Byron Energy

BYE.AX

A research platform of MST Financial

19 May 2024

Bye Bye ASX

BYE seeks ASX de-listing

- **Byron Energy seeks de-listing from the ASX, subject to shareholder approval.**
- **Byron's rationale is the low share price and equity market value hinders use of scrip as currency to raise capital or engage in asset transactions.**
- **Uncertainty on the timing and likelihood of development required to fully exploit reserves reduces future growth potential.**

Byron seeks to delist from the ASX, citing a large gap between equity market value and the Board's estimate of fair value. The share price is at multi year lows, triggered by weaker than expected results from 2023's development activities. Byron argues that the low share price hinders the use of scrip as currency to pursue asset transactions, or raise capital to fund growth. Shareholder approval is required.

Byron has a large 2P reserve of 17.7MMBOE but ~80% of that is undeveloped. The capex required is front-loaded and current cashflows are insufficient to manage down debt at the same time as conducting a significant drilling campaign.

Irrespective of the outcome of the shareholder meeting, there is increased risk to the investment case. In the absence of access to the capital market, or any other means of raising funds, the timing and likelihood of future activity, and the company's long-term growth is uncertain.

Investment Thesis

De-listing is a dramatic event and makes the investment case redundant, unless shareholders vote the proposal down. Until such time as a meeting is held and the result known, the stock will continue to trade.

Byron is undervalued on our estimate of DCF of reserves and resources, and the company's book value of oil and gas assets of US$168M as at 31 December 2023. Realizing value requires translating reserves into production. The capex required is front-loaded, and un-funded at this time.

Shareholders have two options. One is to vote the proposal down in which case Byron remains listed and carries on as is. The other is to support the proposal and back the company to realize a higher asset value. Regarding the latter, strategies to do so have not been published.

Valuation A$0.31 (previously $0.45)

MST's Valuation is an NPV of 2P production at a long-term oil price of US$80/bbl. Our lowered value results from a downgraded production profile to be consistent with current production levels, and re-assessment of value for possible and prospective resources to nil.

Risks

The proposal to de-list from the ASX increases risk to realization of value for shareholders. Other risks are from USA oil and gas prices; production and reserves from existing wells; and access to funds for growth and working capital.

Equity Research Australia

Energy

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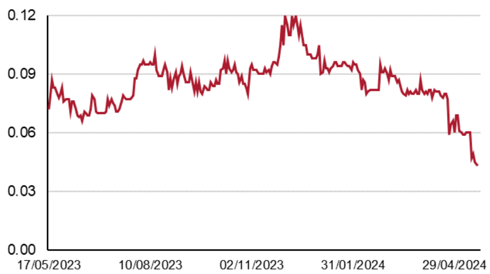
Byron Energy is a USA oil and gas exploration and production company focused in the shallow waters of the Gulf of Mexico. www.Byronenergy.com

Valuation	**A$0.310** *(from A$0.460)*
Current price	**A$0.044**
Market cap	**A$48M**
Cash on hand	**A$(27.7)M**

Upcoming Catalysts / Next News

Period	
2Q 24	Shareholder approval for delisting
2Q 24	Suspension ~15 July

Share Price (A$)



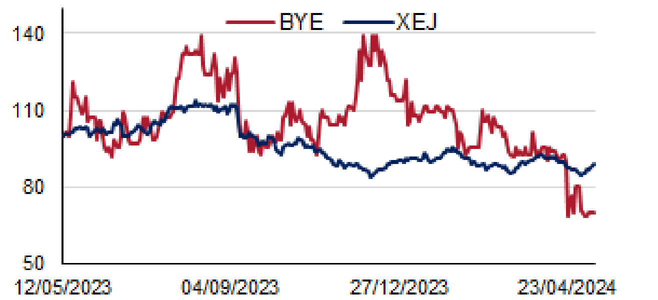
Source: FactSet, MST Access

Figure 1: Financial Summary. Year end June 30. All in US$ unless otherwise noted

Byron Energy Ltd — **BYE.AX**

Figures in US$ unless otherwise stated

Market Data	Y/E 30 June		Lo	Hi
Share price	A$/sh	0.044		
52 week range	A$/sh		0.04	0.12
Shares on issue (basic)	M	1081		
Options	M	2.00		
Market Cap	A$M	48		
Net Cash	A$M	-25.7		
Enterprise Value	A$M	73		
A$/US$ conversion	cents	0.65		
EV / boe -2P	US$/boe	2.69		



Valuation multiples	FY22A	FY23A	FY24E	FY25E	FY26E
EPS	0.02	0.02	0.01	0.01	0.01
PE	1.4	1.4	2.5	3.1	3.0
DPS	0	0	0	0	0
Yield-%	0	0	0	0	0
EBITDAX/sh (US cents)	0.04	0.04	0.02	0.02	0.02
P/FCF	0.8	0.8	1.2	1.3	1.4
EV/EBITDAX	1.3	1.2	1.9	2.0	2.1
Revenue/boe (US$/boe)	72.5	77.6	71.7	65.2	66.0
EBITDAX/Sales-%	61%	60%	52%	50%	49%
Net cash (Debt)	-7	-1	-15	-4	8
ND/(ND+E)			10%	2%	-5%

Realised prices	FY22A	FY23A	FY24E	FY25E	FY26E
Gas-US$/mmBtu	5.41	4.52	2.12	2.16	2.72
Oil-US$/bbl	83.37	76.47	76.72	77.30	79.63
A$/US$ rate	0.7	0.67	0.65	0.65	0.65

Production (Net)	FY22A	FY23A	FY24E	FY25E	FY26E
Gas- Bcf	2.30	1.61	1.28	1.71	1.73
Liquids (MMbbl)	0.52	0.58	0.48	0.44	0.41
MMboe	0.90	0.84	0.69	0.73	0.70
% liquids	57%	68%	69%	61%	59%

Net Reserves (MMbo	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	249	100%	249
3P upside	72	0%	0
Prospective resources			
SM-71	48	15%	7
SM-58	196	15%	29
SM-69	1	15%	0
GI 63/72	1		1
Corp costs	-50		-50
Total E&P assets	516		236
Cash	3		3
Debt / Provisions	-21		-21
Total Equity value	**498**		**219**
Per share- US$	**0.46**		**0.20**
Per share- AUD	**0.71**		**0.31**

Income (US$)	FY22A	FY23A	FY24E	FY25E	FY26E
Gas Revenue (NRI)	11.6	8.0	2.7	3.7	4.7
Oil Revenue (NRI	40.6	44.4	36.9	34.3	32.5
Total sales NRI	53.1	53.0	39.6	37.9	37.2
Revenue	65.2	65.4	49.7	47.4	46.0
Opex	7.5	9.1	9.2	8.6	8.6
Royalties	11.6	11.9	9.1	8.9	8.7
G&A	6.4	5.1	5.7	6.0	6.0
EBITDAX	**39.6**	**39.3**	**25.8**	**23.9**	**22.6**
Exploration exp.	3.1	3.1	0.0	0.0	0.0
Depreciation	12.1	11.9	11.2	11.6	11.1
EBIT-underlying	24.5	24.3	14.5	12.3	11.5
Finance charges	2.3	1.6	2.0	2.3	1.1
Tax	0.0	0.0	0.0	0.0	0.0
NPAT-underlying	**22.2**	**22.7**	**12.5**	**10.0**	**10.3**
Significant items	0.0	-1.7	0.0	0.0	0.0
Reported NPAT	22.2	21.0	12.3	10.0	10.3
Share count EOP (M)	1040	1081	1081	1081	1081

Cash flow (US$M)	FY22A	FY23A	FY24E	FY25E	FY26E
Receipts	60.7	69.0	47.8	47.4	46.0
Payments to suppliers	-21.7	-27.2	-23.9	-23.5	-23.4
Payments for E&A	0.0	0.0	0.0	0.0	0.0
Interest & other	-2.4	-1.3	-1.7	-2.3	-1.1
Net cash from ops.	36.6	40.6	22.3	21.6	21.5
Development capex	-25.5	-34.0	-37.3	-10.0	-10.0
Acquistions & other	0.0	0.0	0.0	0.0	0.0
Net investing	-25.5	-34.0	-37.3	-10.0	-10.0
Equity issuance	0.0	0.0	0.0	0.0	0.0
Debt Issue	-1.1	-16.4	16.2	-3.0	-10.9
Divs / other	0.0	0.0	0.0	0.0	0.0
Net cash Finaning	-1.1	-16.4	16.2	-3.0	-10.9
Increase in cash	9.9	-9.8	1.2	8.6	0.6
Cash at EOP	14.1	4.2	5.5	14.1	14.6

Balance sheet (US$M)	FY22A	FY23A	FY24E	FY25E	FY26E
Cash	14	4	5	14	15
Receivables & Inventory	10	7	7	7	7
Exploration assets	3	2	2	2	2
Oil & gas properties	122	128	161	159	158
other	3	4	0	0	0
Total Assets	**151**	**144**	**175**	**182**	**182**
Payables	17	4	10	4	4
Debt	21	6	21	18	7
Other	7	7	7	10	9
Total liabilities	46	16	38	31	20
Share-holder funds	106	128	138	151	161

Source: MST Access

De-listing changes the investment case.

Byron is seeking to de-list from the ASX. This will require various approvals including shareholder agreement. Investors have a binary choice to sell ahead of the cessation of trading, proposed to be July 15, or remain invested and vote for, of against, the proposal.

Rationale: low share price doesn't reflect asset value and constrains growth.

Byron contends the steep discount between its investment in oil & gas properties (~US$168M as at 31 December 2023) and equity market value impedes access to growth capital, either from the equity market, or use of scrip for asset transactions.

The nature of Byron's offshore USA GoM development activity requires up-front capex which is lumpy, necessitating equity capital raisings, revenue pre-payments, and Director loans or debt. A low share price makes capital raising dilutive, and in addition, makes it impractical for Byron to use scrip in other ways, such as for asset transactions and farm-out activity.

However, what is not yet disclosed in the advice to the ASX and shareholders, is how the company plans to improve access to capital to grow the business and realise value post the de-listing event.

Trigger: 2023 development results lower than expected.

On 8 March 2024, Byron advised that oil production from its USA GoM fields SM58 and SM71 had stabilized at 1809bopd, reflecting increments from the SM589 G4 and G6 wells which were completed for production in the last quarter of 2023, and work-over of the existing G5 well. This activity targeted fresh reserves and were expected to generate a significant lift in production and revenue. At initial start-up in October and November 2023, the G4 and G6 well collective gross production was 950BOPD and 3 MMcfd of gas. These were significant in context at the time, and in early November 2023 total net production reached ~2000 BOEPD.

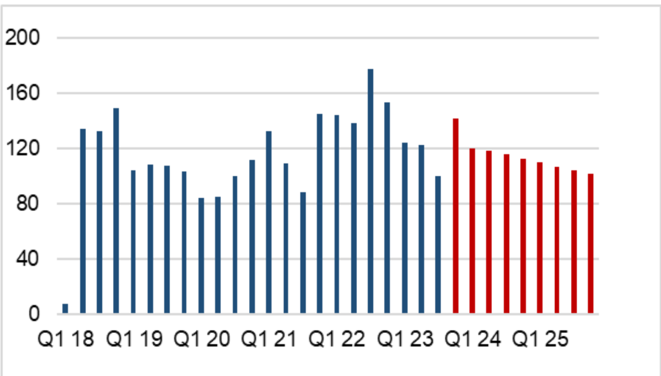
However, since late 2023, performance from the G4 well in particular has been poor with water intrusion and other mechanical issues, and work-over of the G5 has under-performed. On 23 April 2024, Byron reported that the G4 well was producing 45 bopd, and total net production from all wells was 1718 bopd of oil and 2.158 MMcfd of gas.

Although still at levels to generate significant revenue and operating cashflow, the investment required of ~US$34M in the preceding 9 months, has left the company with debt in the form of oil pre-sales and Director loans that will take longer to pay down and at the same time, fund growth activities.

Going forward there is uncertainty to production levels. SM58 G4 and G6 well outcomes justify a pause in drilling activity to re-assess geological and reservoir models. Previously, we had factored in two more wells in CY2024 and CY2025, the G7 and G8 but there is uncertainty as to when these wells may be drilled. As a result, our production and revenue forecasts are lowered, and now reflect a scenario where the current wells produce to depletion, as shown in Figures 2 and 3.

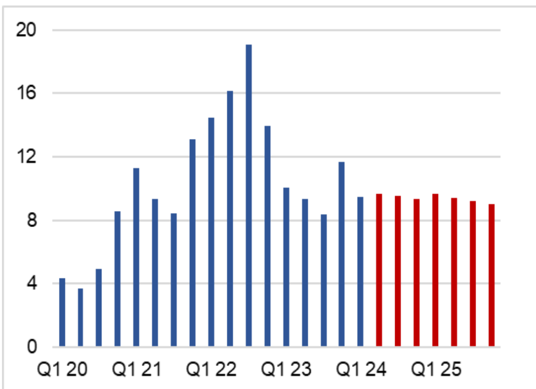
Despite operating setbacks, Byron is generating positive cash-flow at the field level. In 1Q 2024, net sales revenue was US$9.5M and production costs were US$2M. Based on our analysis, the positive operating cashflow is sufficient to manage down debt and re-build the balance sheet, but not enough for new developments wells costing in the order of US$15M. Risks are to the downside if mechanical or geological issues arise.

Figure 2: Quarterly net oil production ('000 BOE)



Source: MST Access forecasts and Byron Energy historical data

Figure 3: Quarterly net revenue (US$M)



Source: MST Access forecasts and Byron Energy historical data

Shareholders to decide.

Shareholder approval will be required **for the de-listing to occur. There are three course of action for shareholders to consider.**

1. Remain invested and vote in favour of the delisting proposal. In this event shareholders will become equity owners in public unlisted company, unable to trade on an open market. Realisation of asset value will depend on Byron finding a mechanism to realise value and to pay it to shareholders.

2. Remain invested and vote against a de-listing. In this event the company will continue trading on the ASX. However, the aftermath of a failed proposal will impact investor confidence, and won't solve the underlying funding constraints being experienced by Byron.

3. Sell on market until such time as suspension from quotation, which is indicated to be 15 July

The indicative time-table is set out in figure 4.

Figure 4: Indicate timetable of critical events

Event	Indicative date
Application submitted to ASX	8 May 2024
Announcement to ASX of proposal to delist	13 May 2024
Notice of meeting	15 May 2024
Explanatory statements despatched to shareholders	15 May 2024
General meeting to approve de-listing	14 June 2024
Suspension from quotation	15 July 2024
Removal from official list	17 July 2024

Source: Byron Energy, ASX release `13 May 2024

Changes to our estimates.

Due to lower-than-expected production YTD from specific wells, and uncertainty of the likelihood and timing of new ones, we have reduced our production expectations over the outlook period, which a flow-on to lower revenue, and EBITDAX. Refer to figure 5. Offsetting this, is lower capex in the absence of new wells.

Figure 5: Changes in key financial estimates

Changes to estimates	FY24	FY25	FY26
Production- MMBOE			
From	0.81	0.98	1.16
To	0.69	0.73	0.70
Revenue -US$M			
From	59.1	72.3	89
To	49.7	47.4	46.0
EBITDAX- US$M			
From	32.4	42.9	56.8
To	25.8	23.9	22.6

Source: MST Access estimates

Valuation A$0.31 (Previously $0.45)

Our valuation is a sum-of-parts (SoP) derived from estimated cashflows from production of 2P oil and gas reserves. Refer to figure 6. Reasons for the reduction are (1) lower production outlook than previously expected, feeding into lower reserves recovery. Primarily, we have removed from our production profile, expected increments from additional SM58 wells, namely G7 and G8 in CY2024 and CY2025, and (2) reduction to nil, for prospective and 3P reserves and resources due to the uncertainty of value-adding drilling or asset transactions.

Other assumptions are as follows:

- Benchmark WTI prices of US$82/bbl in CY2024, US$82/bbl in CY2025 and escalated at 2%p.a. beginning in January 2026.
- Benchmark Henry Hub gas prices of US$2.0/MMBtu in CY2024, and US$3.0/MMBtu in CY2025 and then escalated at 2% p.a.
- Base case production model which delivers 2P reserves to 2040 of 15.6 MMBOE, lowered from 17.1 MMBOE due to production trends year to date.
- 3P reserves and prospective resources are valued at nil.
- Acreage awarded in 2H CY2023, at Grand Isle at GI63, GI72, and SM60 and SM66 is valued at bid price of ~US$1M in total, which is the collective acquisition price.
- Cashflows are discounted from Q2 2024 at an after tax WACC of 10% p.a.
- Cash of US$3.4M, and liabilities of US$19.94M plus A$2.1M as at 31 March, 2024.
- The US$ valuation is converted to AS$ using a spot rate of AU$ 65c.

Figure 6: SoP valuation

Asset Value (US$M)	Unrisked	Risk	Risked	Oil	Gas	BOE	US$/BOE
	US$M	%	US$M	MMbbls	Bcf	MMboe	
Production							
Oil & gas production 2P	249	100%	249	10.92	28.2	15.62	15.95
3P upside	72	0%	0	4.89	5.4	5.79	0.00
Prospective resources & acreage							
SM-71	48	15%	7	1.0	19.2	4.16	1.73
SM-58	196	15%	29	11.7	39.6	18.25	1.61
SM-69	1	15%	0	0.5	0.5	0.63	0.24
Grand isle	0		0	4.6	147.4		
SM60 &66	0		0	2.7	243.9		
Corporate costs capitalised	-50		-50				
Total E&P assets	516		236				
Cash	3.3		3.3				
Debt & other obligations	-21.3		-21.3				
Total equity value	498		218				
Shares on issue	1081		1081				
Perf rights & options	2		2				
Per share- US$	**0.46**		**0.20**				
Exchange rate	**0.65**		**0.65**				
Per share- A$	**0.71**		**0.31**				

Source: MST Access

Risk factors

- Uncertainty in regard to the company's status as a publicly listed, or unlisted entity, pending the outcome of the general meeting. The outcome of the shareholder meeting will be binary with different risks. De-listing locks-in shareholders with no convenient mechanism to trade if needed. If the proposal is voted down and the company remains listed on the ASX, there may be negative consequences, which are articulated by Byron as a hinderance to raise funds to enable growth
- 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.
- Development drilling even in well-known areas like the GoM is risky and not all wells will succeed.

- Key operational risks are accidental oil spills, or accidents that injure people of damage facilities, and weather-related impacts (hurricanes, freezing weather), and processing equipment failures.
- 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.

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Byron Energy (BYE.AX) | Price A$0.044 | Target price A$0.310 | Recommendation -;

Price, target price and rating as at 19 May 2024 (not covered)*

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