



WGO - 3QFY21 Report

Sentiment Indicator : neutral

Produced by Ramsay, Gordon (Royal Bank of Canada - Sydney Branch) on Tuesday, April 20, 2021, 20:56 PM ET

Disseminated on Tuesday, April 20, 2021, 21:47 PM ET

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

3Q FY21 quarter report

Funding and Forward Activity

Cash at 31 March was \$23.98m. Importantly, Warrego has confirmed it is sufficiently funded to meet its forecast cash calls under the JV budget for the WE-4 well (almost complete) and upcoming WE-5 well.

Warrego spent \$8.56m on West Erregulla exploration and evaluation over the March quarter. The bulk of this expenditure was related to the drilling of the WE-4 appraisal well, which spudded in January 2021. Importantly, the drilling time and cost of WE-4 has substantially improved over the WE-2 and WE-3 wells. The WE-4 well has been cased and completed as a future producer and the Ensign 970 drilling rig is now being moved to the nearby WE-5 location. A testing unit is also now being moved to the WE-4 site to conduct a flow testing program starting in early May. We are expecting this program to deliver good flow results based on our assessment of the WE-4 data.

Warrego is in advanced discussions with a number of domestic and international banks for up to a \$75m limited recourse project syndicated debt financing facility for its 50% share of the Phase 1 West Erregulla development.

West Erregulla Project Development (WGO 50%)

Warrego's 155 PJ long-term (10 year) GSA with Alcoa that underpins the Phase 1 80 TJ/d West Erregulla project development will utilise almost 70% of the processing capacity of the gas plant. Warrego has therefore entered into a balancing agreement with partner Strike Energy, whereby it will effectively purchase gas from Strike to enable Warrego to overlift more than its 50% share of the field volumes to meet its sales commitments to Alcoa. This will be undertaken at a price below the Warrego contracted gas sales price.

The Australian Gas Infrastructure Group (AGIG) remains the preferred supplier of gas processing services utilising the proposed gas processing facility. AGIG is finalising the supplemental FEED study to address the revised 80 TJ/d gas plant scope. At the same time, the West Erregulla JV is finalising its own FEED work for the gas gathering system and upstream facilities. Netherland Sewel & Associates (NSA) will be preparing an independent reserves assessment for the JV to integrate the results of the WE-4 well result into its reservoir modelling. We expect this to deliver additional 1P reserve booking in support of the Alcoa GSA.

We forecast West Erregulla Phase 1 FID in 2H 2021 and first gas sales in 1H 2023.

North Perth Basin, STP-EPA-0127 (WGO 100%)

Warrego is undertaking native title negotiations and is seeking to obtain the exploration permit for this large onshore block. Analysis of gravity data has identified potential for fault bounded traps that could be favorable for hydrocarbon capture located adjacent to an interpreted hydrocarbon source kitchen, however, we note this is a separate Sub Basin (Coolcalalaya) located around 130km north of West Erregulla gas field.

Spanish Assets

El Romeral (WGO owns 50.1% of the operator, subject to approval of transfer)

During the March quarter, the transaction was completed after receiving formal approval from the Andalusian Regional Administration. This integrated gas production and power station in southern Spain is being run by Warrego's UK team which plans to increase gas production and run the El Romeral power plant at nameplate capacity.

Tesorillo Project (WGO 85% and operator)

Warrego's UK team continues to work through drilling and permitting approvals from government agencies. The company continues to anticipate open regulatory approvals in 1H 2021 and permitting in 2021.

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	20 Apr 2021 23:55:05 ET

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