

4 October 2023

State Gas

First gas milestone is around the corner.

State Gas Limited (ASX:GAS) is a junior energy producer and explorer with assets concentrated in the Bowen Basin, Queensland. The company has released an update on the pre-construction phase of its proposed Rolleston West CNG Project in the Bowen Basin. Significant progress has been made with regulatory approvals on environmental and cultural heritage now received for all construction and pipeline areas; and final site surveys completed. Importantly the components and modules of the CNG plant have been pre-commissioned and are expected to arrive on site in the week beginning 9-Oct, together with other requisite project materials. Civils works will commence shortly thereafter. Target date for first product is late Nov with a nominal 6-8 weeks construction and commissioning period remaining. It is worth reminding that production gas will be supplied from the Rougemont-2/3 pilot at a rate of up to 0.75TJd, noting the project has intrinsic growth potential which could fund modest appraisal and evaluation works, particularly converting contingent gas to bankable reserves with a reduced recourse to equity markets minimising dilution. Whilst sales volumes and revenue will be relatively small, we see the commencement of production as an important first step in the transition from explorer to producer – cashflow is cashflow and production can be considered as a quasi-commissioning blueprint for next phase opportunities. An additional well is likely to be drilled to expand output up to the facility capacity of 1.7TJd.

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 production project set to commence by end-2023. 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 with continuing strong demand from buyers and we believe, a recent east coast supply sales contract set at around \$15-16/gj (anecdotal). We suggest there are material expansion opportunities in the GAS portfolio with transformational potential. Equity financing is in place with first gas materially important in demonstrating the commercial potential and cash flow generation. 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.

Stealing a march in the run to first gas sales

We suggest, that in a sector where overall progress from gas discovery through reserves definition to production has been somewhat glacial, State Gas will be stealing a march (albeit modest) in the run to first gas sales. Whilst we understand there has been recent regulatory (market pricing) and approvals uncertainty, there has been material what appears to be, a reluctance from many sector participants to kick-start production and there is always an opportunity cost to not progressing development opportunities. We believe, the companies that attract the most investor interest are those prepared to work their asset bases. In a supportive commercial operating environment, mis-priced assets are invariably subject to corporate consolidation, however, there has been little in the way of recent east coast gas M&A activity other than Senex as an analogue and we note that company was (is) in production with scale and a growth outlook...it had worked its assets. Perhaps therein lies the key. The path to scale and growth begins with the first PJ.

Riskied valuation of \$191m (\$0.72/share)

Our valuation for GAS has stands at \$191mn (\$0.72/share) on inflationary pressures (rising costs), equity dilution and softer spot gas prices. We model an upside case to \$1.40/share, against a reference price of \$0.14/share. We caution that valuing assets in a pre-evaluation, pre-development phase is a subjective exercise, considering financing, timing, and development model uncertainties. The resource opportunity for GAS is transformational and at 535PJ (2C), we believe deliverable in an optimal timeframe. The commencement of production at the Rolleston West 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 value on a riskied gas case against a long-run gas price with a discretionary RaaS risk overlay to set a base-case valuation. The time has never been better to progress and deliver gas projects.

Share Details

ASX code	GAS
Share price (4 Oct)	\$0.14
Market capitalisation	\$37.3M
Shares on issue	266.7M
Net cash at 13-Aug-2023	\$5.0M
Free float	~56%

Share Price 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 spot 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-forecast spot gas prices compressing margins
- Further recourse to equity markets for financing maximising early-phase dilution

Catalysts

- Successful completion and commissioning of CNG Project as proof of concept and initiation of cashflow generation.
- Next phase drilling at Rolleston West to maximise CNG capacity
- Progress on pipeline options – planning for bigger things

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FINANCIAL SERVICES GUIDE

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