

Otto Energy Ltd

21:20 24 Mar 2019

Otto Energy retains speculative buy recommendation from PhillipCapital

Otto Energy (ASX:OEL) recently started work on build-out facilities to bring its Lightning Well into production in the Gulf Coast program in Matagorda County, Texas.

With the Lightning discovery well having been perforated and a flow test undertaken, results show that the well will flow strongly with a condensate yield substantially exceeding Otto's pre-drill estimates.

Following is an extract from PhillipCapital's research report on Otto:

Otto Energy (OEL) will shortly commence production from its second successful discovery in the US Gulf of Mexico - Lightning, onshore Texas.

We estimate this will approximately double production and reduce risk through diversification of production.

In addition, OEL has an exciting low-risk exploration program underway with reputable JV partner Hilcorp with a further five wells to be drilled this year.

Finally, another high impact target could be drilled next year in Alaska.

What has changed?

The share price has pulled back due to the high impact Winx exploration well in Alaska proving to be uncommercial, and the smaller target Don Julio 2 well in Texas also unsuccessful.

However, data from the production test at the Lightning Texas discovery was significantly better than expected.

We model a potential 100 Bcf gas reserve and 4 million barrels of oil condensate (20.7 million barrels of oil equivalent; 5.9 mboe for OEL's 28.5% NRI share).

Valuation

We have removed Winx & the Alaskan western blocks from our valuation (-2.7 cents per share).

We have now incorporated Lightning in our forecasts for the first time (valuation 1.6 cents, previously 0.8 cents, both 60% risked).

Our Sum of the Parts valuation is reduced from A\$195 million (7.7 cents per share) to A\$149 million (5.8 cps).

However, with an active exploration program and re-rating potential as

Price: A\$0.058

Market Cap: A\$142.71M

1 Year Share Price Graph



Share Information

Code: OEL

Listing: ASX

52 week High Low
A\$0.08 A\$0.03

Sector: Energy

Website: www.ottoenergy.com

Company Synopsis:

Otto Energy Ltd (ASX:OEL) is a focused on conventional oil plays in proven petroleum provinces.

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increased production and cash flow de-risk the company, we apply a 20% premium to our valuation.

Our price target is \$0.07 (previously \$0.09 per share). We reiterate our "Speculative Buy" recommendation.

Catalysts

- Reserves statement and first production from Lightning - next quarter (upside to our 60% risked valuation).
- Drill results on five further wells with Hilcorp in the Gulf of Mexico, mostly lower risk, higher probability targets of 3-8m barrels (100% basis). OEL share 37.5%. Success rate so far is 33% (1 out of 3).
- Further exploration in the Alaska North Slope Central blocks eg Talitha (900mmbbls oil in place).
- Possible new JVs (low risk, quick to production).

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