StockAnalysis

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By Peter Strachan

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Indices and Prices	
All Ordinaries	5,895.80
Energy Index	9,232.50
Brent AU$/bbl	71.6074
AUS$/US$	0.7564
Gold Live AU$	1,659.31
As at close 4 April 2017	

ADX Energy

Nilde oilfield - farm-out ready

Capital Structure		
Code	**ADX**	
Shares	929	m.
Options	5	m. @ 4 cts
Options	62	m. @ 2 cts
Share Price	$ 0.014	
Market Cap	$ 13.0	m.
Cash (est Mar '17)	$ 0.5	m.

Recommendation: ADX is a speculative buy with initial technical price targets of 2.5 cents and then 6.6 cents per share, which should be achieved as risks at its Nilde oil project are sequentially addressed.

StockAnalysis assesses a risked valuation target for ADX of 32 cps.

StockAnalysis is gaining confidence in the potential for ADX to be a top performing stock through 2017 and 2018 as it moves toward production at over 15,000 BOPD in 2020 at its +24 mmbbl Nilde oilfield complex.

100% ownership of development projects provides farm-out path to funding.

Valuation

ADX offers spectacular leverage to project development at its 100% held Nilde oilfield offshore Italy, plus development of its Dougga gas and condensate project offshore Tunisia, as well as a rising price for oil and gas.

The company trades with a market capitalisation of just 40 cents per barrel of combined 2C oil Resources at the Nilde and Nilde Bis oilfields and 6 cents per BOE of total 2C Resources, including its Dougga gas and condensate project offshore Tunisia.

Risked Valuation	$m	$/shr	Comment
Cash (est)	1	$0.000	As of March '17
New Equity (est)	3	$0.003	Dillution @ 2 cps
Mining assets	1	$0.000	26m RIE
Nilde	223	$0.194	50% of 1C NPV at Nilde/Bis
PARTA	4	$0.004	60% of risked Exp'n value
Dougga	41	$0.036	20% of risked Exp'n value
Options	1	$0.001	Nov-Dec '17
Corporate	-3	-$0.002	4x annual
Sub-total	271	$0.237	
Risked Petroleum Exploration Assets			
Tunisia	73	$0.064	Largely Dougga
Nilde Area	17	$0.015	30% of Lead 4 only
Romania	7.6	$0.007	Half of larger risked potential
	$369	$0.322	
Initial Target Price		$0.043	

Source: Strachan Corporate

StockAnalysis assesses a risked value of ~19 cps for ADX for the Nilde project alone. A total risked value target of 32 cents is estimated for all assets.

Nilde oilfield – Offshore Italy 100%

ADX Energy (ADX: ASX) has worked towards completion of subsurface studies on reservoir simulation to deliver updated third party estimates of Resources at the Nilde and Nilde Bis fields in permit d363 CR.AX during Q1'17.

Gold Live AU$

All Ordinaries

S&P ASX 200 Energy Index

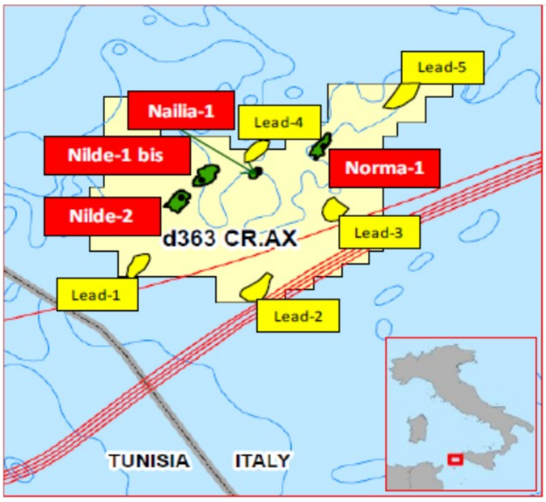
Brent Crude Oil $AU/barrel

AU$/US$

 ACN: 59 077 704 146

Importantly, ADX has signed an MOU with Calm Oceans PTE Ltd (COPL) of Singapore, which has completed initial engineering studies to estimate capital and operating costs for a Nilde development. Both parties are cooperating on further work to finalise contracts for drilling and installation services, along with equipment required for production and storage that will form part of an overall project development plan for delivery to Italian authorities by mid 2017.

COPL has designed and built self-installing mono column platforms (MCP) and has designed relocatable pivotable storage and off-take facilities (RPSO) that ADX plans to utilise in conjunction with an MCP at Nilde. This development plan supersedes a previous focus on more expensive subsea well completions and use of an FPSO, as was previously applied when the project was first developed in the 1980's, at which time the Nilde field produced about 21 MMbbls of oil from an upside estimate of 300 MMbbls of oil originally in place.

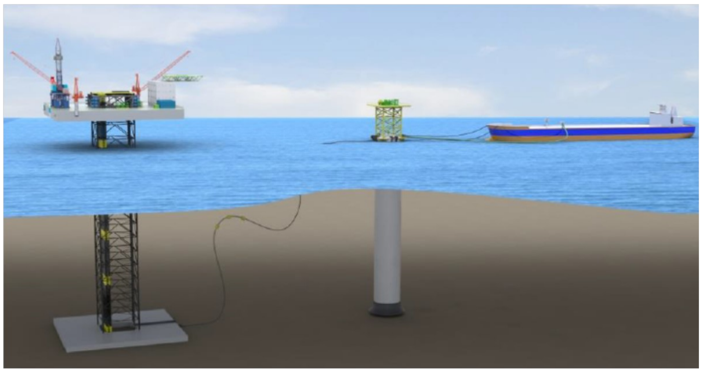


ADX's more recent work concludes that at an oil price of US$40/bbl:

- a post tax cash flow averaging US$150 million pa could be delivered over the first three years,
- delivering oil with a post tax NPV_{10} of US$13-$25/bbl,
- at a capital cost of below US$5/bbl of resources between 22 and 50 MMbbls of resources,
- with a total NPV_{10} of between US$200 and $650 million,
- payback in under 12 months,
- with a breakeven oil price of less than US$30/bbl.

The current schedule involves drilling an appraisal well in early 2018 to confirm reservoir characteristics, which would be suspended as a production well. Two additional production wells and a disposal well are then planned for H2 2019 following installation of the MCP, leading to oil production in January 2020.

In technical partnership with Calm Oceans Pte Ltd of Singapore, the company has set out indicative costs for the lease of major pieces of production and oil storage equipment. Operating costs associated with the provision of skills and other services required during production operations have also been estimated, along with initial costs for appraisal and development drilling and well completions at the Nilde oilfield.



Planned Nilde development configuration

StockAnalysis models a Nilde/Nilde Bis development assuming total drilling and engineering costs of US$131 million, including appraisal drilling plus three additional wells. Fixed costs for equipment leasing, as well as staffing and other services are set at US$46 million pa and a US$1.50/bbl charge is added for marketing and transport of the high grade, 39API gravity oil product.

COPL will own and operate these major pieces of equipment that will then be leased to ADX's Nilde project. The partners will also locate additional equipment required for the platform such as accommodation and a drilling rig that can be leased or purchased by COPL for lease to the project. Funding for engineering services and other work is likely to be sourced from a combination of farm-out or part-project sale, plus the issue of additional equity by ADX.

Application of an MCP and RPSO will enable dry well heads to be located on the MCP and not on the seafloor. This development process is much less capital intensive and quicker to achieve than previously planned subsea completions. The newly planned configuration enables a low-cost and more rapid well completion technique plus easy access for drilling of additional wells that will not involve drilling with a separate rig and then linking to production facilities. Access to a dedicated drilling rig on the MCP will also ensure easy access for subsequent work-over procedures on wells.

The current Nilde development plan envisages locating the MCP between the Nilde and Nilde-Bis fields, so that low angle wells can be drilled into both carbonate reservoir structures. StockAnalysis assumes that production will commence soon after a dedicated Nilde production well is completed in late 2019 and that a Nilde-Bis well will follow in 2021.

ADX calculates that the operating cost of this project should run at around US$45.5-$47 million pa, including all topside production equipment lease costs for the MCP and the RPSO as well as running costs for daily management, boats, helicopters, supply vessels and overhead costs.

Estimated Gross Contingent oil Resources (MMbbls)	1C	2C	3C
Nilde & Nilde Bis	21.7	32.8	49.8
Norma	1.2	3.9	12.9
Naila	1.0	1.7	3.7
Total	**23.9**	**38.4**	**66.4**

The company estimates that after subtracting previous production of 21 MMbbls from an estimated 300 MMbbls of oil originally in place at Nilde, remaining 2C oil Resources in three discovered oilfields at its 100% held Nilde oil project offshore Italy are 38.4 million barrels of recoverable oil, with 32.8 MMbbls of that oil in the Nilde and Nilde-Bis fields, while 1C Resources in aforementioned fields are estimated at 21.7 MMbbls.

Exploration holds potential to more than double oil resources.

Near-field exploration potential in the permit's estimated at ~90 MMbbls in five defined prospects.

StockAnalysis models a project that commences oil production in early 2020 with initial capital costs for field development that are kept at a low US$113 million by leasing most equipment from COPL, which will supply a fully functioning oil production and drilling platform plus oil storage and off-take facilities. Capital costs include about US$40 million in year two for an additional production well.

Investors should not assume ADX will issue new equity since an early farm-out deal would mean ADX is funded.

Ultimately, ADX may defray some up-front capital costs that will be incurred for engineering and other services at Nilde by selling down a part of the project. StockAnalysis assumes a further modest equity raising of $3 million during 2017, plus a partial sale or farm-out of the project to support the company ahead of achieving operating cash flow from Q1, CY '20.

Scope for CAPEX reduction in competitive market.

Nilde Project Summary			
Production	MMbbls	32.1	Over 10 years
Production wells		3	
Royalty	Percent	4%	After 1st 340K bbls pa
Tax	Percent	27.5%	
Oil price	US$/bbl	$ 56.0	fixed
CAPEX	US$ m.	$ 131	Including 2nd well yr 2
OPEX	US$/bbl	$ 15.1	Average
Free cash	US$/m	$ 811	on 32.1 MMbbls
NPV_{10}	US$/m	$ 409	For 2C of 32.1 MMbbls
NPV_{10}	US$/m	$ 339	For 23.8 MMbbls
Assume residual oil offsets abandonment costs			

Source: Strachan Corp estimates from ADX data

StockAnalysis believes that ADX should be able to retain a relatively high final equity in the project. ADX has established capital and operating cost parameters for the project with the assistance of equipment and service providers and has completed a detailed sub-surface data and geological survey over the fields, in the lead up to delivering a development proposal to Italian authorities. Once the Italian authorities have an approved development plan, ADX will have established a clear line to value, enabling it to capture some of that value at an early stage. ADX will be in a stronger position to finalise details of the financial arrangements between itself and COPL once a development plan is prepared and tabled for Italian authorities.

Dougga - Tunisia

In Tunisia, the company is working to renegotiate a more workable fiscal position over its 100% held permits. These permits contain at least 12 leads and prospects containing estimated Prospective Resources of over 1.5 billion barrels of oil equivalent, including the Dougga gas discovery which is estimated to hold 2C Resources of 517 Bcf of sales gas and 91 mmbbls of condensate plus associated carbon dioxide, for which a market may also be available.

ADX has engaged TechnipFMC to prepare a development concept study over the Dougga field. The study will appraise development involving a subsea well completion in water depth of 330 metres with a 45 kilometre tieback to an onshore gas plant. Results of this study will be used to demonstrate commercial attractiveness to potential partners as well as forming a base from which commercial development terms with the Tunisian authorities

Low cost, subsea tie-back development proposal . .

. . project delayed by Arab Spring . . .

. . a 60% chance of success lifts project value to over US$870 million.

can be progressed. A solid commercial case for development of Dougga should attract funding to demonstrate a commercial flow rate and possibly evaluate potential for up-dip resources in potentially better developed reservoir sediments that would expand the estimated gas resource at Dougga.

Tunisia's gas demand is rising by 4% pa and the country is now a net gas importer of about 50% of its requirements. Gas pricing is now oil linked, so sales gas might be expected to achieve LNG netback parity. Tunisia is also linked by subsea pipeline to the high value European gas market.

StockAnalysis calculates a combined value of 7 cps to ADX for the Dougga and Dougga West prospects, based on retaining a 20% working interest in Tunisian waters after farming -out to fund. This value is dependent on the company retaining an interest and establishing a workable tax/royalty regime in Tunisia, otherwise they will have no value. ADX's progress in nearby Italian waters is likely to impress Tunisian authorities and strengthen its claims for a more equitable fiscal regime.

Romania – 50%

Romanian oil and gas prospects are risked with a total value of ~$13 million or 1.2 cps, assuming that ADX farms down from a 50% interest to retain 25% to 30% interests in that country.

The permits contain shallow gas and oil targets that are defined by seismic data. ADX plans to drill as soon as funding can be arranged and to acquire additional 3D seismic data to guide ongoing exploration.

The chart

Following disappointing evaluation results from drilling in Tunisian waters in 2013, the stock has made a long and slow recovery through a low oil price environment from mid 2014. Since 2013 ADX has changed its leadership team and moved strategy towards appraisal and development rather than exploration. Recognition of potential value in the Nilde assets should restore the stock to resistance at 2.5 cents, from where a staged recovery towards 6.6 cps is possible on the back of developments at Nilde.

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