



WGO: December 2020 quarter report

Sentiment Indicator : neutral

Produced by Ramsay, Gordon (Royal Bank of Canada - Sydney Branch) on Monday, January 25, 2021, 01:03 AM ET

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Warrego Energy Ltd | WGO AU | Outperform, Speculative Risk | Current price A\$0.22 | Price Target A\$0.35

December 2020 quarter report

West Erregulla Project Development

The Ensign 970 rig has now moved to the WE-4 location after WE-3 encountered over-pressured section above the main target zone and was suspended. After WE-5, it will drill the WE-3 (re-entry) or WE-5 appraisal wells, depending on the well sequence. Warrego has confirmed again that further gas sales are not required to reach a West Erregulla FID, as the Alcoa 155 PJ long-term GSA underpins the Phase 1 80 TJ/d project development case. The JV is now targeting Phase 1 FID within 1H 2021 (subject to drilling, testing, and evaluation of the WE-4 well) and first gas sales in 2H 2022. Any future agreement to proceed to a Phase 2 development is subject to market and feasibility study results, and presumably additional gas sales contracts. APA's commitment to building the 580km Northern Goldfields interconnect pipeline with only 25% contracted capacity highlights strong potential for additional Perth Basin gas sales as the lowest-cost source of new gas supply into the gold fields region.

Spanish Assets

Tesorillo Project (WGO 80%) continues to work through drilling and permitting approvals from government agencies. The company anticipates open regulatory approvals in 1H 2021 and permitting in 2021. The JV is considering various strategic options to unlock shareholder value from this asset. We assume this would involve a sale to a locally recognised entity.

EI Romeral (WGO 50.1%, subject to approval of transfer) transaction remains subject to Andalucian Regional Administration approval. Completion of the transaction is anticipated to occur on 28 February 2021.

Financial

Cash at 31 December was \$33.7m. Warrego spent \$7.3m on West Erregulla exploration over the December 2020 quarter, following a \$5.6m spend in the September quarter. We estimate gross capex for two new West Erregulla appraisal wells at ~A\$50m (WGO net \$25m), assuming no cost over runs. Warrego administration and corporate overheads are ~A\$1m per quarter. Project financing for Phase 1 construction is to be undertaken on a coordinated JV basis.

RBC Fundamental View

Warrego provides a leveraged, early-stage investment opportunity into the emerging onshore Perth Basin deep gas play. We see strong resource upside at West Erregulla with the Alcoa gas sales contract to underwrite future field development. Gas-processing agreement with AGIG facilitates mid-stream development. We believe Warrego is undervalued on a DCF basis, resource potential, and relative to its joint venture partner. We rate Warrego Outperform, Speculative Risk.

Company Name	Exchange	Ticker	Rating	Risk Qualifier	Price Target	Currency	Price	Price Date
Warrego Energy Limited	Australian SE	WGO AU	Outperform	Speculative Risk	0.35	Australian Dollar	0.22	25 Jan 2021 01:48:09 ET

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