# Triangle Energy (Global) Ltd

**TEG.AX**

A research platform of MST Financial

6 November 2023

# UK new ventures.

## NEED TO KNOW

- Award of acreage in the UK North Sea with an existing gas field broadens TEG' portfolio and is value accretive. This is a significant win in an attractive energy short jurisdiction.
- TEG's market value is backed by cash and receivables and implies negligible value for the North Perth Basin, which is a domestic industry hot spot.
- Three wells are planned in CY2024 targeting prospective gas resources of 200 Bcf and 2.5 MMbbls of oil (net to TEG), with timing subject to rig availability.

**TEG had been awarded acreage in the UK North Sea in partnership with local specialist Athena Exploration.** This contains discovered gas resources with TEG's net share ~260 Bcf, to which we assign a positive initial value.

**In the Perth Basin exploration drilling is planned in CY 2024,** with long-lead items already procured to enable immediate commencement of drilling once a rig becomes available. TEG plan two wells initially with a third subject to results.

**TEG's financial position is robust** with cash ($7M), investments ($3.5M) and future receivables of up to~$15M in cash and royalty from Pilot Energy (ASX:PGY) in consideration for purchase of TEG's interest in the Cliff Head field.

## Investment Thesis

**TEG's low share price offers** investors upside in the event of positive exploration results. TEG's CY2024 exploration wells target ~200 Bcf of gas and 2.5MMbbls of oil, net to TEG. Capex is predominantly free carried by farm-in partners Talon Energy Ltd and New Zealand Oil & Gas Ltd.

**Gas shortages loom in WA, prices are robust, and the industry is consolidating**. TEG is the smallest remaining Perth Basin gas explorer and offers leverage to industry drivers in addition to bespoke exploration activity.

**TEG is not idle in building the business** and the UK acreage award is significant, and valuable due to the size of the discovered resource, and the award in a contested asset market.

## Valuation A$0.054 (Previously $0.034)

MST's valuation is a sum-of parts underpinned by cash, receivables from sale of Cliff Head assets, investment in ASX-listed State Gas, future royalty income, and a risked value for exploration. The un-risked upside is A$0.143 in the event of exploration success. Our risked and un-risked valuations are increased due to an initial assessment of the value of the UK acreage.

## Risks

Key risks are drilling results tom the 2024 exploration wells, commodity prices which are volatile, potential Governmental intervention into the fossil fuel industry, and agitation from climate activists. There is risk to the Cliff Head sale proceeds if PGY cannot complete the deal to acquire TEG's interest in the Cliff Head joint venture.

**Equities Research Australia**

**Energy**

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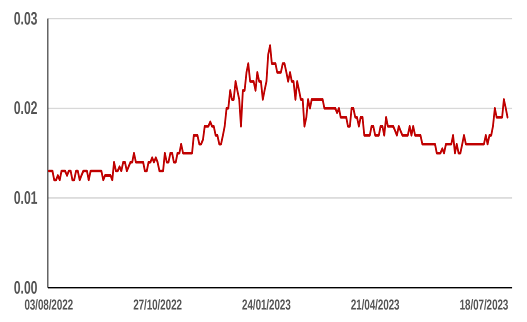
Triangle Energy is an oil and gas explorer with operations in the Perth Basin, W.A. Its assets have strategic importance in this re-energised region for gas. New ventures outside Australia are in the UK, with a half share of the Cragganmore gas field, and the Philippines.
https://www.triangleenergy.com.au

| | |
|---|---|
| Valuation | **A$0.054** (Prev. $0.034) |
| Current price | **A$0.018** |
| Market cap | **A$25M** |
| Cash | **A$7M (September 30, 2023)** |

### Upcoming Catalysts and News-flow

| Period | |
|---|---|
| 1Q CY24 | Completion of CHJV sale to Pilot Energy |
| 1H 2024 | Two-three exploration wells in Perth Basin |
| CY 2024 | Third exploration well in the Perth Basin |

### Share Price (A$)



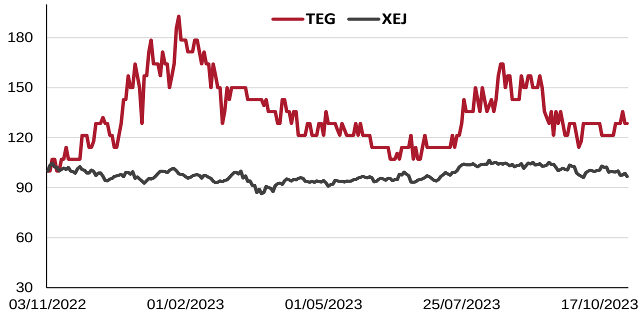

*Source: FactSet, MST Access*

Report prepared by MST Access, a registered business name of MST Financial services ABN 617 475 180 AFSL 500 557

## Figure 1: Financial Summary

| Market Data | Y/e Jun 30 | | Lo | Hi |
|---|---|---|---|---|
| Share price | A$ | 0.018 | | |
| 52 week range | A$ | | 0.012 | 0.027 |
| Shares on issue | M | 1376.0 | | |
| Other capital | M | 0.0 | | |
| Market Cap | A$M | 25 | | |
| Net Cash | A$M | 7 | | |
| Debt | A$M | 0 | | |
| Enterprise Value | A$M | 18 | | |
| SoP Valuation | A$ | 0.054 | | |

**Chart**




| Valuation | 2022A | 2023A | 2024E | 2025E | 2026E |
|---|---|---|---|---|---|
| EPS U/L | -0.007 | 0.006 | -0.004 | -0.003 | -0.003 |
| PE | n/m | n/m | -4.6 | -6.2 | -6.2 |
| DPS | 0 | 0 | 0 | 0 | 0 |
| Yield-% | 0 | 0 | 0 | 0 | 0 |
| EBITDAX/sh | 0.004 | 0.007 | -0.004 | -0.003 | 0.000 |
| EV/EBITDAX | - | - | -3.3 | -4.4 | n/m |
| EV/(2P+2C)-$/GJ | 29.61 | | | | |
| Revenue/Pje | n/m | n/m | n/m | n/m | n/m |
| EBITDAX/Sales-% | - | | | | |
| Net Debt | 1.9 | 6.6 | -10.0 | -8.6 | 0.0 |
| ND/(ND+E) | 20% | 37% | 448% | -47% | n/m |

| Assumptions | 2022A | 2023A | 2024E | 2025E | 2026E |
|---|---|---|---|---|---|
| A$/USD | 0.70 | 0.70 | 0.70 | 0.70 | 0.70 |
| Brent-US$/bbl | 91.69 | 95.69 | 75.64 | 79.15 | 83.15 |
| Nat Gas Px-A$/GJ | 0.00 | 2.00 | 0.00 | 0.00 | 0.00 |

| Production | 2022A | 2023A | 2024E | 2025E | 2026E |
|---|---|---|---|---|---|
| Gas- PJ | 0 | 0.0 | 0.00 | 0.00 | 0.00 |
| Liquids (MMbbl) | 0 | 0.2 | 0.08 | 0.00 | 0.00 |
| PJe | 0 | 0.5 | 0.45 | 0.00 | 0.00 |
| MMboe | 0 | 0.2 | 0.08 | 0.00 | 0.00 |

| Reserves (Mmbc | 1P | 2P | 3P | 2C | Prosp |
|---|---|---|---|---|---|
| Cliuff Head | | 0.6 | 0 | | |
| Booth | | | | 0 | 23 |
| Mountain Bridge | | | | 0 | 5 |
| Becos | | | | 0 | 3 |
| Total | 0 | 0.6 | 0 | 0 | 31 |

| SoP Valuation | U'risked | Risk | Risked |
|---|---|---|---|
| | A$M | Basis | A$M |
| Cliff Head sale recievable | 8 | 100% | 8 |
| State Gas shares | 3 | Market | 3 |
| Future CCS royalty | 5 | DCF | 3 |
| Gas Expn | 125 | 20% | 25 |
| Oil Expn | 25 | 20% | 5 |
| UK | 32 | Peer | 32 |
| Corporate | -8 | | -8 |
| **Total E&P assets** | **190** | | **67** |
| Cash | 7 | | 7 |
| Debt | 0 | | 0 |
| **Total equity value** | **197** | | **74** |
| Shares FD | 1376 | | 1376 |
| **Fully diluted Per share** | **0.143** | | **0.054** |

| P & L | 2022A | 2023A | 2024E | 2025E | 2026E |
|---|---|---|---|---|---|
| Gas Revenue | 0.0 | -0.5 | 0.0 | 0.0 | 0.0 |
| Oil Revenue | 0.0 | 12.3 | 7.3 | 0.0 | 0.0 |
| **Total Revenue** | **20.6** | **29.9** | **7.3** | **0.0** | **0.0** |
| Field costs | -9.5 | -9.0 | -8.6 | 0.0 | 0.0 |
| G&A | -6.0 | -11.5 | -4.0 | -4.0 | -4.0 |
| **EBITDAX** | **5.1** | **9.4** | **-5.3** | **-4.0** | **-4.0** |
| Exploration exp. | -11.7 | 0.0 | 0.0 | 0.0 | 0.0 |
| Depreciation | -0.2 | -0.4 | 0.0 | 0.0 | 0.0 |
| EBIT u/l | -6.8 | 9.0 | -5.3 | -4.0 | -4.0 |
| Finance charges | -0.3 | -0.2 | 0.0 | 0.0 | 0.0 |
| Tax | 0.6 | 0.0 | 0.0 | 0.0 | 0.0 |
| **NPAT-underlying** | **-7.7** | **8.8** | **-5.3** | **-4.0** | **-4.0** |
| Significant items | 0.0 | -7.5 | 0.0 | 0.0 | 0.0 |
| **Reported NPAT** | -7.7 | 1.3 | -5.3 | -4.0 | -4.0 |
| Share cout at EOP (M) | 747 | 1376 | 1376 | 1376 | 1376 |

| Cash flow | 2022A | 2023A | 2024E | 2025E | 2026E |
|---|---|---|---|---|---|
| Receipts | 21.1 | 13.8 | 7.3 | 0.0 | 0.0 |
| Payments -suppliers | -15.6 | -19.5 | -12.6 | -4.0 | -4.0 |
| Payments for E&A | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Interest & other | 0.5 | 0.1 | 0.0 | 0.0 | 0.0 |
| Net cash from ops. | 6.0 | -5.6 | -5.3 | -4.0 | -4.0 |
| Exp & Dev capex | -4.8 | -6.6 | -3.4 | -1.0 | -1.0 |
| Acquisitions | 1.0 | -0.6 | 0.0 | 0.0 | 0.0 |
| Sale of assets/ other | 0.0 | 9.6 | 7.5 | 4.0 | 0.0 |
| **Net investing** | -3.8 | 2.4 | 4.1 | 3.0 | -1.0 |
| Equity issuance | 11.3 | 0.0 | 0.0 | 0.0 | 0.0 |
| Debt movement | -3.9 | 0.0 | 0.0 | 0.0 | 0.0 |
| Other | 3.6 | 0.0 | 0.0 | 0.0 | 0.0 |
| Net cash Financing | 11.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Increase in cash | 13.2 | -3.0 | -1.2 | -1.0 | -5.0 |

| Balance Sheet | 2022A | 2023A | 2024E | 2025E | 2026E |
|---|---|---|---|---|---|
| Cash | 13.9 | 10.8 | 9.6 | 8.6 | 3.6 |
| Rcvbls / Inventory | 1.1 | 2.4 | 1.5 | 1.5 | 1.5 |
| P, P & E | 0.7 | 0.0 | 0.0 | 0.0 | 0.0 |
| Exploration & eval | 10.3 | 3.0 | 6.0 | 6.0 | 6.0 |
| other | 8.3 | 12.6 | 13.0 | 14.0 | 15.0 |
| **Total Assets** | **34.4** | **28.8** | **30.1** | **30.1** | **26.1** |
| Payables | 7.5 | 3.6 | 3.6 | 3.6 | 3.6 |
| Debt / Contracts | 15.8 | 17.4 | -0.4 | 0.0 | 0.0 |
| Other | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Total liabilities | 23.3 | 21.1 | 3.2 | 3.6 | 3.6 |
| Total equity | 11.1 | 7.7 | 26.8 | 26.4 | 22.4 |

*Source: MST Access*

# Compelling risk-reward upside

The TEG market value is little more than the value of cash ($7m), shares in State Gas ($3.5M), and receivables of up to $15M from Pilot Energy (ASX: PGY) for the sale of TEG's interest in the Cliff Head Joint Venture (CHJV). The residual value of prospective North Perth Bains licenses, which are planned to be drilled in CY 2024 is negligible, offering investors substantial leverage to positive exploration outcomes.

The Perth Basin is well located for gas exploration, with abundant gas production infrastructure already in place, and a tight WA gas market. Industry consolidation has taken place, with high prices being paid for gas assets at various stages of exploration or development. Valuations for discovered gas provide indicative upside to TEG in the event of drilling success and are refreshed in the valuation section.

TEG is not idle in building the asset base. It has initiated new opportunities in the UK and the Philippines. These countries (and others) are encouraging oil and gas investment. Australia is not.

## UK gas field award: This is a significant event.

- Awarded 5 blocks in the North Sea, in a 50/50 joint venture with UK-based with Athena Exploration.
- The blocks contain the Cragganmore gas field, with 527 Bcf of 2C contingent gas resource (gross).

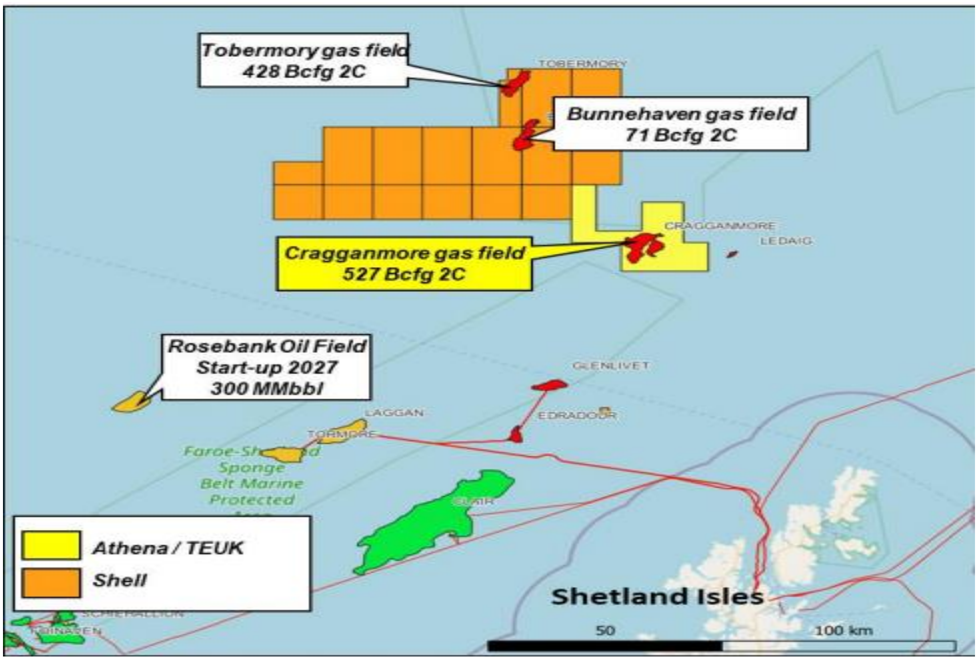
In January 2023, TEG made applications with four separate partner groups for acreage being gazetted in the UK's 33rd offshore license round. The offshore UK is an area where TEG's management have considerable previous experience and expertise. It's a known prolific hydrocarbon province but entered a period of decline years ago due to low energy prices and Government policy. That all changed with Ukraine, and the UK Government is now trying to boost its domestic industry. The 33rd round offered 258 blocks in the North Sea, the largest offering in 8 years.

The industry response was strong. The North Sea Transition Authority (NSTA) managing the process received 115 applications from 76 companies. Notably, industry majors that deserted the region long ago have returned, with Shell, Equinor and TotalEnergies the biggest recipients of new awards.

On November 3, TEG announced the successful result for one of its partner groups, a joint venture with private UK company Athena Exploration. The JV has been awarded 5 blocks in the North Sea north-west of the Shetland islands. Refer to Figure 2. The block contains the "Cragganmore" gas field, which is defined by three wells, two of which found gas. The location is close to 16 blocks newly awarded to Shell and could lead to some form of future co-development to enhance economics.

The JV will undertake further discussions with the NSTA to confirm the work program prior to finalising the award. It is expected that the work program will comprise of 3D seismic and studies for the first stage of the license.

**Figure 2: UK North Sea acreage location**




*Source: Triangle Energy. ASX release November 3, 2023*

## Perth Basin activity recap: free-carried for ~$20M and three wells

- Prospective resources of 200 Bcf (Net, best estimate) in three high-grade gas targets and 2.5 MMbbls (net) of oil in L7 & EP437.
- Free carried expenditure up to $19.2M on three wells in L7 and EP438, in CY2024, with TEG's residual capex exposure <$3M.
- Next steps are selection of well locations and rig selection with drilling planned in 1H CY2024.

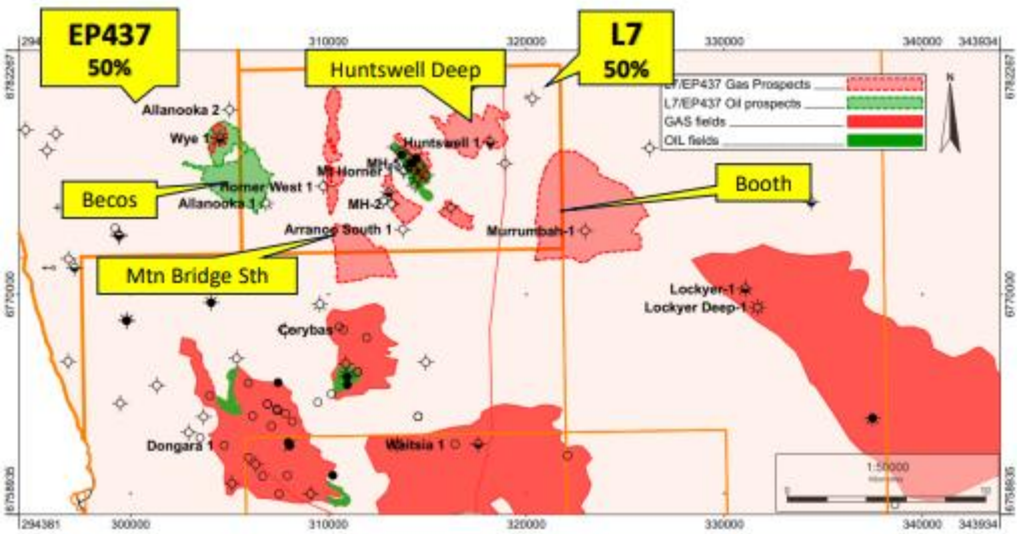
TEG has a 50% working interest in licenses L7 and EP437 in the northern portion of the Perth Basin.

Knowledge gained from successful exploration in adjacent acreage has high graded the Perth Basin. In 2022, TEG acquired the Bookara 3D seismic survey covering most of the L7 and EP437 licence areas. Interpretation has identified several high-quality oil and gas prospects for drilling. Interpretation of the seismic data is continuing and has enhanced the prospects for oil accumulations in shallow parts of the L7 license.

Farm-out transactions in late 2022 and early 2023, to Talon Energy (ASX: TPD) and New Zealand Oil & Gas (ASX: NZO) underpin three planned exploration wells in 2024, with TEG funded by partners through ~$20M of expenditure. Drilling targets expose TEG to ~200 Bcf of gas, and 2.5 MMbbls of oil, net to TEG, in the success case. After these farm-outs, TEG retains a 50% working interest in L7 and EP437 and is the designated operator.

Planning is advanced for drilling activity in 1H CY2024. Orders have been placed for long-lead items such as casing and well-heads, to enable operations to begin as soon as a rig becomes available.

**Figure 3: TEG license areas and adjacent acreage, with key gas prospects & discoveries.**




*Source: Triangle Energy*

## Drilling planned in 2024 for one or two gas wells.

The interpretation of the Bookara 3D seismic data acquired over permits L7 and EP437 in 2022 has progressed and has generated a portfolio of leads and prospects for future drilling. The "top 3" are listed in Figure 4, from which the JV will select one, with a second contingent on results from the first. It is likely that the Booth prospect will be drilled first. Booth has a 2U gross prospective resource of 279 Bcf. TEG's net interest for 50% is 140 Bcf.

**Figure 4: Prospective Gas Resources, net to TEG's 50% w.i. (Bcf)**

| Gas prospects | Low | Best | High |
|---|---|---|---|
| Booth | 57 | 140 | 270 |
| Huntsw ell Deep | 12 | 27 | 44 |
| Mountain Bridge South | 15 | 31 | 57 |
| **Gas- Bcf** | **84** | **198** | **371** |

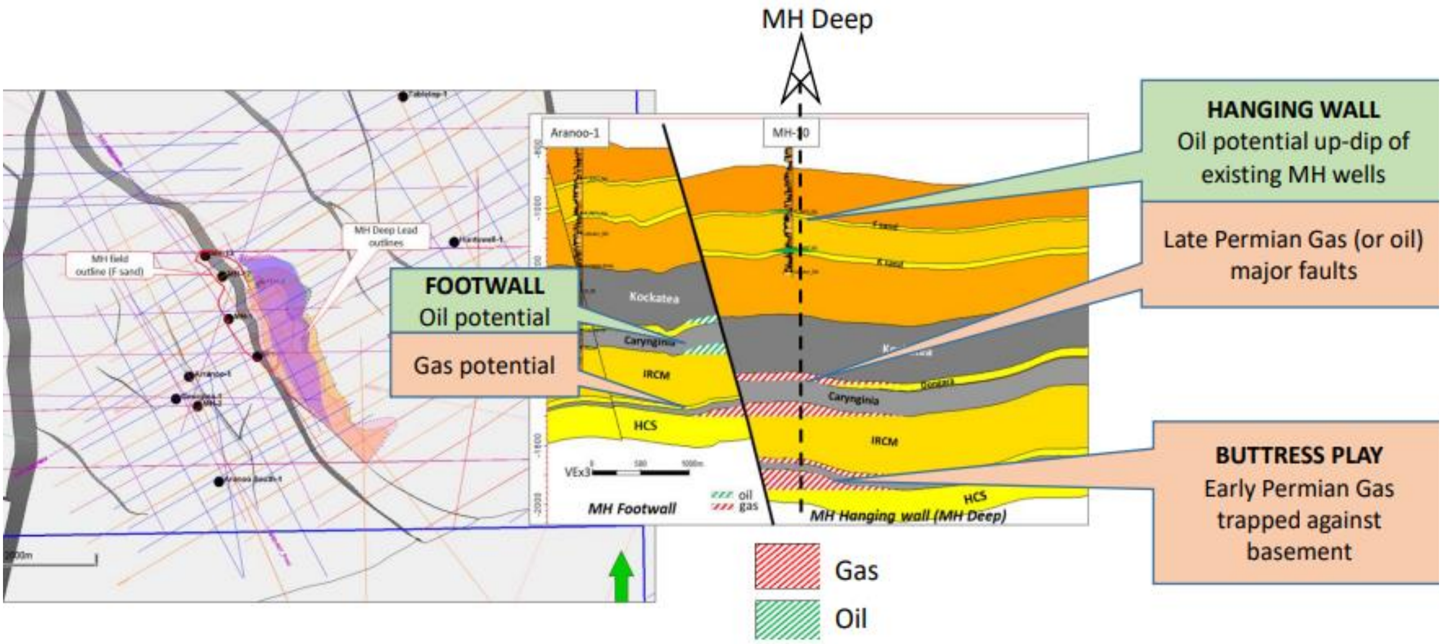
*Source: Triangle Energy*

### Oil drilling: The "Becos"well

There is oil potential in L7, evidenced by historical Mt Horner production and oil shows in numerous exploration wells. Oil targets range from low-risk Mt Horner field attic wells, lower Jurassic exploration, and moderate risk Dongara formation, to higher risk, deeper Permian reservoirs of the Kingia, Irwin River coals and High Cliff Sandstones. The Dongara targets are analogous to oil fields to the south, at Hovea, Eremia and Jingemia. A key objective of the Bookara seismic survey was to better define the Permian section.

The JV plan to drill the Becos prospect which is interpreted as having a 5 MMbbl prospective resource (gross), with TEG net share 2.5 MMbbls.

**Figure 5: L7 and EP437 Oil and gas geological models.**




*Source: Triangle Energy: Investor presentation, October 2022*

### Commercial considerations: rising prices, existing infrastructure, onshore location

The North Perth Basin and TEG's licenses are ideally located for commercial gas projects, due to numerous factors as follows:

- The gas market is tightening, prices are rising and large shortfalls loom from 2028, according to the AEMO Gas Statement of Opportunity published in December 2022.
- Large fields in the north of the state are in decline and what remains is committed to the LNG export trade.
- Other Perth Bains discoveries are targeting LNG exports, mine site power generation, CNG and Ammonia production, which variously achieve high prices in end-markets. These alternative markets for sizeable gas discoveries limits the amount of new supply available to enter the domestic market.
- There are existing gas production facilities and pipelines in the vicinity offering routes to market. Many of these facilities have spare capacity, which if accessed would reduce expenditures on green-field processing plants.
- Liquids, if discovered, could be processed at Arrowsmith, and the export route TEG devised via Geraldton could be utilised.
- The onshore location is well serviced logistically, by roads, power, water, labour and nearby townships.

Compared to multi-billion-dollar projects proposed offshore in the north of WA, the onshore Perth basin location allows for relatively fast, scale-able development as evidenced by other companies that have made discoveries in the Perth Basin.

# Valuation: Bas case A$0.054 (prev. $0.034)

## Assumptions and methodology

We value TEG based on a sum-part basis. Refer to figure 6.

Key assumptions are:

- Cash $7M at September 30, 2023
- Value of shares in ASX-listed State Gas Ltd ~$3,5M
- We assume the $7.5M is received from Pilot Energy in 1Q CY2024, on consummation of the sale of TEG's share of Cliff Head. Our base case does not risk these payments. There is risk that PGY cannot complete this deal, for various reasons, but we are unable to assess this risk at this time.
- Value for North Perth Basin exploration is $30M based on a risked peer-related valuation of the resource potential. As a secondary measure, the value of TEG's free carried farm-in, as measured by expenditure by incoming partners, is $20.5M as a minimum. Since the farm-in transaction there has been M&A activity in the area, and TEG's on-going evaluation of the Bookara 3D seismic data with has upgraded drilling targets, theoretically increasing acreage value.
- The un-risked upside in the event of success in the North Perth Basin program and including value for the UK contingent gas resource is A$0.143.
- The potential CCS royalty stream is up to $7.5M in total over ~15 years, in the event that Pilot Energy develop a carbon capture project at Cliff Head. There is no certainty this project proceeds even if regulatory agencies issue the necessary declarations, accordingly we risk a DCF of the royalty income at 50% in our base case.
- The UK asset license have been assigned an initial value based on a very limited sample of peer companies, notably Hartshead Resources Ltd (ASX: HHR), and others listed on the LSE. We believe this is reasonable for now but we note a very range in resource valuations for small exploration companies listed on the LSE of AIM.

**Figure 6: Sum-of-part Valuation**

| Asset Value (A$M) | Unrisked | | Risked | Comments |
|---|---|---|---|---|
| | | Risked @ | | |
| State Gas investment | 3 | | 3 | GAS market value |
| PGY Receivable | 7.5 | | 7.5 | June 30, 2023 |
| 2U: Booth, Mountain Bridge | 125 | 20% | 25 | 167 2U |
| 2U: Becos | 25 | 20% | 5 | 5 MMbbls oil |
| UK North Sea | 32 | 100% | 32 | Market peer HHR |
| Future CCS Royalty | 5 | 50% | 3 | $7.5M DCF, from 2026 |
| Corporate costs | -8 | | -8 | |
| Total E&P assets | 190 | | 67 | |
| Cash | 7 | | 7 | Sept 30, 2023 |
| Total equity value | 197 | | 74 | |
| Shares on issue | 1376 | | 1376 | |
| **Fully diluted Per share** | **0.143** | | **0.054** | |

*Source: MST Access*

## Perth Basin Peer group: & latest data to inform value.

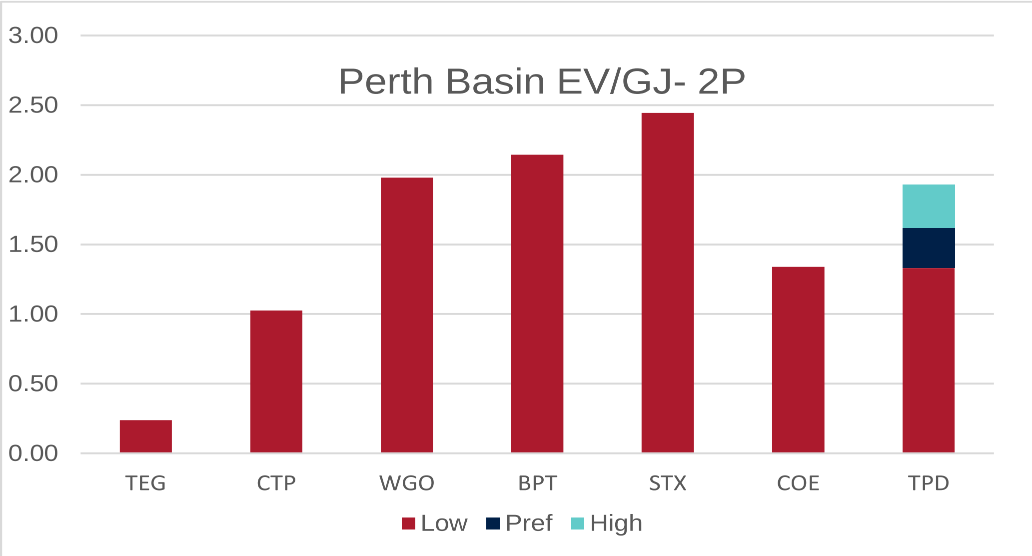
ASX-listed peers with assets in the Perth Basin provide a guide to the equity value of gas reserves and resources, which are at various stages of development. We view these as a secondary reference, and are shown in Figure 7 for completeness, and to demonstrate where TEG's valuation may rise to, in the event of exploration success. Currently, these peer companies have proven reserves and are approaching a production phase, and these command a higher value that undrilled prospects.

- Strike Energy (ASX: STX) has 2P reserves of 371PJ and 2C resources of 305PJ. The market EV/(2P) is A$2.44/GJ and EV/(2P+2C) is A$1.34/GJ.

- At the time of its acquisition, Warrego Energy (ASX: WGO) market EV/(2P+2C) was A$1.98/GJ.
- Talon Energy (ASX: TPD) which is subject to a Scheme of arrangement by STX, is trading on EV/2P of $4.96/GJ, and EV/(2P+2C) of A$0.26, a very low figure attributable to a very large contingent resource in Mongolia.

On 30 October 2023, TPD preleased to the ASX a “Scheme Booklet” to support the proposed Scheme of Arrangement with Strike Energy. The booklet contains an independent valuation of the Talon assets and expert geological report including a DCF valuation of Talon’ interest in the Walyering gas field, which commenced production this September. The valuation documents “low”, “preferred” and “high” estimates for TPD’s 1P, 2P and 3P Walyering gas reserve. These equate to A$1.33/GJ for 1P (the low case), $1.61/GJ for 2P (the preferred case) and $1.92/GJ for 3P which is the high case.

**Figure 7: Secondary checks: Perth Basin peer companies.**




*Source: MST Access*

## UK peers: sensible analogues are scarce.

There are not many peer companies listed on the LSE which we think offer valid comparison. Those we have reviewed, trade on very wide-ranging resource multiples, from A$0.05 to A%1.76/Mcf, for EV/(2P+2C). Reserves disclosures for those we have researched, is not as detailed as ASX-listed entities, with 2P reserves and contingent resources rolled into a single figure.

Most UK companies of similar size to TEG are private and there is no public disclosure of reserves and resources or other financial information.

- Of relevance, is ASX-listed HHR which is trading on an EV /(2P+2C) of ~A$0.24/GJ for gas reserves and resources in the Southern North Sea.

## Risks to share price and valuation.

- Exploration is a key risk because our investment case is built around expectations for success from the North Perth Basin drilling program. Other companies operating in the area have enjoyed high levels of success, but there have been dry-holes and un-expected outcomes along the way to serve as a reminder that exploration outcomes are not certain.
- In the event of exploration success, appraisal drilling, and development will l follow, and funds need to be secured. TEG's market value may not support capital formation, and providers of debt to fossil fuel developers are hard to locate.
- Gas prices in WA while strengthening, are subject to local forces of supply and demand, and are volatile. In the event of gas discoveries, gas customers would need to be secured.
- Societal pressure on the gas industry shows no obvious signs of relenting.
- There is risk that Pilot Energy cannot consummate its purchase of TEG's interest in the CHJV. If so, there are three negative outcomes. First, the cash consideration of $7.5M, and future royalty income of $7.5M would be forgone. Second, TEG would retain its working interest in the CHJV, and would be responsible for the fields ongoing operation and future abandonment liability. Third, Pilot Energy may lack the funding to participate in the JV's ongoing plans to convert the CHJV to a carbon storage facility.
- Regulatory risk is rising. Recent Federal Government intervention, and subsequent implementation of price caps and "Industry Code of Conduct" increase the risk of interference into the gas market.

# Methodology & Disclosures

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