

15 April 2024

## NGP Outage - NT Short on Gas

### NEED TO KNOW

- Focus on cash generation to position for future distributions
- New Northern Territory (NT) offtake agreement likely to mitigate the damage of NGP outage, also may see longer-term gain for CTP
- 1H results – Range sale boosts profit and cash

**Focus on cash generation for future distributions:** CTP will strongly focus on cash generation with a view to future dividend payments. Key to the strategy are cost reduction, debt repayment and reserves contracting.

**New NT offtake agreement likely to mitigate the damage of NGP outage, also may see longer-term gain for CTP:** The NGP is expected to be closed until at least June 2024, meaning no gas sales for CTP to the east coast. The closure is likely to create some short term pain, but CTP now has an agreement that should see increasing volumes of its surplus gas sold to NT customers through the remainder of CY2024, replacing dwindling supply of diverted gas from Darwin LNG. The recent AMEO review into gas markets, show decreasing gas supply into the NT which may create medium term opportunities for CTP, reducing need to sell into east coast for higher pricing.

**1HFY24: Range CSG sale boosts profit, cash:** The sale generated A\$12.5m in cash and cut net debt to A\$4.1m. Underlying 1H profit improved on pcp driven by higher Palm Valley volumes and lower exploration spend.

### Investment Thesis

**Cashflow from production assets, gas prices strong, high-priced helium potential:** CTP's production assets generate a solid base of cashflow with potential for production of high-value helium from the existing gas stream. PV12 provides increased supply capacity and there is ability to drill new wells at Mereenie and Palm Valley to further increase production.

**Corporate transaction shows assets are substantially undervalued by market:** The recently announced sale of Macquarie's Mereenie stake shows CTP's assets are undervalued by the market. The sale highlights that just one of CTP's producing assets is worth A\$0.07 vs current share price at A\$0.06.

**Exploration still appealing:** Amadeus Basin, with its large sub-salt targets, has gas, helium and hydrogen potential. CTP is aiming for one exploration well this year, with funding from a yet-to-be confirmed farminee.

**Cash flow focus, exploration optionality:** With the strategic review completed, CTP can focus on its core capabilities. Maximising cash flow from operations and delivering on exploration options, plus future dividend potential, gives CTP a lot of 'option' value at its current price, in our view.

### Valuation A\$0.15 (previously A\$0.16)

The recent sale of Mereenie demonstrates our view that the share price does not adequately reflect either the value of the existing assets, the potential of increased production from existing assets and/or any exploration success.

### Risks

Key risks include production issues, continuing government gas policy uncertainty, further NGP outages in the short term, gas competition in the NT.

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### Equity Research Australia Energy

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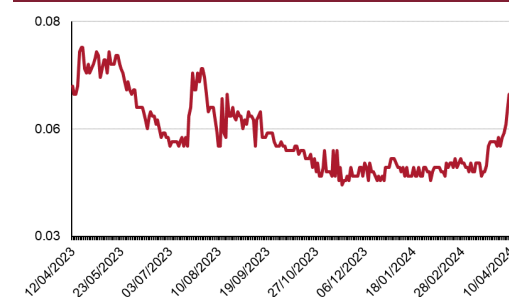
Central Petroleum is the NT's largest onshore gas operator, with a portfolio of gas and oil assets focused on the Amadeus Basin and a significant coal seam gas (CSG) project in Queensland's Surat Basin. Its strategy is to unlock and commercialise the vast energy potential of the Central Australian basins to take advantage of a predicted tight supply/demand balance in the domestic gas market. [www.centralpetroleum.com.au](http://www.centralpetroleum.com.au)

Valuation	<b>A\$0.150</b> (from A\$0.160)
Current price	<b>A\$0.056</b>
Market cap	<b>A\$41.4m</b>
Net Debt	<b>A\$4.4m</b> (31 Dec 2023)

### Upcoming Catalysts / Next News

Period	
1HCY24	Farm-in sub-salt assets
1HCY24	Zevon seismic results
2HCY24	Sub-salt exploration drilling
CY24	NT gas market developments

### Share Price (A\$)



Source: FactSet, MST Access.

Figure 1: Financial Summary

Central Petroleum Limited (ASX:CTP)		A\$0.054ps					
<b>Year-end 30 June</b>							
Share Price	A\$/sh	0.06					
52 week high/low	A\$/sh	0.07/0.04					
Valuation	A\$/sh	0.15					
Market Cap (A\$m)	A\$m	41.4					
Net Cash / (Debt) (A\$m)	A\$m	(4.4)					
Enterprise Value (A\$m)	A\$m	45.8					
Shares on Issue	m	740.1					
Options/Performance shares	m	23.5					
Potential Diluted Shares on Issue	m	763.7					
<b>Ratio Analysis</b>		<b>2022A</b>	<b>2023A</b>	<b>2024</b>	<b>2025</b>	<b>2026</b>	
EPS (A¢)		2.88	(1.09)	1.66	1.08	2.13	
P/E (x)		3.8	(4.8)	3.2	5.0	2.5	
EPS Growth (%)		n/a	n/a	-252%	-35%	97%	
CFPS (A¢)		0.49	(0.28)	2.51	2.20	3.39	
P/CF (x)		22.4	(18.8)	2.1	2.5	1.6	
DPS (A¢)		-	-	-	-	-	
Dividend Yield (%)		-	-	-	-	-	
EV/ EBITDA (x)		2.8	16.5	1.2	1.6	0.0	
EV/ boe (x)		101.9	64.0	38.3	28.9	0.0	
EV/ PJe (x)		17.0	10.7	6.4	4.8	0.0	
FCFPS		-	-	-	-	-	
FCF Yield (%)		-	-	-	-	-	
<b>Assumptions (Yr end Jun)</b>		<b>2022A</b>	<b>2023A</b>	<b>2024</b>	<b>2025</b>	<b>2026</b>	
Brent Oil Price (US\$/bbl)		87.02	83.33	77.5	76.5	78.0	
Exchange Rate (A\$1:US\$)		0.725	0.700	0.700	0.700	0.700	
Gas Price (A\$/GJ)		7.47	7.76	7.25	7.40	7.80	
<b>Production</b>		<b>2022A</b>	<b>2023A</b>	<b>2024</b>	<b>2025</b>	<b>2026</b>	
Gas (TJ/d)		13	13	11	18	18	
Gas (PJ)		5.0	4.7	4.0	6.4	6.5	
LPG (kt)		-	-	-	-	-	
Oil / Condensate (mmbbl)		0.04	0.03	0.03	0.03	0.03	
<b>Total (mmboe)</b>		<b>0.87</b>	<b>0.82</b>	<b>0.70</b>	<b>1.09</b>	<b>1.11</b>	
Gas (mmboe)		0.84	0.79	0.67	1.06	1.08	
LPG (mmboe)		-	-	-	-	-	
Oil / Condensate (mmboe)		0.04	0.03	0.03	0.03	0.03	
<b>Year End Reserves 2P (mmboe)</b>		<b>12.6</b>	<b>12.9</b>	<b>12.2</b>	<b>11.1</b>	<b>10.0</b>	
<b>Reserves and Resources</b>	<b>Working Interest</b>	<b>1P Gas (PJ)</b>	<b>2P Gas (PJ)</b>	<b>1P Liquids (mmbbl)</b>	<b>2P Liquids (mmbbl)</b>	<b>2C Gas (PJ)</b>	<b>2C Liquids (mmbbl)</b>
As at 30 June 2023							
Mereenie (OL 4 / OL 5)	25%	28.7	37.5	0.37	0.41	45.6	0.05
Palm Valley (OL 3)	50%	12.6	13.4	-	-	4.6	-
Dingo (L7)	50%	19.4	21.9	-	-	-	-
<b>Total</b>		<b>60.8</b>	<b>72.8</b>	<b>0.37</b>	<b>0.41</b>	<b>50.2</b>	<b>0.05</b>
<b>NET ASSET VALUE (WACC 10.0%)</b>	<b>1 Apr 24</b>			<b>A\$m</b>	<b>Risking</b>	<b>A\$m</b>	<b>A\$ps</b>
Mereenie - OL4 & OL5 (25%)				40	100%	40	0.05
Palm Valley - OL3 (50%)				22	100%	22	0.03
Dingo - L7 & PL30 (50%)				30	100%	30	0.04
<b>Total Operations</b>				<b>92</b>		<b>92</b>	<b>0.13</b>
Net Cash / (Debt)				13	100%	13	0.02
Admin / Corporate / Other				(17)	100%	(17)	(0.02)
Exploration (risk-adjusted)				26	50%	13	0.02
Mereenie & Palm Valley 2C gas (risked)				18	50%	9	0.01
<b>TOTAL VALUATION</b>				<b>133</b>		<b>111</b>	<b>0.15</b>
<b>CTP Relative to XEJ 12 months</b>							
<b>Profit &amp; Loss (A\$m)</b>		<b>2022A</b>	<b>2023A</b>	<b>2024</b>	<b>2025</b>	<b>2026</b>	
Oil / Condensate Revenue		6	3.5	3	3	3	
LPG Revenue		-	-	-	-	-	
Gas Revenue		36	36	28	46	50	
<b>Total Sales</b>		<b>42</b>	<b>39</b>	<b>31</b>	<b>50</b>	<b>53</b>	
Operating Costs		(18)	(17)	(9)	(16)	(12)	
Government Resource Taxes		(3)	(3)	(2)	(4)	(4)	
Exploration & Development Expen		(21)	(13)	(4)	(4)	(3)	
<b>Other Net Income / Expense</b>		<b>33</b>	<b>(2)</b>	<b>7</b>	<b>(7)</b>	<b>(7)</b>	
<b>EBITDA</b>		<b>32</b>	<b>3</b>	<b>22</b>	<b>20</b>	<b>28</b>	
<b>EBITDAX</b>		<b>16</b>	<b>16</b>	<b>27</b>	<b>23</b>	<b>30</b>	
Depreciation & Amortisation		(7)	(7)	(6)	(8)	(9)	
EBIT		26	(4)	16	11	18	
Net Interest Expense		(4)	(4)	(1)	(0)	(0)	
<b>Pretax Profit</b>		<b>21</b>	<b>(8)</b>	<b>12</b>	<b>8</b>	<b>16</b>	
Tax Expense / Benefit		-	-	-	-	-	
<b>Net Attributable Profit</b>		<b>21</b>	<b>(8)</b>	<b>12</b>	<b>8</b>	<b>16</b>	
Reported Profit		21	(8)	12	8	16	
<b>Cash Flow (A\$m)</b>		<b>2022A</b>	<b>2023A</b>	<b>2024</b>	<b>2025</b>	<b>2026</b>	
<b>Pretax Profit</b>		<b>21</b>	<b>(8)</b>	<b>12</b>	<b>8</b>	<b>16</b>	
D&A & Other Non-Cash Items		-18	6	6	8	9	
Tax Paid		-	-	-	-	-	
<b>Cash from Operating Activities</b>		<b>4</b>	<b>(2)</b>	<b>18</b>	<b>16</b>	<b>25</b>	
Development Capex		(11)	(3)	(4)	(21)	(22)	
Exploration Capex		(10)	(10)	(4)	(4)	(3)	
Acquisitions/Other (Net of Sales)		28	0	12	-	-	
Dividends Paid		-	-	-	-	-	
<b>Free Cash Flow</b>		<b>21</b>	<b>(4)</b>	<b>27</b>	<b>(5)</b>	<b>3</b>	
Cash Provided by Financing		(37)	(4)	(5)	(4)	(4)	
<b>Net Change in Cash</b>		<b>(16)</b>	<b>(8)</b>	<b>22</b>	<b>(9)</b>	<b>(1)</b>	
<b>Balance Sheet (A\$m)</b>		<b>2022A</b>	<b>2023A</b>	<b>2024</b>	<b>2025</b>	<b>2026</b>	
Cash & short term deposits		22	14	36	27	27	
Receivables		27	7	5	7	8	
Inventories		4	4	5	6	8	
Property, Plant and Equipment		54	60	59	73	88	
Capitalised exploration		8	8	7	3	0	
Intangibles and Goodwill		2	2	2	2	2	
Other assets		5	4	4	4	4	
<b>Total assets</b>		<b>122</b>	<b>98</b>	<b>117</b>	<b>123</b>	<b>137</b>	
Creditors		14	3	6	9	10	
Borrowings		31	28	18	14	10	
Other liabilities		51	48	61	60	61	
<b>Total liabilities</b>		<b>96</b>	<b>79</b>	<b>85</b>	<b>83</b>	<b>81</b>	
Shareholder equity		27	19	32	40	55	
<b>Shareholder Equity + Total Liabilities</b>		<b>122</b>	<b>98</b>	<b>117</b>	<b>123</b>	<b>137</b>	

Source: CTP, MST Estimates

# Business Strategy Turns to Maximising Cash Generation; Dividends Back on the Agenda

Post the completion of the strategic review, CTP has announced a revised business strategy. The key to the strategy is simple: maximise cash generation in order to position the company to return to dividend payments. CTP has given no firm indication as to when they expect to start paying dividends; however, given the program CTP has set out, we see FY26 as the first year of potential dividend payments. The key components of CTP's cash flow maximisation strategy are as follows:

- reducing costs
- repaying debt and liabilities
- gas marketing
- prioritising growth through joint venture and "free carry" transactions

## Cost reduction

CTP has instigated a comprehensive cost review throughout the entire organisation.

The company will focus on minimising costs across both the operational and corporate levels, while prioritising safety and the environment.

While focusing on costs, CTP aims to ensure that the operations are not compromised in any way and that the company is operating at maximum efficiency, ensuring a 'fit-for-purpose' model.

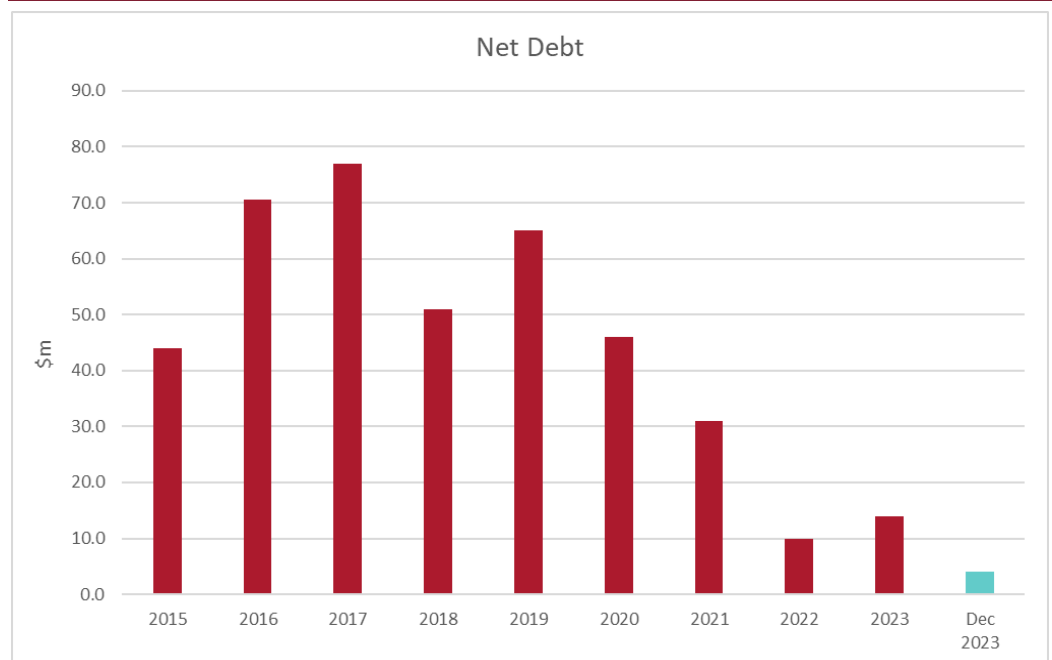
## Debt and liability repayment

### Net debt reduction

At 31 December 2023, CTP had net debt of A\$4.4m (A\$25.8m in debt and A\$21.4m in cash).

Focusing on debt repayment will return CTP to a net cash balance, which will enhance its capacity to pay dividends to shareholders.

**Figure 2: CTP debt repayment significantly reduces net debt**



Source: CTP.

## Pre-sold gas and gas overlift reduction

### Pre-sold gas

CTP has, since 2019 had a portion of pre sold gas within its portfolio. This means that the cash for the gas has previously been received for gas yet to be produced (proceeds used to fund new production wells), thus reducing the actual cash received in the current period for the gas.

The last of the pre-sold gas was delivered in December 2023. This will result in free cash flow being boosted by over A\$6m per year.

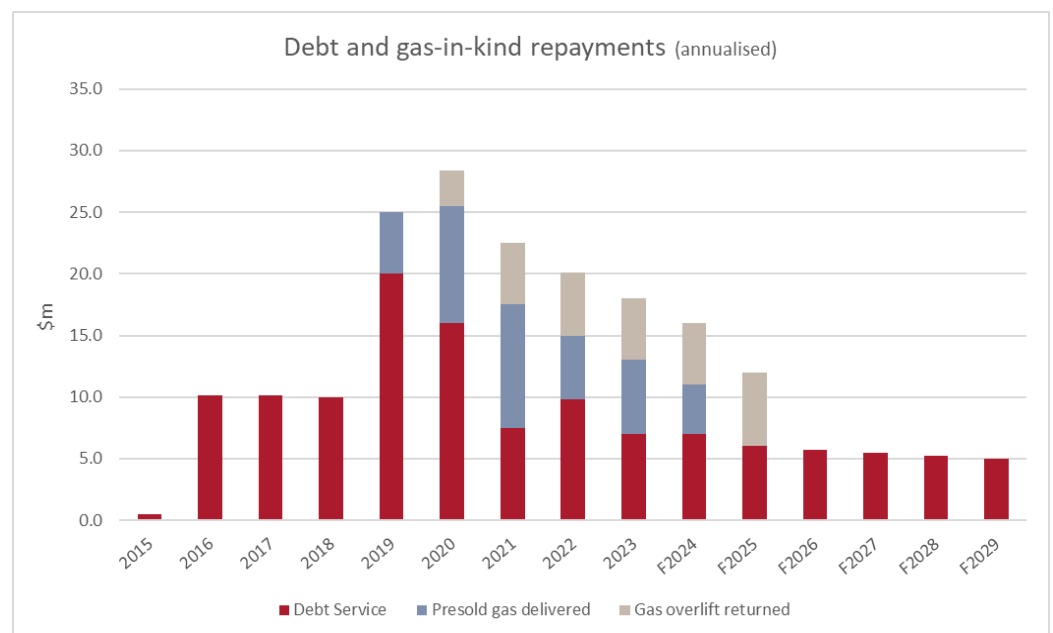
The additional cash flow can be utilised towards faster debt reduction, returning CTP to a net cash position more rapidly.

### Overlift

Overlift occurs when a JV partner sells more gas to its customers than it is entitled to under the joint venture (JV) arrangements (i.e. sells a higher proportion of gas than its JV holding percentage). The cash received for this overlift (or in this case, the 'borrowed' gas) is then payable back to the other JV partners, effectively creating a liability, similar to that of a loan.

CTP is scheduled to repay all of its overlift liability by mid-CY2026, freeing a further A\$5m per year of free cashflow.

**Figure 3: Debt, overlift and pre-sold gas profile (annualised repayments)**



Source: CTP.

## Gas marketing

The Northern Territory Gas Market is in a transitional phase. Supplies from offshore Northern Territory (Blacktip) have been on the decline, and Darwin LNG is supplying a short-term tail gas supply into the market. The closure of the NGP is an indication of the declining supply into the market as there is currently insufficient surplus gas in the NT to export to East coast customers through the NGP.

We take a more detailed look at the NT gas market and CTP's opportunities in the next section of the report, however it should be noted that 70% of CTP's 1P gas is uncontracted and available to be sold into markets at prices significantly higher than historically experienced.

It should be noted that the current portfolio margin is A\$2.64/Gje, so a modest uplift in the received price has a significant impact on cash flow.

CTP estimates that for each increase of A\$1/PJe in margin, there is A\$4.7m increase in cashflow. If distributed back to shareholders, this would equate to approximately 0.6 cents per share.

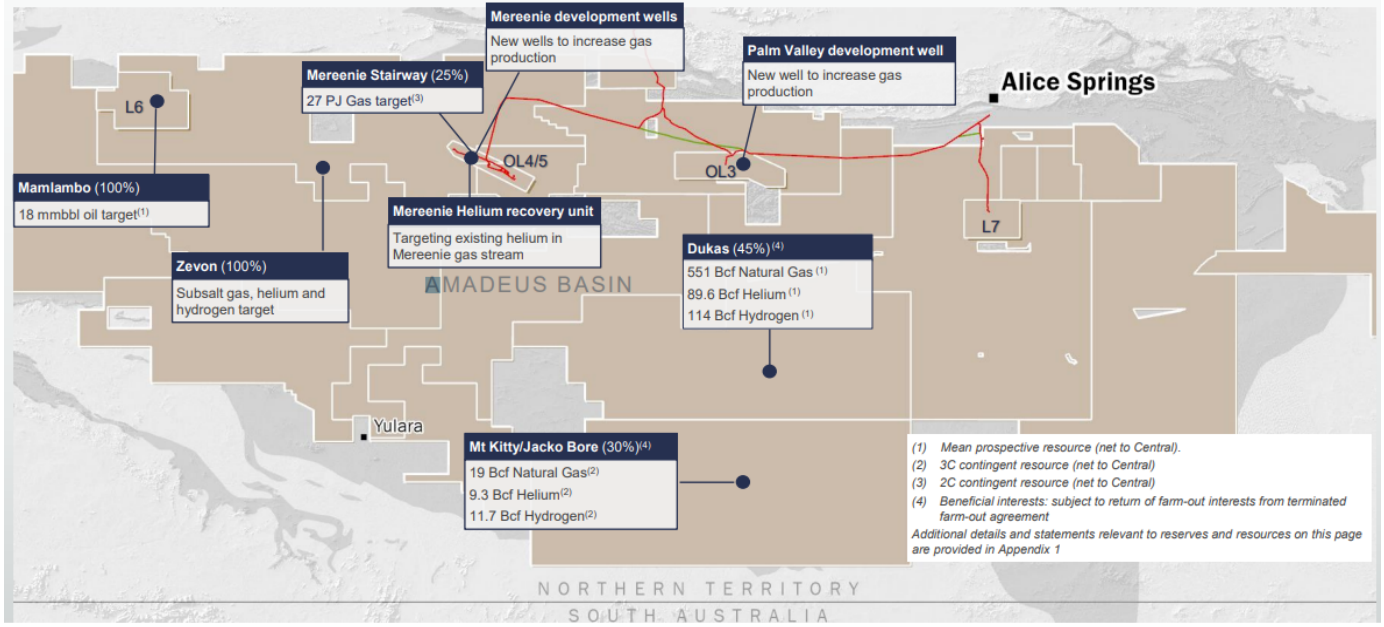
## Exploration: still a key to CTP's future

The CTP exploration portfolio remains a key platform of the company's growth of reserves and potential exposure to high-priced products such as helium and hydrogen.

The key to maximising the value to CTP of exploration and minimising cash outflows is engaging JV partners and obtaining free carry for the exploration, particularly for the high-cost sub-salt wells (targeting large reserves of gas, helium and hydrogen).

Figure 4 highlights CTP's exploration portfolio.

**Figure 4: Large potential resources of gas, oil, helium and hydrogen**



Source: CTP.

## The Northern Gas Pipeline (NGP) Outage: Short-Term Pain for CTP May Mean Long-Term Gain

### New Gas Agreement with NT Power and Water Corp Mitigates the Short Term Damage

As recently announced, the NGP will be closed until at least June 2024. This means that CTP's ability to supply the East Coast market – and therefore access spot pricing – has been temporarily curtailed (Mereenie production reduced), leaving a short-term decrease in earnings (see Financial Results section below).

We note that CTP now has a new agreement NT to supply all of its available uncontracted gas to Power & Water Corporation (PWC) for the remainder of 2024. PWC are expected to take this gas in increasing quantities as the diverted Darwin LNG supply tails-off.

The NGP is a unidirectional pipeline, that is, a one-way flow from west to east that connects the Amadeus Basin and NT to the East Coast gas market. It cannot handle inflows of gas from the East Coast gas market. It connects Tennant Creek in the NT to Mount Isa in Queensland and was commissioned in 2019 to provide a route for surplus gas production in the NT to go to Mount Isa and the East Coast.

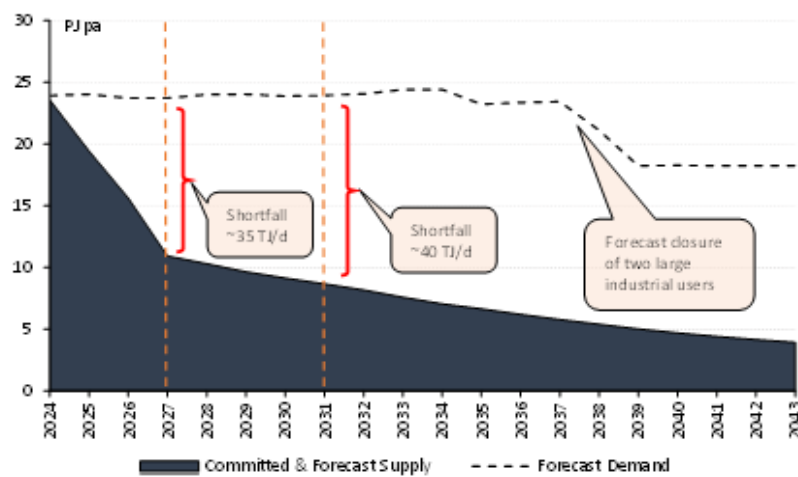
However, the NGP outage is a symptom of a developing gas supply problem in the NT and provides CTP with a potential longer term gain as gas prices in the NT will likely increase and therefore provide an incentive to supply the NT with competitively priced onshore gas. Amadeus Basin gas has a transport cost advantage and CTP's uncontracted gas volumes present a competitive future source of relatively lower risk, onshore gas supply in comparison with other possible sources, such as diverted Darwin LNG or East coast gas via a reverse-flow NGP.

## Australia Energy Market Operator (AEMO) 2024 Gas Statement of Opportunities: Offshore supply shortfall a positive for CTP

AEMO has recently released its 2024 Gas Statement of Opportunities (2024 GSOO), which is a supply and infrastructure adequacy analysis for the Australian gas market. The statement highlights the expectation that in 2026 and 2027, there will be small seasonal supply gaps (e.g. in winter) in the East Coast market. It then indicates that more structural supply gaps will emerge from 2028 as existing legacy fields face depletion (particularly Bass Strait). Gas supply from the southern states is falling faster than forecast demand, with supply shortfalls now forecast one year earlier than in the 2023 GSOO.

However, the most striking insight from the 2024 GSOO highlights an issue which has been 12–18 months in the making: the stark gas supply shortfall that the NT now faces (Figure 5), in contrast to the previous 2023 GSOO outlook. The analysis highlights that by 2026–2027, there will be a shortfall of approximately 8–13 PJ pa (~22–35 TJ/d), growing to ~15 PJ pa (~42 TJ/d) by 2031.

**Figure 5: AEMO 20-year forecast Northern Territory gas consumption per annum**

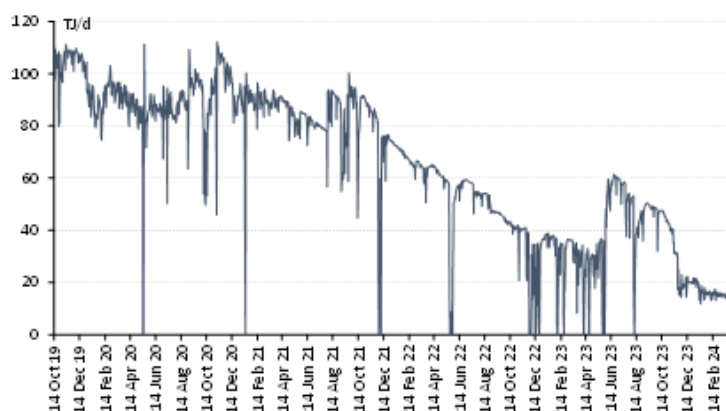


Source: AEMO, SHA Energy Consulting.

The outage of the NGP has once again highlighted a fundamental change in the gas market supply–demand balance in the NT. The continued under-performance of the offshore Blacktip gas field, which supplies Darwin via a contract with NT Power and Water Corporation (PWC), has meant that the NT gas market is now short of supply, compared with the previous oversupply situation.

The NT gas market is around 80–90 TJ/d. Around mid-October 2021, Blacktip peaked at ~92 TJ/d and by May 2022 was supplying around 40–60 TJ/d. This has subsequently fallen further to around 15 TJ/d (Figure 6). This resultant supply shortfall has meant that the minimum throughput threshold rate required for the Nitrogen Removal Unit (NRU) to operate (estimated at ~20 TJ/d) on the NGP is currently not being met, and therefore shut-in for the remainder of FY24 at least.

**Figure 6: Blacktip Daily Production**



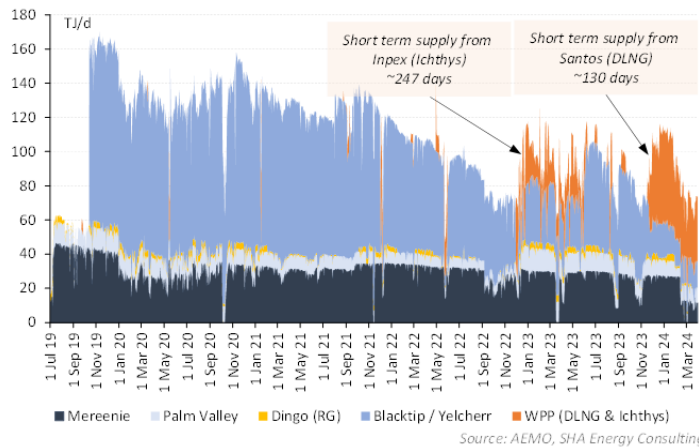
Source: AEMO, SHA Energy Consulting.



The NT supply shortfall has been a key looming risk for the past 12–18 months, given the risk of over reliance on offshore supply, and has been exacerbated by Blacktip offshore development wells either watering out earlier than expected or remedial infill wells performing below expectations. A key future supply risk is whether Blacktip gas production can ever be restored to previous historical levels given that it will be entirely dependent on the pace and scope of further well interventions and new development wells being permitted, drilled and successfully tied in within the next 12–18 months.

The alternative supply from other offshore sources, namely Darwin LNG (DLNG) and Inpex, appear to be short-term fixes, as these options have a limited life and a relatively high cost, requiring higher prices.

**Figure 7: Northern Territory gas supply**



Source: AEMO, SHA Energy Consulting

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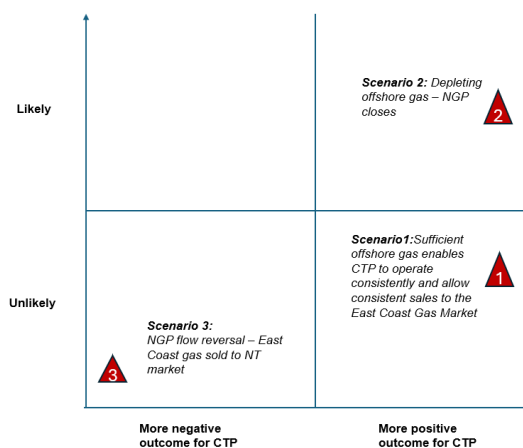
## This situation leaves CPT in a strong position

The outage of the NGP has once again highlighted a fundamental change in the gas market supply demand balance in the NT. CTP is well positioned and incentivised to capitalise on this opportunity.

There are three potential scenarios for the longer-term play regarding CTP's position as a gas provider to the NT gas market:

1. Sufficient offshore gas enables NGP to operate consistently
2. Offshore gas depletions lead to NGP closing or operating sporadically
3. NGP flow reversal enables East Coast gas to be sold into the NT market

**Figure 8: The three possible outcomes for CTP - A Snapshot**



Source: MST Estimates

## Scenario 1: Sufficient offshore gas enables NGP to operate consistently

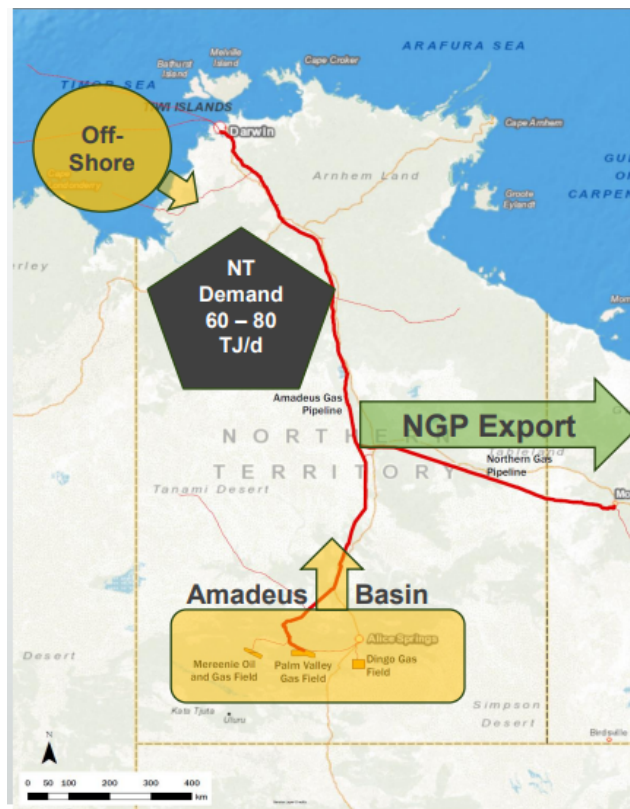
Under this scenario, NT gas supply remains high, with a much higher rate of offshore gas supply, requiring a significant change to the current situation. The supply would need to come from either a reversal in the decline of the Blacktip field and/or an increase in LNG supply from Darwin (would require imported LNG, most likely on an expensive, emergency basis).

**Outcome for CTP: positive; likelihood: low-medium**

CTP could maintain at least current production levels and could have the capacity to rapidly increase the production wells.

The gas could be sold into existing contracts or new customers in the NT, or exported via the NGP to the East Coast gas market.

**Figure 9: High Northern Territory gas production, NGP remains open**



Source: CTP.

## Scenario 2: Depleting offshore gas – NGP closes or operates sporadically

Under this scenario, the NT gas market would be short of gas supply, leading the market to look for supply that is more reliable and affordable than the offshore supply and that could be brought to market rapidly.

With 70% of 1P reserves uncontracted and the capacity to bring on new wells rapidly, and low transport costs to customers, CTP could rapidly fill in the supply gaps in the NT market **as demonstrated by the new agreement to supply gas to PWC for the remainder of 2024.**

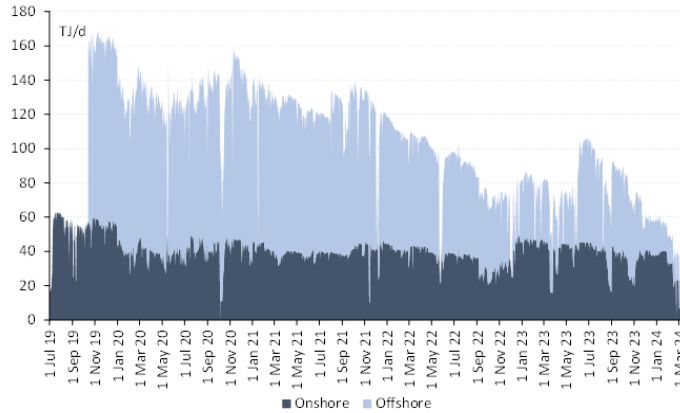
This scenario could also see higher prices as competition for supply would be higher, and CTP's Amadeus Basin fields have a cost advantage over alternative supplies from outside the NT.

The downside scenario is that the supply from offshore continues to be sporadic, and the NGP is closed regularly.

Figure 10 shows that, since the start of 2024, onshore gas production (i.e. Mereenie, Palm Valley and Dingo) account for around ~62% of total supply, highlighting the importance of CTP's portfolio of relatively stable producing assets and the potential upside from appraisal assets in addressing the NT's supply issues. CTP has around four new infill development wells planned (2 at Mereenie and 2 at Palm Valley) which could be online over the coming 12–18 months but are waiting for a FID and contingent on securing firm offtake agreements.



**Figure 10: Northern Territory gas supply**



Source: AEMO, SHA Energy Consulting

Source: AEMO SHA Energy Consulting.

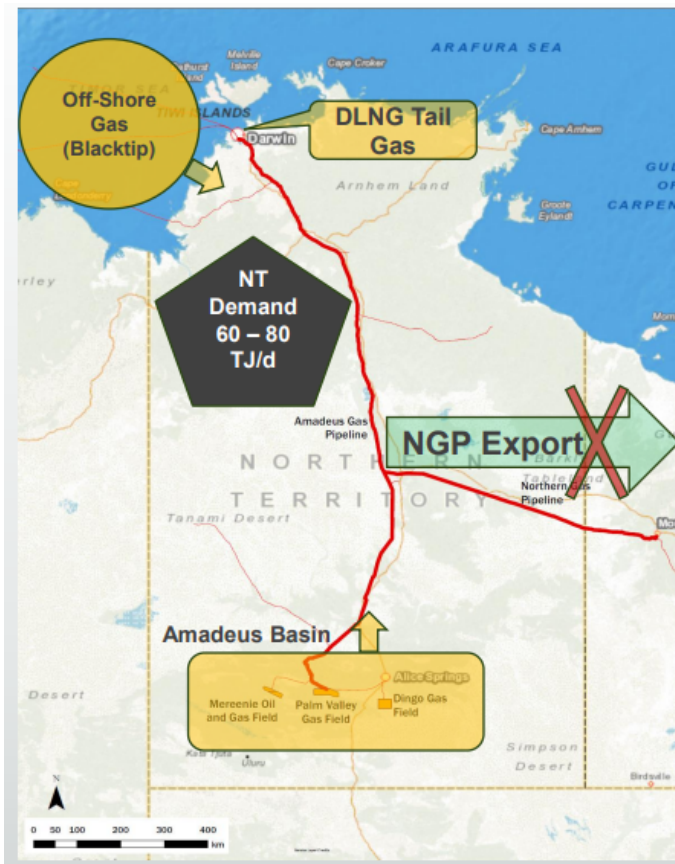
**Outcome for CTP: positive; likelihood: medium-high**

The current production from offshore is becoming increasingly unreliable and the likelihood of the NGP closing is indefinitely is becoming higher.

If the NGP was to close permanently, CTP and its partners would find themselves in the "box seat" as the only producing supplier in the NT and a key to reliable supply to the NT market. The scenario would likely see higher pricing and higher production for CTP.

A scenario of the NT offshore supply remaining sporadic over the medium term would be a less than ideal outcome for CTP, but may only be temporary as NT customers would demand a more reliable supply of gas.

**Figure 11: NT gas supply depletes as NGP closes, offshore gas declines**



Source: CTP

### Scenario 3: NGP flow reversal – East Coast gas sold into the NT market

Jemena and PWC have floated potentially modifying the NGP into a bi-directional pipeline (i.e. to facilitate flows from the East Coast gas market into the NT market). The timing of this proposal is very uncertain.

This scenario would allow East Coast gas into the NT market, potentially creating an oversupply situation.

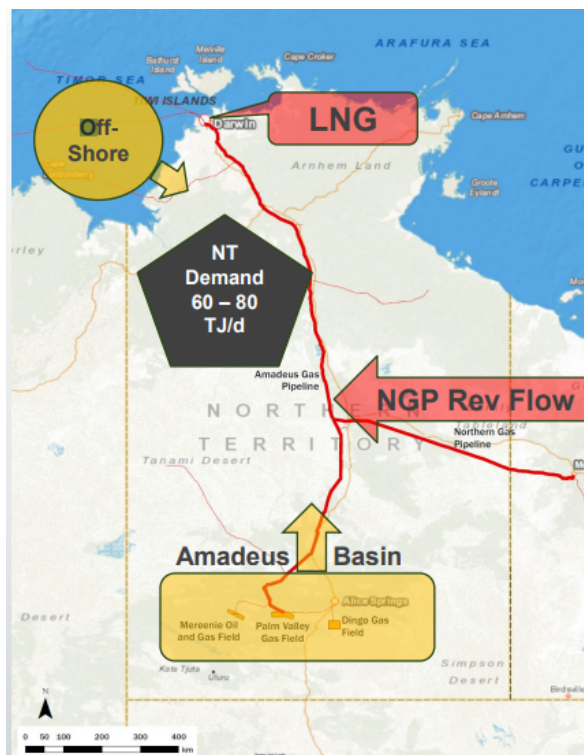
#### Outcome for CTP: negative; likelihood: low

This scenario represents a worst case for CTP with the potential of an excess of gas from the East Coast market looking for a home .

The likelihood of this happening appears to be low, given the tightness in the East Coast markets (another point raised by the AEMO GSOO), particularly in the Bass Strait of Victoria. There does not appear to be sufficient volume to warrant the capex involved in engineering a reversal of the pipe flow.

CTP would also likely be a fallback option, given they have uncontracted onshore volumes in the Amadeus Basin that would rank ahead of East Coast gas given they have a substantial transport cost advantage (i.e. lower transport tariffs) compared to East Coast gas.

Figure 12: NT gas supply – reversal of flow of NGP



Source: CTP.

## Recap: Macquarie Sells 50% in Mereenie;

## NZOG, HZN Each Pay A\$42.5m (+A\$9m Potential) for 25%

**NZOG and HZN buy out Macquarie's 50% share of Mereenie:** New Zealand Oil and Gas (NZOG) and Horizon Energy (HZN) have purchased Macquarie's 50% share of Mereenie, with each company buying a 25% stake. After completion of the sale, Mereenie ownership will be NZOG 42.5%, HZN 25%, Cue Energy 7.5% and CTP 25% and operator. Macquarie has owned a 50% share in the field since 2016, when it purchased the stake from Santos.

### Details of the transaction

For their 25% stakes in Mereenie, NZOG will make an upfront payment of A\$42.5m and HZN a US\$27.6m upfront payment. Further contingent payments of A\$9m (NZOG) and US\$5.8m (HZN) may be made over the next 24 months, subject to certain conditions being met.

### NZOG and HZN rationale for the transaction and the value of Mereenie

#### NZOG sees consistent asset, strong gas prices and upside potential

NZOG's acquisition of Mereenie has significantly increased its gas reserves.

Per the ASX announcement, NZOG's rationale behind buying the asset includes the following:

- The Mereenie asset has been a consistent performer with development upside.
- Gas prices in Australia's East Coast markets are strong because natural gas is needed for the low-carbon energy transition, and Mereenie increases NZOG's exposure to secured gas sales agreements directly into that market.
- Re-completions increased production from Mereenie by 1.5TJ per day.
- A campaign of in-field data acquisition, which commenced late in 3QCY23, will optimise infill drilling at Mereenie. Future activity includes two proposed infill wells in 1HCY24, with the Stairway appraisal and further infill wells commencing thereafter.
- Installing a flare gas recovery compressor will further boost production and reduce emissions.

#### HZN sees acquisition providing exposure to attractive domestic gas markets

Per HZN's ASX announcement, the rationale behind buying the asset includes the following:

- entry into a Tier-1 oil and gas jurisdiction with strong market demand
- cash-accretive producing asset, with 2P reserves forecast generating over 20% IRR at modest gas prices
- several significant infrastructure-led opportunities – for example, the recent offtake agreement with Arafura Rare Earths Ltd demonstrates Mereenie's strategic value in supporting the energy transition
- significant near-term contracted offtake which underpins purchase price and debt facility
- substantial long-term uncontracted capacity to take advantage of market conditions.

## Financial Results and Outlook: 2H NGP Outage Will See Lower Volumes

### 1HFY24 results: Range Sale boost – statutory profit A\$13.9m

CTP announced the sale of the Range Gas Project in November, generating A\$12.5m. The sale led to a statutory profit of A\$13.9m.

### Net underlying profit of A\$0.64m vs loss A\$11.2m in pcp – higher production and lower exploration expense

CTP reported a net profit after tax of A\$0.64m for the half, compared to a loss of A\$11.2m for the pcp.

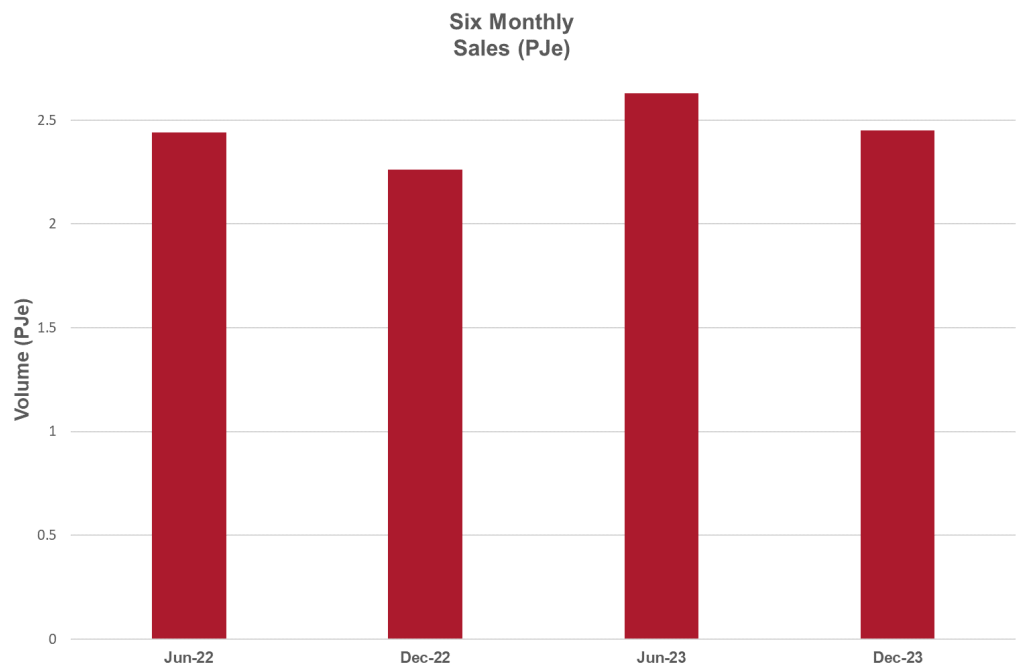
The improved underlying result was driven by:

- higher volumes as a result of the Palm Valley well
- and lower exploration expense (\$10.9m of exploration expenses were associated with Palm Valley and the Range coal seam gas pilot were recorded in the pcp)
- a reduction in administrative costs.

### Net sales volume higher in 1H24 – Palm Valley the driver

Net sales of oil and gas were 2.4 PJe (2.23 PJe pcp) for the half year, up 9%. The Palm Valley 12 well was the key driver, netted off by intermittent closures of the NGP in the December quarter.

Figure 13: 6-monthly sales trend – adjusted for sell down



Source: CTP.

### Sales revenue higher, like for like – spot sales boost revenue

Sales revenue received in the half was A\$19.9m (\$16.7m pcp), 19% higher. This increase in revenue was thanks to a A\$2.3m take-or-pay release and an average price realised of A\$7.23/GJe.

## Funding: Range sale drives significantly lower net debt

**Net debt position:** Net debt was A\$4.4m (\$16.8m pcp) at 31 December 2023. The cash received from the Range sale increased cash significantly, reducing the net debt position.

**Free carry position:** Under the carry arrangements relating to the partial asset sale, the new JV partners at Mereenie, Palm Valley and Dingo agreed to pay \$40m of CTP's share of certain future exploration and development costs in those fields. At the end of December 2023, \$0.2m remained available for future use, which will be invested in Mereenie well recompletions and the flare gas recovery project.

## FY24 forecast changes

We have reviewed our forecasts for FY2024. Figure 14 summarises the changes.

We have downgraded our forecasts, driven predominantly by the closure of the NGP. The major changes are that we have:

- reduced FY24 production in 3QFY24 and 4QFY24 for Mereenie to reflect NGP outage so that the average production for FY24 is ~19 TJ/d (previously ~28 TJ/d)
- reduced the average forecast production for FY24 at Palm Valley to ~9.0 TJ/d from ~9.6 TJ/d.
- **we note that with the recent announcement that CTP and its Mereenie JV partners have entered into an as-available supply agreement with PWC for the supply of up to 8.6 Petajoules ("PJ") of gas (2.1 PJ net to Central) to the end of CY2024, that the Mereenie production may well increase in the remainder of FY24 and first half of FY25 and may lead to upward adjustments in our forecasts going forward.**

Figure 14: FY24 forecast changes

Profit & Loss (A\$m)	Previous Forecast	Revised Forecast	Change
<b>Production</b>			
Gas (TJ/d)	13.6	10.9	2.7
Gas (PJ)	5.0	4.0	1.0
Oil / Condensate (mmbbl)	0.03	0.03	0.0
<b>Total (mmboe)</b>	<b>0.86</b>	<b>0.70</b>	<b>0.16</b>
<b>Total Sales Revenue</b>	<b>41.2</b>	<b>31.3</b>	<b>41.2</b>
Operating Costs	(12.1)	(9.5)	2.6
Government Resource Tax	(2.9)	(2.3)	0.6
Exploration & Development	(5.2)	(4.3)	0.9
Other Net Income / Expense	9.9	7.0	2.9
<b>EBITDA</b>	<b>30.8</b>	<b>22.3</b>	<b>(8.5)</b>
<b>EBITDAX</b>	<b>31.6</b>	<b>26.5</b>	<b>(5.1)</b>
Depreciation & Amortisation	(7.0)	(6.2)	0.8
<b>EBIT</b>	<b>23.8</b>	<b>16.0</b>	<b>(7.8)</b>
Net Interest Expense	(1.1)	(1.3)	(0.2)
<b>Pretax Profit</b>	<b>20.5</b>	<b>12.2</b>	<b>(8.3)</b>
Tax Expense / Benefit	–	–	–
<b>Net Attributable Profit</b>	<b>20.5</b>	<b>12.2</b>	<b>(8.3)</b>

Source: MST estimates.

## Valuation: Mereenie Transaction Verifies Our Valuation; CTP Assets Undervalued by the Market

### Base-case valuation of A\$0.15 (previously A\$0.16)

**Our analysis – and that of market participants – suggest that CTP's assets are undervalued by the market**

The Amadeus Basin assets provide underlying production, earnings and cash flow which we believe is fundamentally undervalued by the market.

Our valuation has decreased by A\$0.01 to A\$0.15 (see Figure 13). The reduction reflects the downgrade of Mereenie production for FY24 as a result of the NGP closure.

### Core production assets contribute A\$0.12

The core production assets make up A\$0.12 of our A\$0.15 valuation, suggesting that the market is placing a significant discount on assets that are relatively low risk.

### HZN–NZOG acquisition of Mereenie verifies our valuation

The HZN and NZOG acquisition price provides a relevant look-through value for valuing CTP's 25% interest in the very same asset and for the rest of CTP's portfolio. The price paid validates our own valuation of CTP's interest in Mereenie (A\$44m) and reinforces our view that the asset (and CTP) is well positioned to capture not only increasing gas demand via further offtakes, but also robust gas pricing dynamics in a tight NT market.

**Figure 15: Base-case valuation summary – fully diluted (A\$ per share)**

NPV	A\$m	Risking	A\$m	Valuation	Previous	Change
	Valuation Unrisked			A\$ps	Valuation	
Mereenie - OL4 & OL5 (25%)	40	100%	40	0.05	0.06	(0.01)
Palm Valley - OL3 (50%)	22	100%	22	0.03	0.03	0.00
Dingo - L7 & PL30 (50%)	30	100%	30	0.04	0.04	0.00
<b>Total Operations</b>	<b>92</b>		<b>92</b>	<b>0.12</b>	<b>0.13</b>	<b>0.00</b>
Net Cash / (Debt)	13	100%	13	0.02	0.02	(0.00)
Admin / Corporate / Other	(17)	100%	(17)	(0.02)	(0.02)	(0.00)
Exploration (risk-adjusted)	26	50%	13	0.02	0.02	(0.00)
Mereenie & Palm Valley 2C gas (risked)	18	50%	9	0.01	0.01	0.00
<b>TOTAL VALUATION</b>	<b>133</b>		<b>111</b>	<b>0.15</b>	<b>0.16</b>	<b>(0.01)</b>

Source: MST estimates.

### Upside potential to our valuation, driven by multiple sources

We see further upside potential to our base-case valuation from multiple sources, which include:

- Short term delivery of uncontracted gas into the PWC as available supply agreement
- NT gas market developments exposing CTP to higher prices and volumes
- exploration program – despite the disappointing results from the Palm Valley (PV) exploration deeps program last year, exploration and appraisal remains a source of potential value upside within CTP via the potential to increase reserves and thus increase production and/or the life of the assets. We are particularly focused on the sub-salt exploration program, once the JV has a program established post the Peak Helium default. Our valuation reflects minor upside from exploration
- establishment of helium production at Mereenie – we have not taken the potential value of helium into our valuation due to its early stage. We await further information of costs and validity of extraction before taking this into our valuation
- higher level of sales into the spot market
- further corporate activity in the energy sector.



## Risks to our valuation include:

The disappointing exploration results at PV have shown the risk in exploration, and this remains a key risk to share price appreciation. As noted above, our valuation only assumes minor exploration-related upside.

- further outages to the NGP and volume decreases
- longer-term potential reversal of NGP to accept East Coast gas into NT
- government regulation affecting pricing
- the gas price, a key sensitivity for CTP's cash flow and valuation
- operational issues at existing assets, which would reflect poorly on management and decrease cash flow and valuation
- sub-salt exploration not proceeding due to further JV issues
- difficulty accessing licence areas to acquire seismic and drill exploration and development wells, which may lead to delays. Despite having exploration tenure granted by the state/territory, CTP must negotiate access with various stakeholders and deal with rising regulatory compliance requirements. In recent years, this has impeded activity in the field, and contributed to rising costs
- social licence: CTP is a fossil fuel producer, an industry which has been subject to particular scrutiny in recent years as a result of climate concerns, government regulation, approval times and funding sources. A short-term consequence of this is its impact on investor sentiment, which flows through to CTP's ability to attract investors and capital providers.

## Personal disclosures

Michael Bentley received assistance from the subject company or companies in preparing this research report. The company provided them with communication with senior management and information on the company and industry. As part of due diligence, they have independently and critically reviewed the assistance and information provided by the company to form the opinions expressed in this report. They have taken care to maintain honest and fair objectivity in writing this report and making the recommendation. Where MST Financial Services or its affiliates has been commissioned to prepare content and receives fees for its preparation, please note that NO part of the fee, compensation or employee remuneration paid has, or will, directly or indirectly impact the content provided in this report.

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The companies and securities mentioned in this report, include:

Central Petroleum (CTP.AX) | Price A\$0.056 | Target price A\$0.150 | Recommendation -;

Fenix Resources (FEX.AX) | Price A\$0.25 | Target price A\$0.54 | Recommendation -;

Peak Rare Earths (PEK.AX) | Price A\$0.22 | Target price A\$1.32 | Recommendation -;

*Price, target price and rating as at 15 April 2024 (\* not covered)*

## Additional disclosures

This report has been prepared and issued by the named analyst of MST Access in consideration of a fee payable by: Central Petroleum (CTP.AX)

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