

ADX Energy Ltd (ASX: ADX)

March 15, 2023

Share price: A\$0.007

Target: A\$0.100

Drilling newsflow. Production growth. Value.

- 2023 is expected to be a busy and transformational year for ADX. The company plans to grow gross production at Anshof (4.2 mmbbl net 2P reserves) to almost 1,000 bbl/d with two new wells by YE23. At that level, ADX can generate US\$13 mm operating cashflow per year (after tax). This represents ~65% of the company market cap.
- The Anshof-2 appraisal well, expected to be drilled in 3Q23, will provide further visibility on (i) the field's production rate potential and (ii) firm-up the position of the water oil contact. It could unlock a large proportion of the 26 mmbbl 3P/3C case (21 mmbbl net to ADX).
- ADX has also matured 16 drill-ready prospects (including prospects adjacent to Anshof) in Upper Austria with ~200 mmboe of unrisks resources in aggregate.
- Welchau, the largest prospect with 807 bcfe (134 mmboe) prospective resources, is planned to be drilled in 3Q23. ADX holds 80% WI.
- With further partners from the ongoing farm-out process, ADX seeks to drill another two other prospects in 2023.
- Progress is also expected to be made on the green hydrogen project in the Vienna basin and at the geothermal project in Upper Austria.
- ADX offers a combination of strong underlying value, increasing cashflow and reserves growth with very material exploration upside from an expanded near-term drilling programme. As we have revised the chances of success of the various assets, we are increasing our target price from A\$0.070/sh to A\$0.100/sh.

Quantifying the upside case

- Our unrisks valuation for Anshof's 4.2 mmboe net 2P reserves is ~A\$0.02/sh. The Anshof-2 well could trigger the conversion of 8 mmboe into the 2P reserves category (to a total of 12 mmboe) de-risking ~A\$0.04/sh of value. The 3P+3C reserves case with a deeper oil water contact implies a further 9 mmbbl of net resources (to a total of 21 mmboe) and an additional unrisks NAV of ~A\$0.04/sh).
- Our unrisks value for Welchau is A\$0.20/sh.
- Securing a farm-in partner to drill two prospects would unlock A\$0.010/sh of value (assuming a 2 for 1 farm down) while a drilling success at both wells has an unrisks value of A\$0.022 per share.

Valuation

Our Core NAV stands at A\$0.017/sh (>2x the current share price). Our ReNAV stands at >A\$0.10 per share and includes the risked value of Welchau and the upside case for Anshof. We are not ascribing any value to the two other prospects. We also note that MCF Energy (MCF CN), whose main asset is a 20% WI in Welchau and which is paying 50% of the well cost, has a market cap of ~C\$120 mm. While ADX holds 80% of Welchau (=4x MCF's WI), ADX's market cap is less than a quarter of that of MCF.

Rating & target	Old	New	
Target	A\$ 0.070	A\$ 0.100	
Yield		0%	
Implied total return		1150%	
Share data	2021	2022e	2023e
Shares dil., mm	3,312	3,594	3,594
Mkt cap, US\$mm	\$24	\$20	\$21
EV, US\$mm	\$23	\$18	\$24
Financial Data	2021	2022e	2023e
Gas, mmcf/d	0.1	0.3	0.2
Liquids, bbl/d	261	190	394
Total boe/d (6:1)	283	238	431
CFO, US\$mm	(\$2)	\$2	\$4
Net capex, US\$mn	(\$0)	\$3	\$9
Net debt, US\$mm	(\$1)	(\$2)	\$4
CFPS dil., US\$/shr	(\$0.00)	\$0.00	\$0.00
EPS dil., US\$/shr	(\$0.00)	(\$0.00)	(\$0.00)
Valuation	2021	2022e	2023e
Share price, A\$/shr	A\$ 0.010	A\$ 0.008	A\$ 0.008
EV/DACF	-9.9x	5.1x	4.4x
EV per boe/d (US\$)	\$81,897	\$76,597	\$56,475
Net asset value			
CNAV, A\$/shr			A\$ 0.017
RENAV, A\$/shr			A\$ 0.104
Unrisks NAV, A\$/shr			A\$ 0.580
P/CNAV			0.5x
P/RENAV			0.1x
P/ENAV			0.0x

All figures in US\$ unless otherwise noted
A\$/US\$: 0.69

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Figure 1. Financial & operating information
ADX Energy Ltd (ADX AU)

Financial & Operating Information		2020	2021	2022e	2023e	2024e	2025e	2026e
Commodity Prices								
Brent	US\$/bbl	\$41.23	\$69.35	\$100.92	\$96.30	\$92.45	\$73.71	\$70.00
Austria Gas price	US\$/mcf	\$7.30	\$11.90	\$37.75	\$18.54	\$13.55	\$11.14	\$9.96
USD/CAD	US\$/C\$	\$0.75	\$0.75	\$0.75	\$0.75	\$0.75	\$0.75	\$0.75
A\$/US\$	A\$/US\$	\$0.74	\$0.73	\$0.69	\$0.71	\$0.72	\$0.72	\$0.72
Production								
Oil and Liquids	bbbl/d	270	261	190	394	930	1,131	1,250
Natural Gas	mmcf/d	0.2	0.1	0.3	0.2	0.3	0.3	0.3
Total (6 mcf = 1 boe)	boe/d	297	283	238	431	980	1,181	1,300
% Oil and Liquids	%	91%	92%	80%	91%	95%	96%	96%
Netbacks								
Realized Price	US\$/boe	\$43.36	\$67.80	\$119.55	\$93.25	\$86.65	\$69.27	\$66.01
Royalties	US\$/boe	\$0.00	\$0.00	\$0.00	\$7.28	\$11.56	\$9.76	\$9.58
Production & Transport Costs	US\$/boe	\$46.49	\$56.71	\$87.77	\$51.16	\$38.76	\$35.25	\$34.76
Operating Netback	US\$/boe	(\$3.12)	\$3.33	\$26.92	\$34.81	\$36.34	\$24.25	\$21.67
Taxes	US\$/boe	-\$6.55	\$0.00	\$1.29	\$10.19	\$5.01	\$2.36	\$1.83
Cash Flow Netback	US\$/boe	(\$13.84)	(\$11.25)	\$19.38	\$25.21	\$36.38	\$26.75	\$25.03
Government Take	%	-15%	0%	1%	19%	19%	18%	17%
Financials								
Cash Flow (CFO)	US\$mm	(\$1)	(\$2)	\$2	\$4	\$13	\$11	\$12
CFPS - diluted	US\$/shr	(\$0.00)	(\$0.00)	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
EBITDAX	US\$mm	(\$1)	\$0	\$2	\$6	\$15	\$13	\$13
E&D Capex	US\$mm	\$3	\$1	\$4	\$9	\$5	\$10	\$7
A&D Capex, Net	US\$mm	(\$0)	(\$1)	(\$1)	\$0	\$0	\$0	\$0
Total Net Capex	US\$mm	\$3	(\$0)	\$3	\$9	\$5	\$10	\$7
Total Net Capex/CFO	x	-2.6x	0.1x	1.3x	2.4x	0.4x	0.9x	0.6x
Leverage								
Net Debt	US\$mm	\$2	(\$1)	(\$2)	\$4	(\$4)	(\$5)	(\$10)
Net debt/CFO (Trailing)	x	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Entry Net Debt/CFO	x	n.a.	-1.1x	n.a.	n.a.	0.3x	n.a.	n.a.
Capital Structure								
Basic Shares o/s @ YE	mm	1958	2974	3485	3485	3485	3485	3485
Diluted Shares o/s @ YE	mm	2278	3312	3594	3594	3594	3594	3594
Market Capitalization	US\$mm	\$10	\$24	\$20	\$21	\$21	\$21	\$21
Enterprise Value	US\$mm	\$12	\$23	\$18	\$24	\$17	\$16	\$11
Dividends & Sustainability								
Dividends	US\$mm	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Dividends	\$/shr	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Dividend Yield	%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Free Cash Flow	US\$mm	(\$4)	(\$2)	(\$2)	(\$5)	\$8	\$1	\$5
Cash Use/CFO	%	-260%	7%	134%	245%	41%	87%	58%
Performance								
Prod. Per Shr Growth (Y/Y) - dil	%	-87%	-44%	-29%	81%	127%	21%	10%
PPS Growth (Y/Y) DDA - dil. ^b	%	n.a.	-35%	-37%	71%	129%	74%	58%
CFPS Growth (Y/Y) - dil.	%	-91%	64%	-240%	54%	237%	-10%	3%
CFPS Growth (Y/Y) DDA - dil. ^b	%	-129%	12%	-205%	45%	239%	30%	48%
ROCE	%	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Net Asset Value ^c								
CNAV (Atax) - diluted	A\$/shr	A\$ 0.017						
RENAV (Atax) - diluted	A\$/shr	A\$ 0.104						
Unrisked NAV (Atax) - diluted	A\$/shr	A\$ 0.580						
P/CNAV	x	0.5x						
P/RENAV	x	0.1x						
P/Unrisked NAV	x	0.0x						
Valuation								
Share Price, YE/Current	A\$/shr	A\$ 0.006	A\$ 0.010	A\$ 0.008	A\$ 0.008	A\$ 0.008	A\$ 0.008	A\$ 0.008
P/CF	x	-5.3x	-19.3x	12.3x	5.2x	1.6x	1.8x	1.7x
EV/DACF	x	-8.3x	-9.9x	5.1x	4.4x	0.9x	1.0x	0.6x
Target EV/DACF	x	-59.3x	-107.7x	73.7x	33.3x	9.7x	11.0x	10.4x
EV per boe/d	US\$/boe/d	\$40,831	\$81,897	\$76,597	\$56,475	\$17,351	\$13,167	\$8,116
Proved Plus Probable	mmboe	1	6	6	6	5	5	4
EV per 2P boe	US\$/boe	\$13.59	\$3.97	\$3.17	\$4.34	\$3.24	\$3.23	\$2.43
EV per 2P boe, with FDC	US\$/boe	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

a) EBITDAX = Pre-Int. & Pre-Tax Cash Flow; ^b) DDA = Debt-and-Dividend-Adjusted

c) CNAV incl. 2P reserves, RENAV incl. 2P reserves + Risked LT inventory upside, ENAV incl. 2P reserves + Unrisked LT inventory upside

Source: Auctus Advisors, Company Disclosures

**Futures strip as of 17-Feb-23

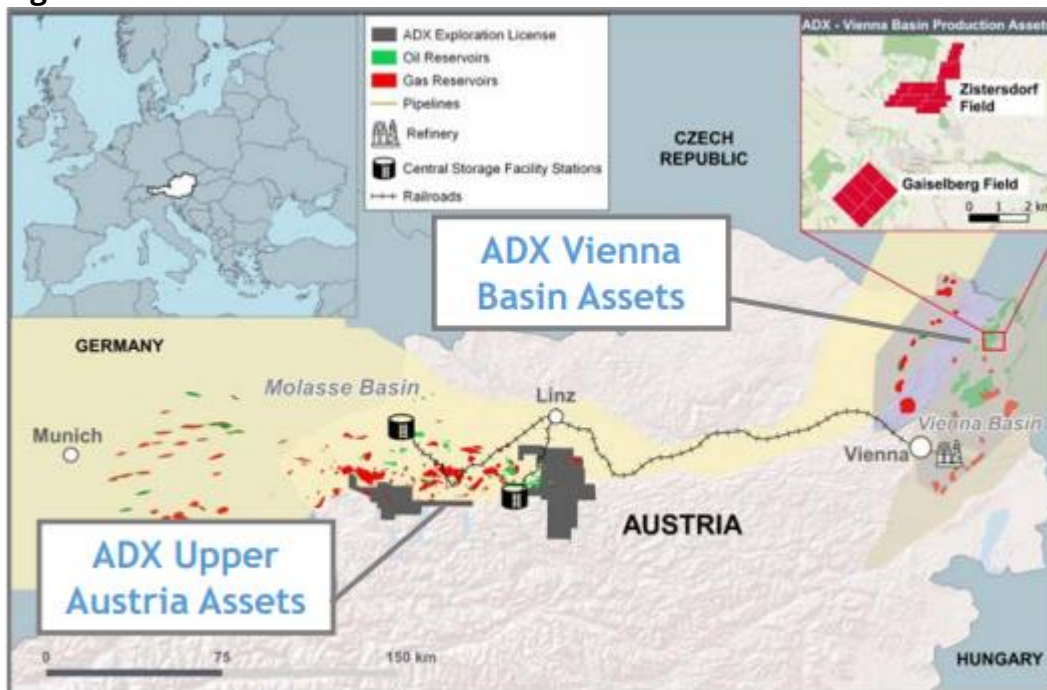
Anshof discovery

In Austria, ADX holds 100% WI in mature producing fields in the Vienna Basin with 1.74 mmbbl of 2P reserves and ~200-250 boe/d (85% sweet oil) production. This production is relatively stable with minimal work-over capex.

ADX also holds 100% WI in the ADX-AT-I and ADX-AT-II licences (area of 1,022 km² in aggregate) in Upper Austria. This acreage is located in the prolific Austrian Molasse basin and covered by modern 3D seismic. Adjacent infrastructure (processing and transportation facilities) is also available. Since this acreage was granted to ADX by the Austrian government in January 2021, the company has matured 16 drill-ready prospects mapped with high quality seismic and ~200 mmboe unrisks resources. The average chance of success based on historical drilling in the basin is high (~50%).

ADX's track-record in securing a well site and a drilling permit for the Anshof-3 well in less than 12 months, bringing the well into production within 9 months and securing a field production license within 15 months from making a discovery is the result of ADX local operating capability and demonstrates that Austria provides a friendly and efficient operating environment to explore and develop oil and gas resources in contrast with many other countries in Europe where permitting is difficult and tedious often requiring many years to receive approvals.

Figure 2. The assets' locations

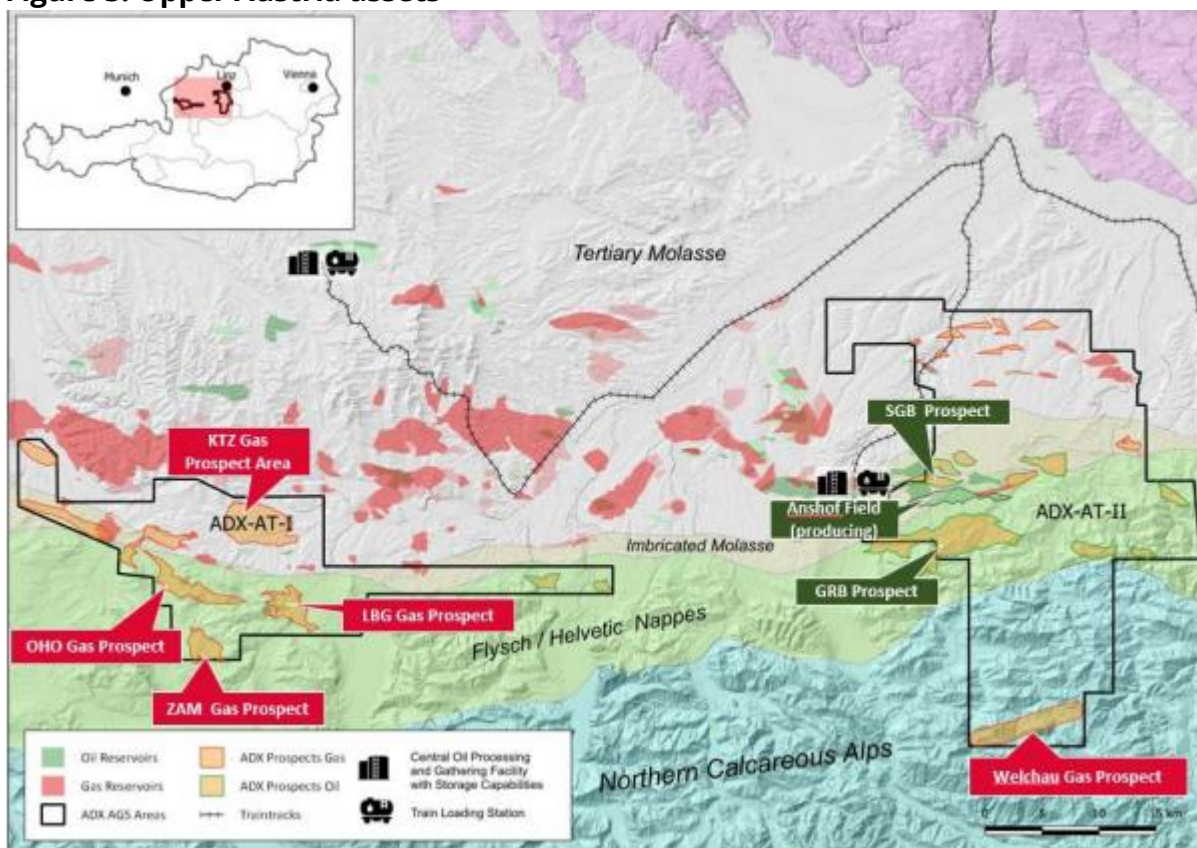


Source: Company

ADX first exploration well (Anshof-3) discovered the Anshof field (80% WI) and has already been put on production at 110+ bbl/d. The well has outperformed expectations and ADX intends to increase the production rate (currently constrained by well site facilities) to

~150 bbl/d when additional on-site oil storage is available in 2Q23. The field has been estimated to hold ~5.2 mmbbl gross 2P reserves (4.2 mmbbl net to ADX) based on conservative assumptions on the oil water contact (field area of 6.4 km²). However, the well was drilled in a crestal position where the gross Eocene reservoir is only 6 metre thick. The 3D seismic shows a large extension and thickening of the Eocene reservoir encountered by Anshof-3. The Anshof-3 well did not encounter the oil water contact. Oil was also encountered by a nearby down dip well (PK-005 well located to the Western edge of the structure) in the same reservoir. Overall, the gross 3P reserves and 3C resources based on the “oil down to” level encountered by the PK-005 well are estimated at 26 mmbbl (21 mmbbl net to ADX), including 12.5 mmboe gross 3P reserves and a further 13.5 mmboe gross 3C resources assuming the oil water contact is 220 metres deeper than in the 2P case resulting in a field area of 25.4 km².

Figure 3. Upper Austria assets

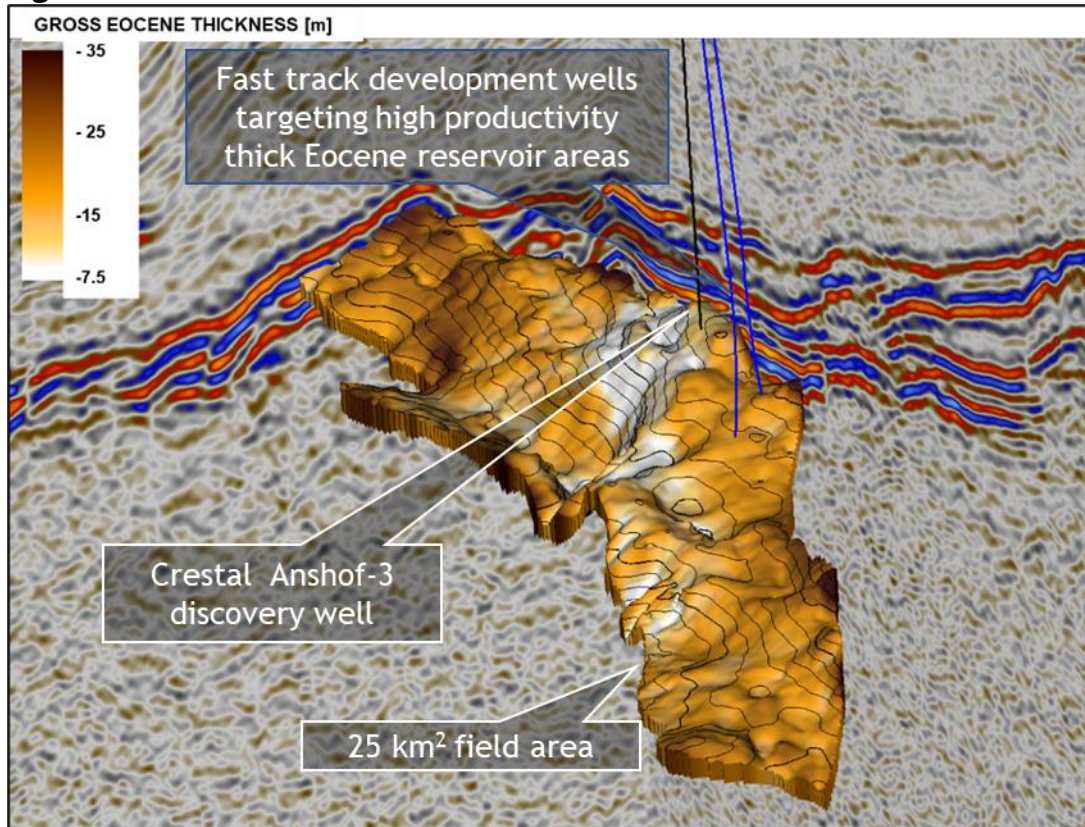


Source: Company

Future wells targeting thicker areas of the reservoirs are expected to deliver substantially better flow rates than Anshof-3. The 2P reserves case would require a total of 5 production wells while the upside case would be developed with 23 wells. The Anshof wells are deviated wells (less than 2,000 metre vertical depth) and cost ~EUR4.4 mm per well.

Peak production under the 2P reserves case is estimated at ~3 mbb/d (2.4 mbb/d net to ADX). In the 3P + 3C case, this increases to 8 mbb/d (6.4 mbb/d net to ADX). This provides potential for 10-25 times production increase from Anshof only,

Figure 4. Anshof



Source: Company

ADX will drill Anshof-2 and Anshof-1 in 2023 as production wells to increase gross production to ~1,000 bbl/d. Anshof-2 will also investigate the location of the oil water contact, which could have positive implications with regards to reserves estimates and classification.

Welchau

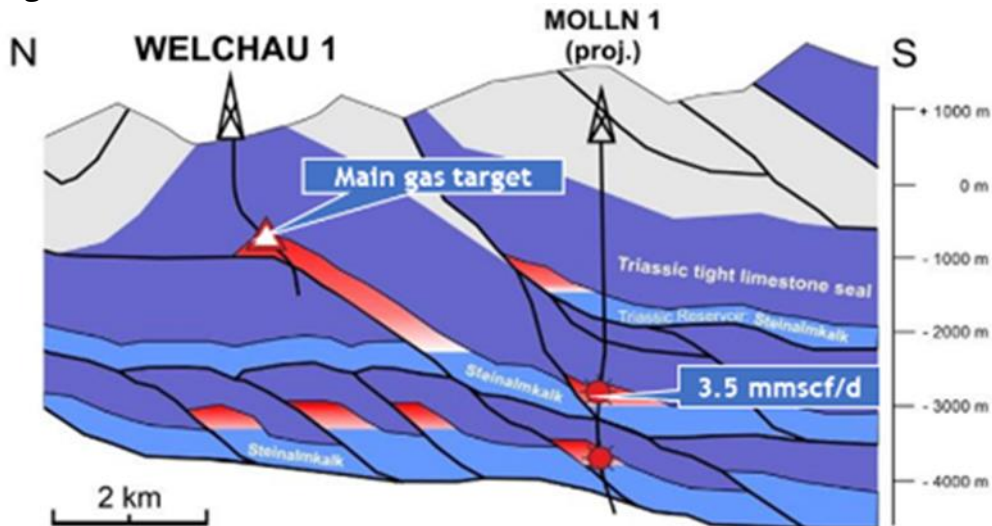
The Welchau gas prospect has been estimated to hold 807 bcfe (134 mmboe) of best technical prospective resources. The well is proximal to the Molln-1 gas discovery that was drilled by OMV in 1989 targeting a much deeper oil play but also tested pipeline quality gas (3.5 mmcf/d plus 40 bbl/mmcf of condensate) from one of several tests in the same prognosed reservoir as the Welchau prospect. The Molln-1 well intersected at least a 400-metre gas column, with 900 metres interpreted from pressure data.

The Welchau prospect is in the foothills of the Austrian Alps and is analogous to the giant anticline structures discovered in Kurdistan and the Italian Apennines. Drilling depth is

only ~2,000 metres and within tie-in distance (18 km) to the national gas pipeline network. The well is expected to cost approximately EUR4 mm.

ADX has farmed out 20% of Welchau to MCF Energy Ltd. (MCF CN) with MCF funding 50% of the well cost. ADX expects to farmout some or all of the remaining well cost on similar terms

Figure 5. Welchau



Source: Company

Additional drill ready exploration prospects

ADX has matured multiple additional drill ready prospects on 3D seismic in Upper Austria. Drilling locations have been secured for some of these prospects. The remaining portfolio offers ~65 mmboe of unrisks best estimate resources comprising a well-balanced inventory ranging from very low risk appraisal opportunities to high impact gas exploration prospects.

ADX has initiated a farm-out process for some of these prospects to accelerate drilling. There has been strong interest for gas prospects in ADX's exploration acreage in Upper Austria. The ADX-AT-I area has a number of sizeable gas prospects with medium to relatively low risk profile close to existing infrastructure. The KTZ prospect area with targets located at a depth of ~1,000 metres is a good example. This cluster of prospects is not included in the 65 mmboe resources estimate and could offer some further upside.

The success of the Anshof-3 exploration well (which encountered top Eocene target reservoir within 4 metres of prognosis) and the better than expected production performance of the well have further de-risked the satellite prospects adjacent to the Anshof field such as the Gruenburg prospect (8.5 mmboe) and the Steingrub prospect (2.8 mmboe) which ADX holds at 100% equity. The Anshof field development also enhances the economic potential of these prospects.

We anticipate that with a farm-in partner, ADX could drill two prospects in 2023 (one oil well and one gas well). We are assuming these wells will target a total of ~6-8 mmboe unrisks resources. The gross cost of each well is estimated at ~EUR5 mm.

There is also an oilfield rejuvenation opportunity at Piberbach that is not included in the prospect summary.

Figure 6. Upper Austria prospect summary (excluding Welchau)

	Prospect	Fluid Type	Recoverable resources (best estimate) (mmboe)
High Impact	Oberholz (OHO)	Gas (oil)	20.4
Exploration	Zell Am Moos (ZAM)	Gas (oil)	14.6
	Gruenburg (GRB)	Oil	8.5
	Irrsdorf (IRR)	Gas	3.0
	Ternberg (TERN)	Oil	3.2
Trend	Lichtenberg (LICHT)	Gas	2.7
Exploration	Wolfsgrub (WG)	Oil	2.2
	Pergern (PERG)	Oil	2.5
	Ausseroid (ARD)	Gas	2.2
	Sierning (SIER)	Gas	1.0
	Steingrub (SGB)	Oil	2.8
Discoveries & Appraisal	Lindenberg (LIND)	Oil	0.8
	Brunn (BRUNN)	Gas	0.8
	Kleinraming (KLE)	Oil	0.6
	Steyr (STEY)	Gas	0.5
Total			65.8

Source: Company

The clean energy projects

ADX is progressing three clean energy projects. In the Vienna Basin, ADX is developing a green hydrogen project. The area benefits from significant (and growing) wind power generation capacity in addition to Austria's extensive hydropower facilities. ADX intends to build electrolyser capacity in the Zisterdorf area and use renewable electricity to generate green hydrogen. The hydrogen not sold immediately would be stored in depleted underground reservoirs (75-100+ GWh of combined capacity already identified) and sold in winter when prices are higher (seasonal spread arbitrage). The hydrogen would be sold either (1) through the existing gas grid blended with methane (up to 10% of volume) or (2) to a future dedicated hydrogen grid (European Hydrogen Backbone) or (3) to the industrial and mobility markets (grey hydrogen, coal or diesel displacement).

The first phase of the project is a 2.5 MW pilot that would produce ~370 t of hydrogen per year. This could then be scaled-up to >30 MW. In 1Q23, ADX is seeking to finalise commercial terms and documentation relating to renewable energy supply for the pilot phase.

ADX is also progressing feasibility studies for a 2.5 MW solar park at the Gaiselberg field which could supply electricity representing ~50% of the fields' electricity consumption. Such investment could improve operating netbacks and PV generated electricity may be used for green hydrogen production for the mobility market in the future.

In Upper Austria, ADX is working on a detailed geotechnical and economic scoping study for the ~14 MW Gmunden geothermal project. This is a multi-energy project that also targets oil and gas potential. The company is in discussions with potential energy offtakers and joint developers. The Gmunden project is located in the Eastern part of ADX's Upper Austrian exploration license ADX-AT-I and fully covered with modern 3D seismic. The project targets fractured Malmian (Jurassic) limestone. This is a proven highly active geothermal growth area with a 90% success rate for geothermal wells. Numerous geothermal wells have been drilled in the basin in southern Bavaria and Upper Austria. The project has a geothermal power capacity of 14.4 MW and could generate 115 GWh per annum of geothermal energy (power and heat) based on one multilateral well and 2 industrial off-takers.

In Romania, ADX has been approached by several local communities in relation to geothermal projects mainly for district heating, given its drilling experience and extensive 2D and 3D seismic database in the area. A very high geothermal gradient was encountered while drilling the IMC-1 well in the order of 6°C/100 metres which is of interest for a potentially viable geothermal project.

Italy

Offshore Italy, ADX holds 100% WI in the d363C.R.-AX exploration permit. In 2H22, the Italian licensing authorities offered ADX the opportunity to ratify the license under a number of conditions including that only the gas potential within the license is commercially exploited. With five high graded shallow prospects in shallow water holding 369 bcf prospective resources and Direct Hydrocarbon Indicators identified on seismic, this license could be material to ADX.

Value build-up and valuation

The 2023 drilling programme could have a material impact on our valuation. Our Core NAV based on the company's 2P reserves is A\$0.017 per share. Given the performance of the Anshof-3 well to date, we have increased the probability we carry for the 2P case from 75% to 90%.

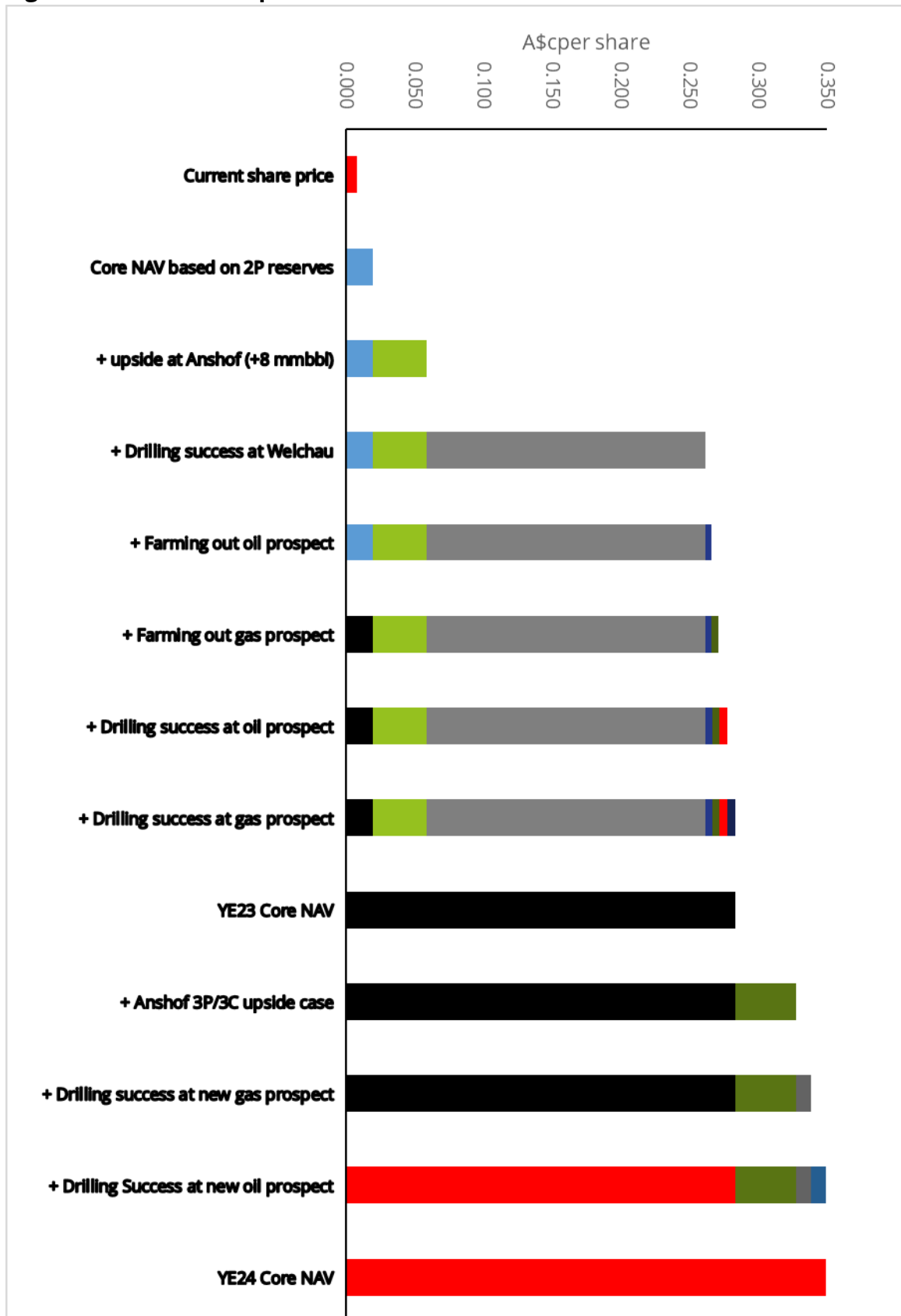
The Anshof-2 well could unlock up to 8 mmmboe additional net reserves that could be converted into the 2P reserves category with an unrisks NAV of A\$0.039 per share. The additional net 3P reserves /3C resources have an additional unrisks NAV of A\$0.044/sh (deeper oil water contact).

We value Welchau at A\$0.200/sh assuming ADX retains only 60% of the asset and US\$6.5/boe unrisked value (assuming an arbitrary 50% of the value of Anshof barrel due to (1) likely funding cost, (2) the time to reach production plateau and (3) the likely length of the production plateau given the size of the field). We applied a 25% chance of success.

Securing a farm in partner at each of the potential additional prospects would unlock A\$0.005/sh of value per prospect as these are added to the drilling programme. A drilling success would unlock a further A\$0.006/sh of value per prospect (total unrisked value of A\$0.011/sh per prospect). This assumes that ADX farms-out 40% to fund drilling.

The overall unrisked NAV for the company based on the 2023 drilling programme is >A\$0.280 per share. This represents ~40x the current share price. In addition, assuming ADX would drill a further appraisal well at Anshof (to firm-up the 3P/3C case) and two further prospects in 2024, our overall unrisked NAV for the company at YE24 based on this additional programme is A\$0.350 per share.

Figure 7. Value build-up



Source: Auctus

Figure 8. NAV Table

	WI Reserves / Resources (m mboe)	Unrisked NAV (US\$ mm)	Unrisked NAV/sh A\$/Share	GCoS (%)	EMV (US\$ mm)	A\$/Share	% Total
Net Cash (YE23)		-4	-0.001		-4	-0.001	-1%
G&A		-13	-0.005		-13	-0.005	-5%
Austria							
Zistersdorf 2P	2	11	0.004	100%	11	0.004	4%
Anshof 2P Reserves	4	54	0.021	90%	48	0.019	18%
Total Core NAV		48	0.019		43	0.017	16%
Austria							
Welchau Prospect	80	520	0.202	25%	130	0.051	49%
Anshof P3 Reserves	8	101	0.039	60%	61	0.024	23%
Anshof 3C Resources	9	114	0.044	30%	34	0.013	13%
Oil prospect (farm-out)	2	27	0.011	45%	12		0%
Gas prospect (farm-out)	2	27	0.011	45%	12		0%
Remaining prospects	59	760	0.296	30%	228		0%
H2 30 MW CH4 Equivalent		12	0.005				0%
Additional value - H2 30 MW H2 Market (US\$4/kg)		42	0.016				0%
Romania							
Iecea Mare	2	7	0.003	60%	4		0%
Italy							
d363C.R-.AX gas resources	34	23	0.009	25%	6		0%
Total Risked Appraisal & Exploration		1,633	0.636		488	0.088	84%
Total NAV		1,681.13	0.654		530	0.104	100%
Unrisked NAV						0.654	
P/Core NAV					48.3%		
P/NAV					7.7%		
P/Unrisked NAV					1.2%		

Source: Auctus, Company Disclosures

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