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SXY.AX - Full Year 2020 Senex Energy Ltd Earnings Call

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CONFERENCE CALL PARTICIPANTS

>>James Byrne - Citigroup Inc., Research Division

>>Ian Davies - CEO

>>Mark McCabe - CFO

>>Stuart Howe - Bell Potter Securities Limited, Research Division

TRANSCRIPT

TRANSCRIPT

Editor:

produce significant and growing volumes volumes of natural gas (technical difficulty) assets. Secondly, we now have a diversified and resilient business model, with revenue streams spanning different different different commodities, basins and pricing structures. [Audio Gap] price gas in the sales mix. And we continue to achieve operating and cost efficiencies. This sees us targeting a free cash flow breakeven of less than USD 15 a barrel Brent. (technical difficulty) we're in great USD 15 a barrel Brent. (technical difficulty) we're in great financial strength to pursue growth and capital management initiatives. As our free cash flow continues to grow, we expect to be in a net net cash position by the end of FY '2022. This is a fantastic cash outcome, having FID outcome, having FID outcome, having FID the $400 million Surat Basin development program less than 2 years ago. Basin

(technical difficulty) this morning.

(technical difficulty) this morning.

I'll begin with a look at the highlights from the year and how we have strengthened our growth outlook year and how we have strengthened our growth outlook over the near and medium term. Mark will talk to operating and financial results in more detail, and we'll then finish with a look at the upcoming year and Q&A.

So let's

So let's

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So let's do that now. So turning to

So let's Slide [Audio Slide [Audio Slide [Audio Gap] then commissioned on schedule, better-than-expected drilling results and strong reservoir performance, we recorded a 73% increase in total production to 2.1 million barrels of oil of oil equivalent. Driving this was a 278% increase in Surat Basin production to 1.2 million barrels of oil equivalent or 7.2 petajoules.

With production outperforming high facility uptime and successful development and appraisal drilling, we booked a 19% increase in total 2P reserves to 134 million barrels of oil equivalent. Importantly note, we recorded a 21% increase in Surat Basin 2P Surat Basin 2P gas reserves to 739 petajoules. Make no mistake, this is a significant gas position, which will be developed and produced for decades to come.

If you haven't seen our ASX release of 14 July in relation to the reserves, it contains quite a bit of detail and is worth reviewing.

Higher production and continued focus on operating efficiency flowed through to our financial results, as you would expect. Sales revenue, up as you would expect. Sales revenue, up 28%; underlying EBITDA, up 51%; and operating cash flow, up 16% of strong outcomes. We are clearly on track to achieve our FY '22 earnings and cash flow targets to achieve our FY '22 earnings and cash flow targets up 16% of strong outcomes. We are clearly on track which contains some results I'm particularly proud of. In FY '20, we not only all our promises but overdeliver on many of them. As our work programs are rolling out and production is ramping up better than expected, we had confidence in increasing our (technical difficulty) and a and a and a 100% reserves replacement ratio in the (inaudible). The foundation is well truly in place for continuing growth. Today, Surat Basin gas production is above 40 terasorts per day and increasing towards initial nameplate capacity of 48 terajoules a day. The first expansion project is also progressing with all long lead items ordered for the 8 terajoules a day expansion at Roma North.

Turning now to Slide 4. Our results this year have been excellent, but to think we've achieved them been excellent, but to think we've achieved them been excellent, but to think we've achieved them against the backdrop of unprecedented volatility and uncertainty during the second half of the year is a credit to our staff and contractors, our partners and our communities. When COVID-19 took hold in March, we acted quickly and decisively, implementing a broad range of protocols and

procedures to

protect

our

people

and

our

operation.

Direct oilfield operating costs reduced by 7% to iron with underlying EBITDA up 51% to $53 million and operating cash flow up 16% to $52 million. Turning to Slide 13. I sets out our key financial metrics with trends generally in the right direction despite lower realized oil prices. We've focused the most (technical difficulty)

Slide 14 tells a very good story of our strengthening financial position. FY '20 was clearly a year of high capital spend for Senex as we successfully delivered our and gas development projects. Our debt facility was fully drawn to fund our work programs with our work programs with the bulk of activity completed during completed during the year. We saw us end the year with cash reserves of $80 million and net debt completed during of $80 million and net debt of $45 million. cash reserves of $45 million. programs, in particular, our ability to reduce the number of wells drilled, we now expect net debt to we now expect net debt to we now expect net debt to below $60 million this half rather than $90 million as previously guided towards.

With our Surat Basin program behind us, we're also expecting to be in a net expecting to be in a net expecting to be in a net FY '22. This is a great outcome and demonstrates the intrinsic value expecting to be in a net expecting to be in a net assets. assets. assets. to be catch praise in the current reporting season is resilience. For Senex, resilience is now clearly on display. Our transformation into a material East Coast producer has brought with revenue diversification across commodities, basins and pricing structures. Further, with greater fixed price gas in the sales mix, we are less exposed to oil prices, as demonstrated by our targeted cash flow breakeven with less than USD 15 a barrel in FY '21.

And then lastly, on this slide, as we pointed out previously, for the year ahead, we have a lot large portion of our oil large portion of our oil equivalent production hedged at an average price of AUD 90 a barrel.

Turning now to Slide 15, which summarizes cash movements for the year. No surprise to see, Surat Basin CapEx is the largest item, which we fully funded through operating cash flow and the debt facility. We also received $50 million for sale of the Roma North gas processing facility to Jemena. This effect a reimbursed our prior expenditure for construction of that facility.

Slide 16 steps through the reconciliations (technical difficulty)

Slide 19, which again sets hedged at an average price of AUD 90 a out our FY '21 guidance Basin CapEx is the largest item, facility. We also received $50 million This effect a reimbursed our prior expenditure for with a few assumptions noted. And it is worth

Slide mentioning that we assume an average realized price of $45 per barrel of barrel of oil equivalent across oil and gas in FY '21, which includes also the benefits of hedging and the mostly contracted Atlas gas position. And when comparing against consensus, position. And when comparing against consensus, position. And when comparing against consensus, for instance, I mean the oil price assumptions, mean the oil price assumptions, mean the oil price assumptions, in particular, (technical difficulty)

capital expenditure. We have curtailed discretionary expenditure and most spend for the Surat Basin program is obviously now behind us. We us. We have roughly $10 million to go for this financial year, that is

(technical difficulty) infrastructure and around 10 in the Cooper this year also. Once again, 60%-plus growth in production to 3.2 million to 3.6 million barrels of oil equivalent and 30%-plus growth in EBITDA to $65 million to $75 million, makes for over awarding year ahead.

Our growth outlook will be supported by a significant undeveloped 2P gas reserves (technical difficulty) from the 14th of July, as I said. And we saw major upgrades to reserves this year, thanks to outstanding execution of our Surat Basin and work programs, excellent drilling results and continued strong production performance. We have [Audio have Gap] Gap] in the broader Western Serone acreage above this. So a lot of running room ahead for us to expand production and really chase that low risk, high return growth. chase

So (inaudible) for expanding production, our

So (inaudible) for expanding production, our infrastructure platform is now in place and readily scale. and we can see this now on Slide 21. Surat see this now on Slide 21. Surat Basin gas production is currently increasing ahead of schedule with daily rates of over 40 terajoules a day. 48 terajoules a day was our initial target, and there's clearly much scope to go beyond this over time. Firstly, we time. Firstly, we time. Firstly, we plan to expand Roma North production by 8 terajoules a today, and I'll touch on that in a moment. We've also an additional 8 terajoules a day of installed capacity at Atlas production by 8 terajoules a today, and (technical difficulty). And then there are a number of other appraisal expansion opportunities under review, including in the broader Western Surat acreage. To including in the broader Western Surat acreage. To including in the broader Western Surat acreage. To including in the broader Western Surat acreage. To cater to this growth, our infrastructure is really scalable. With modular design relatively straightforward gas processing requirements and site footprint designed for expansion, we're well positioned to continue our production growth trajectory of (inaudible). And that infrastructure, I mean, we really have performed very (technical difficulty)

The first expansion is planned to be at Roma North with some details set out on Slide 22. This is a high low-cost and long-life investment, and it demonstrates the returns available to us from incremental investments now that our infrastructure platform is in place. The chart shows we reaches nameplate capacity at 16 terajoules per day back in March, which was well ahead of schedule. We've since debottleneck production to get us producing above 18 terajoules a day. The expansion will take terajoules a day. The expansion nameplate capacity of 24 terajoules a day. So material increases incrementally.

Planning has commenced, and Jemena has ordered all long lead items, including the compressor units themselves. And you can see from the fight on the slide that the facility was built with this in lined with footings already in place with the new trains.

As I've said previously, our FY '22 targets, we've presented today do not include the earnings and cash flow impact from this expansion.

Lastly, on Slide 23, our view on the East Coast gas market and expected tightness from 2023 remains unchanged, which is consistent with many market analysts. Senex is very well placed, indeed for the next 2 years and beyond (technical difficulty) '22, and from '23 on supply tightness is expected, we have a material uncontracted position at Atlas in particular.

To put this in context, applying $8 per gigajoule real to our Atlas 2p gas reserves, implies future real revenue of close to $2 billion from this project. It is obviously simplistic, and I'm not trying to oversimplify it, but it does serve as a reference point when talking about the intrinsic value of our acreage position.

I'll now close with a few key takeaways. Firstly, Slide 25, as one you may have seen from our investor briefing. I won't dwell it, but it does nicely depict the transformation of Senex, production growth, asset diversification and material earnings few key takeaways. Firstly, market.

And lastly, on Slide 26, we reiterate the key we reiterate the key we reiterate the key we reiterate the key we reiterate the key messages from this morning. we are a high free cash flow yielding business with $70 million to $90 flow yielding business with $70 million target in FY '22. We have an extensive natural gas reserves position with material uncontracted Atlas volumes in particular for a structurally tight East Coast market. We have a number of high-returning growth opportunities within our existing portfolio with the Roma North expansion now progressing. Our infrastructure platform is in place and is scalable to future appraisal and development activity. And lastly, we have a strong balance sheet, which we will be leveraging rapidly. With the net cash position expected by the end of FY '22, we are in great shape to capital management initiatives and continue pursuing our growth opportunities.

And on that note, I'll conclude the presentation and ask for the lines to be open to Q&A, please.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Thank if you do wish to ask the questions, please, Chris, the star then 1 on your telephone and wait for your name to be announced. If you wish to cancel your request, please press the star then if you are on the speaker phone, please Your first question is from James Byrne from Citi.

>>James Byrne - Citigroup Inc., Research Division

So first question just around uncontracted Atlas volume. I see that there's a revision to your gas price assumption that's affected your FY '22 cash flow part of that. And I'm sure I could work out how much of an impact it was from looking at your Brent oil deck in March compared to August. But if you price assumption that's affected your FY '22 cash could just help us out, like how much of a downgrade there is your expectations on that uncontracted gas price? Well, look, I mean, the ranges. So I mean the the the the way we did the guidance is in accordance with those ranges in accordance with the macro assumptions that we use. So considering the worst diversification of that portfolio, the oil-linked prices in Roma North, oil and gas and the Cooper and gas in the Surat -- gas in the Surat -- in Atlas is fairly difficult to actually break it down at easily for you, but is a material impact considering COVID-19 and the price and the impact on prices. I think it's for us to reiterate the cash flow where we are for FY '21 and specifically FY '22, notwithstanding those agradis a pretty good result, actually.

>>James Byrne - Citigroup Inc., Research Division

result, actually.

>>James Byrne - Citigroup Inc., Research Division

Yes, yes. So I mean, you and I have spoken in the past about the luxury you have in being able to try and time the market for marketing that gas to that list. But if you look at the landscape here, are you thinking the -- that's riskier proposition if there's any sort of policy that these more gas that's reserved for the gas that's reserved for the to LNG export or like an expectation that there's more LNG DQT that could keep gas?

>>Ian Davies - CEO

(technical difficulty) and now it's about of time thinking about. So let me make a couple of comments. Firstly, I mean, FY -- Pazali gas contracting all calendar year, so there's a slightly match. So calendar '21, we're basically fully contracted anyway. So it's a very soft year. And I think that's got a lot of press regardless because of, as you say, there's DQT issues to supply from LNG. And ironically, all this talk from manufacturers around no gas being available. It doesn't play out in the numbers. And V ACCC report actually is fairly helpful for all those. The press release let's so, I think it was fairly disingenuous in terms of prices coming down because they have come down very significantly. And I can tell you, short-term deals are very close to spot. So that softness is coming through. We precontracted a whole bunch of gas into a into calendar '21 and '22 anyway, as you can see. And with an expectation of the for onwards being a very tight position. And nothing has happened to the market that would lead me to a different view, which then brings me to, well, what could happen outside the market around regulation, shocked and disappointed if there was some sort of regulation that mandated some sort of price control, And I just do not see it happening for a whole range of reasons because, a, there's actually no shortage of gas which is losses have come down significantly.

And short-term spot or netback prices have nothing

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And short-term spot or netback prices have nothing

And short-term spot or netback prices have nothing to do with long-term risk-sharing in contracts. And

And short-term spot or netback prices have nothing people either to talk about long-term being, a year or 2, or indeed manufacturers or other users to be similarly disingenuous. I just don't think it's helpful for the debate. We certainly see 3, 4 years plus as being what you would call a longer term contract. In fact, we've put proposals into customers for far longer than that at fixed prices plus CPI. So -- and the ACCC has all this data. They are the arbiter of this information to all the agencies and the federal government in particular. And I'd say that the quality of gas that's around in terms of meeting supply, meeting the demand is entirely adequate. In fact, the capital expenditure that we're willing to put into the with our quite large reserves position, it also backs that up as well. So -- but we're quite confident of calendar 23 and beyond, which is exactly the investment thesis we've had for quite a while. Yes. Indeed, 1 that you're expecting, but I hope that helps you. No, indeed, indeed. So we're a bit over a month away for the new royalty regime kicking in. We've gone through day holder session. So you should -- I would have thought, have a pretty good handle on what that royalty regime is going to look like. Is there anything to worry about there? Or are you quite comfortable?

>>Ian Davies - CEO

No, we're actually pretty pleased with the royalty regime actually. And there were many hearings and all sorts of consultation that went on. And our view is that it's far simpler and easier to understand. And less -- far less subject to gaming through convoluted financing transactions from international majors.

>>James Byrne - Citigroup Inc., Research Division

Yes. Okay. Last one from me then. A question for Mark. thinking about FY '22 onwards, you'll be highly cash generative. You've got some CapEx [Audio Gap] shareholders. I just want to get a sense of how you think about balance sheet headroom relative to those opportunities? Like do you -- would you want those opportunities? Like do you -- would you want to keep the group free cash flow positive or less to keep the group free cash flow positive or less to keep the group free cash flow positive or less important? Is it a leverage ratio target of, say, to keep the group free cash flow positive or less less than 2x? Just want to get an understanding of how the (technical difficulty) whether the lenders have any constraints (technical difficulty) (technical difficulty)

in our current business, so across -- in particular, Roma North and Atlas. And so the lenders do get Roma North and Atlas. And further ahead, I think the things we will prioritize well, we have the flexibility for the low-risk opportunities, again that Ian mentioned earlier. And so those things are pretty close to home, and they're around our existing and therefore, they're not difficult to contemplate under the existing lending facilities.

So (technical difficulty) I think we've mentioned previously that the Roma North expansion (technical difficulty) that facility is not a constraint for the sort of low-risk expansions that are on the table for us in the (technical difficulty) can we the (technical difficulty) can we get to that point.

From a leverage point of view, again, we've mentioned that we pay down that facility under current projections by the end of (technical difficulty) covenant perspective or of the usual metrics you're looking at, we're in a very strong position pretty quickly.

>>James Byrne - Citigroup Inc., Research Division

Then what do you consider a constraint that you'll impose upon yourself effectively?

>>Mark McCabe - CFO

(technical difficulty) of expansion opportunities we're looking at are relative gas processing facilities, but they won't be significant investments either. So I don't really see any constraints from our existing facilities, including the facilities, including the shareholders. So we've talked previously about net debt to EBITD and back in March, we talked about that being less than 0.5. But that again is is not a figure that we're bumping up against anytime soon. So we look at those from our existing fields would our existing fields would meet a fresh look.

>>Ian Davies - CEO

Yes. Look, the running rate we have in our acreage position, position, James, is very large and we're very very large and we're very focused (technical difficulty) acquisition price associated with them. So that's the main focus. And certainly, as Mark said, the net debt to EBITDA (technical difficulty) for testing, but obviously had some moving parts to it that may or may be relevant when you have asset values that differ from balance sheet pretty substantially. And look, we'll be less than 1x this year, less than half 0.5x was the original [Audio Gap] have a strong balance sheet to and good relationships with our lenders. So we'll always be [Audio Gap]

Operator

Your next (technical difficulty)

A couple of questions, if I can. First one, I'm pretty sure I asked this to you this time last year, but we're kind of sitting in position as we were last year, where, I guess, if you look what you announced today, I'm pretty sure the entire equity market want to change their oil price deck just because you're using a different oil price (inaudible) and you're talking $20 million to $30 million for the year half free cash flow based on your new assumptions. I mean, even if you only use that for 5 years, that for 5 years, that's $100 million of extra MPV, everyone in the market should [Audio Gap] $2 million, future curves, above $50 in a Gap] $2 million, future curves, above $50 in a couple of years. Any more thoughts on actually couple of years. Any more thoughts on actually hedging out a lot more of your exposure and buying back stock? Or -- yes, I mean, I think it would be pretty hard to say any acquisition is going to stack up your own stock at the moment. Any thoughts on taking this into a bit more of the company's own hands and the mismatch between (technical difficulty) looking pretty frequently at what the market prices are pretty flat. There's no expected increase after the end of our current hedging position. So we haven't done anything at the moment, but we'll continue to look at that.

More broadly, (technical difficulty) we haven't taken any steps there. We're thinking about some of

More broadly, (technical difficulty) we haven't taken any steps there. We're thinking about some of those alternatives, but more focused on the incremental low-risk opportunities that are coming up and what James talked about earlier.

>>Ian Davies - CEO

Yes. And just to add to that, Mark, there is no [Audio Gap] in current production with our growth vis-à-vis some of our peers versus stock prices and market caps, and then we're out of whack. And clearly, that does give and capital structure, and up and what James talked about it's an ongoing conversation at the Board, the focus -- and look, it's been pretty hard work over the last 6 months or so with COVID. The crisis management we've come through taking costs out of the business, which is always pretty painful to set ourselves up now in a position of free cash flow positive under pre scenario. So it is a good position to be in. And our focus will now turn to, as I've said in the release, our core focus remains on cash generation, shareholder returns and low-risk or return growth. And I guess that kind or return growth. And I guess that kind of follows into the second question. I mean, really, the majority of these growth opportunities. There's already a decent chunk of some capital. And I mean, I guess, particularly where Jemena has got the infrastructure, you're swapping some Capex for OpEx. So I mean, it feels like all of these growth opportunities are pretty low upfront capital out there. And so we should be pretty rapidly accelerating to the point where the balance sheet necessitate decisions to be made about capital management?

>>Ian Davies - CEO

management?

>>Ian Davies - CEO

We've made a bit of a length in the last bit of the statement, (technical difficulty) look, the infrastructure upfront was a bit of a step out for us to make -- we just thought it was very important to have that (technical difficulty) he can then expand, expand, expand. And there's -- certainly, within our plans, if you look at the reserve base in the Western Surat, in particular, that's going to require additional infrastructure. And as I say, we've got a great relationship with Jemena. We've got an expansionary expand, expand, sort of agreement expand, expand, with them. Should they [Audio there's -- certainly, within our plans, if you look say, we've got a great with them. Should they [Audio we are very focused on exploiting the reserves base, which goes back a little to James' (technical difficulty) I demonstrated that we're happy to develop. And if the federal government is concerned with major developing assets, given to us there should be no concern about gas being produced for the domestic market because -- and that's proven in the existing places (technical difficulty) and in terms of capital management, it's obviously a conversation decision at Board level. And all these level. And all these things come (technical difficulty)

Operator

our next question is from Stuart Howe from Bell from Bell Potter Securities.

>>Stuart Howe - Bell Potter Securities Limited, Research Division

(technical difficulty) and the cash flow you're expecting and the shareholder return focus. But at what point do you start talking about things like a dividend policy and gearing targets? I mean, is it when you get -- is there get -- is there any catalyst? Is it when you get the 48 terajoules per day production rate? Or is it on a refinance to the facilities? Or how is the Board (technical difficulty) it's exactly the right question to ask, but just don't have a very satisfactory answer for you, except to say we are having those (technical difficulty) we've been very focused on actually delivering these results to get ourselves in this position. And now that we're in this position, it's a great position to be in where you've got growth options available to you, and you've got things to worry about, like dividend policy and dividend policy and leverage targets. So we're not ready to talk about yet, but I suspect it will be (technical difficulty)

And just (technical difficulty) And I just want to ask what -- does that assume you meet the midpoint of guidance or a point of guidance for those years? Or how does (technical difficulty) repeat your question again, so just trying to understand.

>>Stuart Howe - Bell Potter Securities Limited, Research Division

Just the contracted gas positions. And obviously, anything (technical difficulty) across that year hits the midpoint of your guidance (technical difficulty)

So we will produce capacity of the field, in line with what we have already said, and we will sell that gas.

The question is the uncontracted component. Do we sell them under the start of a short-, medium- or long-term contract? And clearly, our marketing team are continually working on getting that (technical difficulty) spot market. And there's obviously price implications for that.

Calendar '21, the impact on (technical difficulty) FY '22, it's more -- sorry, calendar 22, it's more, but still doesn't make a material difference with the strong contracts we have in place so very focused on helping our customers contracts we have in place so quality gas supply for coming years.

So -- And I should -- I should say (technical difficulty) just in the graph I have on Slide 23. Calendar '22, this -- from a customer perspective, there's a lot of contracts rolling off, and there's a lot of uncontracted volumes already in the in calendar '23. And we've got open conversations (technical difficulty) so having back to the regulatory point. It's ironic to me that Roma North -- the only reason we were able to get Romano off the ground was with a foundation (technical difficulty) customers about supporting that field and that capital program, and none of them wanted to (technical difficulty)

Operator

Your next question is from James Bullen from Canaccord.

>>James Byrne - Citigroup Inc., Research Division

Just, I guess, I'm looking at the Cooper oil business. Obviously, you've had some pretty material impairments there. It will be in decline this year impairments there. that fits into the portfolio at the moment, whether it could be more (technical difficulty) generate superior returns?

>>Ian Davies - CEO

Yes, it's a good question, James. So -- and look, I don't ask actually this question on our internal webcast last week, and my answer was really simple. Assets are always to sale, and you can't fall along with them. Because ultimately, we are here to drive value for our shareholders, not fall in love with of assets. (technical difficulty) And that's and it's clear that the cooperations have scale done and our production and our production growth, albeit high-quality and our team doesn't just demonstrate that a little bit also with the lack of infrastructure. So at low oil prices, these -- the non western flake fields are particularly challenged. The Western Flank is a fantastic asset. It's got fantastic running room in the cooperations have scale done and our production and our production growth, albeit high-quality and our team doesn't just demonstrate that a little bit also with the lack of infrastructure. So at low oil prices, these -- the non western flake fields are particularly challenged. The Western Flank is a fantastic asset. It's got fantastic running room in team does a then. Thanks, Jud. A really good result. Already a couple of my questions have been asked. But just wanted to get a bit of a feel where I can a across the Surat operations might look like going forward. You've given some really good helpful guidance to the '21 in particular. But just obviously, the CapEx is a bit lumpy with that major development program that's already done, and that impacts 21 a little bit. So just a bit of a feel for the longer-term outlook molding? Yes. So in the trotman I freights required. We can cover maintenance CapEx in the cooper and maintaining plateau in the Saint and sufficient wells to maintain the 48 terajoules a day is covered in the 20 to 30 years. On Slide 7 of the pack, which has that I 30. And it is really important to note the words that go with words that go with t h it. It

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