

ADX Energy Ltd (ASX: ADX)

September 30, 2024

Share price: A\$0.12

Target: A\$0.75

Welchau is about oil rather than gas: perhaps smaller but higher value boe

- Welchau is now interpreted as a light oil rather than a gas condensate discovery based on detailed analysis of samples recovered from the well and other well data. While this means that the energy equivalent hydrocarbon volumes may be smaller than the original pre-drill estimates, onshore oil can be more valuable than gas to a small company due to the ability to produce and progressively develop a field without having to first prove up sufficient reserves to underwrite a pipeline and secure a gas contract.
- Welchau is estimated to hold 90-95% oil and the production from Welchau-1 could be trucked to a point of sale or to ADX's existing 3,000 bbl/d Anshof facility for processing when stable flows can be established.
- Welchau is now estimated to hold low, best and high case prospective resource estimates of 12 mmboe, 46 mmboe and 217 mmboe with a mean case estimate of 85 mmboe. This compares with 35-272 mmboe (minimum to maximum) with a best case of 134 mmboe estimated before drilling. The results of the well testing (due to commence in October) will narrow that range. It should be noted that the Welchau well was still encountering hydrocarbon shows down to the current well TD so deeper potential exists.
- The probabilistic estimation of Welchau prospective resources was based on a range of (1) oil-water contact depths (estimated by ADX) and (2) fracture porosity from well data as well as statistical data for comparable reservoirs. The resources estimates assume no contribution from matrix production which offers upside. Welchau is now interpreted not to be connected with Molln.
- We reiterate our target price of A\$0.75/sh that reflects the lower volume estimates, offset by the higher value per boe.

Next steps at Welchau-1

Welchau-1 will be tested from October to March. The key reservoirs are Steinalm and Relfing, holding ~80% of the resources. In each test the well may be acidised to optimise well performance. In case of success and with appropriate permitting, ADX could either produce from Welchau-1 as a longer-term producer, extend it by 500-1000 m to assess deeper exploration potential or drill a horizontal sidetrack to assess the production and reserves potential of a high angle well designed to optimize recovery from fractures.

Valuation

Our new ReNAV is A\$0.74/sh. Our starting point for the value of a bbl of oil at Welchau is the same as for Anshof. We are then assuming a three-year lag with a 10% discount rate, resulting in a value of US\$8.5/boe; which is higher than our previous estimate of ~US\$4/boe.

Rating & target	Old	New	
Target	A\$ 0.750	n.c.	
Yield		0%	
Implied total return		552%	
Share data	2023	2024e	2025e
Shares dil., mm	502	695	695
Mkt cap, US\$mm	\$39	\$53	\$55
EV, US\$mm	\$35	\$48	\$51
Financial Data	2023	2024e	2025e
Gas, mmcf/d	0.2	0.1	0.1
Liquids, bbl/d	263	230	485
Total boe/d (6:1)	289	250	509
CFO, US\$mm	(\$2)	(\$1)	\$3
Net capex, US\$mn	(\$0)	\$8	\$4
Net debt, US\$mm	(\$4)	(\$5)	(\$3)
CFPS dil., US\$/shr	(\$0.00)	(\$0.00)	\$0.00
EPS dil., US\$/shr	(\$0.00)	(\$0.01)	(\$0.01)
Valuation	2023	2024e	2025e
Share price, A\$/shr	A\$ 0.115	A\$ 0.115	A\$ 0.115
EV/DACF	n.a.	-57.7x	12.6x
EV per boe/d (US\$)	\$119,418	\$193,592	\$100,933
Net asset value			
CNAV, A\$/shr			A\$ 0.099
RENAV, A\$/shr			A\$ 0.740
Unrisked NAV, A\$/shr			A\$ 3.838
P/CNAV			1.2x
P/RENAV			0.2x
P/ENAV			0.0x
<i>All figures in US\$ unless otherwise noted</i>			
A\$/US\$:		0.67	

Contact details

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Figure 1. Financial & operating information

ADX Energy Ltd (ADX AU)								
Financial & Operating Information		2022	2023	2024e	2025e	2026e	2027e	2028e
Commodity Prices								
Brent	US\$/bbl	\$100.92	\$82.46	\$81.74	\$74.97	\$70.00	\$70.00	\$70.00
Austria Gas price	US\$/mcf	\$37.75	\$17.95	\$11.72	\$10.96	\$10.02	\$9.92	\$9.92
USD/CAD	US\$/C\$	\$0.75	\$0.74	\$0.72	\$0.75	\$0.75	\$0.75	\$0.75
A\$/US\$	A\$/US\$	\$0.69	\$0.67	\$0.67	\$0.68	\$0.72	\$0.72	\$0.72
Production								
Oil and Liquids	bbl/d	190	263	230	485	876	1,400	1,400
Natural Gas	mmcf/d	0.3	0.2	0.1	0.1	0.1	0.1	0.1
Total (6 mcf = 1 boe)	boe/d	238	289	250	509	900	1,421	1,421
% Oil and Liquids	%	80%	91%	92%	95%	97%	99%	99%
Netbacks								
Realized Price	US\$/boe	\$119.65	\$83.56	\$80.42	\$69.73	\$66.02	\$66.20	\$66.20
Royalties	US\$/boe	\$0.00	\$4.73	\$3.92	\$7.09	\$9.00	\$10.11	\$10.11
Production & Transport Costs	US\$/boe	\$85.69	\$81.04	\$88.38	\$49.30	\$38.71	\$34.87	\$34.87
Operating Netback	US\$/boe	\$29.10	(\$2.21)	(\$11.89)	\$13.33	\$18.32	\$21.22	\$21.22
Taxes	US\$/boe	\$3.22	-\$2.47	-\$3.03	-\$0.44	\$1.67	\$3.45	\$3.77
Cash Flow Netback	US\$/boe	\$11.80	(\$8.94)	(\$12.69)	\$14.90	\$18.72	\$21.99	\$21.66
Government Take	%	3%	3%	1%	10%	16%	20%	21%
Financials								
Cash Flow (CFO)	US\$mm	\$3	(\$2)	(\$1)	\$3	\$6	\$11	\$11
CFPS - diluted	US\$/shr	\$0.00	(\$0.00)	(\$0.00)	\$0.00	\$0.01	\$0.02	\$0.02
EBITDAX	US\$mm	\$2	\$1	(\$1)	\$3	\$7	\$13	\$13
E&D Capex	US\$mm	\$4	\$5	\$15	\$4	\$6	\$3	\$1
A&D Capex, Net	US\$mm	(\$1)	(\$5)	(\$7)	\$0	\$0	\$0	\$0
Total Net Capex	US\$mm	\$3	(\$0)	\$8	\$4	\$6	\$3	\$1
Total Net Capex/CFO	x	1.3x	0.2x	-12.5x	1.7x	1.1x	0.3x	0.1x
Leverage								
Net Debt	US\$mm	(\$2)	(\$4)	(\$5)	(\$3)	(\$3)	(\$11)	(\$21)
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.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Capital Structure								
Basic Shares o/s @ YE	mm	3513	428	567	567	567	567	567
Diluted Shares o/s @ YE	mm	3911	502	695	695	695	695	695
Market Capitalization	US\$mm	\$19	\$39	\$53	\$55	\$58	\$58	\$58
Enterprise Value	US\$mm	\$17	\$35	\$48	\$51	\$55	\$47	\$37
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	(\$2)	(\$7)	(\$15)	(\$2)	(\$0)	\$8	\$10
Cash Use/CFO	%	133%	16%	-1252%	167%	107%	29%	11%
Performance								
Prod. Per Shr Growth (Y/Y) - dil	%	-32%	76%	294%	82%	77%	n.a.	n.a.
PPS Growth (Y/Y) DDA - dil.	%	-32%	79%	363%	79%	67%	n.a.	n.a.
CFPS Growth (Y/Y) - dil.	%	-243%	-177%	-68%	-529%	127%	87%	-1%
CFPS Growth (Y/Y) DDA - dil.	%	-215%	-214%	70%	-477%	114%	n.a.	-100%
ROCE	%	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Net Asset Value								
CNAV (Atax) - diluted	A\$/shr	A\$ 0.099						
RENAV (Atax) - diluted	A\$/shr	A\$ 0.740						
Unrisked NAV (Atax) - diluted	A\$/shr	A\$ 3.838						
P/CNAV	x	1.2x						
P/RENAV	x	0.2x						
P/Unrisked NAV	x	0.0x						
Valuation								
Share Price, YE/Current	A\$/shr	A\$ 0.007	A\$ 0.115	A\$ 0.115	A\$ 0.115	A\$ 0.115	A\$ 0.115	A\$ 0.115
P/CF	x	18.4x	-210.8x	-37.4x	17.8x	8.5x	4.6x	4.7x
EV/DACF	x	4.8x	n.a.	-57.7x	12.6x	6.4x	2.9x	2.3x
Target EV/DACF	x	131.8x	-13.8x	-15.9x	7.4x	3.8x	1.5x	0.9x
EV per boe/d	US\$/boe/d	\$72,605	\$119,418	\$193,592	\$100,933	\$60,689	\$32,748	\$25,792
Proved Plus Probable	mmboe	5	5	4	4	4	3	3
EV per 2P boe	US\$/boe	\$3.69	\$7.54	\$10.78	\$11.91	\$13.71	\$13.44	\$12.45
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 30-Sep-24

Figure 2. NAV Table

	WI Reserves / Resources (mmbobe)	Unrisked NAV (US\$ mm)	Unrisked NAV/sh A\$/Share	GCoS (%)	EMV (US\$ mm)	A\$/Share	% Total
Net Cash (YE24)		5	0.011		5	0.011	1%
G&A		-15	-0.033		-15	-0.033	-4%
Options and Warrants Exercised		13	0.028		13	0.028	4%
Austria							
Zistersdorf 2P Reserves	2	10	0.022	100%	10	0.022	3%
Anshof 2P Reserves	3	36	0.077	95%	34	0.073	10%
Total Core NAV		48	0.103		46	0.099	13%
Austria							
Welchau Prospect	64	542	1.168	50%	271	0.584	79%
Anshof 3P Reserves upside	5.9	69	0.149	25%	17	0.037	5%
Oil prospect (farm-out)	2	24	0.053	45%	11		0%
LICHT Gas prospect (farm-out)	2	21	0.044	45%	9	0.020	3%
Remaining prospects	73	846	1.823	30%	254		0%
H2 30 MW CH4 Equivalent		12	0.025				0%
Additional value - H2 30 MW H2 Market (US\$4/kg)		42	0.090				0%
Romania							
Iecea Mare	2	7	0.015	60%	4		0%
Italy							
d363C.R.-AX oil contingent resources	155	171	0.367	25%	43		0%
Total Risked Appraisal & Exploration		1,734	3.735		609	0.641	87%
Total NAV		1,781.55	3.838		656	0.740	100%
Unrisked NAV						3.838	
P/Core NAV					115.6%		
P/NAV					15.5%		
P/Unrisked NAV					3.0%		

Source: Auctus, Company Disclosures

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The research analyst who prepared this research report was Stephane Foucaud, a partner of Auctus.

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