Byron Energy Ltd

BYE.AX

A research platform of MST Financial

27 February 2024

Strategy delivering.

NEED TO KNOW

- Byron is a successful USA GoM production company with strong operating cashflows, and a large inventory of drilling targets close to operated production assets.
- Latest reserve reports detail large 2P and 3P reserves, and prospective resources, which provide headroom to grow production and revenue over the outlook.
- Positive macro with high oil prices, supportive USA Government and stable and attractive fiscal regime.

Byron applies proprietary knowledge and experience to acreage that hosted previous production, successfully delivering growth from a nil start in 2017. The strategy is working. Production from previous wells underpin future activity. Byron plans more wells at SM-58, which is now the company's largest asset.

There is a large inventory of prospects to drive growth. Drilling at SM58 in 2023 will increase production and inform the next development phase. As of 31 Dec 2023, net (after royalty) 2P oil and gas reserves were 13MMbbl and 28 Bcf respectively, enough for ~20 years production at 2023 exit rates.

The USA is receptive to the oil and gas industry with entrenched fiscal and operational rules, providing confidence that Byron can commercialise successful drilling outcomes rapidly and in a cost-efficient manner.

Investment case

Large inventory of undeveloped reserves, resources and prospects provide drilling opportunities over the outlook. The geological risk is low and development times are short. Cash, cashflow and oil pre-sales provide funds for development activity ahead of production revenue.

The USA is a positive investment location. Legal and regulatory regimes are stable, product pricing is transparent in a deep-market and geology is well known from thousands of wells. These factors attenuate commercial and financial risk.

Byron is undervalued compared to DCF of reserves, and peers. We forecast EV/EBITDAX of 2.4X in FY2024, 1.8X in FY2025. Our estimate of EV-per-boe is ~US$4.5/boe for 17.7MMboe of 2P. These value measures are un-demanding.

Valuation: A$0.45 (previously A$0.49)

Our Valuation is a SoP of 2P production, plus risked upside from 3P reserves and prospective resources. Changes result from changes to the A$-US$ rate, short-term production outlook, year-end 2023 cash and debt, fine tuning of USA gas prices, and increases to prospective resources.

Risks

USA energy prices are volatile. Operationally, production wells may not perform as expected. Exploration wells may fail to discover oil or gas with negative consequences. Up-front well costs are high and increases financial risk if drilling results are negative. Access to capital is becoming harder due to societal backlash on fossil fuel production.

Equities Research Australia

Energy

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Byron Energy is a USA oil and gas exploration and production company focused in the shallow waters of the Gulf of Mexico.

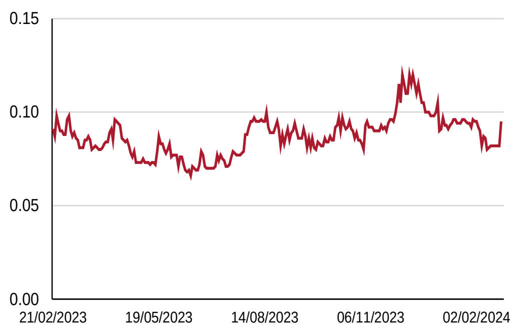
https:www.Byronenergy.com

Valuation	**A$0.45 (Prev $0.49)**
Current price	**A$0.091**
Market cap	**A$98M**
Net Cash	**A$-34M (31 Dec 2023)**

Upcoming Catalysts and News flow

Period	
1Q CY24	Increased production from work-overs
2Q CY24	Additional SI58 well(s)
2H CY24	Revenue and production momentum

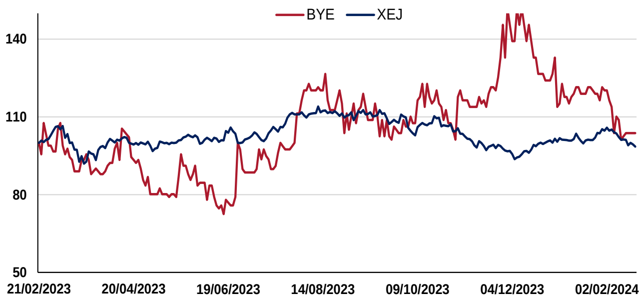
Share Price (A$)



Source: FactSet, MST Access

Figure 1: Financial summary. Figures all in US$ unless otherwise stated. Financial year end: June 30

Share price	A$/sh	0.091		
52 week range	A$/sh		0.08	0.22
Shares on issue	M	1081		
Options	M	2.00		
Market Cap	A$M	98		
Net Cash	A$M	-24.3		
Enterprise Value	A$M	123		
A$/US$ conversion	cents	0.65		
EV / boe -2P	US$/boe	4.51		



Valuation multiples	2022A	2023A	2024E	2025E	2026E
EPS (US cents)	0.02	0.02	0.01	0.02	0.03
PE	3.0	2.9	3.9	2.6	1.7
DPS (US cents)	0	0	0	0	0
Yield-%	0	0	0	0	0
EBITDAX/sh (US cents)	0.04	0.04	0.03	0.04	0.05
P/FCF	1.7	1.7	1.9	1.4	1.1
EV/EBITDAX	2.2	2.1	2.4	1.8	1.4
Revenue/boe (US$/boe)	72.5	77.6	73.0	72.4	77.7
EBITDAX/Sales-%	61%	60%	55%	59%	64%
Net cash (Debt)	-7	-1	-19	-21	4
ND/(ND+E)			12%	11%	-2%
Realised prices	**2022A**	**2023A**	**2024E**	**2025E**	**2026E**
Gas-US$/mmBtu	5.41	4.52	2.60	2.68	2.78
Oil-US$/bbl	83.37	76.47	75.66	75.69	78.37
A$/US$ rate	0.7	0.67	0.63	0.63	0.63
Production (Net)	**2022A**	**2023A**	**2024E**	**2025E**	**2026E**
Gas- Bcf	2.30	1.61	1.35	1.71	1.73
Liquids (MMbbl)	0.52	0.58	0.59	0.71	0.86
MMboe	0.9	0.8	0.8	1.0	1.2
% liquids	57%	68%	72%	71%	75%
Net Reserves (MMboe)	**1P**	**2P**	**3P**	**Prosp.**	
Oil- MMbbls	8.6	13.0	17.9	20.5	
Gas- Bcf	23.3	28.1	33.5	451.5	
Total	12.5	17.7	23.5	95.8	
% oil	72%	74%	76%	21%	

SoP Valuation	Unrisked	RF	Risked
Production	US$M		US$M
Oil & gas production 2P	309	100%	309
3P upside	72	25%	18
Prospective reserources			
SM-71	48	15%	7
SM-58	196	25%	49
SM-69	6	15%	1
GI 63/72	1		1
Corp costs	-50		-50
Total E&P assets	582		335
Cash	7		7
Debt / Provisions	-22		-22
Total Equity value	**566**		**320**
Per share- US$	**0.52**		**0.30**
Per share- AUD	**0.80**		**0.45**

Income (US$)	2022A	2023A	2024E	2025E	2026E
Gas Revenue (NRI)	11.6	8.0	3.5	4.6	4.8
Oil Revenue (NRI	40.6	44.4	44.2	54.0	67.6
Total sales NRI	53.1	53.0	47.9	58.5	72.4
Sales Revenue (W.I)	65.2	65.4	59.1	72.3	89.4
Opex	7.5	9.1	10.5	10.6	10.6
Royalties	11.6	11.9	11.2	13.7	17.0
G&A	6.4	5.1	5.0	5.0	5.0
EBITDAX	**39.6**	**39.3**	**32.4**	**42.9**	**56.8**
Exploration exp.	3.1	3.1	0.0	0.0	0.0
Depreciation	12.1	11.9	13.0	16.0	18.4
EBIT u/l	24.5	24.3	19.5	27.0	38.4
Finance charges	2.3	1.6	3.6	3.5	2.4
Tax	0.0	0.0	0.0	0.0	0.0
NPAT-underlying	**22.2**	**22.7**	**15.8**	**23.5**	**36.0**
Significant items	0.0	-1.7	0.0	0.0	0.0
Reported NPAT	22.2	21.0	15.8	23.5	36.0
Share count EOP (M)	1040	1081	1081	1081	1081
Cash flow (US$M)	**2022A**	**2023A**	**2024E**	**2025E**	**2026E**
Receipts	60.7	69.0	59.1	72.3	89.4
Payments	-21.7	-27.2	-26.7	-29.3	-32.6
Payments for E&A	0.0	0.0	-1.0	-1.0	-1.0
Interest & other	-2.4	-1.3	-3.6	-3.5	-2.4
Net cash from ops.	36.6	40.6	27.8	38.5	53.4
Exp & Devb capex	-25.5	-34.0	-45.2	-40.7	-28.4
Acquistions / other	0.0	0.0	0.0	0.0	0.0
Net investing	-25.5	-34.0	-45.2	-40.7	-28.4
Equity issuance	0.0	0.0	0.0	0.0	0.0
Debt Issue	-1.1	-16.4	17.5	0.0	-8.4
Divs / other	0.0	0.0	0.0	0.0	0.0
Net cash Finaning	-1.1	-16.4	17.5	0.0	-8.4
Increase in cash	9.9	-9.8	0.0	-2.3	16.6
Cash at EOP	14.1	4.2	4.3	2.0	18.6
Balance sheet (US$M)	**2022A**	**2023A**	**2024E**	**2025E**	**2026E**
Cash	14	4	4	2	19
Rcvbls / Inventory	10	7	12	14	14
P, P & E	3	2	2	2	2
Exploration & eval	122	128	161	187	198
other	3	4	1	1	1
Total Assets	**151**	**144**	**179**	**205**	**232**
Patables	17	4	4	-1	-6
Debt	21	6	23	23	15
Other	7	7	8	10	10
Total liabilities	46	16	35	32	19
Share-holder funds	106	128	144	173	214

Source: MST Access

Strategy Delivering Commercial Outcomes

Byron Energy is sticking to what has worked since inception, building reserves, production and revenue from a cold start in 2017, into a valuable enterprise with growth options and funding capacity.

Year-end CY2023 reserve and resource estimates underpin our investment case. There are significant 2P reserves to be addressed over time, by additional drilling. Results from existing wells confirms Byron's application of proprietary techniques to identify new drilling targets in acreage previously explored. Above the 2P figures is a very large 3P and prospective resource, some in newly acquired leases. Prospective resources as of 31 December 2023 were 20.5MMbbl of oil and 425 Bcf of gas, net to Byron after royalties.

It will take time, and investment to unlock this value. Timing relates to the application of knowledge gained from existing wells to inform Byron's understanding of the geology and defining new leads to drill. The investment required up-front will be constrained by Byron's cashflow from current production, augmented by debt and oil-presales. The latter was deployed in CY2023 to fund ~$30M into drilling and completion of two wells, G4 and G6 on the SM-58 field, with pay-out to follow over the next ~1.5 years at current oil and gas prices.

Additional prospects near the SM58 platform offer growth opportunities. To recap, Byron's first operated asset at SM71 was very successful since the get-go in 2017 but is now mature with limited upside. The more recent SM58 development is a different story. This field is now the dominant revenue and cashflow generator, and production history since September 2020 supports further drilling. SM58 (and SM69) 2P net reserves total 14.6MMboe and account for 83% of Byron's total net 2P reserves as at year end 2023.

Outlook for 2024: work-overs and new wells to boost revenue

This report is updated for December quarterly results, year-end balance sheet, guidance on current well performance and outlook for CY2024 activity.

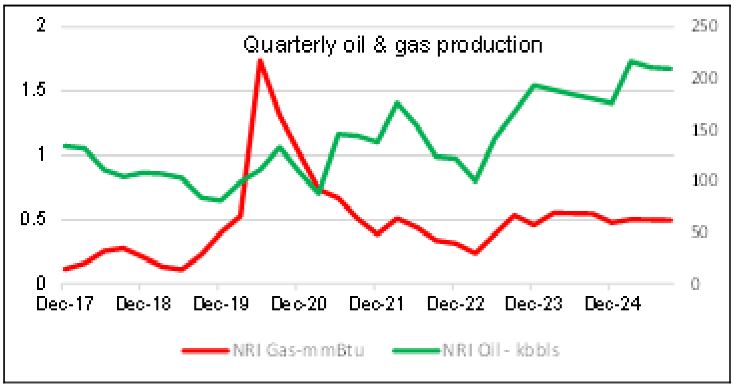
Byron's 2023 exit production rates were lower than we had forecast, due to impacts on production imposed by adverse weather. This is temporary and at the time of this report is being addressed, however the result is a temporary arrest to the momentum building following the drilling of two wells (G4 and G6) at SM58, both of which were completed late in 2023.

Activity for 2024 is focused on (1) work-over of the SM58 G5 well to access a reservoir not currently open to the well bore (2) remedial work to clear paraffin blockages from a number of wells following freezing weather (3) drilling additional well(s) in SM-58 within reach of the production platform. Planning is underway to drill SM58 G9, to exploit a target high-graded by production history from the G1 well.

Recent work-over activity, and expected drilling of another well (G9) are captured in our quarterly estimates for production and revenue (figures 2 and 3) along with fine-tuning of our US oil and gas price forecasts for CY2024.

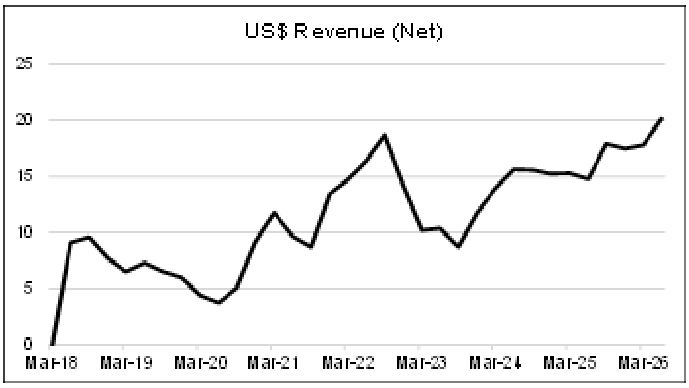
Our production and revenue figures for CY2024 trend higher than CY2023, predominantly due to the late-in-the-year contribution from the SM58 G4 and G6 wells, which were only completed in October and November. Revenue in 2024 will benefit from a full year's contribution and these volumes more than offset natural decline from other wells. The last data point for G4 production was 417 bopd and 0.55 mmcfd, and G6 288 bopd and 2.56 mmcfd. End-of-year 2023 total rates were 1626 bpd of oil and 4.37mmcfd of gas, so the impact and early performance of these wells is material in a total context.

Figure 2: Quarterly oil and gas production



Source: MST estimates

Figure 3: Quarterly revenue (US$M)



Source: MST estimates

Reserves: enough for ~20 years production

Reserves underpin production, revenues, cashflow, and value. Byron's proven (1P), proven + probable (2P) and proven +probable+possible (3P) reserves are shown figures 4 & 5.

2P reserves have been stable for the past 3 years, with drilling activity focused on additional wells on SM58 for near term production, thus exploiting and producing 1P reserves.

- The oil / gas split is 73 % oil / 27 % gas, at the 2P level. As oil prices are far higher than gas, the revenue and value mix is biased in favour of oil and Byron field operations are focused on oil.
- By field, SM58 accounts for 83% of Byron's total 2P reserve. Byron's drilling & development activities are focused on exploiting the undeveloped proven and probable reserves in this block.

Reserves have been independently assessed by Collarini and Associates as of 31 December 2023.

Total 2P reserves were 17.7 MMboe net to Byron, as at 31 December 2023, equating to ~20 years of future production at December quarter 2023 rates.

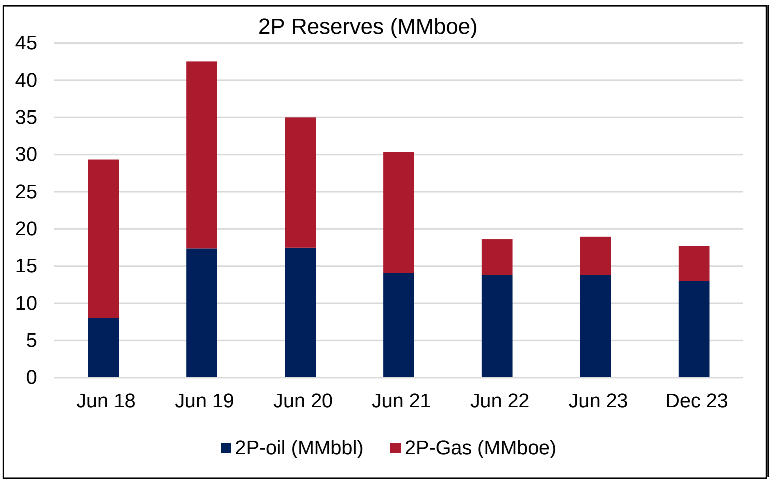
Very large prospective resources

The net prospective resource is 95.78MMboe, (figure 5) and is approximately 6 times larger than the proven + probable reserves. This provides substantial upside if geological modelling and seismic data justify drilling. Of this amount, ~64 MMboe (net) is in leases GI63, GI72, SM60 and SM66, which were acquired at auction in CY 2023 and early CY2024.

During CY2023, 1P reserves rose by ~0.1 MMboe with contributions from new wells offsetting production. Net 2P oil reserves fell by ~863 kbbls, with some transferred to 1P and other adjustments due to results from G4 and G6 wells. 2P gas reserves fell by 2.4 Bcf.

From figure 5, its apparent that there is very large prospective oil and gas resource in SM58, and leases at Grand Isle and SM60 & SM66. These latter will require seismic and other analysis to assess future drilling targets. From a share price perspective, 3P and prospective resources attract very little market value. In our valuation, we ascribe token value to 3P, and nil value to prospective resources.

Figure 4: 2P oil and gas reserves by type



Source: Byron Energy Reserves report at 31Dec, 2023

Figure 5: Reserves & Resources at 31 Dec, 2023

	1P	2P	3P	Pros
Oil SMI-71	1.6	2.7		1.0
Oil SMI-58	6.0	9.3		11.7
Oil SMI-69	1.1	1.1		0.5
Oil- GI-63, 72				4.6
Oil SM-60, 66				2.7
Total Oil- MMbbls	8.66	13.01	17.9	20.5
Gas SMI-71	1.1	2.2		19.2
Gas SMI-58	21.1	24.7		39.6
Gas SMI-69	1.2	1.2		0.5
Gas- GI-63&72				147.4
Gas- SM60 & SM66				244.8
Total Gas- Bcf	23.3	28.1	33.5	451.4
Total MMBOE	**12.5**	**17.7**	**23.5**	**95.8**

Source: Byron Energy Reserves report at 31 Dec 2023

SM58: The growth engine state of play

Byron owns and operates the SM58 platform (figure 6) located on the northern side of the SM73 "salt dome". The SM58 block is part of the South Marsh Island Block 73 field, located 220km offshore southwest of New Orleans, in approximately 37m of water. Since first production in 1963, 36 MMbbls of oil and 273 Bcf of gas have been produced by previous operators. Since Byron's re-development after 2020, this field has produced an additional 9 Bcf of gas and ~1 million barrels of oil, for a cumulative net revenue of ~US$90M net to Byron.

The SM58 platform has significant oil and gas production capacity, with fluid handling rates up to 16,000 barrel per day of fluids, comprising 8,000 bpd of oil and 8,000 barrel per day of water.

- This is Byron's most productive asset with current net production ~1320 bopd of oil and 3.1mmcfd of gas from 6 wells (G1,G2,G3,G4, G6 and E2). The G5 well is currently being re-completed in a new reservoir and will add to daily production.

- Drilling of the G4 and G6 wells in late 2023 were successful and provide revenue growth in CY2024. The G4 and G6 wells were completed for production respectively in October and November 2023. Quarterly production for 31 December 2023 does not capture a full quarter from both.
- Large 2P reserve of 10.4 MMbbl of oil and 25.9Bcf of gas offer multiple drilling targets.
- High quality 1P reserves. with proved, developed & producing (PDP) increasing by 75% from 1.83 MMboe to 3.2 MMboe, and proved behind-pipe increasing by 55% from 2.2 MMboe to 3.5 MMboe due to the drilling of the G4 and G6 wells.
- Success to date reinforces Byron's strategic approach. Production history and recent wells de-risk other prospects for drilling.
- Low-cost operation with lease operating costs of approximately $15 per boe.

By reserves, SM58 is larger than Byron's foundation asset SM71, and maximising production and value will require additional wells over a number of years, with the timing of drilling activity guided by operational performance from the seven wells which have been drilled and completed since first production in September 2020.

The success at SM71 in applying advanced seismic techniques are pivotal to the successful drilling outcomes in the SM58 block, which is on the northern side of the SM73 salt dome. To date, seven of these prospects have been drilled, the G1, G2, G3, G5, G4, G6 and E2 wells, and all have been completed for commercial production. These wells all produce through the 100% Byron owned and operated "G" platform, with the exception of E2 which is produced through a third party owned platform.

Prospects in the SM58 lease are larger and economically more important to Byron because it has a 100% working interest. We anticipate this asset is likely to be the focus of growth and investment over the outlook period.

Upcoming work program

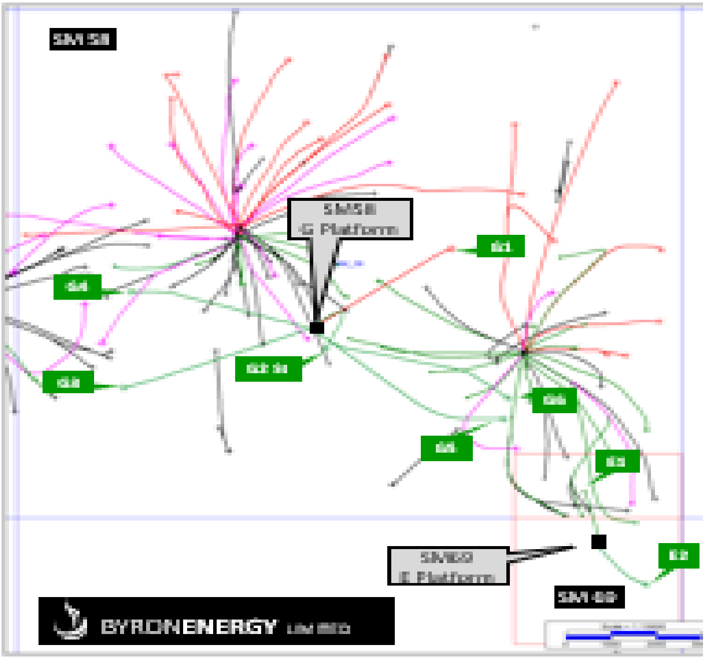
In CY 2024, Byron plans to drill the G9 well, to exploit oil targets upgraded by historical performance from the G1 well. Other activities are planned workovers on the G5 (zone change) and paraffin removal from all other wells.

Our forecasts assume incremental production from these activities will increase quarterly oil production in March 2024 to 154,000 bbls (December quarter 2023: 141,000 bbls) and rising to ~190,000 bbls per quarter in 2H CY2024, assuming a positive result from the planned G9 well, and positive results from current work-over activity.

Figure 6: SM58 platform

Source: Byron Energy, updated after 2023 Annual report

Figure 7: Well locations to SM58 G platform



Source: Byron Energy

Commodity prices: important for a production company

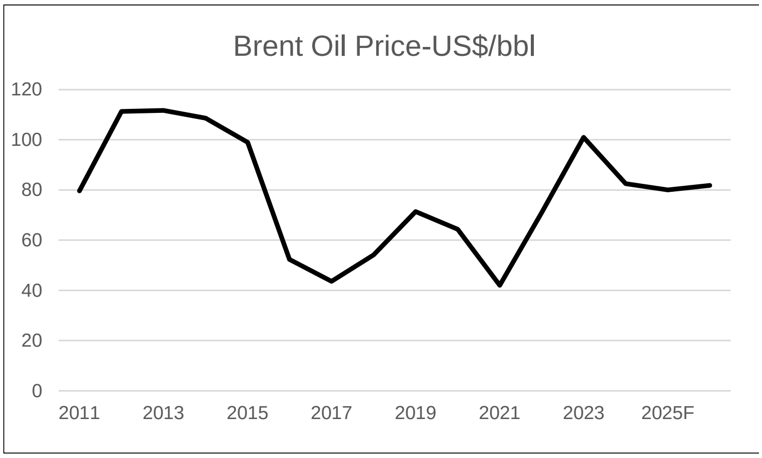
As a production company, oil prices and USA domestic gas prices are sole revenue determinants, along with the A$-US$ exchange rate because BYE is effectively a US$ asset.

We have reviewed out price deck for US oil and gas prices for the year ahead. Our previous assumptions for oil are unchanged. Our assumptions for USA domestic gas prices are lowered by ~10% across the outlook period. Given the relatively low proportion of sales revenue from gas compared to oil (<10%), the result is not material to our revenue forecast or SoP valuation.

Oil revenues account for 90-95% of sales income. BYE's realised oil prices, after transportation charges and quality differentials, averages out to between WTI and Brent benchmark prices. Our forecast for Brent oil price for CY2024 is US$80/bbl, resulting in a realised oil price of $74.8/bbl for BYE crude. Year to date CY 2024 Brent is averaging US$80.3/bbl and spot prices are currently ~$83/bbl. Or input assumptions for the remainder of CY 2024 are US$80/bbl and in 2025, US$81.6/bbl. Current spot prices if maintained, would increase our estimates.

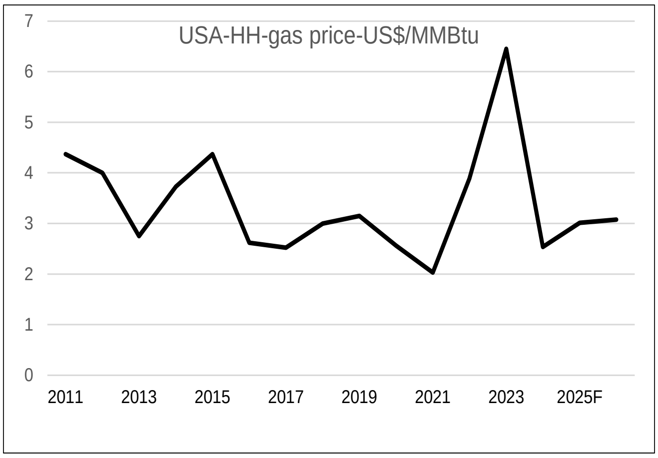
USA domestic gas prices as reflected in the Henry Hub (HH) marker, are more much more volatile than oil prices, being driven by domestic supply and demand, weather events and other factors. Spot prices in January 2024 reached US13/mmBtu but have since collapsed to US$1.50/mmBtu. Year to date, the HH price has averaged US$2.87/MMBtu. Our forecasts is US$3/mmBtu for the remainder of CY2024, a 10% reduction on our previous estimate of US$3.3/mmBtu. The effect on BYE's total revenue is not significant.

Figure 8: Brent oil price history and our assumptions



Source: MST Access

Figure 9: HH gas pice (US$/mmBtu)



Source: MST Access

Valuation: A$0.45 (prev. 0.49)

Our valuation is a sum-of-parts derived from estimated cashflows from production of 2P oil and gas reserves, plus static values for non-producing acreage. Refer to figure 10.

Our key assumptions are as follows:

- Benchmark WTI prices of US$80/bbl in CY2024 and escalated at 2%p.a. beginning in January 2025.
- Benchmark Henry Hub gas prices of US$3.0/mmBtu (previously US$3.30/mmBtu) in CY 2024, and then escalated at 2% p.a
- Base case production model which delivers 2P reserves to 2040 of 17.7 MMboe (previously 18.3MMboe)
- 3P reserves are valued at ~$3/boe which is materially lower that than 2P per boe value due to uncertainties in recovering this volume and the costs required. We apply a 25%- risk for geological and commercial uncertainty.
- Acreage awarded in 2H CY2023, at Grand Isle at GI63, GI72, and SM60 and SM66 have very large prospective resources. Noting that these leases were acquired at open auction in an informed market for ~US$1M, we assign this as a transaction value. .
- Cashflows are discounted from Q2 2024 at an after tax WACC of 10% p.a.
- Cash of US$6.6M, and bank debt and other liabilities of US$22.4M as of 31 December 2023.
- US$ valuation is converted to AS$ using a spot rate of AU$ 65c (previously 63c).

Figure 10: Sum-of-parts valuation

Asset Value (US$M)	Unrisked	R.F	Risked	Oil	Gas	BOE	US$/boe
	US$M	%	US$M	MMbbls	Bcf	MMboe	
Production							
Oil & gas production 2P	309	100%	309	13.09	28.1	17.76	17.42
3P upside	72	25%	18	4.89	5.4	5.79	3.09
Prospective resources & acreage							
SM-71	48	15%	7	1.0	19.2	4.16	1.73
SM-58	196	25%	49	11.7	39.6	18.25	2.68
SM-69	6	15%	1	0.5	0.5	0.63	1.54
Grand isle	1		1	4.6	147.4		
SM60 &66	1		1	2.7	243.9		
Corporate costs capitalised	-50		-50				
Total E&P assets	583		336				
Cash	7	Dec-31	7				
Debt & other obligations	-22	Dec-31	-22				
Total equity value	567		321				
Shares on issue	1081		1081				
Perf rights & options	2		2				
Per share- US$	**0.52**		**0.30**				
Exchange rate	**0.65**		**0.65**				
Per share- A$	**0.81**		**0.46**				

Source: MST Access.

Changes from our previous estimate are due to (1) upward revision in the A$/US$ rate from 63c to 65c (2) ~10% reduction in US$ benchmark gas prices (3) reduced 2P reserve compared to the previous figure, from 19MMBoe to 17.7MMBoe, a ~7% reduction.

Cumulatively these result in a ~5% downgrade in value.

Valuation Methodology: Cash-flow DCF plus risked resource upside

We forecast future cashflow for each production asset (SM71, 58 and 69) to 2040, with the production envelope capturing 2P reserves, on a net entitlement basis, after federal royalties and taxes. We adopt the 2P figure because (1) it is statistically the most likely outcome with a 50% or greater probability and (2) for consistency with consensus valuation for ASX listed companies which are commonly valued on 2P reserves.

Capture of the 2P reserves at all fields will require ongoing field management and drilling of additional wells over future years. We make assumptions regarding the timing, and capital cost of future development.

We value possible (or “3P”) reserves using a dollar-per-boe. This is less deterministic than a DCF measure, but reasonable given the numerous uncertainties and judgement required to develop a cash-flow model.

Byron documents very large prospective resources in recently acquired leases at Grand Isle. We assign nil value until a work program is detailed to fully evaluate these assets.

Risk factors

Key risks

- Byron is a fossil fuel producer, and these companies are under pressure from climate activists. So far, these risks are less onerous in the USA compared to other parts of the world, but the risk of doing business is increasing.
- Commodity prices and markets. Byron is a price taker for its oil and gas products and these prices are volatile and driven by global factors.
- Inflation. Costs for exploration and development are increasing in general.
- Sovereign risk in the USA is low but could change at any time.
- Geology. Exploration and appraisal drilling even in well-known areas like the GoM, is risky and not all wells will succeed.
- Operational. Key operational risks are accidental oil spills, or accidents the injure people of damage facilities, and weather-related impacts (hurricanes, freezing weather)
- Production and reserves. Fields my decline faster than expected, and future drilling to recover 2P reserves may not succeed and lead to downside risks to future production and reserves.
- Key management personal (KMP's). Byron has a small team of highly experienced KMP's and the departure of key personnel could reduce the value of the company's intellectual property and reduce its ability to operate.
- Access to capital to fund development may become harder. Byron has historically financed its activities with equity, oil pre-payments and debt. However, debt and equity funding is becoming harder to source and there is risk that Byron cannot raise funds for ongoing development, or that funding costs become onerous.

Methodology & Disclosures

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