



Otto Energy Ltd (OEL.ASX)

Mosquito Bay and Oyster Bayou rapid addition to production

Event:

- **Mosquito Bay and Oyster Bayou discoveries.**

Investment Highlights:

- **Commercial gas condensate discoveries at Mosquito Bay and Oyster Bayou South will add to FY23 production:** A0391 #1 well in Oyster Bayou South prospect has encountered 68 feet TVT of net pay, and the company thinks is consistent with the pre-drill mid case prospective resource estimate of 1.7Bcf and 57,984bbbls net to OEL. Currently being completed as a producing well with first production expected Q4 CY22.
- **Mosquito Bay development on track:** first production is on schedule for Q3 CY22, only four months from exploration to production. The Point Au Fer LLC #1 well encountered 111 feet TVT of proved net pay in five sands, with another 10 feet TVT potential pay. The company notes significantly higher net pay count than the mid-case on a pre-drill basis, which was 2.4Bcf and 63,250bbbls net to OEL, with the high case at 4.2Bcf and 103,704bbbls net to OEL.
- **Existing production assets to add to profile:** OEL production base is also expected to be further boosted during H2 CY22 via the recompletion of the South Marsh Island 71 F2 well into the J1 sand and the recompletion of the GC 21 Bulleit well into the DTR-10 sand, the latter having a difficult FY22.
- **Cash of \$34M at June 2022 end (est.), with debt of US\$2.3M,** due to be repaid in full by the September 2022 quarter. Liquid investments in UK listed Pantheon Resources plc worth ~US\$4M.

Earnings and Valuation:

- We update forecast **FY22-24e earnings of US\$12M, US\$17M, and US\$14M (prior US\$1M, US\$9M, and US\$13M), or EPS (US\$) of 0.2, 0.3, and 0.3cps (prior 0.0, 0.2, and 0.3cps).** We forecast FY22-24e production of 0.8, 1.0, and 0.9mmboe, with FY23 and FY24 reflecting additional Mosquito Bay and Oyster Bayou prospects set to contribute in FY22e, offset by rebased profile especially at GC21. Recent discoveries are a strong validation of OEL's disciplined growth pipeline with three consecutive exploration well successes now delivered.
- **We have an increased valuation of \$0.045 per OEL share (prior \$0.04)** underpinned by a NPV₁₀ of A\$186M for producing assets, with updated FY22-24e WTI of US\$82/94/87/bbl (+24%/46%/39%) and gas of US\$3.99/4.61/4.15/mmbtu (+34%/58%/45%) mostly offsetting rebased production volume (-30%/-32%/-22%).

Recommendation:

- **We maintain our Buy recommendation for OEL with an increased price target of \$0.045/share (prior \$0.04),** as the company rapidly adds to production profile and generates cash, taking advantage of commodity tailwind. We maintain the view there is continuing material upside, with the current share price reflecting a low realised WTI outcome under 2P reserve., especially in the face of sustained strong pricing.
- **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 1,604,198 OEL shares, 20,000,000 OEL options with \$0.02 strike and August 2024 expiry, and 10,000,000 OEL options with \$0.025 strike and August 2024 expiry.

Cranport Pty Ltd owns 20,000,000 OEL shares.

Foster Stockbroking provides equity capital markets and corporate advice to OEL and has received consideration for this service.

Refer to end of report for details.

Recommendation	Buy
Previous	N/A
Risk	High
Price Target (A\$/share)	\$0.045
Previous	N/A
Share Price (A\$)	\$0.014
ASX Code	OEL
52 week low - high (A\$)	0.008-0.019

Capital structure

Shares on Issue (M)	4,795.0
Options and rights (M)	96.4
Market Cap, undil. (A\$M)	67
Net Cash/(Debt) (A\$M)	34
EV (A\$M)	33
12mth Av Daily Volume ('000)	6,305

Y/e Jun US\$	FY21a	FY22e	FY23e	FY24e
Sales, \$M	30.3	44.5	50.2	40.3
EBITDA adj. \$M	18.9	20.9	28.5	23.4
NPAT adj. \$M	10.6	11.8	16.8	13.5
EPS adj c	0.2	0.2	0.3	0.3
PER (x)	6.3	5.7	4.0	0.0
Dividend c	0.0	0.0	0.0	0.0

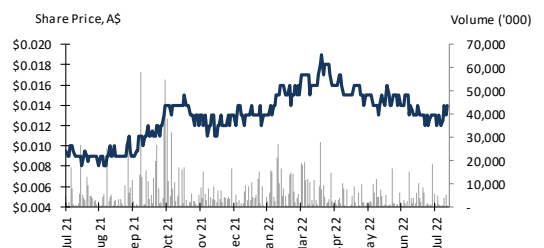
Board

Mike Ustler	Executive Chairman and CEO
John Jetter	Non-Executive Director
Geoff Page	Non-Executive Director
Paul Senyia	Non-Executive Director
John Madden	Non-Executive Director

Major Shareholders

Molton Holdings	48.1%
-----------------	-------

Share Price Graph



Matthew Chen, CFA
matthew.chen@fostock.com.au

+61 2 9993 8130



Otto Energy (OEL)

Full Year Ended 30 June

Profit and Loss US\$M	2021a	2022e	2023e	2024e
Revenue	30	45	50	40
Production Costs	5	5	6	4
Gross Profit	26	39	44	36
Other expenses	0	7	3	4
G&A	4	6	7	4
EBITDAX	22	26	33	28
Exploration	3	5	5	5
EBITDA	19	21	28	23
D&A	6	4	5	5
EBIT	13	17	24	18
Net Interest exp / (income)	3	1	0	-1
PBT	11	16	24	19
Tax exp / (benefit) adj.	0	4	7	6
NPAT underlying	11	12	17	14
Non-recurring items	15	-6	0	0
NPAT reported	-5	6	17	14
EPS diluted, adj. cps	0.2	0.2	0.3	0.3

Cashflow US\$M	2021a	2022e	2023e	2024e
EBITDAX	19	21	28	23
Change in WC	-1	4	-1	-4
Tax paid	0	-4	-7	-6
Other	0	3	0	0
Net interest	-2	-1	0	1
Exploration	-4	-5	-5	-5
Operating Cashflow	15	23	21	15
Purchase of PP&E	0	0	0	0
Acquisitions	0	0	0	0
Capitalised expenses	-11	-9	-7	0
Investments	0	11	3	3
Investing Cashflow	-11	2	-4	3
Equity issue	0	0	0	0
Debt proceeds	0	0	0	0
Debt repayments	-9	-9	-2	0
Other	0	0	0	0
Financing Cashflow	-9	-9	-2	0
Net Cashflow	-5	16	15	18

Balance Sheet US\$M	2021a	2022e	2023e	2024e
Cash	11	27	41	59
Receivables	4	4	4	3
PPE	37	47	54	54
Other	9	9	9	9
Total Assets	61	86	108	125
Accounts payable	2	6	5	1
Provisions	4	5	6	7
Debt	10	2	0	0
Other	6	22	29	36
Total Liabilities	21	34	40	43
Reserves and capital	144	144	144	144
Retained earnings	-104	-92	-75	-62
NCI	0	0	0	0
Total Equity	40	52	68	82

Source: Company; Foster Stockbroking estimates

Financial Metrics	2021a	2022e	2023e	2024e
Sales growth, %	31%	47%	13%	-20%
EPS growth, %	-189%	9%	43%	-20%
EBITDA margin, %	63%	47%	57%	58%
EBIT margin, %	44%	38%	47%	46%
Gearing (ND/ND+E)	-2%	-91%	-154%	-258%
Interest Cover (EBIT/net int)	-4.9x	-28.4x	63.7x	21.8x
EV/S, x	1.1	0.8	0.7	0.8
EV/EBITDA, x	1.8	1.6	1.2	1.4
EV/EBIT, x	2.5	2.0	1.4	1.8
PER, x	6.3	5.7	4.0	0.0
Average ROE %	25%	26%	28%	18%
Average ROA %	20%	23%	24%	16%
FCF, US\$M	7.8	7.8	14.6	17.9
P/FCF, x	5.8	6.0	3.2	2.6
Wtd ave shares (M)	4,700	4,795	4,795	4,795
Wtd ave share diluted (M)	4,729	4,824	4,824	4,824

Commodity Assumptions	2021a	2022e	2023e	2024e
Prices				
WTI Oil, US\$/bbl	52	82	94	87
US Natural Gas, US\$/mmbtu	2.70	3.99	4.61	4.15
AUDUSD	0.72	0.73	0.74	0.74
Production (net)				
Oil, bbls	0.5	0.5	0.5	0.4
Gas, mcf	3.1	2.0	2.8	2.8
NGL, bbls	0.1	0.1	0.1	0.1
Total, boe	1.1	0.8	1.0	0.9
Daily, boepd	3,091	2,328	2,692	2,570
Costs				
Production cost/bbl	4.1	6.4	6.4	0.0

Capital structure current	M
Ordinary shares	4,795
Options and rights	96
Fully diluted	4,891

Company Valuation	A\$M	A\$/sh
DCF, WACC 10% nominal		
Segment		
Production	186	\$0.04
Development	15	\$0.00
Investments	5	\$0.00
Corporate	-22	\$0.00
Net cash (debt)	34	\$0.01
Options	0	\$0.00
Total	218	\$0.045

Resources and Reserves	WI	1P	2P	3P
Asset				
South Marsh Island (SM71)	50.0%	1.44	1.79	2.13
Lightning Field	37.5%	2.53	4.05	5.84
Green Canyon 21 (GC21)	16.7%	0.58	1.08	1.24
Total		4.56	6.91	9.20

Net, mmboe, at 30 June 2021.



FOSTER STOCKBROKING DIRECTORY

Name	Department	Phone	Email
Stuart Foster	Chief Executive Officer	+61 2 9993 8131	stuart.foster@fostock.com.au
James Gore	Institutional Sales	+61 2 9993 8121	james.gore@fostock.com.au
David Salmon	Institutional Sales	+61 2 9993 8168	david.salmon@fostock.com.au
Carmie Olowoyo	Institutional Sales Perth	+61 8 6245 3142	carmie.olowoyo@fostock.com.au
Harry Forbes	Execution & Dealing	+61 2 9993 8136	george.mourtzouhos@fostock.com.au
Rob Telford	Head of Corporate	+61 2 9993 8132	rob.telford@fostock.com.au
Ellie Bedoyan	Corporate	+61 2 9993 8122	ellie.bedoyan@fostock.com.au
Mark Fichera	Co-Head of Research	+61 2 9993 8162	mark.fichera@fostock.com.au
Matthew Chen	Co-Head of Research	+61 2 9993 8130	matthew.chen@fostock.com.au

Foster Stockbroking Pty Ltd
A.B.N. 15 088 747 148 AFSL No. 223687
Sydney: Level 25, 52 Martin Place, Sydney, NSW 2000 Australia
Perth: Level 9, 66 St Georges Terrace, Perth WA 6000 Australia
General: +612 9993 8111 Equities: +612 9993 8100 Fax: +612 9993 8181
www.fostock.com.au
Email: contact@fostock.com.au
PARTICIPANT OF ASX GROUP

Foster Stockbroking recommendation ratings: Buy = return >10%; Hold = return between -10% and 10%; Sell = return <-10%. Speculative Buy = return > 20% for stock with high risk. All other ratings are for stocks with low-to-high risk. Returns quoted are annual.

Disclaimer & Disclosure of Interests. Foster Stockbroking Pty Limited (**Foster Stockbroking**) has prepared this report by way of general information. This document contains only general securities information or general financial product advice. The information contained in this report has been obtained from sources that were accurate at the time of issue, including the company's announcements and pathfinder prospectus which have been relied upon for factual accuracy. The information has not been independently verified. Foster Stockbroking does not warrant the accuracy or reliability of the information in this report. The report is current as of the date it has been published.

In preparing the report, Foster Stockbroking did not take into account the specific investment objectives, financial situation or particular needs of any specific recipient. The report is published only for informational purposes and is not intended to be personal financial product advice. This report is not a solicitation or an offer to buy or sell any financial product. Foster Stockbroking is not aware whether a recipient intends to rely on this report and is not aware of how it will be used by the recipient. Before acting on this general financial product advice, you should consider the appropriateness of the advice having regard to your personal situation, investment objectives or needs. Recipients should not regard the report as a substitute for the exercise of their own judgment.

The views expressed in this report are those of the analyst named on the cover page. No part of the compensation of the analyst is directly related to inclusion of specific recommendations or views in this report. The analyst receives compensation partly based on Foster Stockbroking revenues, including any investment banking and proprietary trading revenues, as well as performance measures such as accuracy and efficacy of both recommendations and research reports. Any views and opinions expressed in the report are those of the research analyst and have not been influenced by corporate advisory, the issuing company, or its other advisers.



Foster Stockbroking believes that the information contained in this document is correct and that any estimates, opinions, conclusions or recommendations are reasonably held or made at the time of its compilation in an honest and fair manner that is not compromised. However, no representation is made as to the accuracy, completeness or reliability of any estimates, opinions, conclusions or recommendations (which may change without notice) or other information contained in this report. To the maximum extent permitted by law, Foster Stockbroking disclaims all liability and responsibility for any direct or indirect loss that may be suffered by any recipient through relying on anything contained in or omitted from this report. Foster Stockbroking is under no obligation to update or keep current the information contained in this report and has no obligation to tell you when opinions or information in this report change.

Foster Stockbroking seeks to do business with companies covered in research. As a result investors should be aware that the firm may have a conflict of interest which it seeks manage and disclose.

Foster Stockbroking and its directors, officers and employees or clients may have or had interests in the financial products referred to in this report and may make purchases or sales in those the financial products as principal or agent at any time and may affect transactions which may not be consistent with the opinions, conclusions or recommendations set out in this report. Foster Stockbroking and its Associates may earn brokerage, fees or other benefits from financial products referred to in this report. Furthermore, Foster Stockbroking may have or have had a relationship with or may provide or has provided investment banking, capital markets and/or other financial services to the relevant issuer or holder of those financial products.

For an overview of the research criteria and methodology adopted by Foster Stockbroking; the spread of research ratings; and disclosure of the cessation of particular stock coverage, refer to our website <http://www.fostock.com.au>.

Specific disclosure: The analyst does not own OEL securities at the time of this report. Diligent care has been taken by the analyst to maintain honesty and fairness in writing the report and making the recommendation.

Specific disclosure: Foster Stockbroking provides equity capital markets and corporate advice to OEL and has received consideration for this service.

Specific disclosures: As at close of business on 20 July 2022, Foster Stockbroking and associated entities (excluding Cranport Pty Ltd) own 1,604,198 OEL shares, 20,000,000 OEL options with \$0.02 strike and August 2024 expiry, and 10,000,000 OEL options with \$0.025 strike and August 2024 expiry. Cranport Pty Ltd owns 20,000,000 OEL shares. The position may change at any time and without notice. Foster Stockbroking and its employees may from time to time own securities the subject of the report, and trade them in ways different from those discussed in research. Foster Stockbroking may also make a market in securities the subject of the report, including buying and selling securities on behalf of clients.

Review disclosure: The report was authored by the analyst named on the front page of the report and was reviewed and checked by Mark Fichera, Research.

Disclosure review. All the disclosures in the report have been reviewed and checked by Keith Quinn, Compliance Committee Member.