Empire Energy Group Ltd

Strong confidence votes all-round

Empire Energy Group Limited (EEG,ASX) is a junior oil and gas producer and explorer with onshore NT and US oil & gas assets. EEG holds the largest acreage position (14.5m acres) in the highly prospective, potentially global-scale NT McArthur-Beetaloo basins. The province is fast developing as a gas-rich (and potentially liquids-rich) strategic booster for east coast Australia’s future energy needs and Darwin’s expanding LNG export terminals, amid strong policy support from territory and federal governments. The Beetaloo Sub-basin alone is considered to contain recoverable unconventional shale dry gas volumes of over 100 Tcf, with liquids upside. EEG also owns conventional gas/oil assets in the US Appalachia, 80%-hedged at 2020 floor prices of US$2.50/mcf. EEG’s NT 2D seismic results aided a recent 22% uplift of its P50 prospective resources to 13.5 Tcf gas (up from 11 Tcf). EEG will begin a ~45-day vertical drill program to ~2900m at its Carpentaria-1 well, spudding mid-September. Schlumberger Land Rigs is appointed as contractor for the A$7-8m drill program, to acquire formation evaluation data across the Velkerri/Kyalla Shales which will inform planning for the vertical fracture stimulation programme in early 2021. A$10m oversubscribed placement at $0.30/share and options conversion by directors at $0.30/share demonstrate a strong mandate for EEG’s onshore energy investments.

Business model

Empire Energy Group (EEG) is a junior oil & gas producer/exploration company, focused on maturing its portfolio of onshore, long-life oil & gas fields. EEG is the 2nd largest conventional gas producer in the US NY State and holds substantial exploration acreage (14.5m acres) in Australia’s Northern Territory McArthur-Beetaloo basin. Given the region’s high prospectivity, success from future drilling works may generate cashflows within 36-48 months, assuming links & upgrades to existing pipeline infrastructure are delivered in parallel. Positive read-throughs from Beetaloo neighbours (eg Origin/Santos) are also likely to inject value. COVID-19 disruptions delayed, not dented, the opportunity.

Votes of Confidence: NT Voters; EEG Directors; Investors

Empire Energy Group (EEG) has received three positive votes of confidence in recent days. A) NT voters resoundingly endorsed the 2 major parties (+70% primary vote), both support onshore NT energy developments; B) EEG directors will exercise 100% of their Aug-2018 A$0.30 options, exercisable by 26 Sept 2020, raising A$1.86m and C) A$10m placement has been executed at $0.30/share. Key upcoming events include: i) EP187 drilling commencement; ii) 26 September option expiration (30.03m @ A$0.30); iii) November drill results and iv) Carpentaria-1 vertical hydraulic fracturing approvals for 2021. Robust results from EEG’s 20/21 drill programs could evolve its P50 13.46 Tcf resource estimate into a 2C contingent resource, placing EEG to attract strong funding partners.

Base valuation is $0.61/share

Following positive weekend NT Election results, we have removed the 10% NT frack-ban development risk weighting we had added to our base case. Our valuation lifts to $183m or $0.61/share from $153m or $0.58/share. EEG has several event drivers over the next 6-12 months which we view hold potential to generate a sizeable uplift in NAV.

Empire Energy Group Ltd is a research client of RaaS Advisory. This report should be read in conjunction with the FSG and disclosures on pgs 2-4.

*The analyst holds shares
FINANCIAL SERVICES GUIDE

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of

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