Update Report

State Gas Limited

Growth starts with the first PJ and that's imminent

State Gas Limited (ASX:GAS) is a junior energy producer and explorer with assets concentrated in the Bowen Basin, Queensland. Having secured some $7mn in equity financing, the company is well progressed in the construction phase of the Rolleston West CNG Project (RW-CNG), with production set to commence in December. First gas is always a critical event driver in demonstrating the commercial potential of the assets and providing a platform from which growth strategies can emanate. The company will be retunring to drilling in early 2024 aiming to provide additional production capacity to boost RW-CNG output. With a now more certain operating environment and exemption from price restrictions, the timing is ideal for new gas developments to progress. The company's assets are ideally located within a transmission pipeline network with adjacent production analogues translating to relatively low operating and commercial risk. The company holds a material net 2C contingent resource base of more than 500PJ and the strategy to convert resources into reserves and build production at scale is firmly under way.

Business model

State Gas is a junior gas company holding a suite of assets containing a significant 2C contingent resource base with a small-scale, initial gas project set to begin production in December. The resource lies in the gas-prolific Bowen Basin with accompanying infrastructure and production analogues. In the gas business, resources can be converted to reserves rapidly and we suggest there are material expansion opportunities in the portfolio with transformational potential. Having secured a recent round of equity financing the focus moves to first gas. Project start-up is materially important in demonstrating the commercial potential of the play and generating cash flow. Beneficially, State Gas holds its critical licences at 100% providing future financing options through partnering. The company's resource base and high working interests provide opportunity and leverage but progress is more likely to continue to be capital rather than opportunity constrained in the short-term.

Are we there yet? Rolleston West CNG start-up is close.

A successful capital raising through an equity placement and SPP provides GAS with the working capital to complete its CNG project and target first production in December. Rolleston West production can underpin a declaration of initial 2P reserves and support expansion and growth financing options. Critically, the company is on the cusp of first gas when progress on peer group projects has been somewhat glacial. Whilst the initial CSG project is small scale the path to growth begins with the first PJ and in that regard, GAS is somewhat ahead of the curve. Although small, RW-CSG can be considered as a quasi-commissioning for future, larger-scale developments, refining the well design and production-type curves whilst being somewhat self-funding. Importantly, production data and demonstration of commercial viability flows through to the portfolio with the re-rating potential as shown in **Exhibit 2**). The next 6-12 months could continue to deliver significant re-rating events for the company.

Risked valuation of $206m ($0.75/share)

Our per-share valuation sits at $0.75 purely on the dilutionary effects of the recent equity issue - the value of the gas resource remaining unchanged, if not somewhat conservative in a rising gas price market. Industry noise suggests, a recent east coast supply deal may have been struck at or near a $15-18/gj (anecdotal and **unconfirmed**) in a clear signal, gas is still required and is hard to source. Whilst the price, terms and volumes are unconfirmed, pricing around this benchmark would not surprise us a market observer. We remind that valuing assets in a pre-evaluation, pre-development phase is a subjective exercise, particularly considering financing and timing uncertainties. The resource opportunity for GAS is transformational and at 535PJ (2C), could be considered deliverable in an optimal timeframe. The commencement of production at the RW-CNG Project should begin to close the value gap. Further in-field activity to better define a greater economic case and convert resources into reserves can de-risk the entire portfolio. We assign a NAV of $206mn ($0.75/share) to GAS against a reference share price of $0.145/share. The time has never been better to progress and deliver gas projects.

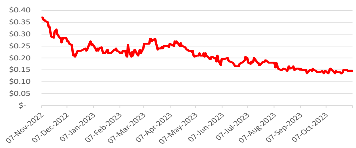
Energy

6 November 2023

Share Details

ASX code	GAS
Share price	$0.145
Market capitalisation	$40M
Shares on issue	274M
Est. net cash	$5M
Free float	~56%

Share Performance (12 months)



Upside Case

- Rapid progress to the limit of the CNG option – 1.7TJd into spot gas sales can deliver material revenue
- Upside to realised gas prices
- Accelerating gas commercialisation across the portfolio…the supply squeeze is getting tighter and the opportunity is now

Downside Case

- The CNG Project underperforms either through longer construction times or well issues
- Lower-than-expected gas prices compressing margins
- Further recourse to equity markets for financing maximising early-phase dilution

Management and Directors

Doug McAlpine	CEO
Richard Cottee	Executive Chair
Tony Bellas	Deputy Chair
Greg Baynton	Non-Executive Director
Philip St. Baker	Non-Executive Director
Jon Stretch	Non-Executive Director
Rob Towner	Non-Executive Director

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Counting Down To First Gas At Rolleston West - 10, 9, 8…

A successful share placement and SPP in the Sep quarter, raised ~$7mn after fees and costs and has underpinned material progress on the Rolleston West CNG Project (compressed natural gas). Construction is well advanced first gas and sales is being targeted for December.

First gas is always a key and transformational deliverable on the critical pathway from explorer to producer and although the CNG project is small, an initial phase of 0.5PJ (perhaps building to 1.0PJ) could deliver $5-10mn in headline revenue per annum.

The path to growth begins with the first PJ and Rolleston West is nearly there.

Exhibit 1: 3Q23 update – construction progressing and first gas is closing

Operations				
Rolleston West CNG Project	Over the quarter, GAS was able to significantly progress the construction of the CNG, with assembly of critical componenets completed and ready for shipment pending completion of civil works at the site, which are currently underway. As noted, *'slightly more'* preparatory work has been required with respect to the pipeline corridor and facilities pad, however, guidance indicates commissioning of the facilities in late November with first gas shipments in December. The gas will be sold to Mine Energy Solutions Pty Ltd under a MOU to facilitate the conversion of diesel vehicles to dual fuel (diesel and gas). GAS also has a MOU with Denison Gas to jointly devlop a CNG intake facility at the Rolleston Gas Plant. As part of the MOU, Dension will purchase up to 1.0TJd.			
…outlook	Production is expected to commence at the rate of around 0.5TJd, with revenue to contribute to the drilling of further wells from early 2024 to underpin the sales growth expansion to 1.5TJd. CNG production is expected to enable the certification of initial 2P reserves. These should be considered as bankable volumes that should support the financing of next phase growth – pipeline infrastructure.			
Resources (PJ)		**1C**	**2C**	**3C**
	PL 231 Reid's Dome (unconventional)	84	192	660
	PL 231 Reid's Dome (conventional)	1.7	3.6	7.9
	ATP 2062 Rolleston West (unconventional)	145	261	454
	ATP 2062 Rolleston West (conventional)	6	18	52
	ATP 2068 (unconventional)	25	43	68
	ATP 2069 (unconventional)	12	17	24
	Total	**274**	**534**	**1,266**
Exploration – other activities	No material activity was undertaken across the remainder of the portfolio through the period with the focus of works directed towards the CNG project.			
Corporate				
A capital raise was completed successfully	GAS raised some $6.9mn (after fees and costs) through an institutional share placement and share purchase plan at $0.15/share. As of 31-Oct the issued capital base is 274.1mn ordinary shares. The capital raised is largely being applied to the construction and commissioning of the CNG facilities.			
Financing position remains comfortable	With $2.3mn expended on the CSG project through the Sep quarter, the company holds $4.9mn in cash as at 30-Sep, expected to be sufficient to complete the construction and commissioning and underpin drilling at rolleston West scheduled to commence in 1Q24.			

Source: Company data; *RaaS commentary*

A quick recap

Successfully delivering Rolleston West is not only about the beginning the cashflow, but in a more holistic sense, proving the productive nature of the target Bandanna Formation coal measures in this location. Success provides a confident look-through to expansion.

The Bandanna coals are regionally pervasive with producing and pre-production analogues the geology is well known, the development style is well known, and expansion can be considered as relatively low-risk.

The longer-term operating plan for Rolleston West is to build production to ~2TJd which is likely to be the operating constraint for trucking and compression.

Under the Denison MOU, gas from the CNG Project (up to 1TJd) can be sold into the Brisbane spot market, which has recently been trading around $10/gj as a benchmark.

The Investment Case Remains Strong In A Rising Gas Price Market

The disconnect between the demand constrained gas market and share prices continues to be highlighted by rising contract prices with we believe, a recent east coast supply deal set at within a $15-18/gj range (anecdotal and **unconfirmed**)…a clear signal, gas is still required and is hard to source.

The company holds a portfolio of Bowen Basin CSG and conventional gas licences with ascribed contingent resources in excess of 500PJ, pointing to the transformational potential of the opportunity (refer **Exhibit 1**).

We believe the data is broadly indicative of the magnitude of gas opportunity inherent in the portfolio and provides the basis for comparative gas metrics which indicate the value-adding potential that is generated as the commercial case for gas becomes better defined.

We highlight that comparing reserves metrics on an absolute basis is inherently risky and doesn't specifically recognise what discounts the market may be applying at a corporate or financing as well as resource level, but we are comfortable the data can be viewed as broadly indicative of the potential unit uplift achievable from as resources are converted to reserves and the production growth opportunity crystalise.

We note the metric represented by our assigned NAV for gas brings the nominal unit EV around the level of COI, which is in a pre-development phase across it Mahalo Projects. We remain comfortable with our assigned NAV.

Exhibit 2: Reserves/resources metrics highlight the sector has cheap gas

Company	Ticker	Share price	Capitalisation	EV	2P	2C	EV/2P	EV/2(P+C)
		A$	A$mn	A$mn	PJ	PJ	A$/gj	A$/gj
Blue Energy	BLU	0.017	26	25	71	1,640	0.35	0.015
Comet Ridge	COI	0.155	167	167	195	354	0.86	0.30
Galilee Energy	GLL	0.055	20	18		3,102		<0.01
State Gas	GAS	0.145	41	36		534		0.07
State Gas (@ NAV)		**0.75**						**0.39**

Source: Company and ASX data; share prices are intra-day prices on 1-November

Exhibit 3: Financial Summary

STATE GAS		GAS			
YEAR END		June			
NAV	A$	$0.75			
SHARE PRICE	A$	$0.145	priced as of close		3-Nov
MARKET CAP	A$M	58			
ORDINARY SHARES	M	267			
OPTIONS & RIGHTS	M	5			

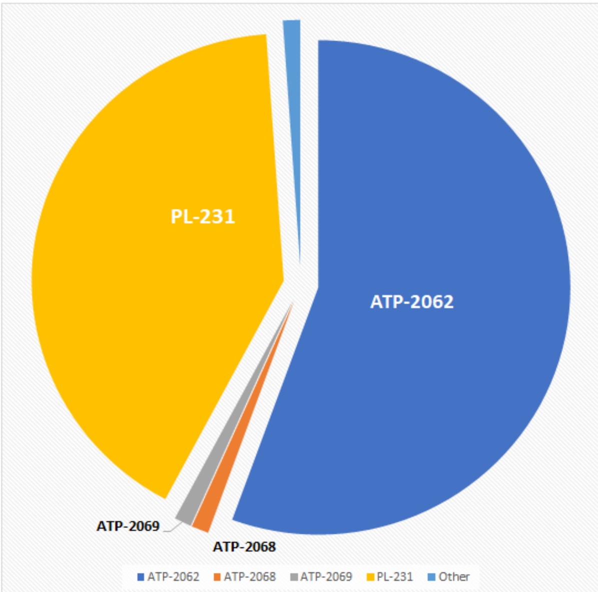
nm = not meaningful
na = not applicable

COMMODITY ASSUMPTIONS		FY22A	FY23A	FY24E	FY25E
Realised Gas Price	A$/gj			12.00	12.00
Exchange Rate					
Oil Price	US$/b				
LPG Price	A$/t				
Condensate Price	US$/b				
RATIO ANALYSIS		**FY22A**	**FY23A**	**FY24E**	**FY25E**
Shares Outstanding	M	200	225	274	274
EPS (pre sig items)	Acps	0.7	(0.6)	0.1	1.2
EPS (post sig items)	Acps				
PER (pre sig items)	x		na	nm	11.7x
OCFPS	Acps	(0.6)	(0.2)	0.5	1.6
CFR	x		na	29.2x	8.9x
DPS	Acps				
Dividend Yield	%				
BVPS	Acps	15.7	16.6	15.6	16.5
Price/Book	x	0.9x	0.9x	0.9x	0.9x
ROE	%	4%	-3%	1%	8%
ROA	%	4%	-3%	1%	7%
(Trailing) Debt/Cash	x				
Interest Cover	x				
Gross Profit/share	Acps		0.0	0.7	1.9
EBITDAX	A$M		0.0	2.4	5.6
EBITDAX Ratio	%		na	53%	53%
EARNINGS	**A$mn**	**FY22A**	**FY23A**	**FY24E**	**FY25E**
Revenue				4.5	10.5
Cost of sales				(2.5)	(5.4)
Gross Profit		**0.0**	**0.0**	**2.0**	**5.1**
Other revenue					
Other income		0.0	0.0	0.0	0.0
Exploration written off					
Finance costs		(0.0)	(0.1)	(0.0)	(0.0)
Impairment					
Other expenses		1.4	(1.1)	(1.7)	(1.7)
EBIT		1.3	(1.3)	0.3	3.4
Profit before tax		**1.3**	**(1.2)**	**0.3**	**3.4**
Taxes					
NPAT Reported		**1.3**	**(1.2)**	**0.3**	**3.4**
Underlying Adjustments					
NPAT Underlying		**1.3**	**(1.2)**	**0.3**	**3.4**
CASHFLOW	**A$mn**	**FY22A**	**FY23A**	**FY24E**	**FY25E**
Operational Cash Flow		**(1.2)**	**(0.4)**	**1.3**	**4.5**
Net Interest		0.00	0.02	0.02	0.03
Taxes Paid					
Other					
Net Operating Cashflow		**(1.2)**	**(0.4)**	**1.4**	**4.5**
Exploration		(6.2)	(6.2)	(1.5)	(4.0)
PP&E		(0.0)	(3.1)	(5.0)	0.0
Petroleum Assets					
Net Asset Sales/other					
Net Investing Cashflow		**(6.2)**	**(0.4)**	**1.4**	**4.5**
Dividends Paid					
Net Debt Drawdown					
Equity Issues/(Buyback)		7.5	7.0	8.0	0.0
Other					
Net Financing Cashflow		**7.5**	**6.9**	**7.9**	**0.0**
Net Change in Cash		**0.1**	**(2.8)**	**2.7**	**0.5**
BALANCE SHEET	**A$mn**	**FY22A**	**FY23A**	**FY24E**	**FY25E**
Cash & Equivalents		3.2	0.5	3.2	3.7
PP&E & Development		0.7	3.8	8.8	8.8
Exploration		29.4	36.1	37.2	40.7
Total Assets		**33.9**	**40.3**	**46.4**	**49.9**
Debt		0.0	0.0	1.0	2.0
Total Liabilities		**2.6**	**2.9**	**3.7**	**4.6**
Total Net Assets/Equity		**31.3**	**37.4**	**42.7**	**45.3**
Net Cash/(Debt)		3.2	0.5	2.2	1.7
Gearing ($d_n/(d_n+e)$)		na	na	na	na

PRODUCTION			FY22A	FY23A	FY24E	FY25E
Rougemont	Gas	TJ			300	700
TOTAL		**kboe**			50	117
Sales Volumes		**TJ**			300	700
Product Revenue		A$mn			4.5	10.5
Cash Costs		A$mn			(2.1)	(4.9)
Ave Price Realised		A$/gj			12.00	12.00
Cash Costs		A$/gj			(7.00)	(7.00)
Cash Margin					**53%**	**53%**

RESERVES & RESOURCES		as of 28/04/23		
Permit	**Project**	**1C**	**2C**	**3C**
ATP-2062	Rougemont	53	91	161
	Bandanna West	92	170	293
	'Conventional'	6	18	52
ATP-2068		25	43	68
ATP-2069		12	17	24
PL-231	Reid's Dome	84	192	660
	'Conventional'	2	4	8
TOTAL	PJ	274	535	1,266

EQUITY VALUATION					
Permit	**Project**	**WI**		**Acps**	
ATP-2062	Rougemont	100%	$52	$0.19	
	Bandanna West	100%	$57	$0.21	
	'Conventional'	100%	$3	$0.01	
ATP-2068		35%	$3	$0.01	
ATP-2069		35%	$3	$0.01	
PL-231	Reid's Dome	100%	$79	$0.29	
	'Conventional'	100%	$5	$0.02	
Other		100%	$5	$0.02	
			$206	**$0.75**	
Net Cash/(debt)			$5	$0.02	
Corporate costs			-$5	($0.02)	**P/NAV**
TOTAL			**$206**	**$0.75**	0.19
Cash Producing Assets					



Source: RaaS Advisory, company data

FINANCIAL SERVICES GUIDE

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of

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