

Date: 2 November 2017
Recommendation: BUY
Price Target: \$0.35

Triangle Energy (Global) Ltd (ASX:TEG): Quarterly Report Update

Company Information

Code	TEG.ASX
Last Price	A\$0.16
Shares on Issue	189.5m
Market Capitalisation	\$30.4m
Daily Volume	1.09m

Financial Summary

	FY17a	FY18e	FY19e	FY20e
Revenue (\$m)	16.8	20.7	22.1	37.7
Operating Costs(\$m)	(12.7)	(10.7)	(14.7)	(25.2)
EBITDA (\$m)	0.2	7.6	4.8	9.8
D&A (\$m)	(2.0)	0.0	(1.1)	(1.1)
EBIT (\$m)	(1.7)	7.6	4.8	8.6
Net Interest (\$m)	(0.2)	0.0	(1.4)	(1.1)
Profit Before Tax (\$m)	(3.5)	7.6	4.8	7.3
Income Tax (\$m)	(1.1)	(2.3)	(1.4)	(2.2)
Underlying NPAT (\$m)	(4.6)	5.3	3.4	5.1
Non-recurrent (\$m)	0.0	0.0	0.0	0.0
Reported NPAT (\$m)	(4.6)	5.3	3.4	5.1
EPS Reported (¢)	(0.03)	0.03	0.02	0.03
EPS growth (%)	n/a	n/a	-36%	50%
DPS (¢)	0.0	0.0	0.0	1.0
Cash (\$m)	2.2	3.1	6.4	10.5
Net debt (\$m)	(2.2)	(3.1)	(4.7)	(10.5)
Net debt / equity (%)	270%	(69%)	(59%)	(81%)
Interest Cover (x)	(11.2)	0.0	3.5	8.0
ROE (%)	na	118%	43%	39%
ROA (%)	na	14%	7%	9%
NTA per share (¢)	(0.01)	0.02	0.04	0.07
PE (x)	na	5.9	9.3	6.2
EV/EBITDA (x)	na	3.7	5.9	3.3

Share Price Performance



Analyst Details

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Summary Key Points

Cliff Head production report at 99,860 bbls for the quarter: TEG announced that for the September quarter Cliff Head produced 99,860 bbls of oil which resulted in oil sales of AU\$6.361m in revenue. Of this revenue, AU\$5.0m is attributable to TEG.

Cliff Head revitalisation is targeting 8mmbbls of resources: TEG has announced that it is working on near-term upside opportunities for the Cliff Head field. It believes these opportunities could add 8mmbbls to the resource base of Cliff Head.

A positive oil price environment: Our TEG valuation is based on a US\$50 Brent oil price and the Brent oil price is currently above US\$60 per barrel which is a level that the oil price has not achieved since mid-2015.

Testing of the Xanadu Oil confirms quality: The test results on the oil recovered from the Xanadu-1 well have shown it to be similar to the oil from the nearby Cliff Head field. Therefore it will be possible to treat the crude at the Arrowsmith plant without any major changes to the current process. The testing also confirmed the oil is a high-quality crude at 34° API. The crude will, therefore, attract a good price from refiners.

Xanadu appraisal program announced: The partners in the Xanadu discovery have also announced the appraisal plans for the next few months. The JV expects to complete the seismic early in the new year as well as the drilling of a side-track well to further test sands discovered in the Xanadu-1 well.

Our View

In our view, TEG has a lot of news flow to come over the next few months as the company tackles the Cliff Head infill program and the appraisal of Xanadu. TEG is also working on driving the costs of production down, and this may well create a positive "jaws" going forward of increasing stable oil prices and falling costs, which will lead to increased free cash flow. This free cash can then be reinvested into the Cliff Head and Xanadu creating further value for shareholders from Cliff Head and Xanadu.

Recommendation and Valuation

We maintain our **BUY** recommendation and a **\$0.35** price target. Our price target is slightly lower due to the drop in the GAS share price from \$0.35 to \$0.31 valuing TEG's GAS stake at \$14.8m. However, TEG at \$0.16 remains very undervalued when one takes the potential of Cliff Head resource upgrades and the potential of the Xanadu discovery into account.

Asset Valuation	Ownership %	Low Case		Base Case		High Case	
		AUD\$m	A\$/ps	AUD\$m	A\$/ps	AUD\$m	A\$/ps
Cliff Head	78.5%	26.9	0.14	49.7	0.25	73.8	0.38
Xanadu	30.0%	7.9	0.04	7.9	0.04	84.1	0.43
Total Operations NPV		34.7	0.18	57.6	0.29	157.9	0.80
State Gas (ASX:GAS)	47.8m shares	-	-	-	-	-	-
Cash		3.0	0.02	3.0	0.02	3.0	0.02
Corp		-6.0	-0.03	-6.0	-0.03	-6.0	-0.03
Total NPV		46.6	0.24	69.4	0.35	169.7	0.86

Key Points

Cliff Head production report at 99,860 bbls for the quarter

TEG announced that for the September quarter Cliff Head produced 99,860 bbls of oil which resulted in oil sales of AU\$6.361m in revenue. Of this revenue, AU\$5.0m is attributable to TEG. TEG control 78.75% of the Cliff Head field which is not reflected in the quarterly report due to accounting rules as TEG control 50% of the 42.5% that was acquired from Roc in a subsidiary. TEG's combined shareholding of Cliff Head is therefore 78.5%, and thus 78.5% of revenue, costs and profit are attributable to TEG.

TEG has not released the difference between oil produced and oil sold, i.e. held in inventory but we have calculated that TEG received ~US\$49(AU\$63) per barrel. TEG has stated that the costs of production are circa ~US\$30(AU\$39) which means that TEG earned ~\$2m in cash before non-recurring maintenance costs. If these numbers are annualised, and we assume the production profile is maintained for the rest of the FY, then TEG will comfortably achieve our operational free cash flow forecast of \$5.2m before capex and exploration expenses.

Cliff Head revitalisation is targeting 8mmbls of resources

TEG has announced that it is working on near-term upside opportunities for the Cliff Head field. It believes these opportunities could add 8mmbbls to the resource base of Cliff Head. We reviewed the announcements that AWE made when it was appraising and developing the Cliff Head field, and it was originally assumed Cliff Head had 80 to 100mmbbls oil in place. The ultimate development plan for the field targeted 18mmbbls recoverable and considering most oil fields are estimated to conservatively produce between 20% and 30% of originally oil in place depending on the reservoir quality; we can assume that the original oil place for the current development was between 50 and 75mmbbls.

In the current lower price oil environment and high costs of acquiring new production mature oil fields are increasingly seen as an important source of new relatively inexpensive barrels. The historically high oil prices did make the economics of hunting elephants in technically challenging environments such as ultra-deepwater locations or in the Arctic viable. US shale oil has also suffered from reduced well economics due to the need to continually drill and complete wells to maintain the production profile which results in ongoing capex expenditure. The high capex demands make the breakeven price for shale wells much higher than conventional wells. To improve returns on invested capital, E&P companies have turned their attention to extracting more oil from existing fields with the help of new technology. It is possible to increase recovery of oil in place from below 30% to above 50% and even potentially as high as 80% by applying new techniques. In our view, Cliff Heads current percentage recovery of the oil in place is on the low side, and there is field upside by drilling infill wells and re-completing existing wells without even having to resort to more complex technology solutions such as gas lift, chemicals additives or microbial solutions.

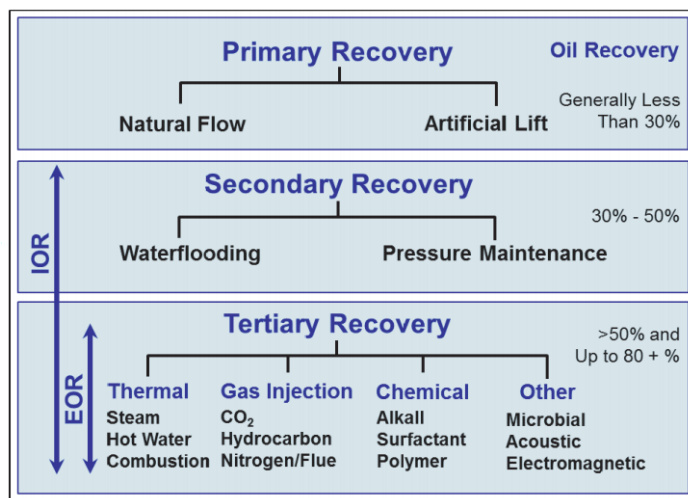


Figure 1: Technologies for optimising mature fields

Source: Gaffney, Cline

There are many case studies where this approach has been successful. We show the production profile from the Weyburn Field in Canada where the use of a combination of new vertical wells, new horizontal wells and the use of CO₂ injection has tripled production and added substantial reserves to the field.

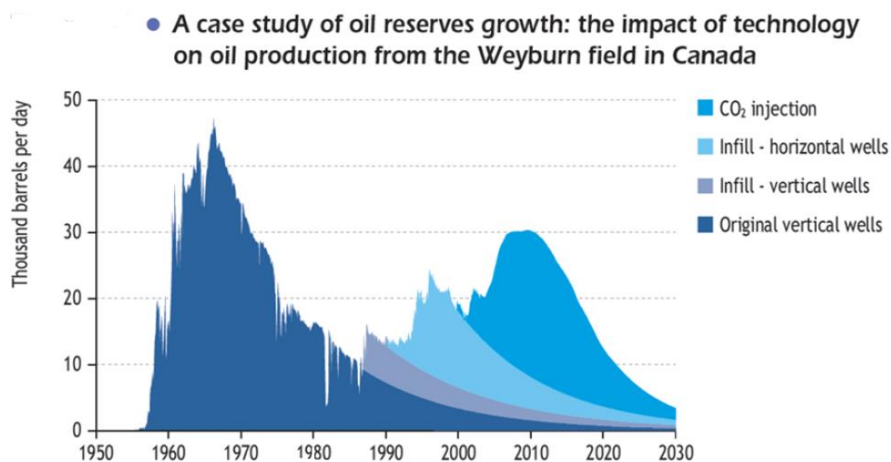


Figure 2: Real world case study of the impact of technology on unlocking more oil production from a mature oil field.

Source: PTRC

As far as we can determine the previous owners of the Cliff Head have done studies on secondary recovery, but no actual work has been done in the field. It is also important to note that horizontal drilling techniques have improved dramatically in the last several years and new geo-steering technologies have allowed for drillers to target parts of the reservoir with far more accuracy than has been possible in the past. This lack of the application of secondary recovery techniques to the Cliff Head field gives TEG a lot of potential to add additional production for a relatively modest capital outlay.

A positive oil price environment

Our TEG valuation is based on a US\$50 Brent oil price and the Brent oil price is currently above US\$60 per barrel which is a level that the oil price has not achieved since mid-2015. This is due to OPEC cuts affecting the supply-demand dynamic, and finally, demand is beginning to outpace supply. There is no doubt that oil prices have recovered but we are not changing our price target as we believe it is important to be cautious as this price level may not be maintained if US shale supply ramps up as more supply becomes profitable. We do however believe that oil is unlikely to retreat to the lows we have experienced over the last 2 years and believe that a valuation based on a US\$50 per barrel is a valuation point that offers downside protection.

Testing of the Xanadu Oil confirms quality

The test results on the oil recovered from the Xanadu-1 well have shown it to be similar to the oil from the nearby Cliff Head field. Therefore it will be possible to treat the crude at the Arrowsmith plant without any major changes to the current process. The testing also confirmed the oil is a high-quality crude at 34° API. The crude will, therefore, attract a good price from refiners.

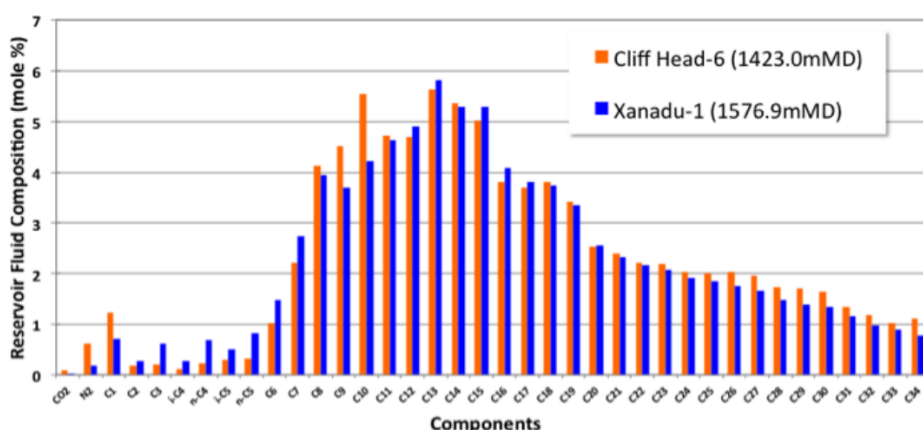


Figure 3: Chemical comparison between Xanadu and Cliff Head oil

Source: TEG

Xanadu appraisal program announced

The partners in the Xanadu discovery have also announced the appraisal plans for the next few months. There is an ongoing program evaluating the results from the Xanadu-1 well with a focus on understanding the discovery and the overall potential of the structure. The current seismic coverage is sparse therefore the JV is planning to acquire more seismic so that a greater understanding of the structure as well as identifying targets for the expected follow-on appraisal drilling program. The JV expects to complete the seismic early in the new year as well as the drilling of a side-track well to further test sands discovered in the Xanadu-1 well.

Our View

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Asset Valuation	Ownership %	Low Case		Base Case		High Case	
		AUD\$m	A\$/ps	AUD\$m	A\$/ps	AUD\$m	A\$/ps
Cliff Head	78.5%	26.9	0.14	49.7	0.25	73.8	0.38
Xanadu	30.0%	7.9	0.04	7.9	0.04	84.1	0.43
Total Operations NPV		34.7	0.18	57.6	0.29	157.9	0.80
		-	-				
State Gas (ASX:GAS)	47.8m shares	14.8	0.08	14.8	0.08	14.8	0.08
Cash		3.0	0.02	3.0	0.02	3.0	0.02
Corp		-6.0	-0.03	-6.0	-0.03	-6.0	-0.03
Total NPV		46.6	0.24	69.4	0.35	169.7	0.86

Triangle Energy (Global) Limited



Shares on Issue (m)	196.4	Date	2/11/2017
Fully Diluted (m)	204.4	Share Price:	\$0.16/share
Market Capitalisation (\$m)	A\$30.45	Valuation:	\$0.35/share
Fiscal Year End	June	Price Target:	\$0.35/share

Equity Valuation, Return		A\$m	A\$/share
Cliff Head	78%	49.71	0.24
Xanadu	30%	7.88	0.04
Total Operations NPV		57.60	0.28
State Gas (ASX:GAS)		14.82	0.07
Cash		3.00	0.01
Corporate Costs		(6.00)	(0.03)
Total		69.42	0.35
Capital Return			120.9%

Financial Ratios

Key Metrics	FY17a	FY18e	FY19e	FY20e
Revenue Growth	0%	24%	7%	71%
EBIT Growth (Adj)	(569%)	(536%)	(36%)	79%
NPAT Growth (Adj)	(178%)	(215%)	(36%)	50%
EBITDA Margin (Adj)	1.3%	36.5%	21.8%	25.9%
EBIT Margin (Adj)	(10%)	37%	22%	23%
EPS - Reported	(0.03)	0.03	0.02	0.03
EPS - Fully Diluted Adjusted	(0.03)	0.03	0.02	0.03
EPS Growth	(171%)	(185%)	(36%)	50%
Effective Tax Rate	32%	(30%)	(30%)	(30%)

Earnings Multiples (A\$)

	FY17a	FY18e	FY19e	FY20e
EPS	(0.03)	0.03	0.02	0.03
EPS Growth	(171%)	(185%)	(36%)	50%
P/E	NM	5.93	9.31	6.19
EV/EBIT	(16.27)	3.74	5.86	3.28
EV/EBITDA	126.69	3.74	5.86	2.89

Balance Sheet

	FY17a	FY18e	FY19e	FY20e
Gearing (Debt/Equity)	0%	0%	111%	32%
Gearing (Net Debt/Equity)	270%	(69%)	(59%)	(81%)
EBIT Interest Cover	-11.2x	0.0x	3.5x	8.0x
ROE	569%	118%	43%	39%
ROA	(15%)	14%	7%	9%
Book Value per share	(0.01)	0.00	0.00	0.00

Dividends

	FY17a	FY18e	FY19e	FY20e
Dividend Per Share	0.0¢	0.0¢	0.0¢	0.0¢
Dividend Yield	0.0%	0.0%	0.0%	0.0%
Dividend Franking	0.0¢	0.0¢	0.0¢	0.0¢
Dividend Payout Ratio	0.0%	0.0%	0.0%	0.0%

Income Statement (\$m)	FY17a	FY18e	FY19e	FY20e
Sales Revenue	16.78	20.73	22.11	37.75
Operating Costs	(12.69)	(10.66)	(14.66)	(25.22)
Other	1.11	0.00	0.00	0.00
EBITDA	0.22	7.57	4.82	9.77
Depreciation & Amort.	(1.96)	0.00	(1.14)	(1.14)
EBIT	(1.74)	7.57	4.82	8.63
Finance costs	(0.16)	0.00	(1.38)	(1.08)
Profit Before Tax	(3.49)	7.57	4.82	7.25
Income Tax Expense	(1.10)	(2.27)	(1.45)	(2.18)
Underlying NPAT	(4.59)	5.30	3.38	5.08
Non-recurrent items	0.00	0.00	0.00	0.00
Reported NPAT	(4.59)	5.30	3.38	5.08

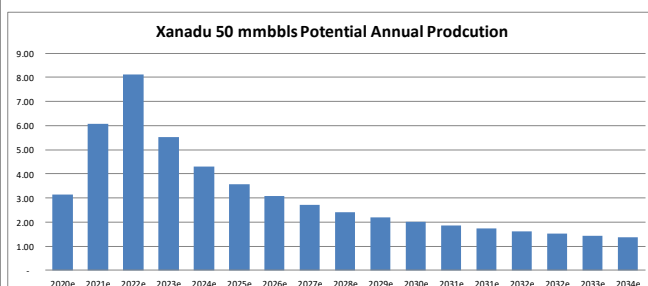
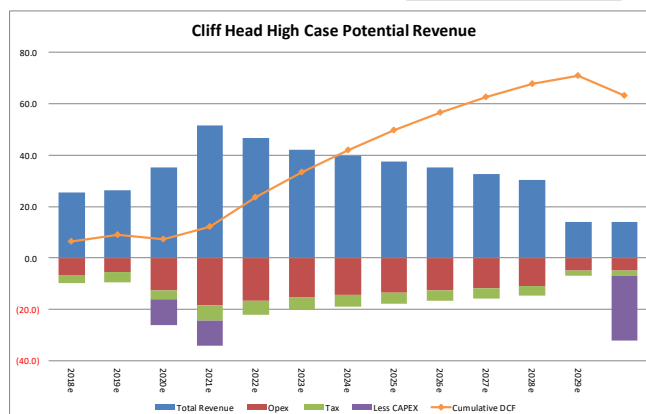
Cash Flow Statement (US\$m)	FY17a	FY18e	FY19e	FY20e
Net operating cash flow	2.23	7.57	4.82	9.77
Net interest	(0.16)	0.00	(0.87)	(1.38)
Tax Paid	(1.10)	(2.27)	(1.45)	(2.18)
Operating Cash Flow	(1.03)	5.30	2.51	6.22
Capital Expenditure	(0.34)	(2.00)	(7.20)	(4.20)
Exploration & Eval	(0.33)	(3.00)	0.00	0.00
Investing Cash Flow	(2.77)	(5.00)	(7.20)	(4.20)
Free Cash Flow	(1.70)	1.80	4.88	3.28
Equity Raised	0.28	1.50	0.00	0.00
Inc/(Dec) in Borrowings	0.00	0.00	8.70	4.20
Dividends Paid	0.00	0.00	0.00	0.00
Financing Cash Flow	1.73	1.50	9.57	1.27
Effects of Exchange Rates	0.05	0.00	0.00	0.00
Movement in Net Cash	(1.70)	1.80	4.88	3.28

Balance Sheet (US\$m)	FY17a	FY18e	FY19e	FY20e
Cash	2.18	3.08	6.41	10.49
Other	0.20	0.00	0.00	0.00
Current Assets	4.29	5.11	8.72	15.75
PP&E	13.40	17.99	25.19	28.25
Other Assets	11.38	11.38	11.38	11.38
Total Assets	31.17	36.58	47.38	57.47
Current Liabilities	6.38	6.49	8.70	12.05
Borrowings	0.00	(0.00)	5.22	6.88
Other Liabilities	25.60	25.60	25.60	25.60
Total Liabilities	31.97	32.09	39.52	44.53
Total Shareholders' Equity	(0.81)	4.49	7.87	12.94

Directors

Directors	Shareholders	
Edward Farrell - Non Executive Chairman	T7 Global Berhad	9.85%
Robert Towner - Managing Director/CEO	HSBC Custody Nom (Aus)	7.68%
Darren Bromley - Exec Director/CFO/Co Sec	Ucan Nominees	5.47%
	Jarrad Street Corp Pty Ltd	5.34%
	Sochrastem Sas	4.36%

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Recommendation Definitions

SPECULATIVE BUY – Potential 10% or more outperformance, high risk

BUY – Potential 10% or more outperformance

HOLD – Potential 10% underperformance to 10% over performance

SELL – Potential 10% or more underperformance

Period: During the forthcoming 12 months, at any time during that period and not necessarily just at the end of those 12 months.

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