CANACCORD Genuity

Galilee Energy

Oil and Gas, Exploration and Production | Initiation of Coverage

Cracking the code in the Galilee

GLL-AU-ASX | Price A$0.60 | Market Cap A$122M

SPECULATIVE BUY

PRICE TARGET A$0.76

GLL's R3 pilot is exceeding expectation in the Galilee Basin. A successful result will be transformational for the company as it seeks to convert its 2,508PJ of 2C resource (100% GLL) into reserves and subsequently supply gas to the desperately short East Coast gas market.

There is no doubt that it has been a tortured path for the Glenaras gas project but a change in operator and more methodical/logical approach to pilot production has the development, in our view, on the cusp of proving its potential.

We initiate coverage with a SPEC BUY rating and $0.76ps target price (primarily DCF based). Our un-risked valuation is $2.20ps.

Doing things differently...
Close to $100mn has been spent on the Glenaras Permit with the majority of this spend conducted under AGL's operatorship. While some of this spend was perhaps thoughtless in hindsight there have been a huge number of lessons learnt which are now being applied to the current pilot, with the key changes being 1) focusing on a single isolated seam to prevent water ingress from sandstones; and 2) using high reliability electric submersible pumps.

...and getting different results
The two 500m lateral wells at the R3 pilot are currently generating 3,100bbl/d of water (4x greater than the R1 Pilot) with the fluid level currently 575m from surface. Based on the current de-watering rate we believe first gas to surface could occur in mid-September. As a reminder, these coals have flowed gas during previous pilots (0.1mnsccf/d) but due to pump failures this rate was never able to be sustained.

Targeting a maiden 2P reserve booking of 500PJ
Given the huge data set and consistent interaction with reserve auditors GLL are of the view that a 500PJ 2P reserve booking is likely even if only modest gas flow rates (0.25mnscf/d) are sustained.

Applying historic 2P transaction multiples (which are becoming increasingly relevant, in our view) to a 500PJ booking yields $925mn or $4.80ps (see figure 13).

Binding MOU with Jemena
Construction of Jemena's Northern Gas Pipeline is nearing completion and eyes are increasingly focused on its extension which, in our view, would increase security of supply for the development. GLL has a binding MOU with Jemena and work is already being undertaken in order to enter FEED during 2019.

Debt access for CSG developments is improving
ANZ's recent $150mn debt package for the development of SXY's Atlas and WSGP projects in the Surat Basin represented, to our knowledge, the first reserve based lending facility for coal seam gas

(CSG) in Australia. With a coupon of 6% and 7-year term this is a hugely positive step for the sector, in our view, particularly for small developers such as GLL.

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