

TPD: No deal from STX, Buying opportunity on sp weakness/upcoming material catalysts

TPD.ASX | TALON ENERGY LIMITED | MATERIALS | ENERGY - OIL & GAS

PRICE
A\$0.155/sh

TARGET PRICE
A\$0.360/sh
(UNCHANGED)

RECOMMENDATION
SPECULATIVE BUY
(UNCHANGED)

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Event

Strike announced that a deal for Talon Energy has been withdrawn due to negotiations on terms of a TPD working capital facility and due diligence not being finalised.

Impact

Although a deal for STX to bid for TPD made sense, that would have consolidated ownership of Walyering and therefore bring in 100% of upcoming and future cash flows from the asset, the deal between the two JV partners could not be agreed.

The terms of the proposed deal were STX scrip worth ~\$0.21/sh and a spin-out of the Mongolia asset (with a current look-through value based on the JV partner/operator EV of \$0.06/sh). Our TPD net valuation of the Walyering asset is \$0.20/sh (NPV10 from DCF).

Although STX had its eyes firmly set on acquiring the other 45% of the Walyering field, now a deal appears over (at least for now in the short term), we draw investors attention to the potential for tangible, high impact growth from the other TPD Perth Basin assets.

L7/EP437 (25% interest with TEG.asx as operator) and Condor (100% TPD), that could represent significant upcoming/future value drivers, with drilling targeted for 1H CY2024 at L7/EP437. We currently have risked values of \$0.03/sh / \$17 million and \$0.05/sh / \$33 million for L7/EP437 and Condor, respectively.

Although these opportunities are early in the E&P cycle, currently underpinned by prospective resources, on success they could amount to significant potential value given the increasing value of discovered gas in the Perth Basin to supply the forecast future under-supplied WA domestic gas market that continues to reach record high spot gas pricing (now >\$10/GJ).

As an additional point, there has been queries around funding at TPD, given the \$6 million working capital facility discussed as part of the STX proposal, however, we note cash reserves of \$9.1 million in the June Quarterly Report, and expected production from Walyering within the current quarter (with cash flow ~1 month following first gas).

Action

We maintain our Speculative Buy recommendation and Price Target of \$0.36/sh.

We believe that the current TPD share price, off ~20% from recent highs of \$0.19/sh, represents a good buying opportunity particularly with the significant material upcoming catalysts as listed below.

First production from Walyering and potential strong flow rates from the Mongolia CSG pilot project could result in an upcoming share price re-rate.

Short-term Catalysts

- First constant gas flows from Mongolia pilot project (this Q)
- Walyering first gas and subsequent cashflows (this Q)
- Rig contract for L7/EP437 drilling (potentially 2H CY2024)
- Condor permit license transfer finalisation
- Continued record high WA spot gas pricing increasing value of current discovered and potential future Perth Basin gas.

Market Statistics

Share Price	0.155	A\$/sh
Price Target	0.36	A\$/sh
Valuation	0.35	A\$/sh
Shares on issue (dil.)	667.31	m
Market Capitalisation	103	A\$m
Enterprise Value	94	A\$m
Debt	0.00	A\$m
Cash*	9.15	A\$m

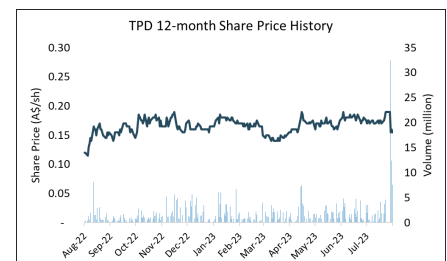
*as at end June

Assumptions	2023F	2024F	2025F
Attrib. Prod'n (PJ)	1.6	4.0	4.0
Walyering Term (A\$/GJ)	6.7	7.0	7.2

Key Financials

	2023F	2024F	2025F
Revenue (A\$m)	12	31	32
EBITDAX (A\$m)	6	23	24
EBIT (A\$m)	5	18	19
NPAT (A\$m)	5	18	19
Gross Cashflow (A\$m)	6	23	24
Capex (A\$m)	-9	0	0
Exploration (A\$m)	-10	-11	0
Op. Free Cashflow (A\$m)	-14	11	24
Revenue Growth (%)	na	2	0
EBITDAX Growth (%)	na	3	0
NPAT Growth (%)	na	3	0
EPS (Ac)	1	3	3
EPS growth (%)	na	3	0
PER (x)	20	5	5
EV:EBITDAX (x)	15	4	4
EV:EBIT (x)	19	5	5
Net cash (debt) (A\$m)	11	23	46

Performance



Source: IRESS, Euroz Hartleys

ASSET VALUATION					CASHFLOW				
	A\$m	A\$/sh			Yr End 30 June (A\$m)	2022A	2023F	2024F	2025F
(+) Walyering	132	0.20			Reported NPAT	-13	5	18	19
(+) L7/EP437 Exploration	17	0.03			(+) D&A	0	1	5	5
(+) Condor	33	0.05			(-) Lease expense	0	0	0	0
(+) Gurvantes (Mongolia)	40	0.06			(-) Unearned revenue	0	0	0	0
(+) Exploration	20	0.03			(+) Impairment	0	0	0	0
(-) Corporate O/H	-19	-0.03			(+) Share based payments	0	0	0	0
(+) Cash	9	0.01			(+/-) Other	0	0	0	0
(-) Debt	0	0.00			Gross Cashflow	-13	6	23	24
Total	232	0.35			(-) Capital Expenditure	-4	-9	0	0
					(-) Exploration	-3	-10	-11	0
					(+/-) Change in WC	-4	-1	-1	0
					Operating Free Cashflow	-24	-14	11	24
					(-) Acquisition	0	0	0	0
					(-) Equity Investment	0	0	0	0
					(+) Issue of equity	25	14	0	0
					(-) Dividend	0	0	0	0
					(+/-) Other	0	0	0	0
					Net Cashflow	1	-1	11	24
					BoP Net Cash	7	12	11	23
					(+/-) Net Cashflow	5	-1	11	24
					(+/-) AASB16 Adj.	0	0	0	0
					EoP Net Cash	12	11	23	46
PROFIT & LOSS					BALANCE SHEET				
Yr End 30 June (A\$m)	2022A	2023F	2024F	2025F	Yr End 30 June (A\$m)	2022A	2023F	2024F	2025F
Revenue	0	12	31	32	Cash	12	11	23	46
(-) Operating Expenses	0	-3	-5	-5	Inventory	0	0	0	0
(-) Corporate O/H	-4	-3	-3	-3	Receivables	0	3	4	4
EBITDAX	-4	6	23	24	ROUA	0	0	0	0
(-) Exploration	-9	0	0	0	Other Assets	1	1	1	1
(-) Other	0	0	0	0	Total Current Assets	13	16	28	51
EBITDA	-13	6	23	24	ROUA	0	0	0	0
(-) D&A	0	-1	-5	-5	Explor/Eval Assets	6	16	24	21
(-) Impairment	0	0	0	0	Oil & Gas Assets	11	19	17	15
EBIT	-13	5	18	19	PP&E	0	0	0	0
(-) Net Finance	0	0	0	0	Intangibles	0	0	0	0
(+/-) Other	0	0	0	0	Equity Investments	0	0	0	0
EBT	-13	5	18	19	Other Assets	0	0	0	0
(-) Tax	0	0	0	0	Total Non-Current Assets	17	35	41	36
Reported NPAT	-13	5	18	19	Total Assets	30	50	68	87
					Payables	2	3	3	3
					Employee Benefits	0	1	1	1
					Provisions	0	0	0	0
					Borrowings	0	0	0	0
					Lease liabilities	0	0	0	0
					Other Liabilities	0	0	0	0
					Total Current Liabilities	2	4	4	4
					Employee Benefits	0	0	0	0
					Payables	0	0	0	0
					Provisions	1	1	1	1
					Borrowings	0	0	0	0
					Other Liabilities	0	0	0	0
					Lease Liabilities	0	0	0	0
					Total Non-Current Liabilities	1	1	1	1
					Total Liabilities	3	5	5	5
					Net Assets	27	46	64	82
					Issued Capital	77	91	91	91
					Reserves	7	7	7	7
					Retained Earnings	-57	-52	-34	-16
					Total Equity	27	46	64	82
PERFORMANCE RATIOS					SHARE DATA/VALUATION				
Growth & Margins	2022A	2023F	2024F	2025F	Share Data	2022A	2023F	2024F	2025F
Revenue Growth	-100%	na	163%	2%	Issued shares (m)	525.7	627.2	627.2	627.2
EBITDAX Growth	na	na	265%	3%	Fully diluted shares (m)	567.2	667.3	667.3	667.3
NPAT Growth	na	na	271%	4%	Basic EPS (A\$)	-2.5	0.8	2.9	3.0
EBITDAX Margin	na	0.5	0.7	0.7	Fully diluted EPS (A\$)	-2.3	0.7	2.7	2.8
NPAT Margin	na	0.4	0.6	0.6	YoY change (%)	na	na	2.7	0.0
Risk Measures					Gross cashflow/share (A\$)	-2.5	1.0	3.7	3.8
Net interest cover (x)	na	na	na	na	NBV/share (A\$)	5.1	7.3	10.1	13.1
Net debt/equity (%)	na	na	na	na	NTA/Share (A\$)	5.1	7.3	10.1	13.1
					Valuation				
					PER (Basic) (x)	na	20.1	5.4	5.2
					PER (Fully diluted) (x)	na	21.3	5.7	5.5
					P/CFPS (x)	na	15.4	4.2	4.1
					Price/NBV (x)	3.0	2.1	1.5	1.2
					Price/NTA (x)	3.0	2.1	1.5	1.2
					EV/EBITDAX (x)	na	15.0	4.1	4.0
					EV/EBIT (x)	na	19.4	5.2	5.0
					EV/Revenue (x)	na	7.9	3.0	3.0

Figure 1: TPD Sum-of-Parts Valuation

Valuation Summary	A\$m	A\$/sh
(+) Walyering DCF (NPV10)	132	0.20
(+) L7/EP437 Exploration (risky val of 2U Prospective Resources)	17	0.03
(+) Condor (risky val of 2U Prospective Resources)	33	0.05
(+) Gurvantes XXXV (Mongolia) CSG (JV EV look-through)	40	0.06
(+) Exploration (nominal val)	20	0.03
(-) Corporate O/H	-19	-0.03
(+) Cash	9	0.01
(-) Debt	0	0.00
Total	232	0.35

Source: Euroz Hartleys

Figure 2: L7/EP437 Risked Valuation

Prospect		Mountain			Total
		Booth	Bridge South	Huntswell Deep	
TPD interest	(%)	25%	25%	25%	
2U Prospective Resource	Bcf	279	53	61	393
GPoS Risking	(%)	35%	30%	25%	
Risked Volume	Bcf	97.7	15.9	15.3	128.8
Risked Valuation @ \$0.5/GJ (Gross)	\$ million	51.2	8.3	8.0	67.5
Risked Valuation @ \$0.5/GJ (TPD)	\$ million	12.8	2.1	2.0	16.9

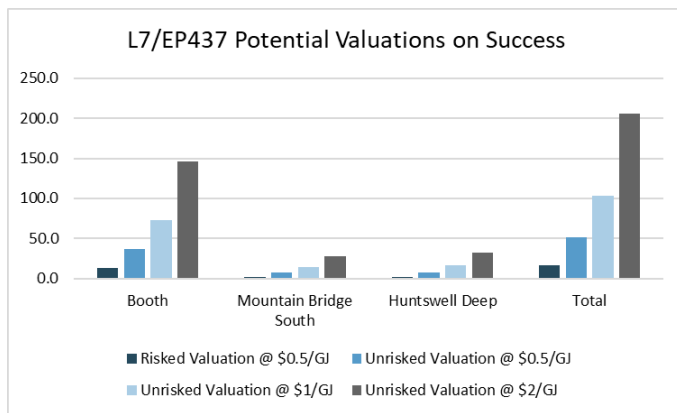
Source: Euroz Hartleys

Figure 3: Condor Risked Valuation

Prospect		Condor
TPD interest	(%)	100%
2U prospective Resource	Bcf	408
GPoS Risking	(%)	15%
Risked Volume	Bcf	61.2
Risked Valuation @ \$0.5/GJ (TPD)	\$ million	32.9

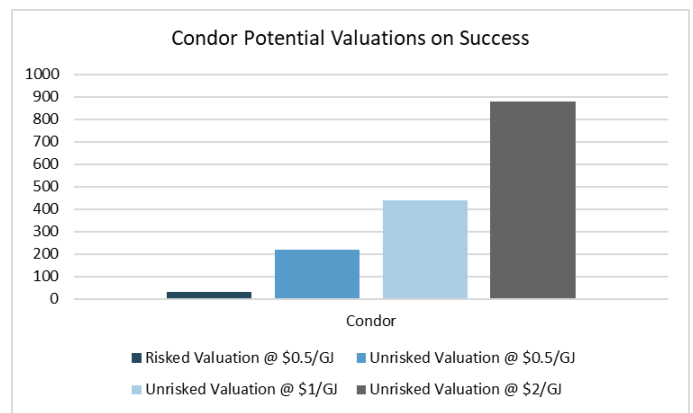
Source: Euroz Hartleys

Figure 4: L7/EP437 Valuation Sensitivity



Source: Euroz Hartleys

Figure 5: Condor Valuation Sensitivity



Source: Euroz Hartleys

Figure 6: TPD Net Reserves and Resources

Project	Hydrocarbon	Beneficial Interest	Reserves			Contingent Resources			Prospective Resources		
			1P	2P	3P	1C	2C	3C	1U	2U	3U
Walyering	Sales Gas (PJ)	45%	15	24	37	8	14	23	3	7	14
L7/EP437		25%							44	103	197
Condor		100%							217	439	763
Gurvantes XXXV		33%				138	419	816	258	445	648
Total Sales Gas (PJ)			15	24	37	146	434	838	521	994	1621
Walyering	Condensate (MMstb)	45%	0.2	0.3	0.4	0.1	0.1	0.2	0.0	0.1	0.1
L7/EP437		25%									
Condor		100%							9.5	20.2	39.0
Gurvantes XXXV		33%									
Total Condensate (MMstb)			0.2	0.3	0.4	0.1	0.1	0.2	9.5	20.3	39.1

Source: Company Report, Euroz Hartleys

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The companies and securities mentioned in this report, include:

Talon Energy Limited (TPD.ASX) | Price A\$0.155 | Target price A\$0.360 | Recommendation Speculative Buy;

Price, target price and rating as at 04 August 2023 (not covered)*

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