

**Analysts**

 Stuart Howe 613 9235 1856  
 Joseph House 613 9235 1624

**Authorisation**

Regan Burrows 618 9326 7677

# Beach Energy Ltd (BPT)

## Q1 FY23: Growth projects tracking to plan

**Recommendation**
**Buy** (unchanged)

**Price**
**\$1.525**
**Target (12 months)**
**\$2.20** (previously \$2.30)

**GICS Sector**
**Energy**
**Expected Return**

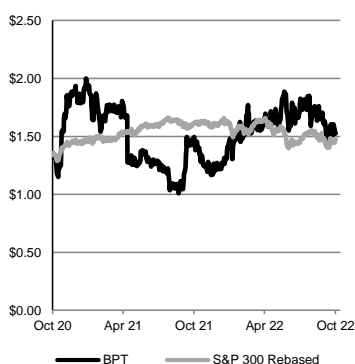
Capital growth	<b>44.3%</b>
Dividend yield	<b>1.3%</b>
Total expected return	<b>45.6%</b>

**Company Data & Ratios**

Enterprise value	<b>\$3,487m</b>
Market cap	<b>\$3,479m</b>
Issued capital	<b>2,281m</b>
Free float	<b>70%</b>
Avg. daily val. (52wk)	<b>\$19.5m</b>
12 month price range	<b>\$1.14-1.905</b>

**Price Performance**

	(1m)	(3m)	(12m)
Price (A\$)	1.71	1.67	1.43
Absolute (%)	-10.6	-8.7	6.6
Rel market (%)	-9.8	-10.9	14.0

**Absolute Price**


SOURCE: IRESS

**Quarterly production and revenues weaker**

BPT reported quarterly production of 5.2MMboe (BPe 5.4MMboe), down 8% QoQ, driven by major producing assets performing below expectations, particularly at Western Flank (impacted by flooding) and the Victorian Otways (wells experiencing faster than expected field decline and a legacy well ceasing production). The weaker production, a timing revision relating to revenue recognition for CBJV sales and weaker realised energy prices resulted in lower headline quarterly revenues. Adjusting for the accounting change, pro forma quarterly revenues were in line with our estimate (BPe \$438m). At quarter-end, BPT maintained a net cash position of \$38m (\$165m at 30 June 2022) and available liquidity was \$638m (\$765m at 30 June 2022).

EPS revisions reflect changes to our oil price and FX outlook, production assumptions and operating and capital cost estimates: FY23 -1%; FY24 3%; and FY25 2%.

**Growth projects on track despite apparent risks**

The Waitsia development expansion (from 20TJ/day to 270TJ/day, gross) remains on track for completion before BPT's first LNG sales target in 2H 2023. This indicative development timeline is despite a number of apparent construction risks impacting Western Australian projects including materials price inflation and supply chain disruptions (though reportedly easing). Recent media reports have highlighted Clough, the engineering, procurement and construction contractor for the Waitsia expansion, is facing working capital shortfalls. Production ramp-up at Victorian Otways is BPT's other major near-term catalyst, with 5 new wells coming online by mid-2023.

**Investment thesis: Buy, Target Price \$2.20/sh (prev.\$2.30/sh)**

BPT has a strong, fully funded energy production growth outlook. This production growth is diversified across five energy basins and across four separate gas markets, including the global LNG trade. The company should benefit from tightening east coast gas markets and international LNG markets flowing through to higher realised prices. BPT is trading at lower earnings multiples compared with its ASX-listed peers.

**Earnings Forecast**

Year ending 30 June	2022a	2023e	2024e	2025e
Sales (A\$m)	1,771	1,666	2,026	2,277
EBITDA (A\$m)	1,106	1,115	1,348	1,493
NPAT (reported) (A\$m)	501	536	628	664
NPAT (adjusted) (A\$m)	504	536	628	664
EPS (adjusted) (cps)	22	23	28	29
EPS growth (%)	39%	6%	17%	6%
PER (x)	6.9	6.5	5.5	5.2
FCF Yield (%)	9%	-5%	7%	19%
EV/EBITDA (x)	3.2	3.1	2.6	2.3
Dividend (cps)	2.0	2.0	4.0	4.0
Yield (%)	1%	1%	3%	3%
Franking (%)	100%	100%	100%	100%
ROE (%)	15%	14%	15%	14%

SOURCE: BELL POTTER SECURITIES ESTIMATES

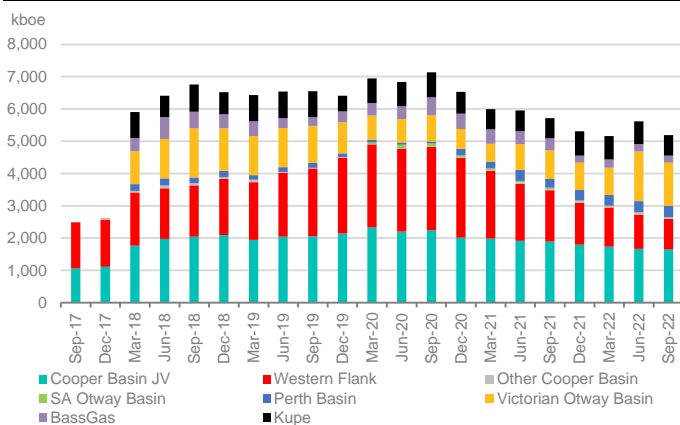
# Q1 FY23: Growth projects tracking to plan

**Table 1 - Quarterly summary**

	Sep-21(a)	Dec-21(a)	Mar-22(a)	Jun-22(a)	Sep-22(a)	QonQ	Sep-22(e)	(a) vs (e)
<b>Production kboe</b>								
Cooper Basin JV	1,889	1,794	1,732	1,663	<b>1,643</b>	-1%	<b>1,701</b>	-3%
Western Flank	1,594	1,304	1,209	1,065	<b>955</b>	-10%	<b>1,033</b>	-8%
Other Cooper Basin	40	39	36	32	<b>27</b>	-16%	<b>30</b>	-11%
SA Otway Basin	34	27	26	32	<b>22</b>	-31%	<b>25</b>	-13%
Perth Basin	276	332	327	347	<b>353</b>	2%	<b>328</b>	8%
Victorian Otway Basin	875	841	842	1,539	<b>1,336</b>	-13%	<b>1,449</b>	-8%
BassGas	379	217	258	233	<b>216</b>	-7%	<b>227</b>	-5%
Kupe	623	754	724	705	<b>636</b>	-10%	<b>655</b>	-3%
<b>Total production</b>	<b>5,710</b>	<b>5,308</b>	<b>5,154</b>	<b>5,616</b>	<b>5,187</b>	<b>-8%</b>	<b>5,449</b>	<b>-5%</b>
<b>Financials</b>								
Revenue A\$m	388	398	458	504	<b>405</b>	-20%	<b>438</b>	-8%
Realised oil price A\$/bbl	110	117	177	167	<b>157</b>	-6%	<b>151</b>	4%
Realised gas price A\$/bbl	7.50	7.60	8.40	8.70	<b>8.50</b>	-2%	<b>8.89</b>	-4%

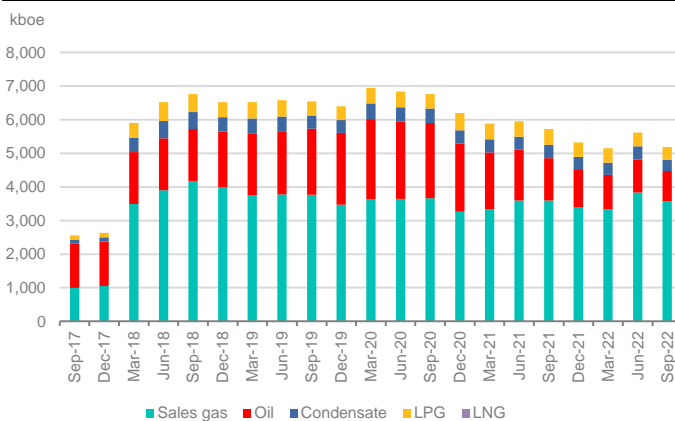
SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

**Figure 1 - Total production by asset (quarterly)**



SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

**Figure 2 - Total production by product (quarterly)**



SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

**Figure 3 - Cooper Basin Joint Venture (quarterly)**



SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

**Figure 4 - Western Flank (quarterly)**



SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

## FY23 guidance: No update provided

FY23 guidance as published at BPT's FY22 update:

- Production: 20.0-22.5MMboe (BPe 20.6MMboe);
- Capital expenditure: \$800-1,000m (BPe \$994m); and
- Unit field operating costs: \$12.00-13.00/boe (\$12.88/boe).

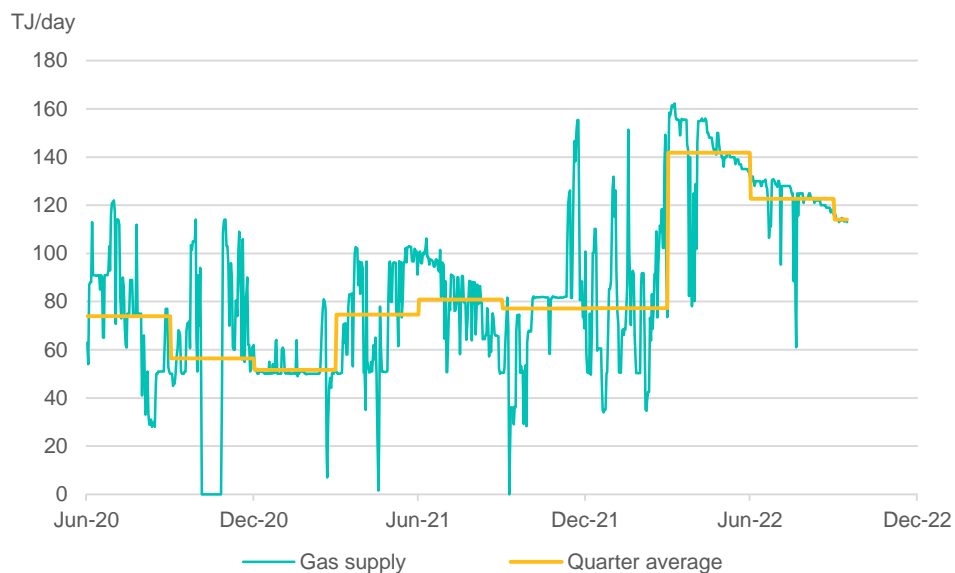
## Key observations from the quarterly

- **Quarterly production impacted by natural field decline, flooding and unplanned outages:** Flooding across the Cooper Basin resulted in delays to well connections and workovers. 11 Western Flank oil wells were pending connection at quarter-end to support flat oil production in FY23. Quicker than expected field decline in the Victorian Otways led to a miss on our production estimate with production down 13% QoQ; Victorian Otways customer nominations exceeded maximum well deliverability rates. In the Bass Basin, an unplanned outage at the Lang Lang Gas Plant and natural field decline resulted in weaker quarterly production.
- **Quarterly revenues and realised prices weaker:** Headline quarterly revenues were impacted by a non-cash revenue recognition adjustment on Cooper Basin Joint Venture sales. Accounting for this adjustment, pro forma quarterly revenue was \$437m, in line with our expectation of \$438m and down 13% QoQ; the adjustment will have no material impact on FY23 earnings and the quantum or timing of cash flow. Quarterly revenues were impacted by lower sales volume (due to weaker production) and realised energy prices; realised prices across BPT's product suite fell 11% QoQ to A\$76.1/boe.
- **Quarterly capital expenditures lift on Waitsia development and CBJV drilling:** Development expenditures rose 17% to \$262m with spend allocated to production well drilling and processing facility construction at Waitsia and development well drilling by the CBJV. Exploration expenditures remained broadly consistent with the prior quarter at \$26m. A net cash position was maintained despite higher capital expenditure, payment of full year dividends and higher tax payments. Quarter-end cash was \$148m and debt was \$110m for net cash of \$38m. Quarter-end undrawn debt was \$490m (\$510m at the end of June 2022) and available liquidity was \$638m (\$765m at the end of June 2022).
- **Growth project update:**
  1. Despite recent reports of problematic working capital issues with Clough, the EPC contractor for the Waitsia development expansion, BPT has reiterated first LNG sales to bp in 2H 2023 (unchanged);
  2. BPT notes its major growth projects on the east coast (including 5 new Victorian Otways wells) will enable the company to achieve >30% market share in the East Coast gas market;
  3. A 100% drilling success rate was achieved across 29 CBJV oil and gas wells;
  4. Victorian Otways CCS opportunity entered assess/select phase post completion of pre-feasibility study; and
  5. A Perth Basin exploration campaign is expected to commence in Q2 FY23.

### Otway Gas Processing Plant

The following chart is based on public data available from the Australian Energy Market Operator (AEMO). Consistent with BPT’s quarterly reporting dialogue, the chart below shows average daily production rates of 123TJ/day (gross) during the September 2022 quarter, down from 142TJ/day in the June 2022 quarter.

**Figure 5 - Victorian Otways daily gas production (gross, TJ/day)**



SOURCE: BELL POTTER SECURITIES ESTIMATES

# Changes to earnings & valuation

## Earnings changes from operational updates

We have updated our BPT financial model for the September 2022 quarterly report, made adjustments to our forward production and operating and capital expenditure assumptions, included a \$15m restoration expense in FY23 and raised our DPS assumptions in FY24-25. Table 2 outlines EPS changes relating to these adjustments only.

**Table 2 - Changes to earnings estimates from operational adjustments only**

Year ending 30 June	Previous			New			Change		
	FY23	FY24	FY25	FY23	FY24	FY25	FY23	FY24	FY25
All product realised price A\$/boe	77	72	67	76	72	67	-2%	0%	0%
Production kboe	21,293	27,326	33,120	20,622	27,301	33,120	-3%	0%	0%
Sales A\$m	1,647	1,958	2,213	1,570	1,954	2,213	-5%	0%	0%
EBITDA A\$m	1,123	1,323	1,471	1,019	1,276	1,429	-9%	-4%	-3%
NPAT A\$m	539	610	649	468	577	619	-13%	-5%	-5%
EPS Acps	23.6	26.8	28.4	20.5	25.3	27.1	-13%	-5%	-5%
DPS Acps	2.0	2.0	2.0	2.0	4.0	4.0	0%	100%	100%
<b>Valuation A\$/sh</b>	<b>2.20</b>	<b>2.31</b>	<b>2.44</b>	<b>1.91</b>	<b>2.07</b>	<b>2.16</b>	<b>-13%</b>	<b>-10%</b>	<b>-11%</b>

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

## Final earnings changes: Applying updated oil price outlook

In this report, we have updated our Brent crude oil price outlook and A\$:US\$ FX assumptions as outlined in Table 3. Resulting EPS changes from incorporating these revisions in our financial model (together with the adjustments in Table 2) are represented in Table 4. Our current oil price forecasts are consistent with Consensus Economics' September 2022 survey.

**Table 3 - Changes to Brent crude oil price outlook and FX assumptions**

Half year prices / FX		2021		2022		2023				LT
		Jun-21(a)	Dec-21(a)	Jun-22(a)	Dec-22(e)	Jun-23(e)	Dec-23(e)	Jun-24(e)	Dec-24(e)	(real)(e)
<b>Brent crude oil</b>										
<b>New</b>	<b>US\$/bbl</b>	65	76	106	97	90	85	75	75	60
Previous	US\$/bbl				100	85	85	75	75	60
Change	US\$/bbl				-3%	6%	0%	0%	0%	0%
<b>AUD:USD FX</b>										
<b>New</b>	<b>A\$:US\$</b>	0.75	0.73	0.73	0.66	0.65	0.67	0.70	0.70	0.70
Previous	A\$:US\$				0.73	0.73	0.73	0.73	0.73	0.74
Change	A\$:US\$				-9%	-11%	-8%	-4%	-4%	-5%

SOURCE: BELL POTTER SECURITIES ESTIMATES

**Table 4 - Changes to earnings estimates including changes to oil price and FX assumptions**

Year ending 30 June	Previous			New			Change		
	FY23	FY24	FY25	FY23	FY24	FY25	FY23	FY24	FY25
All product realised price A\$/boe	77	72	67	81	74	69	4%	4%	3%
Production kboe	21,293	27,326	33,120	20,622	27,301	33,120	-3%	0%	0%
Sales A\$m	1,647	1,958	2,213	1,666	2,026	2,277	1%	4%	3%
EBITDA A\$m	1,123	1,323	1,471	1,115	1,348	1,493	-1%	2%	1%
NPAT A\$m	539	610	649	536	628	664	-1%	3%	2%
EPS Acps	23.6	26.8	28.4	23.5	27.5	29.1	-1%	3%	2%
DPS Acps	2.0	2.0	2.0	2.0	4.0	4.0	0%	100%	100%
<b>Valuation A\$/sh</b>	<b>2.20</b>	<b>2.31</b>	<b>2.44</b>	<b>2.06</b>	<b>2.22</b>	<b>2.32</b>	<b>-6%</b>	<b>-4%</b>	<b>-5%</b>

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

# Domestic peer comparison

**Table 5 - Peer comparison - EV/2P Reserves, EV/2P Reserves + 2C Contingent Resources, EV/Production**

Company Name	EV A\$m	Reserve & Resource (Mmboe)			Resource Multiples (A\$/boe)		Production rate* mmboe/p.a.	Production Multiples (A\$/boe) EV/prod.
		2P	2C	2P + 2C	EV/2P	EV/2P+2C		
Woodside Energy Group (WDS)	65,583	3,786	8,682	12,468	17.3	5.3	149.00	440
Santos Limited (STO)	30,677	1,676	3,219	4,895	18.3	6.3	104.50	294
<b>Beach Energy Limited (BPT)</b>	<b>3,487</b>	<b>283</b>	<b>221</b>	<b>504</b>	<b>12.3</b>	<b>6.9</b>	<b>21.25</b>	<b>164</b>
Karoon Energy Ltd (KAR)	1,399	45	86	131	31.2	10.7	8.00	175
Cooper Energy Limited (COE)	703	40	37	76	17.8	9.2	3.85	183
Strike Energy Limited (STX)	530	64	271	335	8.3	1.6	0.00	na
Comet Ridge Limited (COI)	179	26	61	87	6.8	2.1	0.00	na
Carnarvon Petroleum Limited (CVN)	158	0	101	101	na	1.6	0.00	na
Warrego Energy Limited (WGO)	150	36	3	39	4.1	3.9	0.00	na
Horizon Oil Limited (HZN)	140	6	6	12	24.2	11.8	1.33	105
Hartshead Resources (HHR)	97	52	25	78	1.9	1.3	0.00	na
Blue Energy Limited (BLU)	89	13	244	257	6.7	0.3	0.00	na
Central Petroleum Limited (CTP)	76	13	32	45	6.0	1.7	0.86	89
Galilee Energy Limited (GLL)	75	0	518	518	na	0.1	0.00	na
Australis Oil & Gas Limited (ATS)	56	4	149	153	15.1	0.4	0.38	144
Armour Energy Limited (AJQ)	48	30	8	38	1.6	1.3	0.37	131
Vintage Energy Ltd (VEN)	46	9	3	12	5.3	3.9	0.00	na
AXP Energy Limited (AXP)	30	6	212	218	4.8	0.1	0.72	42
<b>Mean</b>					<b>11.8</b>	<b>4.0</b>		<b>192</b>
<b>Trimmed mean (25% excluded)</b>					<b>11.1</b>	<b>3.5</b>		<b>171</b>
<b>Median</b>					<b>8.3</b>	<b>2.1</b>		<b>164</b>

SOURCE: COMPANY DATA, IRESS AND BELL POTTER SECURITIES ESTIMATES  
 \* PRODUCTION GUIDANCE USED AS FORWARD PRODUCTION RATE, OTHERWISE CURRENT ANNUALISED PRODUCTION RATE

## Oil price scenarios: Sensitivity & spot leverage

Oil production has accounted for around 20% of BPT's Group sales in FY22; we expect 18% in FY23 and 14% in FY24. As such, the following sensitivity analysis can only provide a rough guide to earnings outcomes. The analysis references benchmark Brent crude prices from which we calculate the BPT's realised prices.

Note: Under each scenario (including spot), oil price and currency estimates are flexed over the forecast period before returning to our long run estimates.

**Table 6 – Brent crude price sensitivity & spot price leverage**

	Brent US\$/bbl			EBITDA A\$m			EPS Acps			FCF A\$m			Val'n A\$/sh
	FY23	FY24	FY25	FY23	FY24	FY25	FY23	FY24	FY25	FY23	FY24	FY25	
+15%	108	92	86	1,225	1,493	1,645	27	32	34	-112	350	763	2.51
+10%	103	88	83	1,189	1,445	1,594	26	30	32	-135	316	728	2.41
+5%	98	84	79	1,152	1,396	1,544	25	29	31	-158	282	693	2.31
<b>Base case</b>	<b>94</b>	<b>80</b>	<b>75</b>	<b>1,115</b>	<b>1,348</b>	<b>1,493</b>	<b>23</b>	<b>28</b>	<b>29</b>	<b>-180</b>	<b>248</b>	<b>658</b>	<b>2.22</b>
-5%	89	76	71	1,078	1,300	1,443	22	26	28	-203	214	622	2.12
-10%	83	72	68	1,033	1,233	1,376	21	24	25	-133	268	663	2.12
-15%	79	68	64	1,005	1,203	1,341	20	23	24	-248	147	552	1.92
<b>Spot</b>	<b>92</b>	<b>90</b>	<b>90</b>	<b>1,102</b>	<b>1,472</b>	<b>1,696</b>	<b>23</b>	<b>31</b>	<b>35</b>	<b>-189</b>	<b>323</b>	<b>799</b>	<b>2.31</b>

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

# Summary: Beach Energy Limited (BPT)

## Company description

BPT is an energy exploration and development company focussed on offshore and onshore conventional oil and gas projects located in Western Australia, South Australia and Victoria as well as New Zealand. BPT's largest operations are its oil and gas developments in the Cooper Basin, which include operations in the Western Flank and under the Cooper Basin JV with Santos Limited. In FY22, BPT's share of total output from these developments were 5.2MMboe and 7.1MMboe, respectively, while total production was 21.8MMboe. BPT also has various early stage exploration interests across its portfolio which it could leverage existing pipeline and onshore gas processing infrastructure.

## Investment thesis: Buy, Target Price \$2.20/sh (prev.\$2.30/sh)

BPT has a strong, fully funded energy production growth outlook. This production growth is diversified across five energy basins and across four separate gas markets, including the global LNG trade. The company should benefit from tightening east coast gas markets and international LNG markets flowing through to higher realised prices. BPT is trading at lower earnings multiples compared with its ASX-listed peers.

## Valuation methodology

Our BPT valuation is based on discounted cash flow models of the company's core assets and includes allowances for exploration upside and corporate costs.

## 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.





**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**

Staff Member	Title/Sector	Phone	@bellpotter.com.au
Chris Savage	Head of Research/Industrials	612 8224 2835	csavage
<b>Analysts</b>			
John Hester	Healthcare	612 8224 2871	jhester
Anubhav Saxena	Healthcare	612 8224 2846	asaxena
Tara Speranza	Healthcare	612 8224 2815	tsperanza
Michael Ardrey	Industrials	613 9256 8782	mardrey
Marcus Barnard	Industrials	618 9326 7673	mbarnard
Sam Brandwood	Industrials	612 8224 2850	sbrandwood
Olivia Hagglund	Industrials	612 8224 2813	ohagglund
Daniel Laing	Industrials	613 8224 2886	dlaing
Chami Ratnapala	Industrials	612 8224 2845	cratnapala
Jonathan Snape	Industrials	613 9235 1601	jsnape
David Coates	Resources	612 8224 2887	dcoates
Stuart Howe	Resources	613 9235 1856	showe
Brad Watson	Resources	618 9326 7672	bwatson
Regan Burrows	Resources	618 9326 7677	rburrows
Joseph House	Resources	613 9235 1624	jhouse
<b>Associates</b>			
Thomas Sima	Associate Analyst	612 8224 2843	tsima
James Williamson	Associate Analyst	613 9235 1692	jwilliamson

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**Authoring analyst, Joseph House, has a long position in BPT.**

**Bell Potter Securities Limited**  
 ABN 25 006 390 772  
 Level 29, 101 Collins Street  
 Melbourne, Victoria, 3000  
 Telephone +61 3 9256 8700  
 www.bellpotter.com.au

**Bell Potter Securities (HK) Limited**  
 Room 1701, 17/F  
 Prosperity Tower, 39 Queens  
 Road Central, Hong Kong, 0000  
 Telephone +852 3750 8400

**Bell Potter Securities (US) LLC**  
 Floor 39  
 444 Madison Avenue, New York  
 NY 10022, U.S.A  
 Telephone +1 917 819 1410

**Bell Potter Securities (UK) Limited**  
 16 Berkeley Street London, England  
 W1J 8DZ, United Kingdom  
 Telephone +44 7734 2929