

12 October 2020

## Armour Energy Ltd

### It pays to be in the right neighbourhood

Armour Energy Limited (AJQ.ASX) is a junior energy producer and explorer with assets across northern, southern and eastern Australia. The opportunity set for Armour through FY21 has the capacity to materially reshape the company financially by delivering cash flow growth, reducing debt and progressing a range of exploration options. Whilst the market will be looking for delivery of the Kincora production growth plan which aims to more than double production, to 20TJd and growing over the next 18-24 months, we would highlight the positive look-through from recent drilling results in the Beetaloo Basin which could be extrapolated into the company's adjoining acreage. The Carpentaria-1 well has encountered a liquids-rich gas across a thick and contiguous Velkerri Shale section. We interpret the result as supportive of the implied prospectivity of tenements immediately adjacent to the south, which we suggest, makes the assets more attractive to potential farm-in partners. With regional pipeline infrastructure expansions as proposed, the economics of NT (NW Queensland) gas opportunities are looking more favourable. We maintain our NAV (risked) at 13cps highlighting that AJQ holds a number of leveraged opportunities in a gas operating environment that is improving.

#### Business model

Armour Energy is a junior oil and gas company holding a production base with expansion options; and an extensive exploration portfolio across three Australian states, dominantly focussed on exploring for gas. The portfolio consists of exploration plays, reflecting a mix of moderate risk and early exploration stage with transformational potential. The company is looking to leverage its production growth plan at Kincora to repair its balance sheet and service a more aggressive exploration strategy, without recourse to equity markets. Financing is always a concern at the small end and the company's high working interests provide options through partnering.

#### A look through...results at Carpentaria bode well for AJQ

It is early in the exploration and evaluation phase of the NT but the intersecting of liquids rich gas could be a basin game changer. AJQ holds contiguous acreage to the south of the Carpentaria-1 well (and east) and we suggest there are positive implications for enhanced prospectivity being associated with these holdings. The company has an existing partnering agreement with Santos worth some A\$85mn of total investment...is this the benchmark for future deals? Armour holds a dominant acreage position in contiguous permits straddling the Queensland & NT borders embracing both the conventional and unconventional, but it's the unconventional options that provide multi-Tcf upside.

#### Our valuation is unchanged at \$0.13/share

We assign a risked valuation of \$113m (13cps) to AJQ but note values ascribed to both NT-NWQ and the Newstead Gas Storage play are heavily risk weighted. Drilling results and support from the Federal Government gas initiatives can provide de-risking opportunities, particularly in terms of partnering (financing solutions) and revenue streams. The company has a number of deliverable outcomes, particularly pertaining to Kincora production expansion that have the potential to re-rate market sentiment and crystallise asset values closer to our ascribed NAV.

#### Historical earnings and RaaS Advisory estimates

Year end	Revenue (A\$m)	Gross Profit (A\$m)	NPAT reported (A\$m)	OCFPS (AUD cps)	EPS Adj (AUD cps)	Price/Book (x)
12/19a	27.8	8.8	(11.7)	(1.9)	(2.4)	0.55
12/20a	21.1	1.6	(9.6)	(0.0)	(1.7)	0.55
12/21e	39.1	15.4	6.0	2.6	0.7	nm

Source: : Company data, RaaS estimates for FY21e

#### Share details

ASX Code	AJQ
Share Price (12 October)	\$0.03
Market Cap	\$27.8M
No of shares (as at 18-Sep)	929.6M
Cash (as at 30-Jun)	\$3.2M
Free Float	~62.0%
Sector	Energy

#### Share price- 12 months (source: Thomson Reuters)



#### Upside Case

- Above expectation results from Kincora gas growth programme...more gas, higher price, lower capex
- Northern Australia success...progress at Egilabria and securing a farm-in partner for the NT assets. **Referred success from regional exploration would crystallise value**
- Success opens alternate financing options,
- improves the balance sheet and restricts dilution

#### Downside Case

- Gas growth is not delivered to expectations
- Current operating environment persists and all project financing and timing slows down
- Senior Secure Amortising Notes covenants require additional equity capital or asset divestment.

#### Catalysts

- To mid-2021: Successful development drilling results at Kincora, flowing through to production outcomes.
- Ongoing: Progress on Newstead gas storage and exploration opportunities.

#### Comparative companies (Australia & NZ)

EEG, CTP, GLL, COI

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## FINANCIAL SERVICES GUIDE

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Effective Date: 26<sup>th</sup> November 2018

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- how we are paid, and
- complaint processes

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