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# Cooper Energy Ltd (COE)

## Defining Otway production growth

**Recommendation**
Buy (unchanged)
**Price**
$0.275 (18 May 2022)
**Target (12 months)**
$0.33 (previously $0.38)

**GICS Sector**

Energy

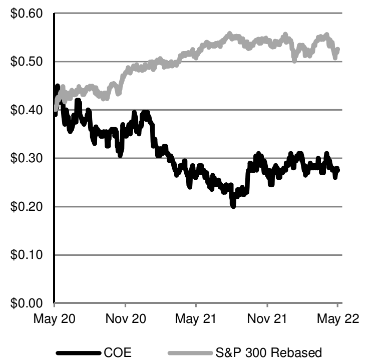
| Expected Return | |
|---|---|
| Capital growth | 20% |
| Dividend yield | 0% |
| Total expected return | 20% |

| Company Data & Ratios | |
|---|---|
| Enterprise value | $565m |
| Market cap | $449m |
| Issued capital | 1,633m |
| Free float | 100% |
| Avg. daily val. (52wk) | $1.3m |
| 12 month price range | $0.195-$0.33 |

**Price Performance**

| | (1m) | (3m) | (12m) |
|---|---|---|---|
| Price (A$) | 0.29 | 0.31 | 0.27 |
| Absolute (%) | -5.2 | -9.8 | 3.8 |
| Rel market (%) | -0.5 | -9.2 | 1.3 |

**Absolute Price**




SOURCE: IRESS

### Path to doubling & extending Otway production

COE has released updated details of its near-term Otway Basin development plans, outlining a path to more than double existing output and extend the project's life. The Otway Phase 3 Development (OP3D) will now focus on developing the Annie field before targeting low risk and high deliverability prospects to further expand production. With capital efficiency the key focus, further development of the Henry field has been deferred to beyond the OP3D horizon. Under the revised outlook, we estimate COE's net Otway production will grow from around 13TJ/day in 2022 to more than 30TJ/day in 2026, and complement Sole production of around 65TJ/day. OP3D will enter Front End Engineering Design (FEED) in the September 2022 quarter for a Final Investment Decision (FID) in early 2023 and first gas by winter 2025.

### Guidance revised on a strong end to the year

COE has also revised guidance for FY22 on account of higher spot gas prices and improved performance at the Orbost Gas Plant. Gas prices have averaged over $35/GJ in recent days, compared with $9.47/GJ in the March 2022 quarter. Following recent upgrades and an absorber clean, the Orbost Gas Plant has processed Sole gas at record rates of up to 65TJ/day. COE are now guiding to FY22 EBITDA of $57-68m (previously $53-63m).

### Investment view: Buy, Target Price $0.33/sh (from $0.38/sh)

Our Buy recommendation is retained, supported by strong Australian east coast gas market supply-demand fundamentals and COE's portfolio of conventional gas assets. Over FY23, we expect COE to further de-risk its current operations and provide more detail the company's growth ambitions across its Otway and Gippsland production hubs. COE's forthcoming debt refinance should provide more development flexibility; with the company's net zero carbon emission objective assisting with lender support. Changes to EPS in this report: FY22 -0.2cps (previously -0.5cps); FY23 -15%; and FY24 -16%.

**Earnings Forecast**

| Year end June | 2021a | 2022e | 2023e | 2024e |
|---|---|---|---|---|
| Sales (A$m) | 132 | 196 | 223 | 273 |
| EBITDA (A$m) | 22 | 60 | 108 | 151 |
| NPAT (reported) (A$m) | (30) | (2) | 33 | 28 |
| NPAT (adjusted) (A$m) | (26) | (2) | 33 | 28 |
| EPS (adjusted) (¢ps) | (1.6) | (0.2) | 2.0 | 1.7 |
| EPS growth (%) | na | na | na | -15% |
| PER (x) | (14.9) | (182.6) | 13.6 | 16.0 |
| FCF Yield (%) | -6% | 9% | 14% | -2% |
| EV/EBITDA (x) | 26.1 | 9.4 | 5.2 | 3.7 |
| Dividend (¢ps) | - | - | 0.2 | 0.4 |
| Yield (%) | 0% | 0% | 1% | 1% |
| Franking (%) | 0% | 0% | 0% | 0% |
| ROE (%) | -8% | -1% | 10% | 8% |

SOURCE: BELL POTTER SECURITIES ESTIMATES

# Defining Otway production growth

## Further defining the OP3D development

### EXTENDING PRODUCTION OUTLOOK; FILLING LATENT PLANT CAPACITY

COE has further defined its longer term offshore Otway Basin growth aspirations. The company's 50% owned Otways business is currently delivering gas from three offshore wells at rates of up to 26TJ/day (100% basis) with reserves to support declining production for the next five years. These wells deliver into the newly refurbished Athena Gas Plant with processing capacity of around 155TJ/day.

### DE-RISKING CAPITAL ALLOCATION & DEVELOPMENT SUCCESS

COE's Otway Phase 3 Development (OP3D) will now involve initial development of the Annie gas field. Follow up, low-risk and short cycle time exploration drilling (at the Juliette and Nestor prospects initially) could then, on success, be tied back to COE's processing infrastructure. Annie has a 2C Contingent Resource of 64PJ (100% basis), which will be booked as 2P Reserves on FID (March 2023 quarter). The new OP3D plan focuses on capital efficient well developments.

### IMPLICATIONS: DOUBLE PRODUCTION & EXTEND; BUT DOWNGRADE RESOURCE

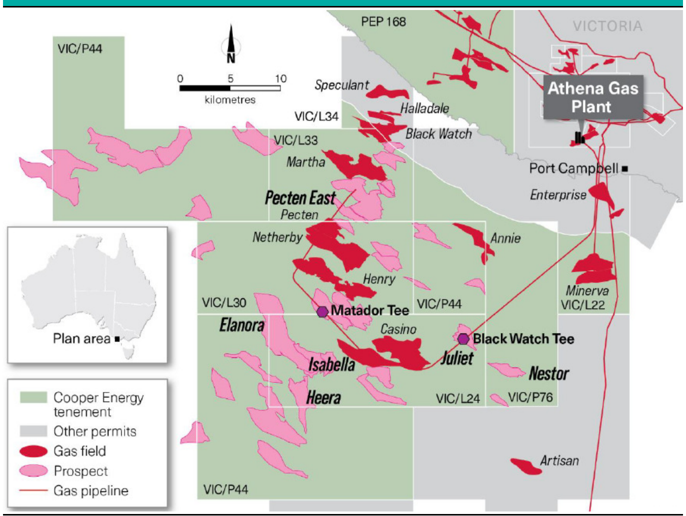
Development of Annie is expected to more than double current production rates through the Athena Gas Plant and provide an additional five years of project life. Subsequent success could see further step changes in production (Figure 2) and life extensions.

However, OP3D was previously planned as a two-well drilling campaign consisting of the Henry-3 and Annie-2 wells. The Henry well has now been deferred to beyond the scope of OP3D. COE is reviewing the impact to its Reserves and Contingent Resources as part of its annual process. Removing the Henry development will likely see the Henry 2C Contingent Resources reclassified to a lower category.

### UPDATED OP3D TIMELINE:

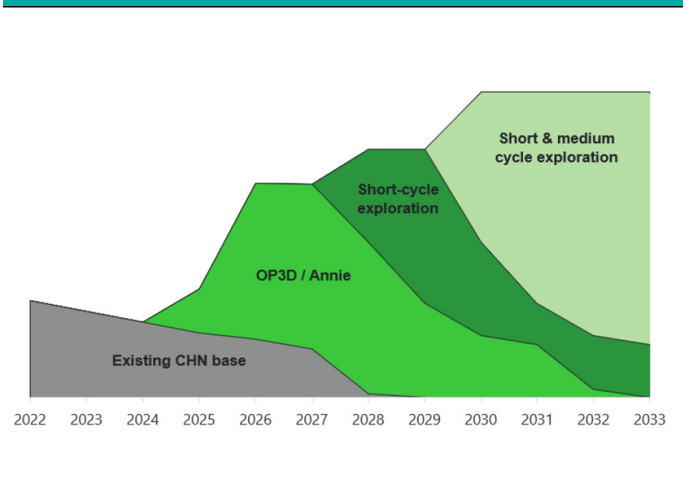
- September 2022 quarter: OP3D enters detailed FEED;
- March 2023 quarter: Final investment decision; and
- 1H 2025 (2H FY25): First gas production.

**Figure 1 - Otway Basin acreage**




SOURCE: COE

**Figure 2 - Otway production profile**




SOURCE: COE

## Production & capital profile: Step change from 2025

Otways production is expected to trend lower over the next few years on natural field decline. However, we expect improved performance from Sole will provide an offset and see group level production increase. Group production should then step up from FY26 as the Annie field is commissioned.

### CAPITAL REQUIREMENTS: BMG ABANDONMENT & OTWAYS DEVELOPEMENTS

Key near term capital outlays for COE include:

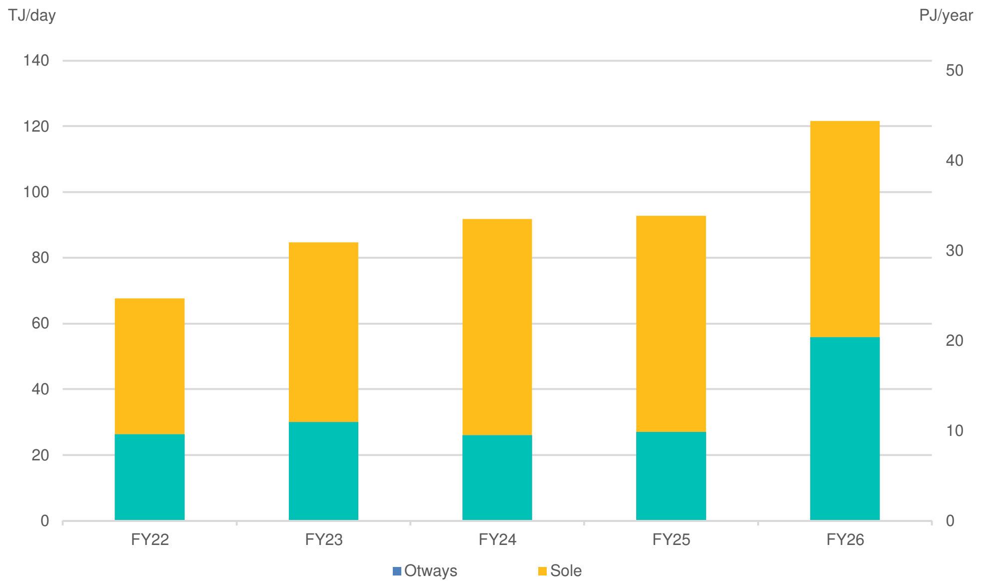
- **BMG abandonment circa $100m from 2023:** Decommissioning seven wells and associated infrastructure in the Gippsland Basin. We expect FID on these works around mid-2022 and commencement in 2023. Access to equipment and skills are an upside risk to our capital cost estimate but will also potentially delay timing.
- **OP3D development circa $300m ($150m net to COE) from 2H 2024:** The offshore component of the OP3D development adds production at a rate of 10PJ/year (27TJ/day), our assumption implying a cost of $30m per annual PJ of production. COE developed the offshore Sole project 24PJ/year at a cost of $355m, or a cost of $15m per annual PJ.

### DEBT REFINANCE IN PROGRESS: 31 MARCH 2022, CASH $93M; NET DEBT $105M

At 31 March 2022, COE had cash $92.5, drawn debt was $197m implying a net debt position of $104.5m. COE is in discussion with its banking syndicate with respect to refinancing and extending its existing circa $200m debt facility. A new facility is expected to support COE's upcoming capital requirements with respect to the BMG abandonment and broader Otway Basin development projects.

In the absence of any major corporate transaction, we expect the refinanced debt and free cash flow from Sole to support the company's development projects.

**Figure 3 - COE production profile (net)**




SOURCE: BELL POTTER SECURITIES ESTIMATES

## FY22 guidance update: Refined & improved

Earlier this week, COE provided an update to FY22 guidance as outlined in the following table. Key drivers of the revisions being:

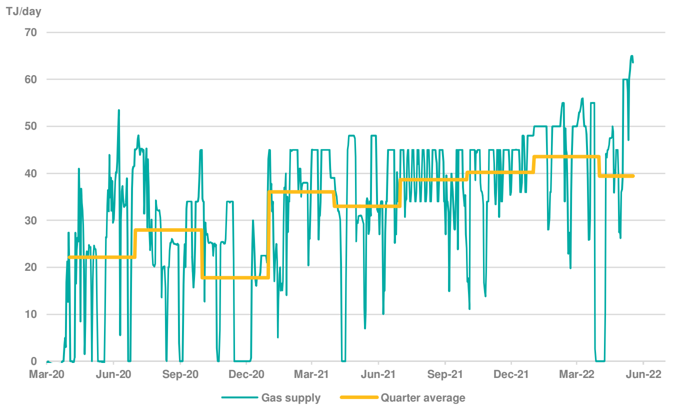
- **Higher realised Australian east coast wholesale gas prices:** Spot wholesale gas prices in Victoria have recently averaged levels of over $35/GJ (in the March 2022 quarter, prices ranged from $6.00/GJ to $12.76/GJ, averaging $9.47/GJ); and
- **Higher sustained Orbost Gas Plant processing rates:** Following recent upgrade works and sulphur absorber cleans, the Orbost plant has operated at rates of up to 65TJ/day (record highs), enabling surplus gas for sale into strong spot markets.

**Table 1 - Revised guidance 16 May 2022**

| FY22 guidance | Previous | New | Change (mid) | BP est. |
|---|---|---|---|---|
| Production MMboe | 3.0-3.4 | **3.2-3.4** | 3% | 3.4 |
| Sales volume MMboe | 3.7-4.0 | **3.7-3.9** | -1% | 3.8 |
| Underlying EBITDAX $m | 53-63 | **57-68** | 8% | 62 |
| Capital expenditure $m | 24-28 | **19-21** | -23% | 20 |

SOURCE: COE

**Figure 4 - Orbost Gas Plant processing rates**




SOURCE: AEMO & BELL POTTER SECURITIES

**Figure 5 - Victoria spot gas prices**


SOURCE: AEMO

## Changes to earnings estimates

We have updated our forecasts based on COE's FY22 guidance and longer term Otway Basin production outlook. The net impact of these changes is outlined in the following table. The updated Otway outlook mostly impacts earnings beyond the forecast period presented here.

**Table 2 - Changes to earnings estimates**

| | Previous | | | New | | | Change | | |
|---|---|---|---|---|---|---|---|---|---|
| Year ending 30 June | 2022e | 2023e | 2024e | 2022e | 2023e | 2024e | 2022e | 2023e | 2024e |
| Net production (mmboe) | 3.4 | 4.6 | 5.0 | **3.4** | **4.3** | **4.7** | 0% | -7% | -6% |
| Sales (A$m) | 193 | 248 | 272 | 196 | 223 | 273 | 1% | -10% | 0% |
| EBITDAX | 60 | 133 | 152 | 62 | 108 | 151 | 2% | -19% | -1% |
| NPAT (reported) (A$m) | (8) | 39 | 33 | (2) | 33 | 28 | NM | -15% | -16% |
| NPAT (adjusted) (A$m) | (8) | 39 | 33 | (2) | 33 | 28 | NM | -15% | -16% |
| EPS (adjusted) (¢ps) | (0.5) | 2.4 | 2.0 | (0.2) | 2.0 | 1.7 | NM | -15% | -16% |
| Dividend (¢ps) | - | 0.6 | 0.5 | - | 0.2 | 0.4 | NA | -67% | -20% |
| Valuation (A$/sh) | 0.37 | 0.37 | 0.38 | 0.31 | 0.33 | 0.29 | -16% | -11% | -24% |

SOURCE: BELL POTTER SECURITIES ESTIMATES

# Cooper Energy Ltd summary

## Company description

COE is an energy exploration and development company focussed on conventional gas projects in southeast Australia. The company also has interests in oil and condensate producing assets in the Cooper Basin. COE's key asset is the Sole Gas Project located in the offshore Gippsland Basin. The Sole Gas Project is expected to ramp up production from 2020 to reach rates of 24PJpa (65TJ/day) by FY24. The group's Otway Gas Project has net gas production of around 3.5-5.5PJpa (10-15TJ/day) with near term developments looking to double this rate. COE also has a portfolio early stage permits which could leverage its existing pipeline and onshore gas processing infrastructure.

## Investment view: Buy, Target Price $0.33/sh (from $0.38/sh)

Our Buy recommendation is retained, supported by strong Australian east coast gas market supply-demand fundamentals and COE's portfolio of conventional gas assets. Over FY23, we expect COE to further de-risking its current operations and provide more detail the company's growth ambitions across its Otway and Gippsland production hubs. COE's forthcoming debt refinance should provide more development flexibility; with the company's net zero carbon emission objective assisting with lender support. Changes to EPS in this report: FY22 -0.2cps (previously -0.5cps); FY23 -15%; and FY24 -16%.

## Valuation methodology

Our principal method of valuation for COE's operating assets (Sole Gas Project, Otway Gas Projects and Cooper Basin oil interests) is discounted cash flow. For earlier stage permits and projects we have used peer project comparisons.

## 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.

# Cooper Energy Ltd
as at 19 May 2022

| | |
|---|---|
| Recommendation | Buy |
| Price | $0.275 |
| Target (12 months) | $0.33 |

## Table 3 - Financial summary

| | | |
|---|---|---|
| **Date** | | **19/05/22** |
| **Price** | **A$/sh** | **0.28** |
| **Target price** | **A$/sh** | **0.33** |

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**PROFIT AND LOSS**

| **Year ending 30 June** | **Unit** | **2020a** | **2021a** | **2022e** | **2023e** | **2024e** |
|---|---|---|---|---|---|---|
| Revenue (including other) | $m | 78 | 132 | 196 | 223 | 273 |
| Expenses | $m | (163) | (110) | (136) | (115) | (122) |
| **EBITDA** | $m | **(85)** | **22** | **60** | **108** | **151** |
| Depreciation | $m | (19) | (42) | (48) | (48) | (53) |
| EBIT | $m | **(104)** | **(20)** | **12** | **60** | **98** |
| Net interest expense | $m | (6) | (14) | (13) | (12) | (11) |
| **PBT** | $m | **(110)** | **(33)** | **(1)** | **47** | **87** |
| Tax expense (incl PRRT) | $m | 24 | 3 | (1) | (14) | (59) |
| **NPAT reported** | $m | **(86)** | **(30)** | **(2)** | **33** | **28** |
| Significant items | $m | (79) | (4) | 0 | - | - |
| **NPAT underlying** | $m | **(7)** | **(26)** | **(2)** | **33** | **28** |
| **Reconciliation to EBITDAX** | $m | | | | | |
| Add back: | $m | | | | | |
| Tax adjustments | $m | (2) | (2) | 1 | 14 | 59 |
| Net finance cost | $m | 6 | 14 | 13 | 12 | 11 |
| Depreciation & amortisation | $m | 29 | 43 | 49 | 48 | 53 |
| Exploration | $m | 3 | 1 | 0 | 1 | 1 |
| **Underlying EBITDAX** | $m | **30** | **30** | **62** | **108** | **151** |

**CASH FLOW**

| **Year ending 30 June** | **Unit** | **2020a** | **2021a** | **2022e** | **2023e** | **2024e** |
|---|---|---|---|---|---|---|
| **OPERATING CASH FLOW** | | | | | | |
| Receipts | $m | 98 | 119 | 189 | 220 | 286 |
| Payments | $m | (50) | (84) | (106) | (121) | (100) |
| Tax | $m | - | - | - | - | - |
| Net interest | $m | (12) | (10) | (11) | (12) | (11) |
| Other | $m | 2 | (16) | (2) | - | (47) |
| **Operating cash flow** | $m | **38** | **8** | **69** | **87** | **127** |
| **INVESTING CASH FLOW** | | | | | | |
| Capex | $m | (45) | (27) | (20) | (19) | (129) |
| Other | $m | (37) | (7) | (9) | (6) | (6) |
| **Investing cash flow** | $m | **(82)** | **(35)** | **(28)** | **(25)** | **(135)** |
| **FINANCING CASH FLOW** | | | | | | |
| Debt proceeds | $m | 11 | (11) | - | - | - |
| Repayment of borrowings | $m | (1) | (1) | (15) | - | (25) |
| Dividends | $m | - | - | - | (2) | (7) |
| Other | $m | (0) | - | - | - | - |
| **Financing cash flow** | **$m** | **10** | **(12)** | **(15)** | **(2)** | **(32)** |
| **Change in cash** | **$m** | **(33)** | **(39)** | **26** | **60** | **(39)** |
| Free cash flow | $m | (43) | (27) | 41 | 62 | (8) |

**BALANCE SHEET**

| **Year ending 30 June** | **Unit** | **2020a** | **2021a** | **2022e** | **2023e** | **2024e** |
|---|---|---|---|---|---|---|
| **ASSETS** | | | | | | |
| Cash | $m | 132 | 91 | 118 | 178 | 139 |
| Receivables | $m | 20 | 32 | 37 | 40 | 27 |
| Inventories | $m | 1 | 1 | 1 | 1 | 1 |
| Capital assets | $m | 642 | 612 | 582 | 553 | 629 |
| Exploration assets | $m | 159 | 159 | 164 | 169 | 174 |
| Other assets | $m | 76 | 83 | 76 | 62 | 50 |
| **Total assets** | **$m** | **1,030** | **979** | **977** | **1,002** | **1,020** |
| **LIABILITIES** | | | | | | |
| Creditors | $m | 21 | 34 | 58 | 51 | 72 |
| Borrowings | $m | 230 | 218 | 204 | 204 | 179 |
| Other liabilities | $m | 427 | 400 | 391 | 391 | 391 |
| **Total liabilities** | **$m** | **679** | **653** | **652** | **646** | **642** |
| **NET ASSETS** | **$m** | **351** | **326** | **325** | **356** | **378** |
| Shareholder equity | $m | 351 | 326 | 325 | 356 | 378 |
| Minorities | $m | - | - | - | - | - |
| **SHAREHOLDER EQUITY** | **$m** | **351** | **326** | **325** | **356** | **378** |
| Weighted average shares | m | 1,624 | 1,629 | 1,632 | 1,633 | 1,633 |

**FINANCIAL RATIOS**

| **Year ending 30 June** | **Unit** | **2020a** | **2021a** | **2022e** | **2023e** | **2024e** |
|---|---|---|---|---|---|---|
| **VALUATION** | | | | | | |
| EPS (adjusted) | c/sh | (0.4) | (1.6) | (0.2) | 2.0 | 1.7 |
| EPS growth | % | na | na | na | na | -15% |
| PER | x | (5.2) | (14.9) | (182.6) | 13.6 | 16.0 |
| DPS | c/sh | - | - | - | 0.2 | 0.4 |
| Franking | % | 0% | 0% | 0% | 0% | 0% |
| Yield | % | 0% | 0% | 0% | 1% | 1% |
| FCF/share | c/sh | (2.7) | (1.6) | 2.5 | 3.8 | (0.5) |
| FCF yield | % | -10% | -6% | 9% | 14% | -2% |
| EV/EBITDA | x | -6.7x | 26.1x | 9.4x | 5.2x | 3.7x |
| **LIQUIDITY & LEVERAGE** | | | | | | |
| Net debt / (cash) | $m | 110.9 | 138.7 | 97.7 | 37.4 | 51.5 |
| ND / E | % | -32% | -43% | -30% | -11% | -14% |
| ND / (ND + E) | % | -24% | -30% | -23% | -10% | -12% |
| EBITDA/net interest expense | x | -14.5x | 1.6x | 4.5x | 8.8x | 13.4x |
| **PROFITABILITY RATIOS** | | | | | | |
| EBITDA margin | % | -109% | 16% | 31% | 48% | 55% |
| EBIT margin | % | -133% | -15% | 6% | 27% | 36% |
| Return on assets | % | -1% | -3% | 0% | 3% | 3% |
| Return on equity | % | -2% | -8% | -1% | 10% | 8% |

**ASSUMPTIONS - Prices (nominal)**

| **Year ending 30 June** | **Unit** | **2020a** | **2021a** | **2022e** | **2023e** | **2024e** |
|---|---|---|---|---|---|---|
| Crude oil (Brent) | US$/bbl | 51 | 54 | 78 | 75 | 68 |
| AUD/USD | US$/A$ | 0.67 | 0.75 | 0.73 | 0.73 | 0.73 |
| Realised gas price | A$/GJ | 8.2 | 6.8 | 7.9 | 8.1 | 9.5 |

**ASSUMPTIONS - Production (net)**

| **Year ending 30 June** | **Unit** | **2020a** | **2021a** | **2022e** | **2023e** | **2024e** |
|---|---|---|---|---|---|---|
| Sole - Gippsland | PJ | 2.1 | 10.4 | 15.1 | 20.0 | 24.1 |
| Casino, Henry & Netherby - Otway | PJ | 5.9 | 4.7 | 4.8 | 5.5 | 4.8 |
| Minerva - Otway | PJ | 0.3 | - | - | - | - |
| **Total gas** | **PJ** | **8.3** | **15.1** | **19.9** | **25.4** | **28.8** |
| Sole - Gippsland | mmboe | 0.3 | 1.7 | 2.5 | 3.3 | 3.9 |
| Casino, Henry & Netherby - Otway | mmboe | 1.0 | 0.8 | 0.8 | 0.9 | 0.8 |
| Minerva - Otway | mmboe | 0.1 | - | - | - | - |
| Cooper Basin | mmboe | 0.2 | 0.2 | 0.1 | 0.1 | 0.0 |
| **Total (net to COE)** | **mmboe** | **1.5** | **2.6** | **3.4** | **4.3** | **4.7** |

**VALUATION**

| **Issued capital** | **Unit** | | |
|---|---|---|---|
| Shares on issue | m | 1,633 | Used for valuation purposes |
| Options & rights | m | 56 | Mostly performance rights |
| **Diluted shares** | **m** | **1,688** | |

| **NPV (Discount rate 10%)** | **Current** | | **+ 12 months** | | **+ 24 months** | |
|---|---|---|---|---|---|---|
| **Asset (COE equity)** | **$m** | **$/sh** | **$m** | **$/sh** | **$m** | **$/sh** |
| Gippsland - Sole (100%) | 340 | 0.21 | 295 | 0.18 | 246 | 0.15 |
| Gippsland - Manta (100%) | 117 | 0.07 | 128 | 0.08 | 141 | 0.09 |
| Gippsland - Other (100%) | 20 | 0.01 | 22 | 0.01 | 24 | 0.01 |
| Otway - CHN + OP3D (50%) | 153 | 0.09 | 137 | 0.08 | 122 | 0.07 |
| Cooper Basin (25%) | 9 | 0.01 | 3 | - | - | - |
| Other assets & exploration upside | 32 | 0.02 | 35 | 0.02 | 39 | 0.02 |
| **Total assets** | **671** | **0.41** | **620** | **0.38** | **572** | **0.35** |
| Corporate & admin | (50) | (0.03) | (50) | (0.03) | (50) | (0.03) |
| **Enterprise value** | **621** | **0.38** | **570** | **0.35** | **522** | **0.32** |
| Net debt / (cash) | 116 | 0.07 | 37 | 0.02 | 51 | 0.03 |
| **Equity value of all assets** | **505** | **0.31** | **532** | **0.33** | **470** | **0.29** |

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.*

## Research Team

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