

Otto Energy Limited (OEL)

Green Canyon 21 + Capital Raise + SM-71 Upgrade

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Summary

Otto Energy (OEL) will shortly commence production from its second successful discovery in the US Gulf of Mexico – Lightning, on-shore Texas. We estimate this will approximately double production and reduce risk through diversification of production. In addition, OEL has an exciting low risk exploration program underway with reputable JV partner Hilcorp with a further 5 wells to be drilled this year. A new JV with Talos Energy Inc adds another high impact target to be drilled in May.

What has changed?

- A\$11m placement and A\$20m 1 for 5 non-renounceable rights issue at 5.3 cents, fully underwritten.
- A\$12m of the raising (39%) will go to redeem Convertible notes. \$19m (61%) will go into exploration, contingent wells and working capital.
- New farm-in announced with Talos Energy Inc (NYSE: TALO, market cap US\$1.5bn). OEL to spend US\$9.0m to earn a 16.67% working interest in Green Canyon 21 appraisal well, a 14.5m barrel target in 365 metres of water in the Gulf of Mexico. 63% estimated probability of success due to 3 previous discoveries in 1984-1987.
- Upgrade for latest production data from SM-71.

Valuation

We add Green Canyon 21 to our Sum of Parts Valuation at 1.4 cents 60% risked (2.4 cents un-risked). Possible ~100% further upside to this based on GC18 production. SM-71 valuation up 2 cents to 4.5 cents (now assuming a 10% pa decline rate, previously 20%).

Our Sum of the Parts valuation is increased from A\$149m (5.8 cents per share) to A\$221m (8.8 cps). However, with an active exploration program and re-rating potential as increased production and cash flow de-risk the company, we apply a 20% premium to our valuation. Our revised price target is 10.5 cents (previously \$0.07 per share).

We reiterate our with "Speculative Buy" recommendation.

Catalysts

- Reserves statement and first production from Lightning – this quarter (upside to our 70% risked valuation).
- Drill results on 5 further wells with Hilcorp in the Gulf of Mexico, mostly lower risk, higher probability targets of 3-8m barrels (100% basis). OEL share 37.5%. Success rate so far is 33% (1 out of 3). Mustang expected to spud shortly (a 6.7m bbl target, P50).
- Drill results on Green Canyon 21 – spuds this quarter.
- Possible new JVs (target low risk, quick to production).

Recommendation Spec Buy; PT A\$0.105

Risk Rating	Very High
12-mth Target Price (AUD)	\$0.105 (was 7.0c)
Share Price (AUD)	\$0.057
12-mth Price Range	\$0.035 - \$0.083
Forecast 12-mth Capital Growth	84.2%
Forecast 12-mth Dividend Yield	0.0%
12-mth Total Shareholder Return	84.2%

Market cap (A\$m) (Post rights issue)	140.3
Net debt (net cash) (A\$m)	(9.7) (30/6/19e)
Enterprise Value (A\$m)	130.6
Gearing (Net Debt/ Equity)	n/a – Net cash
Shares on Issue (m) (Post rights)	2,460.55

Sector	Energy
Average Daily Value Traded (\$)	\$431,000
ASX 300 Weight	n/a

Financial Forecasts & Valuation Metrics

Years ending June US\$	17(A)	18(A)	19(e)	20(e)	21(e)
Sales revenue	0.0	9.6	32.9	37.8	43.8
EBITDA	-5.2	-0.0	-18.6	13.2	29.1
NPAT (reported)	-5.2	-5.2	-20.4	9.8	20.3
NPAT (adjusted)	-5.2	-2.8	-23.0	9.8	20.3
EPS (adj) US cents	-0.4	-0.2	-1.2	0.4	0.8
EPS growth	n/m	n/m	n/m	n/m	n/m
DPS	0.0	0.0	0.0	0.0	0.0
P/E	-8.9	-20.0	-3.4	9.8	4.8
EV / Ebitda	-7.7	-5,339.0	-4.9	5.9	2.0
Yield	0.0%	0.0%	0.0%	0.0%	0.0%
Price / Book	2.7	2.9	2.7	2.1	1.5
Net debt / equity	net cash	22.7%	net cash	net cash	net cash

Source: Phillip Capital estimates

OEL SHARE PRICE PERFORMANCE



Capital Raising announced

As we expected OEL has announced an A\$31m capital raising comprising an \$11m placement and a \$20m 1 for 5 non-renounceable rights issue, at 5.3 cents per share. The rights issue is fully underwritten. Directors (other than Paul Senyacia) intend to take up their full entitlements and sub-underwrite A\$350,000 of the entitlement offer.

We had expected an A\$21m raising and conversion of the A\$10m Convertible notes, so the quantum being raised is almost exactly what we expected. However US\$8.1m of the US\$8.2m convertible notes will be redeemed for cash from this capital raising.

Use of proceeds

- A\$12m – To redeem US\$8.1m of Convertible notes, plus accrued interest
- A13m - Participate in the drilling of the “Bulliet” appraisal well in the Green Canyon 21 lease in the Gulf of Mexico
- A\$6m – Working capital including contingent development wells

The offer price of 5.3 cents per share is a 7.0% discount to the previous close, and a 5.4% discount to TERP. Arguably the current share price was depressed somewhat due to disappointment on the Winx well in Alaska and expectations of a possible capital raising which has now come. So the shares should be in “clear air” from here with 6 promising wells to be drilled by December.

As our revised Sum of the Parts valuation is 8.8 cents per share, we recommend investors take up their full entitlements.

Key Dates

- Allotment and normal trading of placement shares and accelerated institutional offer (350.7m new shares \$18.6m) - Tuesday 9/4/19
- Retail Offer closing date – Tuesday 23/4/19
- Allotment of shares under Retail Offer (fully underwritten) – Wednesday 1/5/19
- Normal trading of shares under Retail offer – Thursday 2/5/19

New Farm-in with Talos Energy Inc

OEL has also announced a new farm-in deal with Talos Energy Inc (NYSE: TALO, market cap US\$1.5bn), to participate in the drilling of "Bulliet" appraisal well, offshore Louisiana in the Gulf of Mexico.

Talos Energy Inc. (formerly Sailfish Energy Holdings Corporation) is an independent oil and gas company based in Houston Texas. The Company is engaged in the acquisition, exploration, development and operation of oil and gas properties. It has its oil and gas offshore exploration operations in the Gulf of Mexico. The Company's flagship operating assets are located in the Gulf of Mexico: Green Canyon 18, Green Canyon 60 and Ewing Bank 988, and in the areas of South Louisiana.

The JV partners in the well are: Talos Energy Inc (operator) 50.00%, Enven 33.33% and Otto Energy 16.67% (paying interest 22.22% of the dry hole costs).

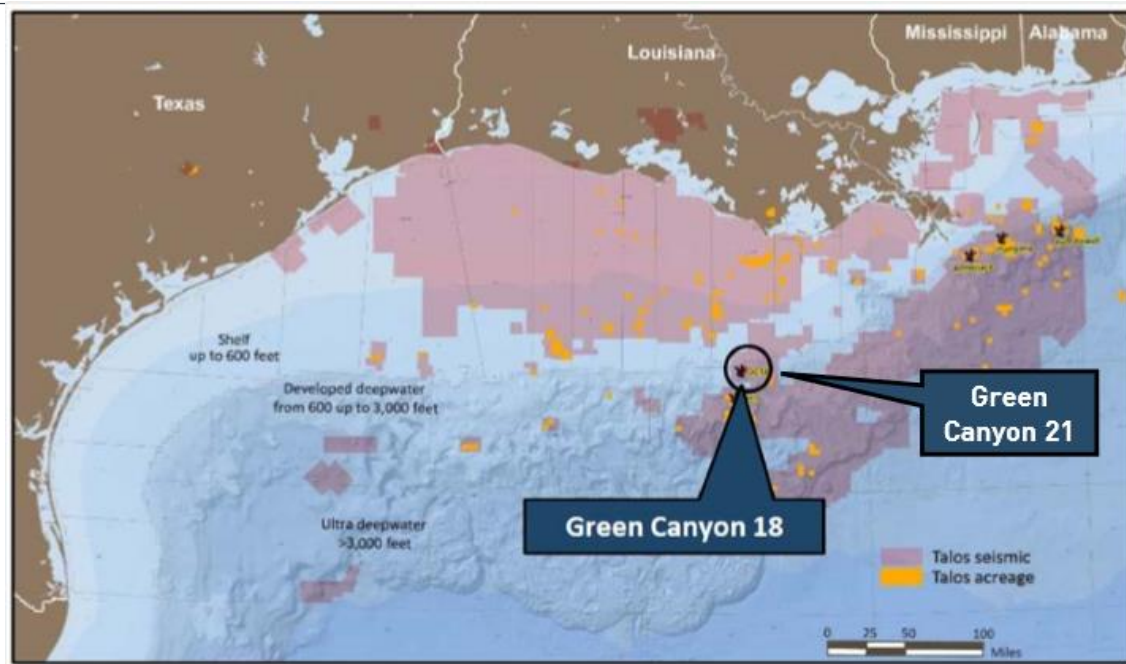
The key points of this potentially exciting prospect are as follows:

1. **63% probability of success** - The "Bulliet" well is an appraisal well described by OEL as a "low risk, high production rate oil development with deeper amplitude supported exploration potential". Talos have ascribed a fairly high 63% probability of success, as this is the drilling of a previous discovery in 1984. Three previous wells in 1984 to 1987 each found oil in the DTR 10 sands. These wells were not developed at the time of discovery as there was no infrastructure available.
2. **Spud 2Q2019 (May)** with first production (assuming success) in 12-18 mths.
3. **Multiple targets** - Proposed depth 15,500 feet with the main target (the DTR-10 sands) expected to be encountered at approximately 8,700 feet. The JV intends to drill deeper to test additional targets with the same well. The water depth is approximately 1,200 feet (365 metres), a similar depth to OEL's previous production field at Galoc in the Philippines. Floating drillship "The Noble Don Taylor" already contracted. It is common in the Gulf of Mexico for wells to be drilled in over 6,000 feet of water and to be drilled to over 25,000 feet. OEL described this to us as a "mid-depth" well.
4. Initial drill costs and deposits: US\$33m (100%); **OEL share US\$9.0m (22.22%)**.
5. Proposed sub-sea tie back to existing Talos operated GC-18A platform 16 klms away (assuming success) reduces potential development costs. Potential development capex assuming success US\$80-100m (100%); **OEL share US\$13.0-17m (OEL 16.67%)**. The cost in 2013 for OEL's Galoc Phase 2 subsea development (scope was two wells and tie-back) was around US\$204m in the same water depth. So this should be an economical development (assuming exploration success).
6. **P50 prospective resources: Gross 14.5 million barrels (MMboe) (100%);** OEL working interest 2.4 MMboe (16.67% WI); OEL net revenue interest 1.9 MMboe (13.34% NRI).
7. Unrisked resource estimate is 10 to 30 MMboe – so a wide range of possibilities, indicating potential 100%+ upside.
8. **Bulliet is geologically analogous to Talos's Green Canyon 18 field (GC18) which has produced approximately 39 MMboe to date – indicating potential 169% upside.**
9. **Potential flow rates 8-15,000 boe per day.** This would mean 2.9 million to 5.5 million boe in year one, which is 20% to 38% of the P50 target of 14.5 MMboe. So the expectation is for rapid cash flows and rapid payback of the capital costs. OEL says these high production rate oil wells are common for deepwater prospects whereas GC21 has the advantage of being in significantly shallower water.
10. Potential for a second well. Talos's GC18A platform has excess capacity.

We have done some preliminary modelling based on 11,500 boepd flow rate in year 1, a decline rate of 25% per annum thereafter, and a second well in year 4 (US\$33m, OEL share at 16.67% working interest US\$5.5m), and 80% oil / 20% gas split by volume (boe).

This produces an NPV valuation of US\$40.8m or A 2.4 cents per share (1.4 cents applying a 60% risk factor). We note that there could be ~ 100% upside to this based on Points 7 & 8 above.

We also contemplate the possibility that Talos could become an on-going partner for OEL.



Talos Energy – Core Areas



Key Highlights

- Talos' current position is broken into the following four main core areas
 - 1 Green Canyon (GC) Area
 - 2 Mississippi Canyon (MC) Area
 - 3 U.S. Gulf of Mexico Shelf
 - 4 Offshore Mexico
- Significant acreage position with significant seismic footprint in both the US and in Offshore Mexico
- Exploring Pliocene through Miocene fairways
- Similar geologic trends in both US and Mexico acreage
- Advances in seismic acquisition and processing techniques increase exploration success

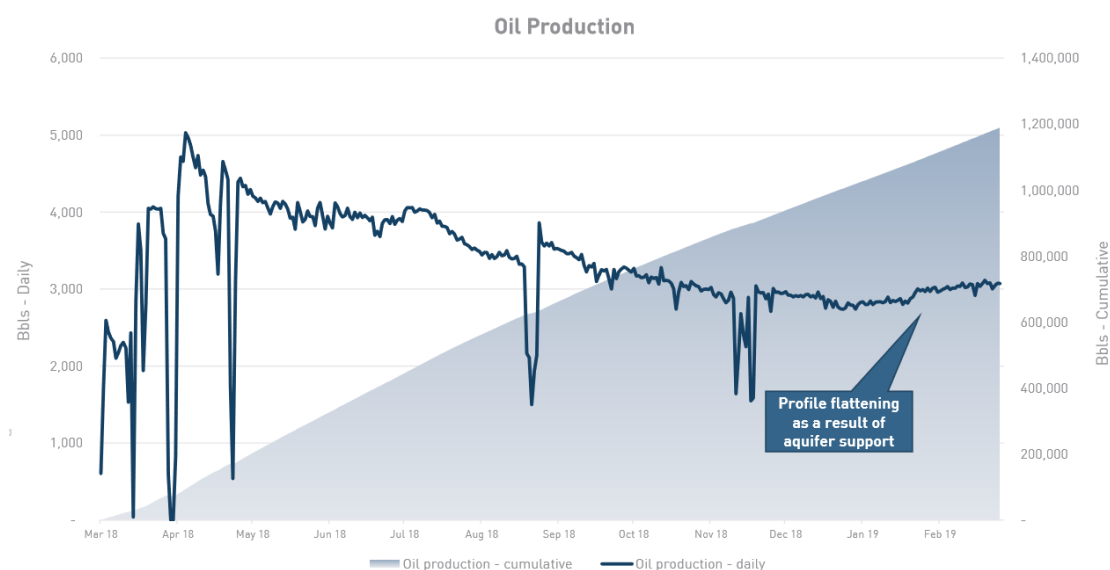


South Marsh Island 71 (SM-71)

OEL's latest presentation also includes new information on SM-71. This well has only been producing for 12 months now. The decline rate that we were most concerned about in the December quarter appears to have been rectified as a result of "bottom hole work" done by the Operator in December and aquifer pressure support now coming in to push oil to the pipe. OEL state that SM-71 is currently producing ~3,100 barrels of oil per day plus 7 MMscf per day of gas so we estimate about 4,200 boepd (100% basis). OEL share 2,100 boepd (50% working interest) or as stated at page 3 of the Presentation - 1,750 boepd (40.625% net revenue interest after royalty).

We had conservatively assumed a decline rate of 20% per annum. We revise our March and June quarter production forecasts upwards, and now assume a 10% decline rate in future years. We note that OEL has certified reserves to 2037 for this field (a further 18 years).

This has a significant impact on our valuation, which increases from A\$64.5m (2.5 cents per share) to A\$114m (4.5 cents per share).



Drilling update – Hilcorp program

OEL is now 3 wells into an 8 well exploration program with large private US oil and gas production company Hilcorp Energy. The scoresheet for the Hilcorp JV is now 1 discovery (Lightning) from three wells for a 33% success rate. Big Tex in Louisiana and Don Julio 2 in Texas were unsuccessful (see Table below).

Mustang

The next exploration well in the program is Mustang, an on-shore well in the same Chambers county in Texas as Don Julio 2, but geologically independent. This is the second largest target in the program at 6.7 to 8.5m barrels (P50 & Mean prospective resource estimates). Hilcorp / OEL and their geo-technical consultants estimate a 56% technical probability of success. Target depth is 17,500-18,000 feet (5,300 metres) which is the deepest in the program. However OEL says wells of 17,000 to 20,000 feet are common in the region. Estimated cost is US\$10m with OEL contributing 50% of the costs to earn a 37.5% working interest (est cost to OEL US\$5.0m). Hilcorp is currently looking for a suitable drill rig and expects to spud the well within 60 days.

OEL also has “ground floor rights” with respect to the Mustang and Tarpon prospects. Should either of these be successful, OEL can elect to participate in nearby Damsel and Corsair / Hellcat prospects by paying its working interest share of the costs (ie 37.5% rather than 50%, to earn 37.5%). These are additional to the 8 well program detailed below.

OEL - Exploration Table	Planned Spud Date	Result	Target Depth (TVD) Feet	Rig Type	Working Interest (WI)	Net Revenue Interest	Probability of Success	Prospective Resource P50(mmbbls)	Prospective Resource Mean(mmbbls)	County / Parish	Stratigraphic Interval	
Hilcorp / Gulf Coast farm-in												
Drilled:												
1. Big Tex, Louisiana	Sep-18		Duster x	13,500	Barge	37.5%	29.51%	54.0%	3.3	6.8	Plaquemines	Tex
2. Lightning, Texas	Oct-18		Discovery vv	14,500	Land	37.5%	28.50%	45.0%	3.2	4.4	Matagorda	Frio Tex Miss
3. Don Julio 2, Texas	Dec-18		Duster x	11,500	Land	37.5%	28.50%	44.0%	2.5	4.0	Chambers	Oligocene
Still to come :												
4. Mustang, Texas	May-19			17,500	Land	37.5%	30.00%	56.0%	6.7	8.5	Chambers	Oligocene
5. Beluga, Texas	Jun-19			13,000	Barge	37.5%	28.50%	45.0%	2.9	4.7	Galveston Bay	Oligocene
6. Tarpon, Texas	Sep-19			14,000	Barge	37.5%	29.06%	34.0%	24.0	35.6	Galveston Bay	Oligocene
7. Mallard, Louisiana	Nov-19		11,000	Barge	37.5%	29.63%	64.0%	0.9	3.3	Assumption	Mid Miocene	
8. Oil Lake, Louisiana	Dec-19		14,500	Land	37.5%	29.06%	45.0%	3.3	4.4	Cameron	Frio	
Sub-Total - Wells still to be drilled												
Talos Energy farm-in - Green Canyon 21		May-19	15,500	Floating	16.67%	13.34%	63.0%	14.5	Pliocene			
Great Bear / Alaskan farm-in		Duster x	Best Estimate									
Winx-1, Alaska (Western blocks)	Feb-19		Shallow	Land	22.5%	18.75%	25-30%	400.0	North slope			
Talitha (or others in Central blocks)	2020		Shallow	Land	8% to 10.8%			500.0	North slope			

Source: OEL presentations & announcements; Pantheon Resources plc / Great Bear Petroleum presentation 22/1/19

Changes in Estimates

We have upgraded our forecasts for the capital raising, increased exploration costs (Green Canyon 21) and higher expected production from SM-71.

We have also pushed some exploration expenditure back from FY19 into FY20 as the Hilcorp program is taking longer than expected.

Otto Energy (OEL) - Changes in Estimates									
Year end June	FY19e	FY19e	FY19e	FY20e	FY20e	FY20e	FY21e	FY21e	FY20e
US\$m	Old	New	Change	Old	New	Change	Old	New	Change
Production (Mmboe)(WI share)	0.788	0.827	4.9%	1.154	1.260	9.2%	1.466	1.619	10.4%
Revenue	31.1	32.9	5.8%	33.6	37.8	12.4%	37.8	43.8	15.8%
EBITDAX	21.5	23.3	8.3%	24.0	28.2	17.4%	28.1	34.1	21.2%
Exploration	-34.0	-41.9	23.2%	-19.0	-15.0	-21.1%	-5.0	-5.0	0.0%
EBITDA	-12.5	-18.6	49.0%	5.0	13.2	163.3%	23.1	29.1	25.8%
EBIT	-16.7	-21.2	26.9%	0.4	9.5	2213.3%	18.4	24.8	34.9%
PreTax Profit	-18.9	-23.0	22.2%	-0.7	9.8	-1530.9%	18.4	25.4	38.2%
NPAT (Reported incl NRIs)	-16.2	-20.4	25.8%	-0.7	9.8	-1530.9%	14.7	20.3	38.4%
NPAT (Adjusted)	-18.9	-23.0	22.2%	-0.7	9.8	-1530.9%	14.7	20.3	38.4%
EPS (adjusted)(cents)	-1.0	-1.17	21.1%	-0.03	0.40	-1415.1%	0.58	0.83	42.5%
DPS (cents)	0.0	0.0		0.0	0.0		0.0	0.0	
12-mth Price Target				\$ 0.070	0.105	50.0%			

Source: Phillip Capital estimates

Sum of the Parts Valuation & Recommendation

Our valuation has increased from A\$149m (5.8 cents per share) to A\$221m (8.8 cents per share), primarily due to SM-71 (+ 2 cents) and Green Canyon 21 (+ 1.4 cents) and some other minor changes.

We will update this again after the release of the March quarterly and the Lightning reserves statement and initial production data.

We set our 12-mth price target at 10.5 cents per share being a 20% premium to this, to recognise the upside potential from the 5 Hilcorp wells still to be drilled (low risk, modest impact wells) and the high impact Green Canyon 21 well (GC21) with Talos Energy.

In our opinion, OEL's share price should re-rate positively as it moves from a single source of production (SM-71, 18 yr life) to multiple sources of production, whilst its strategic focus on the Gulf of Mexico, a prolific proven area of oil production adds exploration upside. OEL has a busy exploration schedule, now fully funded, with 6 important drilling catalysts to come during 2018. We expect OEL to move into profit in FY20 and beyond. Finally, we are pleased with the careful and methodical strategic steps being taken by management to hopefully grow this company into a much larger, self-sustaining company. We reiterate our Speculative Buy recommendation.

Valuation Summary	Method & Assumptions	Risk Weighting	Unrisked US\$m	Unrisked A\$m	Unrisked A\$ ps	Riskd A\$m	Riskd A\$ ps
	AUD / USD FX rate			0.6900		0.6900	
Producing Assets:							
SM 71 (OEL WI 50%)	Field model & DCF	100%	78.4	113.7	0.045	113.7	0.045
Lightning (OEL WI 37.5%)	Field model & DCF	70%	49.2	71.2	0.028	49.9	0.020
Subtotal			127.6	184.9	0.074	163.5	0.065
Non Producing Assets:							
Vermillion 232 (OEL WI 50%)	Value at 5% of SM71	10%	3.9	5.7	0.002	0.6	0.000
Hilcorp JV (OEL WI 37.5%) - 5 wells to go	Field model & DCF	33%	27.0	39.2	0.016	12.9	0.005
Alaska - Western blocks (OEL WI 20% after BI)	OSH/ Armstrong trans US\$3bbl	0%	0.0	0.0	0.000	0.0	0.000
Alaska - Central blocks (OEL WI 8.0 & 10.8%)	50% of OSH/ Armstrong trans	10%	82.3	119.3	0.048	11.9	0.005
Green Canyon 21 (OEL WI 16.67%)	Field model & DCF	60%	40.8	59.1	0.024	35.5	0.014
Subtotal			154.1	223.3	0.089	60.9	0.024
Corporate Costs	2x P/E	100%	-11.4	-16.5	-0.007	-16.5	-0.007
Net Cash (Net Debt) at 30/6/19e		100%	6.7	9.7	0.004	9.7	0.004
Dilutory adjustments:							
Options & performance rights		100%	2.3	3.4	0.001	3.4	0.001
Total Valuation - Fully Diluted			279.3	404.8	0.161	221.0	0.088
Shares on issue - Basic			2,460.6				
Options & performance rights			46.8				
Shares on Issue - Fully Diluted			2,507.3				

Source: Phillip Capital estimates

Forecasts

We show below our revised forecasts. In our opinion, OEL is well on its way to achieving its medium term target of 5,000 barrels of oil equivalent per day, to become self sustaining.

We are also forecasting OEL to move from a Loss of \$20m in FY19 (due to high exploration spend & modest production) to a Net Profit of \$10m in FY20 and FY21 as its second source of production (Lightning) ramps up.

Otto Energy Limited - Forecasts		US\$m	FY18	FY19e	FY20e	FY21e
Years ended June 30						
Oil price - realised / assumed	US\$/bbl	\$	64.90	\$ 60.72	\$ 55.90	\$ 55.77
Gas price - realised / assumed	US\$/mcf	\$	3.37	\$ 3.15	\$ 3.00	\$ 3.00
Net production (OEL working Interest share)						
Oil & liquids	mmbbls		0.174	0.588	0.629	0.660
Gas	mmscf		0.120	1.436	3.789	5.753
Oil & Gas equivalents	mmboe		0.194	0.827	1.260	1.619
Oil & Gas equivalents (per day)	boepd		1,943	2,267	3,453	4,435
Revenue (OEL working interest share)						
Oil & liquids	US\$m		11.3	35.7	35.2	36.8
Gas			0.4	4.9	12.4	18.8
Less: Royalties			-2.2	-7.7	-9.7	-11.8
Net Field Revenue			9.6	32.9	37.8	43.8
Other income			0.1	0.0	0.0	0.0
Total Income	US\$m		9.6	32.9	37.8	43.8
Field cash costs	US\$m		-0.7	-3.9	-3.7	-3.6
Administration			-4.0	-5.7	-5.9	-6.2
EBITDAX	US\$m		4.8	23.3	28.2	34.1
Exploration			-4.8	-41.9	-15.0	-5.0
EBITDA			0.0	-18.6	13.2	29.1
Depreciation			-0.9	-2.6	-3.6	-4.2
EBIT			-0.9	-21.2	9.5	24.8
Interest Expense			-1.8	-1.8	0.3	0.6
Pre-Tax Profit			-2.8	-23.0	9.8	25.4
Tax credit (expense)			0.0	0.0	0.0	-5.1
NPAT (normalised)	US\$m		-2.8	-23.0	9.8	20.3
Abnormals			-2.4	2.6	0.0	0.0
NPAT (reported)	US\$m		-5.2	-20.4	9.8	20.3
Shares on issue (WAV)	m		1,403.1	1,964.0	2,460.6	2,460.6
EPS (normalised)	US cents		-0.20	-1.17	0.40	0.83
EPS (norm) AUD equivalent	AUD cents		-0.3	-1.7	0.6	1.2
FX rate			0.7752	0.690	0.690	0.690

Source: Phillip Capital estimates

Description of Business

Otto Energy Limited (OEL) is an ASX listed oil and gas exploration and production company, now based in Houston Texas. A timely exit of its 33% stake and operatorship in Galoc (offshore Philippines) in 2015 as oil prices fell saw OEL cashed up and searching for new, lower sovereign risk opportunities in the US market. The company's strategy is to build production to 5,000 barrels per day in the Gulf of Mexico by 2020, the cash flows from which should then allow OEL to be self sustaining and form a solid base to allow the company to grow substantially.

Today, OEL has stakes in three interesting joint ventures, all operated by OEL's JV partners. The assets are in two areas of prolific historical oil production and exploration success being the US Gulf of Mexico coastal shelf, and the Northern Slope in Alaska, USA.

Byron (BYE) farm-in (originally announced 10/12/15; Continuing)

Production assets:

- **SM-71 - South Marsh Island, offshore Louisiana in the Gulf of Mexico shelf** – 50% working interest with Byron Energy Ltd (BYE)(Operator) in shallow water (42 metres) approximately 100 klms offshore on the Gulf Coast shelf. The field was discovered by the partners in April 2016 and entered production in March 2018. 2P Reserves 6.6MMboe (OEL share). Currently producing 2,000 boepd (barrels of oil equivalent per day)(OEL share).

Exploration:

- OEL has the right to participate for a **50% working interest in VR 232**, which is adjacent to BYE/ OEL's SM 71 oil field. There are no current plans to drill, but this adds a development pathway for BYE / OEL for the future, partly de-risked by SM-71 data.

Hilcorp farm-in (originally announced 31/7/18; Continuing)

- OEL earning a 37.5% working interest by paying 50% of the costs to drill eight prospects on the US Gulf coast (US\$75m total; OEL share \$37.5m). Hilcorp is one the largest private companies in the USA with annual oil production bigger than Woodside (WPL).
- The first well "Big Tex" was unsuccessful (announced 15/10/18).
- The second well "Green#1" in the Lightning prospect, Matagorda County Texas - was announced as a discovery on 4/2/19 with 180 feet (55 metres) of hydrocarbon pay (and possibly up to 330 feet (101 metres) depending on further testing). This well is expected to commence production in Q2 this year.
- The third well "Don Julio 2" was unsuccessful (announced 11/3/19).
- 5 more wells to be drilled under the program during 2019 (2 on dry land, and 3 from drilling barges in shallow water), with "Mustang", a 6.7-8.5m barrel target on-shore Texas to spud in the next 60 days.

Production assets: Nil currently, but Lightning expected to enter production in 2Q 2019.

Alaskan farm in (originally announced 21/7/15, and modified 6/8/15 and 30/7/18; Continuing)-

- Western blocks (Area: 91.9 sq klms) - OEL earning a 22.5% interest (20.0% after Great Bear back-in rights) in four blocks on the Alaskan North Slope held by Great Bear Petroleum by paying 25.0% of the costs of one well by May 2019. This was the Winx-1 well which was unsuccessful. Desk-based analysis continues.
- Central blocks (Area: 1,163 sq klms) - OEL has between an 8.0% to an 10.8% interest in 90 leases on the Alaskan North Slope held by Great Bear Petroleum (recently acquired by Pantheon Resources plc in the UK). We understand the OEL interests include the "Talitha" prospect which is near the "Pipeline Discovery #1" well drilled 31 years ago in 1988 by ARCO (Atlantic Richfield Co – acquired by BP in 2000). However it does not include the block containing Great Bear's 2015 "Alkaid-1" discovery and "Phecda" prospect, as OEL has not exercised a US\$25m option over that acreage.

The Byron Energy and Hilcorp joint ventures are targeting relatively modest sized resources in locations judged by the operators and OEL to have a fairly high probability of success, and low costs to develop because of the location being very close to existing pipelines and infrastructure. The Alaskan joint venture is a much higher risk and reward situation. Drilling success here could be a company maker.

Otto Energy (OEL)	A\$ share price:	\$ 0.057
	US\$ equivalent	\$ 0.039 FX rate: \$ 0.6900

Profit & Loss				
Year end June	FY18	FY19e	FY20e	FY21e
	US\$m	US\$m	US\$m	US\$m
OP. REVENUE	9.6	32.9	37.8	43.8
Production Costs	(0.7)	(3.9)	(3.7)	(3.6)
Other Income	0.1	0.0	0.0	0.0
General & Admin	(4.0)	(5.7)	(5.9)	(6.2)
EBITDAX	4.8	23.3	28.2	34.1
Exploration	(4.8)	(41.9)	(15.0)	(5.0)
EBITDA	0.0	-18.6	13.2	29.1
Ebitda Margin	-0.1%	-56.4%	34.9%	66.3%
Depreciation & Amort	(0.9)	(2.6)	(3.6)	(4.2)
EBIT	-0.9	-21.2	9.5	24.8
Ebit Margin	-9.6%	-64.4%	25.2%	56.7%
Net Interest Income (Expense)	(1.8)	(1.8)	0.3	0.6
Share of Assoc NPAT	0.0	0.0	0.0	0.0
Pre-tax profit	(2.8)	(23.0)	9.8	25.4
Income Tax Credit (Expense)	(0.0)	0.0	0.0	(5.1)
Tax Rate	0.1%	0.0%	0.0%	-20.0%
Minorities (share of loss)	0.0	0.0	0.0	0.0
Abnormals	-2.4	2.6	0.0	0.0
NPAT (reported)	(5.2)	(20.4)	9.8	20.3
Adjustments (Abnormal)	2.4	0.0	0.0	0.0
NPAT (adjusted)	(2.8)	(23.0)	9.8	20.3

Balance Sheet				
Cash	5.9	6.7	24.7	44.5
Receivables	4.0	2.9	3.3	3.9
Inventories	0.0	0.0	0.0	0.0
Other	0.3	1.2	1.2	1.2
Total current assets	10.3	10.8	29.2	49.6
PP&E	0.1	0.2	0.2	0.2
Oil & Gas Properties	27.2	31.2	32.2	36.9
Intangibles	0.0	0.0	0.0	0.0
Deferred tax assets	0.0	0.0	0.0	0.0
Other	0.4	1.1	1.1	1.1
Total non-current assets	27.6	32.5	33.5	38.2
Total Assets	37.8	43.2	62.7	87.8
Payables	-4.8	-2.1	-2.1	-2.1
Interest bearing liabilities - Current	-10.7	0.0	-5.5	-5.5
Provisions	-0.2	-0.2	-0.2	-0.2
Other	0.0	0.0	0.0	0.0
Total Current Liabilities	-15.7	-2.3	-7.8	-7.8
Interest-bearing liabilities - Non-curr	0.0	0.0	0.0	0.0
Provisions	-1.1	-1.2	-1.2	-1.2
Other	0.0	-3.6	-7.7	-12.5
Total Non-current Liabilities	-1.1	-4.8	-8.9	-13.7
Total Liabilities	-2.2	-7.1	-16.7	-21.5
Total Shareholders' Equity	21.0	36.1	45.9	66.3

Interims				
Year end June	1H18	2H18	1H19A	2H19e
Revenue	0.1	9.5	17.3	15.6
EBITDAX	-1.6	6.4	13.3	10.1
Exploration	-3.7	-1.1	-17.5	-24.4
EBITDA	-5.3	5.3	-4.3	-14.3
EBIT	-5.3	4.4	-6.0	-15.2
Equity Share of Assocs NPAT	0.0	0.0	0.0	0.0
NPAT (Reported)	-8.3	3.1	-4.5	-15.9
NPAT (Adjusted)	-6.3	3.5	-7.1	-15.9
EPS (adjusted)(cents)	-0.5	0.3	-0.4	-0.8
EPS Growth			n/m	n/m
DPS (cents)	0.0	0.0	0.0	0.0

Source: Phillip Capital estimates

Per share & Ratio data				
Year end June	FY18	FY19e	FY20e	FY21e
Shares on issue - Wavge	1,403.1	1,964.0	2,460.6	2,460.6
Shares on issue - at year-end	1,530.9	2,460.6	2,460.6	2,460.6
Reported EPS (US cents)	(0.4)	(1.0)	0.4	0.8
Growth	-16.5%	180.8%	-138.5%	106.7%
P/E ratio (x)	-10.6x	-3.8x	9.8x	4.8x
EPS (adjusted)(US cents)	(0.2)	(1.2)	0.4	0.8
Growth	-55.6%	496.6%	-134.1%	106.7%
P/E ratio (x)	-20.0x	-3.4x	9.8x	4.8x
DPS (A\$ cents)	0.0	0.0	0.0	0.0
Franking	0%	0%	0%	0%
Yield	0.0%	0.0%	0.0%	0.0%
OCF per share (US cents)	0.1	1.1	1.2	1.2
Price/OCF (x)	30.3x	3.6x	3.4x	3.3x
EV/ Sales	7.3x	2.7x	2.1x	1.3x
EV/EBITDA	-5339.0x	-4.9x	5.9x	2.0x
EV/EBIT	-75.8x	-4.2x	8.1x	2.3x

Liquidity & Leverage				
Net Cash (Net Debt) \$m	(4.8)	6.7	19.2	39.0
Net Debt / Equity %	23%	-19%	-42%	-59%
Net Debt / EBITDA	n/a	0.4x	n/a	n/a
ROA (EBIT / T.Assets) %	-2.4%	-49.0%	15.2%	28.3%
ROE (NPAT / T.Equity) %	-13.1%	-63.8%	21.4%	30.7%
Interest Cover (EBIT)	-0.5x	-11.5x	-31.8x	-41.4x
Dividend Payout % (of adj EPS)	n/a	n/a	n/a	n/a
Enterprise Value \$m	69.4	90.1	77.6	57.8

Cash Flow				
Oil & Gas Sales (net)	6.4	32.9	37.8	43.8
Payments to Suppliers	(4.7)	(9.6)	(9.6)	(9.7)
Interest Received (Paid)	0.2	(1.8)	0.3	0.6
Income Taxes Paid	(0.0)	0.0	0.0	(5.1)
Other	0.0	0.0	0.0	0.0
Operating cash flows	1.8	21.5	28.5	29.6
Exploration	(3.9)	(41.9)	(15.0)	(5.0)
Development	(20.8)	(4.0)	(1.0)	(4.8)
Free Cash Flow	(23.0)	(24.4)	12.5	19.8
Acquisitions / Divestments	0.0	(0.2)	0.0	0.0
Net investing cash flows	(24.8)	(46.1)	(16.0)	(9.8)
Dividends Paid	0.0	0.0	0.0	0.0
Equity Raised (Bought back)	8.8	35.5	0.0	0.0
Change in Debt	7.9	(10.2)	0.0	0.0
Financing Cash Flow	16.7	25.3	0.0	0.0
Change in Cash	(6.3)	0.7	12.5	19.8

Price Assumptions (Q4 only)				
WTI oil price (US\$ / bbl)	\$ 68.34	\$ 59.08	\$ 55.00	\$ 55.00
Received LLS price (US\$ / bbl)	\$ 64.90	\$ 60.76	\$ 56.10	\$ 56.10
Gas price recd (US\$ / mmbtu)	\$ 3.37	\$ 3.20	\$ 3.00	\$ 3.00

Production (OEL share) (Q4 only)				
Oil (mmbbls)	0.174	0.588	0.629	0.660
Gas (mmscf)	0.120	1.436	3.789	5.753
Non-gas liquids (mmbbls)	0.000	0.000	0.000	0.000
Total production (mmboe)	0.194	0.827	1.260	1.619
Daily production (boepd)	2,001	2,267	3,453	4,435

		Risk	Unrisked	Riskd
Valuation Summary	Weight	A\$m	A\$ps	A\$m
Refer page 8				

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>20%	10% – 20%	0% – 10%	0% to -10%	>-10%

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