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# Senex Energy Ltd (SXY)

## Q4 FY21: Holding course on growth

### Recommendation

**Buy** (unchanged)

**Price**

**\$3.18**

**Target (12 months)**

**\$3.75** (unchanged)

### GICS Sector

Energy

### Expected Return

Capital growth	<b>17.9%</b>
Dividend yield	<b>2.5%</b>
Total expected return	<b>20.4%</b>

### Company Data & Ratios

Enterprise value	<b>\$559m</b>
Market cap	<b>\$585m</b>
Issued capital	<b>184m</b>
Free float	<b>78%</b>
Avg. daily val. (52wk)	<b>\$1.4m</b>
12 month price range	<b>\$2.04-\$3.64</b>

### Price Performance

	(1m)	(3m)	(12m)
Price (A\$)	3.48	3.19	2.08
Absolute (%)	-8.6	-0.3	52.9
Rel market (%)	-6.9	-3.6	32.4

### Absolute Price



SOURCE: IRESS

### Production growth takes a breather

SXY finished FY21 with total production of 17.3PJ (BP est. 17.6PJ), within company guidance of 17-18PJ. Production plateaued in the final quarter to average 52TJ/day and sales were 2% lower on gas processing facility maintenance. Full year revenue was \$116m, broadly in line with our estimate of \$118m. Over the quarter, SXY's net cash position fell to \$26m (from \$36m); at quarter end, the company had cash of \$101m and \$50m in undrawn debt.

EPS changes in this report are: FY21 now 6.1cps (previously 8.8cps); FY22 -2%; and FY23 no change.

### Next phase of expansion on track

Roma North's expansion to 9PJ/year (25TJ/day) is expected to be online in the current quarter. Together with Atlas currently at around 12PJ/year (33TJ/day), the Roma North expansion will increase group nameplate capacity to around 21PJ/year (58TJ/day). Taking Atlas to 18PJ/year and therefore group capacity to 27PJ/year (74TJ/day) is through front end engineering design (FEED) with FID dependent on customers signing term contracts. Roma North's next expansion to 18PJ is also through FEED and could further increase group capacity to 36PJ/year (99TJ/day), FID is expected by the end of 2021. SXY reiterated its longer term target of lifting group production to more than 60PJ/year by the end of FY25.

### Investment thesis: Buy, Target Price \$3.75/sh

SXY provides leverage to Australia's east coast gas market where supply deficits are supporting high prices. Near term earnings growth is from ongoing production growth, improved domestic prices, and improved GLNG offtake prices as lagged oil-linked gas prices flow through. The company has brownfield expansion projects and a track record in project development. SXY is funded to pursue its growth aspirations, with net cash and supportive bank debt. We also expect dividends to form an increasing component of shareholder returns.

### Earnings Forecast

Year end June	2020a	2021e	2022e	2023e
Sales (A\$m)	120	116	174	223
EBITDA (A\$m)	49	54	100	130
NPAT (reported) (A\$m)	(51)	11	56	68
NPAT (adjusted) (A\$m)	4	11	56	68
EPS (adjusted) (eps)	2.1	6.1	30.5	37.1
EPS growth (%)	-47%	191%	398%	22%
PER (x)	151.0	51.9	10.4	8.6
FCF Yield (%)	-9.4%	0.0%	1.9%	12.8%
EV/EBITDA (x)	11.1	10.7	5.4	4.2
Dividend (eps)	-	8.0	8.0	14.0
Yield (%)	0.0%	2.5%	2.5%	4.4%
Franking (%)	0%	97%	0%	0%
ROE (%)	-31%	2%	17%	18%

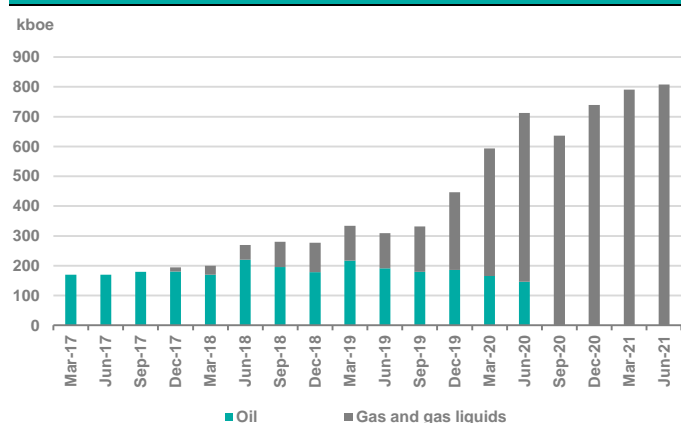
SOURCE: BELL POTTER SECURITIES ESTIMATES

# Q4 FY21: Holding course on growth

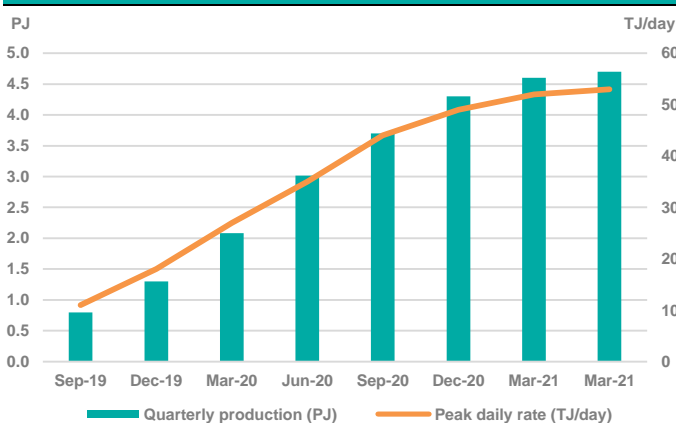
**Table 1 - Quarterly summary**

	Jun-20(a)*	Sep-20(a)	Dec-20(a)	Mar-21(a)	Jun-21(a)	QoQ(Δ%)	Jun-21(BPe)	vs BP(Δ%)
Production (PJ)	3.0	3.7	4.3	4.6	4.7	2%	5.0	-5%
Sales (PJ)	2.8	3.3	4.0	4.8	4.7	-2%	5.0	-5%
Revenue (A\$m)	25.1	22.2	27.9	33.2	32.5	-2%	34.8	-7%
Average realised gas price (A\$/GJ)*	7.5	5.9	6.2	6.8	6.9	1%	7.0	-1%
Net debt/(cash) (A\$m)	45.1	54.6	52.0	-36.0	-23.0	N/A		

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES  
NOTE: \* BELL POTTER SECURITIES CALCULATED

**Figure 1 - Quarterly production profile**


SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

**Figure 2 – Surat Basin quarterly gas production & rates**


SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

## Key observations from the quarterly

- Full year production guidance achieved:** Production at SXY's Surat Basin coal seam gas assets has now plateaued at around 52TJ/day, peaking at 53TJ/day. Full year production of 17.3PJ was within the company's guidance of 17-18PJ (2.9-3.1mboe). Gas sales for the quarter were slightly weaker maintenance activities undertaken at both the Roma North and Atlas projects.
- Revenue in line with our estimates:** Full year revenue was \$116m, broadly in line with our estimate of \$118m. SXY's average realised gas price for the quarter was \$6.90/GJ. We estimate that around 60% of SXY's gas sales are to domestic customers and 40% are to the oil price linked GLNG GSA. Higher crude oil prices in the June 2021 quarter should flow through to higher realised prices in the current quarter.
- Expansions on track:** Roma North to hit next target in the current quarter.
  - Roma North expansion to 9PJ/year (24TJ/day):** On target for completion in the current quarter. This asset has been consistently performing above its initial nameplate capacity of 6PJ/year (16TJ/day) over recent quarters.
  - Atlas expansion to 18PJ/year (49TJ/day):** FEED is complete. SXY taking FID is dependent on customers signing term GSAs. Current capacity at Atlas is 12PJ/year (32TJ/day).
  - Roma North expansion to 18PJ/year (49TJ/day):** FEED is complete. Gas from Roma North is sold into the GLNG GSA which allows for volumes up to 18PJ/year. FID is expected before the end of 2021.

SXY reiterated its annual production target of 60PJ/year (164TJ/day) by the end of FY25, an almost tripling of current production levels.

- Balance sheet remains strong:** SXY ended the quarter with cash reserves of \$101m, drawn debt of \$75m for net cash of \$26m (31 March 2021 cash reserves of \$111m, drawn debt of \$75m for net cash of \$36m). Existing bank facilities have \$50m undrawn. During the quarter SXY paid a \$14.7m dividend and June 2021 quarterly capex was \$10.4m.

### Changes to earnings estimates

We have updated our SXY financial model for the June 2021 quarterly report and made minor operating adjustments for FY22.

**Table 2 - Changes to earnings estimates**

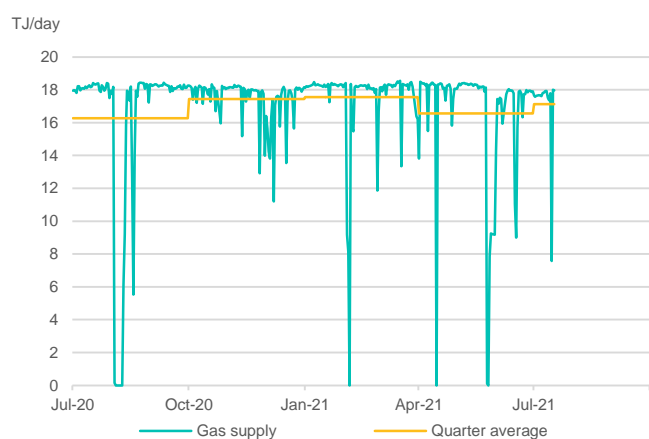
Year ending 30 Jun	Previous			New			Change		
	2021e	2022e	2023e	2021e	2022e	2023e	2021e	2022e	2023e
Production (mmbœ)	17.6	21.7	26.3	17.6	21.5	26.3	0%	-1%	0%
Sales (A\$m)	118	176	223	116	174	223	-2%	-1%	0%
EBITDA (A\$m)	59	101	130	54	100	130	-8%	-1%	0%
NPAT (reported) (A\$m)	15	57	68	11	56	68	-31%	-2%	0%
NPAT (adjusted) (A\$m)	16	57	68	11	56	68	-30%	-2%	0%
EPS (adjusted) (¢ps)	8.8	31.1	37.2	6.1	30.5	37.1	-30%	-2%	0%
Dividend (¢ps)	8.0	8.3	14.2	8.0	8.0	14.0	0%	-4%	-2%
Valuation (\$/sh)	3.51	3.74	3.92	3.60	3.81	4.04	3%	2%	3%

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

### Daily gas processing plant performance

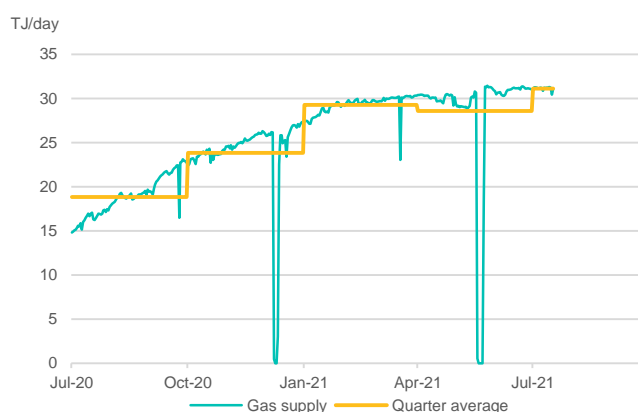
The following charts are based on public data available from the Australian Energy Market Operator (AEMO).

**Figure 3 - Roma North daily performance**



SOURCE: AEMO

**Figure 4 - Atlas daily performance**



SOURCE: AEMO

# Senex Energy Ltd (SXY)

## Company description

SXY's strategy is to deliver oil and gas into the Australian East Coast domestic and international energy markets. Its key assets are two Queensland Surat Basin CSG projects, Atlas and Roma North, as outlined in the following table.

**Table 3 - Key projects**

Project	Project Atlas (Surat Basin, Queensland)	Western Surat Gas Project (WSGP) (Surat Basin, Queensland)	
		Roma North	(ex. Roma North)
Project type	CSG	CSG	CSG
SXY equity	100%	100%	100%
Area covered	~58km <sup>2</sup>	~307km <sup>2</sup>	~533km <sup>2</sup>
2P Reserve	275PJ	283PJ	222PJ
Market	Domestic (contracted & uncontracted)	20-year GSA with GLNG	20-year GSA with GLNG
Project parameters	Initial 32TJ/day (12PJpa) Expanding to 48TJ/day (18PJpa) in 2022	Initial 16TJ/day (6PJpa) Expanding to 24TJ/day (9PJpa) in the September 2021 quarter and potentially to 48TJ/day (18PJpa) from 1H FY23	Expansion from Roma North to +200 wells in total
Projected number of wells	(Jemena owned gas plant and pipeline) ~45 development +100 in total	(Jemena owned gas plant and pipeline) ~50 development wells on top of the 30 Phase 2 wells	
First sales gas delivered	Early 2020	Early 2020	

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

## Investment thesis: Buy, Target Price \$3.75/sh

SXY provides leverage to Australia's east coast gas market where supply deficits are supporting high prices. Near term earnings growth is from ongoing production growth, improved domestic prices, and improved GLNG offtake prices as lagged oil-linked gas prices flow through. The company has brownfield expansion projects and a track record in project development. SXY is funded to pursue its growth aspirations, with net cash and supportive bank debt. We also expect dividends to form an increasing component of shareholder returns.

## Valuation

Our earnings estimates and valuation currently factor in:

- Project Atlas (100% SXY) producing to 32TJ/day (12PJpa) then expanding to 48TJ/day (18PJpa) from 2022; and
- Roma North (Western Surat Gas Project) (100% SXY) producing to 18TJ/day, increasing to 24TJ/day (9PJpa) in 2021. We are yet to incorporate Roma North's expansion to 48TJ/day (18PJpa) from 1H FY23.

## Risks

Risk to energy sector equities include, but are not limited to:

- **Commodity price and exchange rate fluctuations.** The future earnings and valuations of exploration, development and operating energy assets and companies are subject to fluctuations in underlying commodity energy prices and foreign currency exchange rates.
- **Infrastructure access.** Energy projects are reliant upon access to treatment and pipeline infrastructure. Access to infrastructure is often subject to contractual agreements, permits and capacity allocations. Agreements are typically long-term in nature. Infrastructure can be subject to outages as a result of weather events or the actions of third party providers.
- **Operating and capital cost fluctuations.** Markets for exploration, development and costs of goods sold can fluctuate and cause significant differences between planned and actual operating and capital costs. Key operating costs are linked to energy and labour markets. Energy companies are also exposed to costs associated with future land rehabilitation.
- **Reserve and Resource risks.** Future earnings forecasts and valuations rely on accuracy of Reserve estimation, the ability to extract the underlying Reserve and the potential for Reserve life extensions.
- **Sovereign risks.** Energy companies' assets are subject to the sovereign risk of the country of location and may be exposed to the sovereign risks of major offtake customers.
- **Regulatory changes.** Changes to the regulation of infrastructure and taxation (among other things) can impact the earnings and valuations of energy companies.
- **Environmental risks.** Energy companies are exposed to risks associated with environmental degradation as a result of their exploration and production processes. Fossil fuel producers may be partially exposed to the environmental risks of end markets including the electricity generation sector.
- **Operating and development risks.** Energy companies' assets are subject to risks associated with their operation and development. Development assets can be subject to approvals timelines or weather events, causing delays to commissioning and commercial production.
- **Occupational health and safety (OH&S) risks.** Energy companies are exposed to OH&S risks.
- **Funding and capital management risks.** Funding and capital management risks can include access to debt and equity finance, maintaining covenants on debt finance, managing dividend payments and managing debt repayments.
- **Merger/acquisition risks.** Risks associated with value transferred during merger and acquisition activity.
- **Impact of pandemic infection such as Coronavirus disease (COVID-19).** This may have an adverse impact on the macro economic factors such as energy demand and oil/gas pricing.

Table 4 - Financial summary

Date	20/07/21					Bell Potter Securities
Price	A\$/sh	3.18				Stuart Howe (showe@bellpotter.com.au, +61 3 9235 1856)
Target price	A\$/sh	3.75				
<b>PROFIT AND LOSS</b>						
Year ending 30 Jun	Unit	2019a	2020a	2021e	2022e	2023e
Revenue (including other)	\$m	94	120	116	174	223
Expenses	\$m	(52)	(68)	(62)	(67)	(86)
<b>EBITDAX</b>	<b>\$m</b>	<b>42</b>	<b>52</b>	<b>54</b>	<b>108</b>	<b>138</b>
Exploration	\$m	(11)	(3)	-	(8)	(8)
<b>EBITDA</b>	<b>\$m</b>	<b>31</b>	<b>49</b>	<b>54</b>	<b>100</b>	<b>130</b>
Depreciation	\$m	(25)	(91)	(32)	(41)	(59)
EBIT	\$m	6	(42)	23	59	71
Net interest expense	\$m	(2)	(9)	(12)	(3)	(3)
<b>PBT</b>	<b>\$m</b>	<b>3</b>	<b>(51)</b>	<b>11</b>	<b>56</b>	<b>68</b>
Tax expense	\$m	-	-	-	-	-
<b>NPAT to owners of parent entity</b>	<b>\$m</b>	<b>3</b>	<b>(51)</b>	<b>11</b>	<b>56</b>	<b>68</b>
Other comprehensive income	\$m	5	4	-	-	-
<b>Total comprehensive profit</b>	<b>\$m</b>	<b>8</b>	<b>(48)</b>	<b>11</b>	<b>56</b>	<b>68</b>
Adjustments to NPAT	\$m	4	55	-	-	-
<b>Underlying NPAT as reported</b>	<b>\$m</b>	<b>7</b>	<b>4</b>	<b>11</b>	<b>56</b>	<b>68</b>
<b>CASH FLOW</b>						
Year ending 30 Jun	Unit	2019a	2020a	2021e	2022e	2023e
<b>OPERATING CASH FLOW</b>						
Receipts	\$m	110	126	129	168	218
Payments	\$m	(60)	(76)	(80)	(66)	(83)
Tax	\$m	-	-	-	-	-
Net interest	\$m	(0)	(7)	(9)	(3)	(3)
Other	\$m	(5)	9	7	(8)	(8)
<b>Operating cash flow</b>	<b>\$m</b>	<b>45</b>	<b>52</b>	<b>46</b>	<b>91</b>	<b>125</b>
<b>INVESTING CASH FLOW</b>						
Capex	\$m	(112)	(161)	(46)	(80)	(50)
Other	\$m	21	55	85	-	-
<b>Investing cash flow</b>	<b>\$m</b>	<b>(91)</b>	<b>(106)</b>	<b>38</b>	<b>(80)</b>	<b>(50)</b>
<b>FINANCING CASH FLOW</b>						
Debt proceeds	\$m	50	75	-	-	-
Repayment of borrowings	\$m	(8)	(0)	-	-	-
Dividends	\$m	-	-	(15)	(6)	(22)
Other	\$m	0	(3)	(17)	-	-
<b>Financing cash flow</b>	<b>\$m</b>	<b>42</b>	<b>72</b>	<b>(32)</b>	<b>(6)</b>	<b>(22)</b>
<b>Change in cash</b>	<b>\$m</b>	<b>(4)</b>	<b>17</b>	<b>53</b>	<b>6</b>	<b>53</b>
Free cash flow	\$m	(46)	(54)	85	11	75
<b>BALANCE SHEET</b>						
Year ending 30 Jun	Unit	2019a	2020a	2021e	2022e	2023e
<b>ASSETS</b>						
Cash	\$m	63	80	132	138	191
Receivables	\$m	27	20	16	23	28
Inventories	\$m	10	7	1	1	1
PP&E, properties & exploration	\$m	341	588	382	421	412
Other assets	\$m	62	15	146	146	146
<b>Total assets</b>	<b>\$m</b>	<b>504</b>	<b>710</b>	<b>677</b>	<b>728</b>	<b>778</b>
<b>LIABILITIES</b>						
Creditors	\$m	32	31	13	14	17
Borrowings	\$m	40	116	103	103	103
Provisions	\$m	63	66	24	24	24
Other liabilities	\$m	13	185	232	232	232
<b>Total liabilities</b>	<b>\$m</b>	<b>148</b>	<b>399</b>	<b>372</b>	<b>372</b>	<b>376</b>
<b>NET ASSETS</b>	<b>\$m</b>	<b>356</b>	<b>310</b>	<b>305</b>	<b>356</b>	<b>402</b>
<b>Shareholder equity</b>	<b>\$m</b>	<b>356</b>	<b>310</b>	<b>305</b>	<b>356</b>	<b>402</b>
Net debt	\$m	(23)	36	(30)	(35)	(88)
Weighted average shares	m	181	182	183	184	184
<b>FINANCIAL RATIOS</b>						
Year ending 30 Jun	Unit	2019a	2020a	2021e	2022e	2023e
<b>VALUATION</b>						
EPS (underlying)	c/sh	3.9	2.1	6.1	30.5	37.1
EPS growth	%	2752%	-47%	191%	398%	22%
PER	x	80.7x	151.0x	51.9x	10.4x	8.6x
DPS	c/sh	-	-	8.0	8.0	14.0
Franking	%	0%	0%	97%	0%	0%
Yield	%	0.0%	0.0%	2.5%	2.5%	4.4%
FCF/share	c/sh	(26)	(30)	0	6	41
FCF yield	%	-8%	-9%	0%	2%	13%
EV/EBITDA	x	13.8x	11.1x	10.7x	5.4x	4.2x
<b>LIQUIDITY &amp; LEVERAGE</b>						
Net debt / (cash)	\$m	(23)	36	(30)	(35)	(88)
ND / E	%	-6%	12%	-10%	-10%	-22%
ND / (ND + E)	%	-7%	10%	-11%	-11%	-28%
EBITDA/net interest expense	x	17.6x	5.5x	4.6x	36.1x	51.7x
<b>PROFITABILITY RATIOS</b>						
EBITDA margin	%	33%	41%	47%	57%	58%
EBIT margin	%	6%	-35%	19%	34%	32%
Return on assets	%	3%	-13%	1%	8%	9%
Return on equity	%	4%	-31%	2%	17%	18%
<b>ASSUMPTIONS - Prices (nominal)</b>						
Year ending 30 Jun	Unit	2019a	2020a	2021e	2022e	LT real
Crude oil (Brent)	US\$/bbl	68	51	54	70	55
AUD/USD	US\$/A\$	0.73	0.70	0.72	0.74	0.74
<b>ASSUMPTIONS - Production (equity)</b>						
Year ending 30 Jun	Unit	2019a	2020a	2021e	2022e	2023e
Project Atlas gas	PJ	-	1.6	10.1	13.0	17.5
Roma North gas	PJ	1.9	5.2	7.6	8.6	8.8
<b>TOTAL</b>	<b>PJ</b>	<b>1.9</b>	<b>6.8</b>	<b>17.6</b>	<b>21.5</b>	<b>26.3</b>
Cooper Basin oil & gas	mmboe	0.9	0.9	-	-	-
Project Atlas	mmboe	-	0.3	1.7	2.2	3.0
Roma North	mmboe	0.3	0.9	1.3	1.5	1.5
<b>TOTAL</b>	<b>mmboe</b>	<b>1.2</b>	<b>2.1</b>	<b>3.0</b>	<b>3.7</b>	<b>4.5</b>
<b>VALUATION</b>						
Issued capital	Unit					
Shares on issue	m	184				
Options assumed	m	7				
<b>Diluted shares</b>	<b>m</b>	<b>191</b>				
<b>NPV (Discount rate 9% real)</b>	<b>Current</b>	<b>+ 12 months</b>		<b>+ 24 months</b>		
	\$m	\$/sh	\$m	\$/sh	\$m	\$/sh
Project Atlas	519	2.82	535	2.91	553	3.01
Western Surat Gas Project	182	0.99	200	1.09	198	1.08
Other properties	-	-	-	-	-	-
<b>Total assets</b>	<b>702</b>	<b>3.82</b>	<b>736</b>	<b>4.00</b>	<b>751</b>	<b>4.08</b>
Corp. overheads (less tax losses)	(65)	(0.35)	(65)	(0.35)	(65)	(0.35)
<b>Enterprise value</b>	<b>637</b>	<b>3.46</b>	<b>671</b>	<b>3.65</b>	<b>686</b>	<b>3.73</b>
Net debt/(cash)	(26)	(0.14)	(31)	(0.17)	(58)	(0.31)
<b>Equity value</b>	<b>663</b>	<b>3.60</b>	<b>702</b>	<b>3.81</b>	<b>744</b>	<b>4.04</b>

SOURCE: BELL POTTER SECURITIES ESTIMATES

**Recommendation structure**

**Buy:** Expect >15% total return on a 12 month view. For stocks regarded as 'Speculative' a return of >30% is expected.

**Hold:** Expect total return between -5% and 15% on a 12 month view

**Sell:** Expect <-5% total return on a 12 month view

*Speculative Investments are either start-up enterprises with nil or only prospective operations or recently commenced operations with only forecast cash flows, or companies that have commenced operations or have been in operation for some time but have only forecast cash flows and/or a stressed balance sheet.*

*Such investments may carry an exceptionally high level of capital risk and volatility of returns.*

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