EQUITY RESEARCH

Energy

30 July 2021

Otto Energy Ltd (OEL.ASX)

Louisiana Light Sweet Spot

Event:

- **We initiate research coverage on Otto Energy Ltd (OEL.ASX).**

Investment Highlights:

- **Otto Energy Ltd (OEL)** is an ASX listed company with producing conventional on- and offshore oil and gas assets in the Gulf of Mexico, including the South Marsh Island 71 (SM71, WI 50%), Lightning Field (WI 37.5%), and Green Canyon 21 (GC21, WI 16.7%).
- **Poised to take advantage of improving price environment after delivery of sustained significant cost reductions**. Oil prices have continued a strong resurgence over CY21 with WTI up 50% up YTD, and demonstrating strength after trawling remarkable lows in April 2020. OEL's flagship GoM asset SM71 in particular underpins very strong near term cash generation from its liquid-rich, high margin project in a strong price environment.
- **Robust economics from high margin production with quality premium product:** Significant margin with very low lifting costs, while only very modest capex required in the near to medium term to enable continued strong cash flow generation. Desirable Louisiana Light Sweet (LLS) crude oil product typically attracts 2-5% premium over WTI.
- **Growth optionality supported by near term cash generation:** OEL's ambition is to lock in future growth opportunities targeting a diverse opportunity set including GoM distressed assets and technically driven GoM shelf salt domes.
- **Cash of US$8M at March 2021 end, with debt of US$14M.** Combined with liquid investments in UK listed Pantheon Resources plc worth US$12M due to its recent Alaska asset sales, the company is effectively net cash. Modest leverage can be serviced by strong cash flow generation in coming quarters, scheduled to be repaid in full by September 2022, if not earlier.

Earnings and Valuation:

- We forecast **FY21-23e earnings of US$1M, US$9M, and US$13M, or EPS (US$) of 0.0cps, 0.2cps, 0.3cps.** We forecast FY21-23e production of 1.1mmboe, 1.2mmboe, and 1.4mmboe.
- **We derive a valuation of $0.04 per OEL share,** underpinned by a NPV_{10} of A$192M for producing assets, assuming LT WTI oil of US$62/bbl, natural gas of US$3.00/mmbtu, and AUDUSD 0.74.

Recommendation:

- We **initiate coverage of OEL with a Buy recommendation and price target of $0.04/share**, high margin cash generation for close to a decade of Reserve life.
- We think the market has been slow to recognise the material upside, with the current share price reflecting a low realised WTI outcome under 2P reserve with significant upside from continued stronger prices, cash generation, and maximising existing asset base. Very undemanding FY22e P/FCF of 3.1x.
- **Catalysts for the stock** include: 1) continued production growth and operational improvements; 2) Reserve and production updates upgrades from production, development, and recompletion updates; 3) capital management updates; 4) GC21 updates; and 5) continued deleveraging.

Disclosure

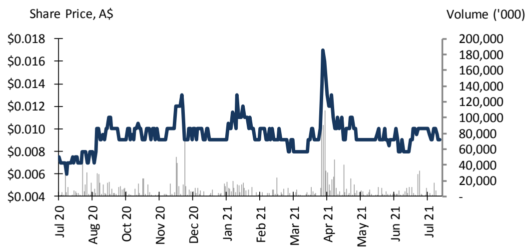
The analyst does not own OEL securities.
Foster Stockbroking and associated entities (excluding Cranport Pty Ltd) own 7,000,000 OEL shares.
Cranport Pty Ltd owns 36,625,112 OEL shares.
Foster Stockbroking provides equity capital markets and corporate advice to OEL and will receive consideration for this service.
Refer to end of report for details.

Recommendation	**Buy**
Previous	N/A
Risk	High
Price Target (A$/share)	**$0.04**
Previous	N/A
Share Price (A$)	**$0.009**
ASX Code	OEL
52 week low - high (A$)	0.006-0.017
Capital structure	
Shares on Issue (M)	4,795.0
Options and rights (M)	66.4
Market Cap, undil. (A$M)	**43**
Net Cash/(Debt) (A$M)	-8
EV (A$M)	**51**
12mth Av Daily Volume ('000)	8,807

Y/e Jun US$	FY20a	FY21e	FY22e	FY23e
Sales, $M	23.0	30.2	41.5	48.4
EBITDA adj. $M	7.6	10.3	22.0	28.3
NPAT adj. $M	-1.4	0.8	9.0	12.9
EPS adj c	0.0	0.0	0.2	0.3
PER (x)	nm	52.4	4.8	3.4
Dividend c	0.0	0.0	0.0	0.0

Board	
Mike Ustler	Executive Chairman and CEO
John Jetter	Non-Executive Director
Geoff Page	Non-Executive Director
Paul Senycia	Non-Executive Director
Major Shareholders	
Molton Holdings	48.1%

Share Price Graph



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Otto Energy (OEL)

Full Year Ended 30 June

Profit and Loss US$M	2019a	2020a	2021e	2022e	2023e
Revenue	31	23	30	42	48
Production Costs	3	4	4	5	6
Gross Profit	**28**	**19**	**26**	**37**	**43**
Other expenses	0	-6	7	4	2
G&A	5	5	6	6	7
EBITDAX	**23**	**21**	**13**	**27**	**33**
Exploration	38	13	3	5	5
EBITDA	**-14**	**8**	**10**	**22**	**28**
D&A	5	7	8	8	10
EBIT	**-19**	**1**	**2**	**14**	**18**
Net Interest exp / (income)	-1	2	1	1	0
PBT	**-18**	**-1**	**1**	**13**	**18**
Tax exp / (benefit) adj.	0	0	0	4	6
NPAT underlying	**-18**	**-1**	**1**	**9**	**13**
Non-recurring items	0	0	13	0	0
NPAT reported	**-18**	**-1**	**-12**	**9**	**13**
EPS diluted, adj. cps	**-0.9**	**0.0**	**0.0**	**0.2**	**0.3**

Financial Metrics	2019a	2020a	2021e	2022e	2023e
Sales growth, %	nm	-26%	30%	38%	17%
EPS growth, %	-153%	-95%	-136%	992%	42%
EBITDA margin, %	-46%	33%	34%	53%	59%
EBIT margin, %	-62%	4%	8%	33%	38%
Gearing (ND/ND+E)	-25%	8%	-1%	-25%	-64%
Interest Cover (EBIT/net int)	-20.1x	-0.4x	-1.9x	-20.1x	210.3x
EV/S, x	1.6	2.2	1.7	1.2	1.1
EV/EBITDA, x	-3.6	6.7	5.0	2.3	1.8
EV/EBIT, x	-2.6	52.0	20.7	3.8	2.8
PER, x	-1.0	-18.8	52.4	4.8	3.4
Average ROE %	-45%	-3%	2%	18%	21%
Average ROA %	-47%	2%	4%	19%	23%
FCF, US$M	-24.2	-8.7	5.0	10.3	16.0
P/FCF, x	-0.5	-2.3	6.3	3.1	2.0
Wtd ave shares (M)	1,947	2,935	4,700	4,795	4,795
Wtd ave share diluted (M)	1,947	2,935	4,729	4,824	4,824

Cashflow US$M	2019a	2020a	2021e	2022e	2023e
EBITDAX	-14	8	10	22	28
Change in WC	0	-9	1	1	-1
Tax paid	0	0	0	-4	-6
Other	0	0	0	0	0
Net interest	0	-2	-1	-1	0
Exploration	-37	-11	-3	-5	-5
Operating Cashflow	**-13**	**-1**	**9**	**19**	**22**
Purchase of PP&E	0	0	0	0	0
Acquisitions	0	0	0	0	0
Capitalised expenses	-9	-16	-5	-8	-7
Investments	0	0	0	0	0
Investing Cashflow	**-9**	**-17**	**-5**	**-8**	**-7**
Equity issue	37	9	0	0	0
Debt proceeds	0	21	0	0	0
Debt repayments	-10	0	-9	-9	-2
Other	-2	-3	0	0	0
Financing Cashflow	**24**	**26**	**-9**	**-9**	**-2**
Net Cashflow	**2**	**9**	**-5**	**1**	**13**

Commodity Assumptions	2019a	2020a	2021e	2022e	2023e
Prices					
WTI Oil, US$/bbl	48	51	52	66	64
US Natural Gas, US$/mmbtu	2.83	2.42	2.61	2.97	2.93
AUDUSD	0.72	0.69	0.73	0.76	0.76
Production (net)					
Oil, bbls	0.6	0.5	0.5	0.6	0.7
Gas, mcf	1.1	2.2	3.1	3.3	3.9
NGL, bbls	0.0	0.1	0.1	0.1	0.1
Total, boe	0.7	0.9	1.1	1.2	1.4
Daily, boepd	2,032	2,586	3,091	3,316	3,946
Costs					
Production cost/bbl	3.9	3.9	3.9	4.0	4.0

Capital structure current	M
Ordinary shares	4,795
Options and rights	66
Fully diluted	**4,861**

Balance Sheet US$M	2019a	2020a	2021e	2022e	2023e
Cash	7	17	12	13	26
Receivables	3	2	5	3	4
PPE	31	40	40	45	47
Other	2	11	11	11	11
Total Assets	**43**	**69**	**67**	**72**	**88**
Accounts payable	4	2	6	5	5
Provisions	2	4	4	4	4
Debt	0	21	11	2	0
Other	0	0	1	6	11
Total Liabilities	**6**	**25**	**22**	**17**	**20**
Reserves and capital	139	148	148	148	148
Retained earnings	-102	-103	-102	-93	-81
NCI	0	0	0	0	0
Total Equity	**37**	**45**	**45**	**55**	**67**

Source: Company; Foster Stockbroking estimates

Company Valuation		
DCF, WACC 10% nominal		
Segment	**A$M**	**A$/sh**
Production	192	$0.04
Development	15	$0.00
Investments	16	$0.00
Corporate	-23	$0.00
Net cash (debt)	-8	$0.00
Options	0	$0.00
Total	**192**	**$0.04**

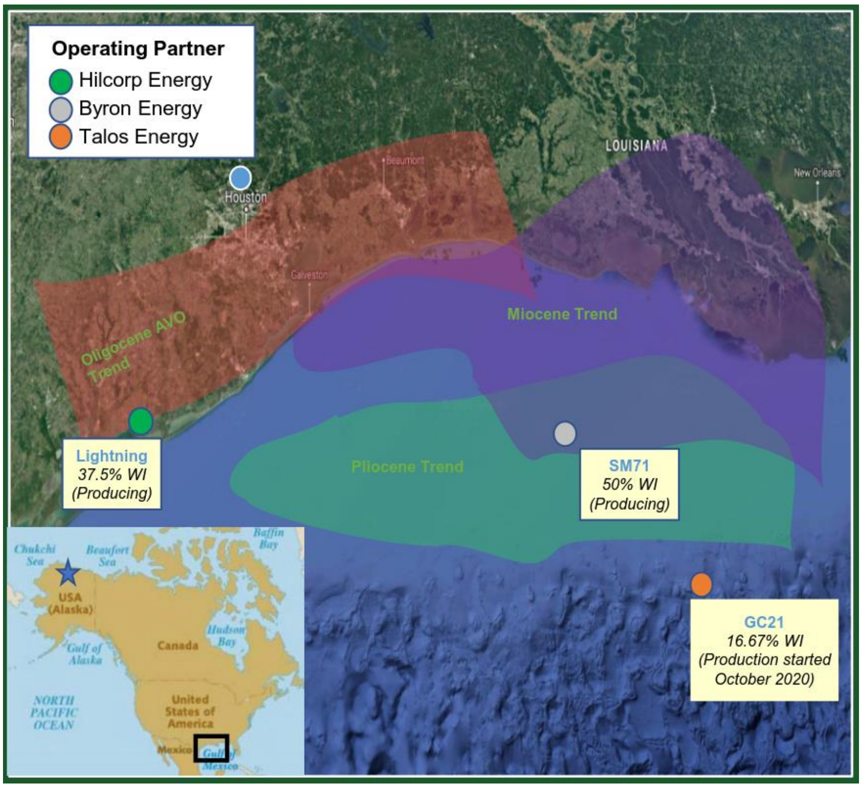
Resources and Reserves				
Asset	**WI**	**1P**	**2P**	**3P**
South Marsh Island (SM71)	50.0%	1.43	2.18	3.78
Lightning Field	37.5%	2.53	4.05	5.84
Green Canyon 21 (GC21)	16.7%	0.59	1.09	1.24
Total		**4.55**	**7.31**	**10.86**

Net, mmboe, at SM71 and Lightning at 30 June 2020, GC21 at 31 December 2020.

OTTO ENERGY LIMITED (OEL)

- Otto Energy Ltd (**OEL**) is an ASX listed company with a portfolio of producing Gulf of Mexico (**GoM**) assets, with exposure to onshore and offshore conventional oil and gas interests. The GoM is a proven, large-scale hydrocarbon basin in an excellent jurisdiction with favourable operating conditions and premium product types.
- The company's portfolio of producing assets include South Marsh Island 71 (**SM71**), in which OEL has a 50% working interest (**WI**), 40.6% net revenue interest (**NRI**); Lightning Field with a 37.5% WI and 28.2% NRI, and Green Canyon 21 (**GC21**) with a 16.7% WI and 13.3% NRI.

Figure 1: OEL Producing Assets and Operating Partners



Source: Company.

Figure 2: OEL Summary of Assets

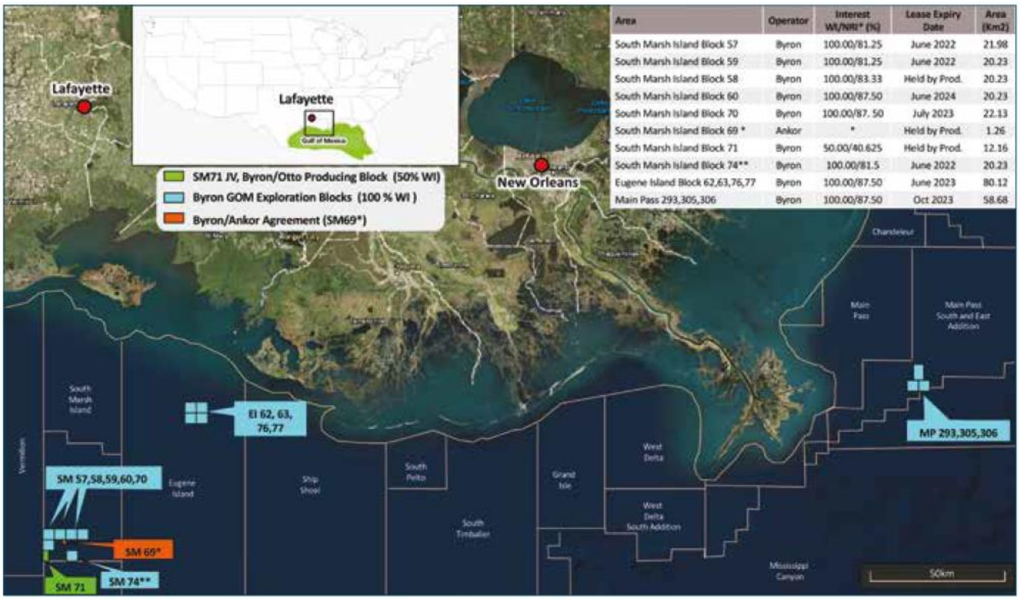
Asset	South Marsh Island 71	Lightning Field	Green Canyon 21
Status	Producing	Producing	Producing
Ownership, Working Interest	50%	37.5%	16.7%
Net Revenue Interest	40.6%	28.2%	13.3%
Operator	Byron Energy (BYE.ASX)	Hilcorp	Talos Energy (TALO.NYSE)
Producing Wells	3	2	1

Source: Company.

SOUTH MARSH ISLAND 71 (50% WI, 40.6% NRI) – FLAGSHIP PRODUCTION ASSET

- South Marsh Island 71 (**SM71**) is OEL's flagship production shelf asset. It is a salt dome structure situated in the liquid-rich corridor of the Gulf of Mexico shelf. SM71 is a lease in the South Marsh Island Block 73 Field, located in the Outer Continental Shelf of the Gulf of Mexico (**GoM**).
- OEL owns a 50% WI and 40.625% NRI. Byron Energy Ltd (BYE) is the operator and holds an equivalent WI and NRI. Water depth in the area is shallow at approximately 137 feet.
- Cumulative production to date has been 3.2MMbbl and 3.6Bcf, from three producing wells drilled. Current production is ~2,600bopd and 2,200 Mcfpd. The most recent estimates of 1P, 2P, and 3P Reserves are 3.5, 5.4, and 9.3 MMBoe, respectively (8/8ths, 87% oil).
- OEL and BYE made the initial F1 discovery well in 2016 and oil and gas production from the SM71 F platform began in March 2018 from two wells, with the third well coming on line in early April 2018. The F1 and F3 wells were completed in the primary D5 Sand reservoir and the F2 well was completed in the B55 Sand, a secondary production horizon. A fourth producer only well was drilled in March 2020. The JV spudded the F5 development well in March 2020, and which has been temporarily abandoned.

Figure 3: South Marsh Island 71



Area	Operator	Interest WI/NRI* (%)	Lease Expiry Date	Area (Km2)
South Marsh Island Block 57	Byron	100.00/81.25	June 2022	21.98
South Marsh Island Block 59	Byron	100.00/81.25	June 2022	20.23
South Marsh Island Block 58	Byron	100.00/83.33	Held by Prod.	20.23
South Marsh Island Block 60	Byron	100.00/87.50	June 2024	20.23
South Marsh Island Block 70	Byron	100.00/87. 50	July 2023	22.13
South Marsh Island Block 69 *	Ankor	*	Held by Prod.	1.26
South Marsh Island Block 71	Byron	50.00/40.625	Held by Prod.	12.16
South Marsh Island Block 74**	Byron	100.00/81.5	June 2022	20.23
Eugene Island Block 62,63,76,77	Byron	100.00/87.50	June 2023	80.12
Main Pass 293,305,306	Byron	100.00/87.50	Oct 2023	58.68

Source: Byron Energy.

- The discovery of SM71 in 2015 remains an excellent example of a technology driven prospect identified using technologically advanced RTM seismic analysis, with the 120 acre reservoir discovery not previously identified with old technology and uncovering a geologically complex salt dome which is steeply dipping (>50 degree bed dip) and with updip unconformity. It is among the top ten largest discoveries in the last decade on the GoM shelf.

LIGHTNING FIELD (37.5% WI, 28.2% NRI) – ONSHORE GAS

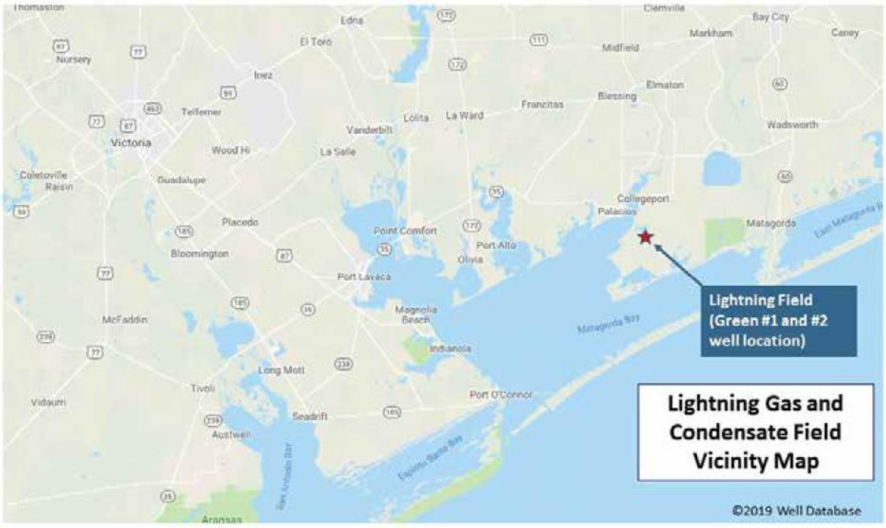
- Situated in south central Matagorda County in Texas, Lightning is an onshore gas asset offering OEL product and geographic diversification. It is a deep seated structure trapping Tex-Miss channel-levee complex sands.

- Drilling on the Green #1 well commenced in December 2018 while production began in May 2019. Otto has a 37.5% WI in leases covering the Lightning prospect through its participation in the drilling of the Lightning exploration well. Hilcorp is the operator of Lightning.

- The Green #2 well commenced drilling in October 2019 and was completed in the Tex Miss 1 interval with 66 feet of perforations out of a total 146 feet of calculated net pay. The well began production in early February 2020, after the completion of upgraded facility and flow lines, with the capacity increased to approximately 36MMscf/day.

- Cumulative production has been 11.5Bcf and 0.3MMbbl. Current production is 20MMscf/day and 600bopd. The most recent estimates of 1P, 2P, and 3P Reserves are 8.9, 14.2, and 20.5MMboe, respectively (8/8ths, 85% gas).

Figure 4: Lightning Field



Source: Company.

- Production performance since start up of the field has delivered strong results. The JV is considering the potential for further wells in the field to develop fully the extensive area of the Lightning discovery; the company sees the potential for up to five wells to develop the entirety of the Lightning accumulation.

- Lightning is the largest onshore Texas discovery in last ten years. It is a stratigraphically complex depositional system that is not laterally continuous. Once again, the discovery of 330 feet of pay in three Tex Miss age sands not previously seen with prior technology, adds to the company's track record of technologically driven discoveries.

GREEN CANYON 21 (16.67% WI) – OIL-RICH UPSIDE

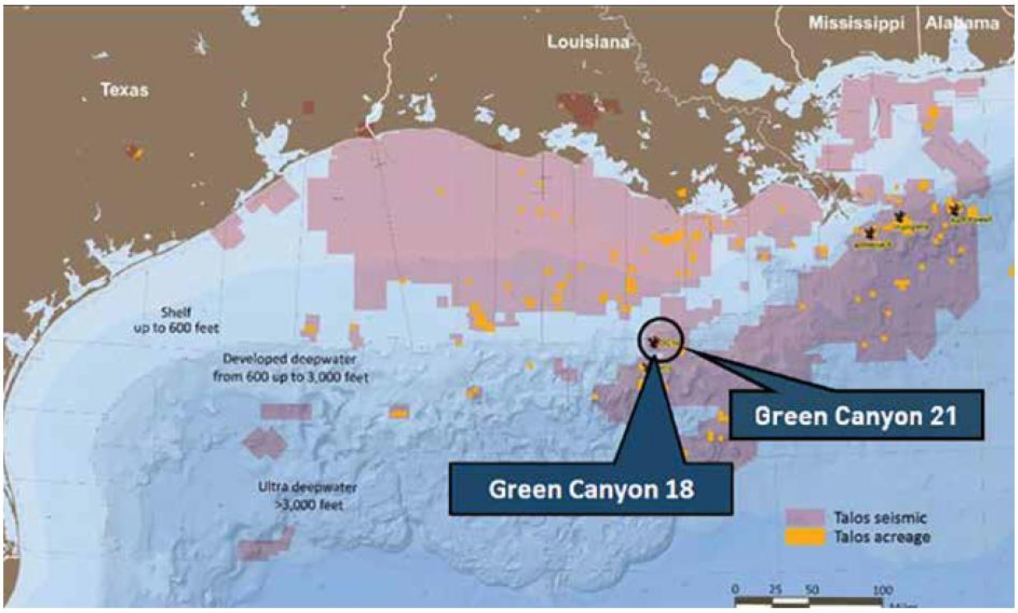
- Green Canyon is a deepwater region in the central US Gulf of Mexico. Green Canyon 21 (GC21) is a deepwater GoM development asset leveraging infrastructure for oil rich production. Deepwater Pliocene reservoirs sit on a salt supported structure.

- OEL has a 16.7% WI and 13.3% NRI. Talos Energy (TALO.NYSE) is the operator. Deepwater is located in 771 feet of water. The most recent estimates of 1P, 2P, and 3P Reserves are 4.4, 8.1, and 9.3 MMboe (8/8ths, 90% oil).

- The discovery of GC21 was announced in June 2019, with first production from October 2020. Four wells were previously drilled between 1984 and 1996. The subsea tieback to Talos' GC18 platform and facilities was completed September 2020.

- GC21 is currently producing from MP Sands on a managed basis. Pressure and performance data indicate a smaller reservoir than originally anticipated. The Deepwater JV currently intend to move away from the MP Sand and recomplete in the shallower DTR-10 sand, which is estimated to be completed in mid CY22.

Figure 5: Green Canyon Location



Source: Company.

RESERVES – 1P UNDERPINS ESTIMATED LIFE CLOSE TO A DECADE

- OEL's share of 1P Reserves is 4.56MMboe, comprising 48% oil and 52% gas; 2P Reserves 7.33MMboe, similarly weighted 48% oil; and 3P Reserves 10.89MMboe, also 48% oil. OEL's Reserves were last updated as at 30 June 2020 with GC21 updated as at 31 December 2020 and summarised in the figure below.
- OEL has close to a decade of production with an estimated nine years of production on 1P Reserves; an estimated thirteen years based on 2P Reserves, and fourteen years on 3P Reserves.

Figure 6: OEL Reserves Summary, net

Reserves, net to OEL	Oil, Mbbl	Gas, MMcf	Mboe
Proven, 1P	**2,173**	**14,293**	**4,556**
Probable Reserves	1,362	8,463	2,771
Proven Plus Probable, 2P	**3,535**	**22,756**	**7,327**
Possible Reserves	1,722	10,995	3,555
Proven Plus Probable Plus Possible, 3P	**5,257**	**33,751**	**10,882**

Source: Company; SM71 and Lightning as at 30 June 2020 and GC21 as at 31 December 2020.

- OEL's Reserves are summarised by field in the figures below. South Marsh Island 71 has 1P Reserves of 1.4MMboe (net), with 88% oil and 12% gas, and 2P Reserves of 2.2MMboe (net). Lightning has 1P Reserves of 2.53MMboe (net), weighted 15% oil and 85% gas, and 2P Reserves of 4.0MMboe (net). Green Canyon 21 has 1P Reserves of 0.60MMboe (net), with 90% oil and 10% gas, and 2P Reserves of 1.10MMboe (net).

Figure 7: South Marsh Island 71 Reserves

Reserves, net to OEL (37.5%)	Oil, Mbbl	Gas, MMcf	Mboe
Proven, 1P	**1,251**	**1,051**	**1,426**
Probable Reserves	671	490	753
Proven Plus Probable, 2P	**1,922**	**1,541**	**2,179**
Possible Reserves	1,304	1,764	1,598
Proven Plus Probable Plus Possible, 3P	**3,226**	**3,305**	**3,777**
Total Prospective Resource, unrisked	313	345	370

Source: Company as at 30 June 2020.

Figure 8: Lightning Reserves

Reserves, net to OEL (28.214%)	Oil, Mbbl	Gas, MMcf	Mboe
Proven, 1P	**386**	**12,872**	**2,532**
Probable Reserves	231	7,696	1,513
Proven Plus Probable, 2P	**617**	**20,568**	**4,045**
Possible Reserves	274	9,144	1,798
Proven Plus Probable Plus Possible, 3P	**891**	**29,712**	**5,843**

Source: Company as at 30 June 2020.

Figure 9: Green Canyon 21 Reserves

Reserves, net to OEL (13.333%)	Oil, Mbbl	Gas, MMcf	Mboe
Proven, 1P	**536**	**370**	**598**
Probable Reserves	460	277	505
Proven Plus Probable, 2P	**996**	**647**	**1,103**
Possible Reserves	144	87	159
Proven Plus Probable Plus Possible, 3P	**1,140**	**734**	**1,262**

Source: Company as at 31 December 2020.

CAPITAL EXPENDITURE, FINANCING AND BALANCE SHEET

- OEL has only a modest capex profile in the near term, and has guided US$8M and US$7M in FY22e and FY23e.
- The company had US$7.8M cash at March 2021 end and US$13.8M debt.
- The company has a debt balance of US$13.8M on its Tranche A1 debt facility at 31 March 2021. OEL has an additional undrawn Tranche A2 US$10M facility as well as an undrawn US$20M facility B, all of which comprise the US$55M facility entered into in November 2019.
- Debt repayments will be progressively due at US$2.3M per quarter, which we believe can be fully serviced through existing cash flows. The final debt instalment is expected by September 2022. OEL can elect to make early repayments of its debt. Access to Facility B will require a structuring fee of US$0.6M and trigger the issue of 42.5M options at A$0.08.
- Cash of US$7.8M at 31 March end includes a US$5.4M debt service reserve account, which must maintain a minimum US$5M balance.

COMMODITY FORECASTS

- We provide our forecasts for currency, WTI oil, and US natural gas, in line with consensus. We assume a long term WTI oil price of US$62/bbl and US natural gas of US$3.00/mmbtu. We have a long term AUDUSD of 0.74. OEL typically receives a 2-5% premium to WTI oil price for its LLS products, similar to the usual range for Brent spreads over WTI.

Figure 10: Commodity Price Forecasts

Commodity	CY21e	CY22e	CY23e	CY24e	LT
AUSDUSD	0.77	0.76	0.75	0.75	0.74
Oil, WTI, US$/bbl	65	64	55	58	62
Natural Gas, US, US$/mmbtu	2.97	2.98	2.87	2.86	3.00

Source: Foster Stockbroking estimates.

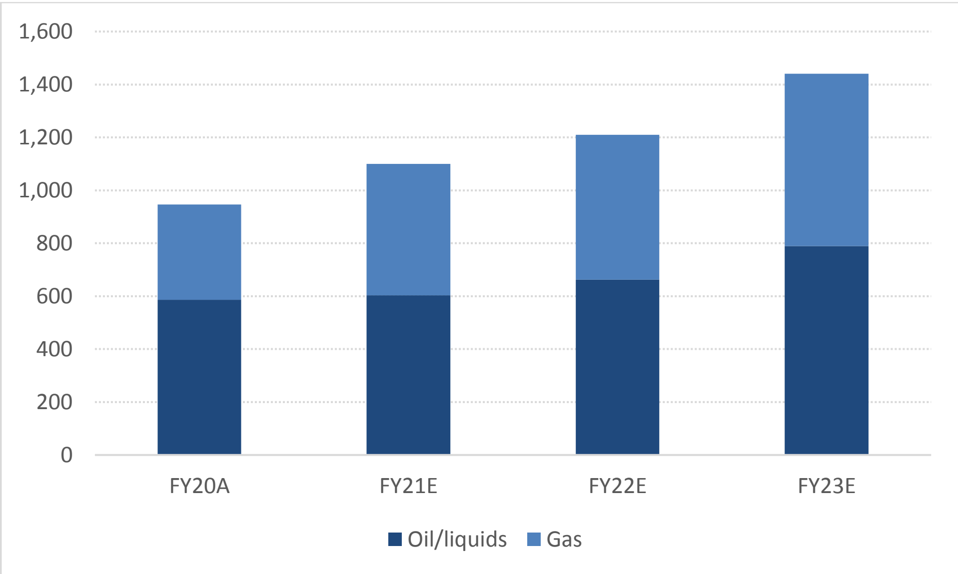
HEDGING

- The company uses LLS swaps to gain downside protection with upside participation to higher oil prices. The average hedge price for 2H21 is US$51/bbl on 714 bopd using LLS swaps. The average hedge price for the first three quarters of 2022 is US$50/bbl on 349 bopd using LLS swaps.
- OEL has hedged 80% of PDP forecast production in 2021 and 75% for the first three quarters of 2022.

PRODUCTION FORECASTS

- We forecast FY21-23e production of 1.1, 1.2, and 1.4MMboe, or 19%, 7%, and 19% production growth over the forecast horizon, and noting 0.95MMboe production in FY20a. Our production profile assumes GC21 is recompleted in the DTR-10 Sand in mid CY22 and production begins thereafter.

Figure 11: OEL Production Profile



Source: Company, Foster Stockbroking estimates.

EARNINGS FORECASTS

- We forecast FY21-23e EBITDAX of US$13M, US$27M, and US$33M for OEL to deliver FY21-23e underlying NPAT of US$1M, US$9M, and US$13M or US$0.0cps, US$0.2cps and US$0.3cps respectively, summarised in the figure below. We forecast a significant increase in FY22e earnings from FY21e due to improved pricing and increased production.

Figure 12: OEL Earnings Forecasts, US$M

Y/e June	2021e	2022e	2023e
Revenue	**30**	**42**	**48**
Production costs	4	5	6
Gross profit	26	37	43
G&A and other expenses	13	10	9
EBITDAX	**13**	**27**	**33**
Exploration	3	5	5
EBITDA	**10**	**22**	**28**
D&A	8	8	10
EBIT	2	14	18
Net interest expense	1	1	0
PBT	1	13	18
Tax expense	0	4	6
NPAT underlying	**1**	**9**	**13**
EPS, cps	**0.0**	**0.2**	**0.3**

Source: Foster Stockbroking estimates.

SHARE CAPITAL

- OEL has 4,795M ordinary shares currently on issue as well as 42.5M options with strike price of $0.08 with November 2023 expiry, and 23.9M performance rights.

Figure 13: OEL Share Capital

Share Capital	M
Fully paid ordinary shares	4,795.0
Options	42.5
Performance rights	23.9
Fully diluted shares pro forma, M	**4,861.5**

Source: Company.

VALUATION – $0.04/SHARE

- We derive a valuation of $192M or $0.04/share for OEL. Our valuation is based on an unrisked NPV_{10} DCF of $192M for OEL's producing assets. We assume LT WTI oil of US$62/bbl, US natural gas of US$3.00/mmbtu, and AUDUSD 0.74.
- Investments totalling $16M represents the market value of 14.2M LSE listed Pantheon Resources Plc shares, issued to OEL as consideration for the sale of its Alaska assets in January 2021.

Figure 14: OEL Valuation

Company Valuation	A$M	A$/sh
Production	192	$0.04
Development	15	$0.00
Investments	16	$0.00
Corporate	-23	-$0.00
Net cash / (debt)	-8	-$0.00
Options	0	$0.00
Valuation DCF, WACC 10%	**$192**	**$0.04**
Ordinary shares, M	4,795	
Options, ITM, M	0	
Fully diluted shares, M	**4,795**	

Source: Company, Foster Stockbroking estimates.

SENSITIVITY

- Our valuation of OEL is most sensitive to currency and ultimate price assumptions. For a 10% change in our AUDUSD assumption, there is a corresponding 0.4c change to our OEL valuation to $0.044/share.
- For a 10% change in our WTI assumption, there is a similar corresponding 0.4c change to our OEL valuation to $0.044/share.
- For a 10% change in our natural gas, there is a corresponding 0.2c change to our OEL valuation.

Figure 15: Sensitivity of Valuation and NPV to 10% Parameter Change

Parameter	Valuation, A$/sh	Change, A$/sh	Valuation, A$M	Change, A$M
AUDUSD	$0.044	$0.004	212	19
WTI, US$/bbl	$0.044	$0.004	211	18
Natural gas, US$/mmbtu	$0.042	$0.002	199	6

Source: Foster Stockbroking estimates, rounding affects figures.

INITIATE WITH BUY RECOMMENDATION, PRICE TARGET $0.04/SHARE

- We **initiate coverage of OEL with a Buy recommendation and price target of $0.04/share**, in line with our valuation. We think the company is entering a sweet spot of production with near term cash generation supported by the producing flagship SM71 asset, leveraged to strong macro tailwinds in an improving energy market. GC21 provides upside on successful recompletion in mid-CY22.
- We contend the market has been slow to recognise the material upside, with the current share price reflecting a low realised WTI outcome under 2P reserve with significant upside from continued stronger prices, cash generation, and maximising existing asset base. We estimate a very undemanding FY22e P/FCF of 3.1x.
- We see a number of upcoming catalysts for OEL, including 1) continued production growth and operational improvements; 2) Reserve and production updates upgrades from production, development, and recompletion updates; 3) capital management updates; 4) GC21 updates; and 5) continued deleveraging of the balance sheet.

BOARD OF DIRECTORS AND KEY STAFF

- **Mike Ustler, Executive Chairman, Chief Executive Officer, and Managing Director**. BSc (Petroleum Engineering). Oil and gas executive with more than 40 years' experience in senior international oil and gas roles with Amoco, BP, Woodside, and New Fortress Energy.
- **John Jetter, Non-Executive Director.** BLaw, BEcon, INSEAD. Former Managing Director, CEO and head of investment banking of JPMorgan in Germany and Austria and member of European Advisory Council, JPMorgan London. Has held senior positions with JPMorgan throughout Europe. Non-executive director of Venture Minerals Ltd (VMS) since 2010, and prior directorship of Peak Resources Ltd (PEK).
- **Geoff Page, Non-Executive Director**. MBA, CPA, FCMA, FGIA. Finance professional with over 20 years of senior finance, accounting, and management experience across a number of industries.
- **Paul Senycia, Non-Executive Director**. BSc Hons (Mining Engineering), ACSM, MAppSc (Geophysics). Appointed to the Board in 2018 and has been a Non-Executive Director since 2019. Initially joined OEL as Exploration Manager in 2010 and led the company's technical operations from 2015 to 2018. Very experienced oil and gas professional, trained as an exploration geoscientist, with over 35 years of international oil and gas experience in both commercial and technical fields. Prior roles include at Shell, Woodside and Beach Petroleum.

RISKS

The following risks may negatively impact the valuation and earnings of OEL:

- **Resource risk.** There is a risk that in the future resources may be negatively revised or resources are not successfully converted into reserves, impacting the size and quality of the projects.
- **Sovereign risk.** Any change in government, policy, legislation, or fiscal regimes of Australia or US, might impact the ownership, financing, permitting, or economics of OEL's business and valuation.
- **Commodity price and currency risk.** Commodity price declines may negatively impact revenues and profitability of OEL's project. OEL's share price is denominated in A$, while its commodities are priced in US$. Any increase in the A$ may reduce translational impact of US$.
- **Operating risk.** Operational issues can occur during the processing, transporting, and selling of OEL's products that has the ability to impact revenues, costs, and profit negatively.
- **Financing and dilution risk.** OEL may require funds to advance projects. If the company is not able to source the requisite funding, it might require highly dilutive equity raising and/or debt that has the potential to dilute shareholders or increase the company's solvency risk.
- **Management risk and key person risk.** The loss of key executives may cause the performance of the business to deteriorate and a loss of investor confidence.
- **Economic risk.** Any downturn in economies in which OEL operates could cause lower revenue and earnings for OEL. Slowing economic growth globally may negatively impact OEL's earnings.

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