio	0%	0%	0%	0%
Div. Yield	0%	0%	0%	0%
Div. Franking	0%	0%	0%	0%



RESOURCES COMPENDIUM MARCH 2021

Profit and Loss (US\$m)	2019a	2020f	2021f	2022f
Oil Equivalent Sales	28	31	66	56
LESS Royalties	(5)	(6)	(12)	(11)
Hedging impact	2	3	-	(0)
Deferred Revenue	(1)	-	-	-
Interest Revenue	1	1	1	2
Other Revenue	-	-	-	-
TOTAL REVENUE	24	29	54	47
Operating Costs	4	5	9	8
Dep/Amort	3	6	11	9
Writeoffs (explor)	8	-	5	5
Corp O/H	6	4	4	4
Provisions	2	-	-	-
EBITDA	14	19	40	34
EBIT	1	12	24	20
Interest Expense	1	1	0	-
NPBT	(0)	12	25	21
Tax	-	-	-	-
NPAT	(0)	12	25	21
Minority Interest	-	-	-	-
NET PROFIT	(0)	12	25	21
Net Abnormal Profit/(Loss) after Tax	-	-	-	-
Net Profit After Abnormal	(0)	12	25	21

Cash Flow (US\$m)

	2019a	2020f	2021f	2022f
+ Net Profit	(0)	12	25	21
+ Working Capital Adjustment	1	-	-	-
+ Dep/Amort	3	6	11	9
+ Provisions, W/O	10	-	5	5
+ Tax Expense	-	-	-	-
- Tax Paid	-	-	-	-
- Deferred Revenue	(1)	-	-	-
= Operating Cashflow	14	19	41	35

-Capex + Development	22	17	5	2
-Exploration	8	-	6	6
-Assets Purchased	-	-	-	-
+Asset Sales	-	9	-	-
+Other	-	-	-	-
= Investing Cashflow	(30)	(8)	(11)	(8)

+ Equity Issues (Rts,plc,opts)	8	-	-	-
+Loan Drawdown/Receivable	22	-	-	-
+Other	(1)	-	-	-
-Loan Repayment	6	12	7	-
-Dividends	-	-	-	-
= Financing Cashflow	24	(12)	(7)	-

Period Surplus	9	(1)	22	27
Adj. FX effects	-	-	-	-
CASH	17	15	38	65

Balance Sheet (US\$m)

	2019a	2020f	2021f	2022f
Assets				
Cash	17	15	38	65
Current Receivables	2	2	2	2
Other Current Assets	1	1	1	1
Non-Current Assets	55	66	60	53
Total Assets	75	85	102	122

Liabilities				
Borrowings	19	7	-	-
Current Accounts Payable	8	8	8	8
Non-Current Liabilities	3	3	3	3
Other Liabilities	2	2	2	2
Total Liabilities	32	20	13	13
Net Assets	43	65	89	109

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
EV / 2P boe (A\$)			8.3
EV / 2P+2C boe (A\$)			8.3

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