

Senex Energy

Entrusted East Coast gas supplier

Senex has a diverse portfolio of conventional and unconventional oil and gas assets in Australia's Cooper and Surat Basins. Its growing portfolio of projects is well placed to deliver new gas to meet the shortfall along Australia's East Coast. Projects are underpinned by existing recoverable gas resources and robust demand. Consensus expects continued growth in Senex's underlying oil business, with revenues enhanced by a rising oil price, with gas sales from two projects in Queensland (Western Surat Gas Project and Project Atlas) driving a step change in production. We note that the consensus valuation of A\$0.41/share (Bloomberg average) heavily risks the NPV of Senex's development portfolio and compares to an unrisks consensus NPV of A\$1.18/share.*

Selective investment across a diverse asset portfolio

Project Atlas was awarded to Senex by the Queensland government for zero consideration after a competitive tender process demonstrating the state's confidence in Senex's operational capability. Given the depth of the company's portfolio, management is able to selectively invest available capital in projects that generate the highest risked returns, and has the benefit of pools of capital available from existing partners: EIG is looking to provide up to US\$300m for WSGP and Beach (formerly Lattice) Energy's c A\$45m for unconventional gas exploration.

Scalable gas development projects

Senex's two major development projects: WSGP with a 2P reserve base of 438PJ and Project Atlas with a P50 recoverable gas volume of 201PJ, provide visibility of a material step-up in gas production and net cash flow. WSGP's project value is underpinned by a 20-year, oil-linked gas sales agreement with GLNG and drilling is likely to be scaled according to capital availability – the project can support up to 425 wells over a 20-year period. Project Atlas offers a high-quality resource base with multiple offtake options, targeting first gas for the domestic market in CY19.

Valuation: Gas developments remain heavily risked

The NPV of future cash flows from Senex's development portfolio remains heavily risked by the market (consensus valuation of A\$0.41/share vs unrisks NPV of A\$1.18/share*). Key catalysts for this to be unlocked include environmental approvals for Project Atlas and WSGP (expected in mid-CY18), WSGP production ramp-up/sanction of Phase 3 drilling and finalisation of a financing solution. Successful exploration across the Cooper Basin's western flank could also act as a catalyst for asset monetisation. Senex's balance sheet remains robust, with a reported A\$82m net cash position at 31 December 2017.

Consensus estimates

Year end	Revenue (A\$m)	EBITDA (A\$m)	Net income (A\$m)	Net debt (A\$m)	Capex (A\$m)	Free cash flow (A\$m)
06/16	69.3	23.1	(0.1)	(102.5)	(25.7)	8.7
06/17e	43.6	0.6	(22.7)	(134.8)	(46.4)	(54.5)
06/18e	65.0	19.7	0.4	(43.8)	(91.0)	(99.1)
06/19e	97.3	37.9	9.3	33.4	(122.7)	(84.7)

Source: Bloomberg, Edison Investment Research. Note: *Unrisks consensus NPV is provided by the company.

Oil & gas

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Price **A\$0.37**
Market cap **A\$537m**
 A\$/US\$0.81

Share price graph



Share details

Code: **SXY**
 Listing: **ASX**
 Shares in issue: **1.45bn**

Business description

Senex Energy is a growth-focused oil and gas exploration company with onshore assets in Australia's Cooper and Surat Basins. The company's Cooper Basin oil asset is currently in production, while Cooper and Surat Basin gas projects are under development.

Bull

- Deep reserve and resource base in a market with structural gas deficit.
- Funding partners with robust balance sheets.
- Entrusted by local government – ability to access resource at minimal consideration.

Bear

- Uncertainty over precise capex profile and funding options.
- Environmental approval and land rights processes can be onerous.
- Tariff agreements with third-party infrastructure owners to be negotiated.

Analysts

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