

NG Energy International Corp. (GASX-V)

Resource Report Confirms Massive Natural Gas Potential

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Event: GASX released its NI 51-101 compliant YE'20 resource report as prepared by Petrotech Engineering Ltd. that shows considerably more upside than was previously outlined by the company.

According to the report, the potential at both the Maria Conchita Block and the Sinu-9 Block (1.3 tcf net to GASX' WI) is larger than our previous estimates in our Risked Exploration NAV:

- Maria Conchita: the 34.6 bcf (gross) of 2P reserves is unchanged, but the 195 bcf (gross) of prospective resources are larger than our previous estimate of 165 bcf.
- Sinu-9: the total resource potential is estimated at 1.5 tcf (gross) relative to our previous assumption of 1.0 tcf (gross). At GASX' 72% WI, the potential is 1.1 tcf. The resource potential is broken down into 3 categories that we outline later in this report.

2P reserves and Contingent Resources underpin GASX' value. These two categories are the highest confidence and, therefore, are most likely to be realized through the company's E&D efforts. By applying the same \$/mcf value to the contingent resources at Sinu-9 as Petrotech assigns to the Maria Conchita reserves results in potential value of C\$143 million compared to the EV for GASX of C\$158 million.

Conclusion & Recommendation: With the new resource report we have updated our risked exploration NAV, which drives an increase in our target price to \$3.00. We maintain a Buy rating.

Resource Report

BUY (unch) **\$3.00 (was \$2.60)**

Recent price	\$1.64
12-month Target Price	\$3.00
Potential Return	83%
52 Week Price Range	\$0.17 - \$1.88
FYE	Dec 31

Assumptions	2019A	2020E	2021E	2022E
Brent (US\$/bbl)	\$64.45	\$43.04	\$57.26	\$70.00
HHUB (US\$/mcf)	\$2.55	\$2.13	\$2.78	\$2.82
US\$/CDN\$	\$0.75	\$0.75	\$0.78	\$0.79

Production	2019A	2020E	2021E	2022E
Crude oil & Liquids (bbl/d)	31	-	-	-
Natural Gas (mmcf/d)	-	-	17.1	61.5
Total Production (boe/d)	31	-	2,853	10,244

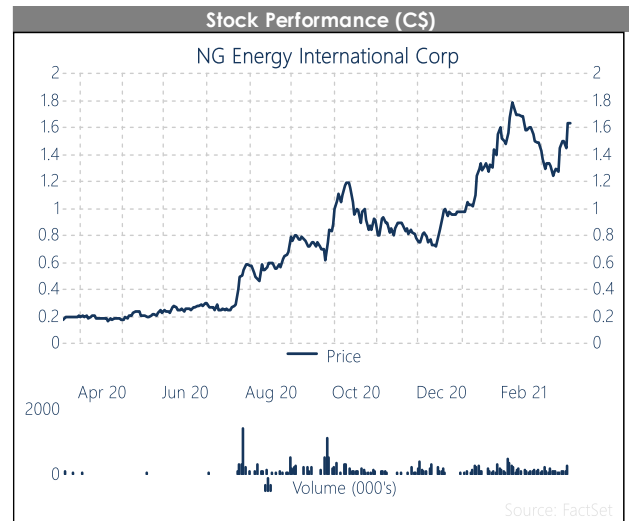
Financial (US\$MM, except Per Share item)	2019A	2020E	2021E	2022E
FFO	(\$3.9)	(\$1.6)	\$11.6	\$52.7
CAPEX	\$1.4	\$2.2	\$33.0	\$60.0
YE Net Debt	\$0.7	(\$4.1)	\$7.6	\$12.2
Net Debt/CF	-0.2x	2.6x	0.7x	0.2x
FFOPS - Fully Diluted	(\$0.32)	(\$0.03)	\$0.11	\$0.46
EPS - Fully Diluted	\$0.09	(\$0.11)	\$0.00	\$0.11

Valuation	2019A	2020E	2021E	2022E
P/CF			14.4x	3.6x
EV/DACF			10.7x	2.9x
EV/BOEPD			\$63,255	\$18,066

Stock Data	2019A	2020E	2021E	2022E
Shares Outstanding, Basic (MM)			105.4	
Shares Outstanding, Diluted (MM)			136.9	
Insider Holdings, Basic			36%	
Market Capitalization (MM)			\$172.9	
Enterprise value (MM)			\$158.2	

About the Company

NG Energy is engaged in natural gas acquisition, exploration and production in Colombia. Head office is in Bogota, Colombia.



Resource Report Highlights

The Petrotch report breaks the potential resources for each of the Sinu-9 and Maria Conchita Blocks into various categories, based on the level of confidence that GASX will make future discoveries.

In the Sinu-9 Block, there is 752 km of 2D seismic and 12 previously drilled wells that were used to determine the contingent resources. Further, there are 12 prospects and 5 leads identified in the other 2 categories for this block.

At Maria Conchita, Petrotech has identified 6 prospects in its evaluation of the 3D seismic and geobody facies mapping.

Exhibit 1: Resource Report Summary

	Best Estimate (bcf)	
	100% WI	GASX WI
Sinu-9 Block		
Contingent Resources	51.4	37.0
Prospects	836.4	602.2
Leads	637.4	459.0
	<u>1525.2</u>	<u>1098.2</u>
Maria Conchita Block	194.9	155.9
Prospects		
Total	1720.1	1254.1

Source: Company reports, Beacon Securities Limited

We maintain our equal weighting to each of our EV/DACF and Risked, After-tax Exploration NAV methods to determine our \$3.000 per share 12-month target price. We apply a 25% tax-rate to the value of the potential before-tax reserves (see Exhibit 3) to give a more accurate estimation of the value of the company on an after-tax basis.

Exhibit 2: Target Price Calculation

	2022 DACF multiple	Risked Atx 10% NAV	Total
	3.5x		
Value	\$2.05	\$3.89	
Weighting	50%	50%	100%
Target Price	\$1.03	\$1.94	\$2.97

Source: Company Reports, Beacon Securities Limited

Exhibit 3: Risked Exploration Net Asset Value

			BTx 10%	
Assets			NPV (US\$m)	Per FD Share
Reserves				
PDP	0.0	bcf	\$0.0	\$0.00
PNP	0.0	bcf	\$0.0	\$0.00
PUD	11.7	bcf	\$12.7	\$0.09
Total Proved (1P)	11.7	bcf	\$12.7	\$0.09
Probable	14.1	bcf	\$35.8	\$0.26
Proved & Probable (2P)	25.9	bcf	\$48.5	\$0.35
Other Assets / Liabilities				
Proceeds from options & warrants	31.5	mm	\$30.4	\$0.22
Q1/21E Net working capital			\$11.5	\$0.08
FD Shares Outstanding	136.9	mm		
NAV per share - PDP			\$41.8	\$0.31
NAV per share - 1P			\$54.5	\$0.40
NAV per share - 2P			\$90.3	\$0.66
Undiscovered Upside			BTx 10% Unrisked (US\$m)	BTx 10% Risked (US\$m)
			Per FD Share	Per FD Share
Maria Conchita	156	bcf	\$168.7	\$1.23
SN-9 Phase 1	285	bcf	\$308.6	\$2.25
SN-9 remainder	813	bcf	\$879.9	\$6.43
Tiburón	500	bcf	\$541.1	\$3.95
Total			\$1,898.3	\$13.87
NAV per share - PDP with exploration upside			\$1,940.2	\$14.17
NAV per share - 1P with exploration upside			\$1,952.8	\$14.26
NAV per share - 2P with exploration upside			\$1,988.6	\$14.53
C\$ NAV at \$0.79				
			(C\$m)	Per FD Share
			(C\$m)	Per FD Share
NAV per share - PDP			\$53.0	\$0.39
NAV per share - 1P			\$69.0	\$0.50
NAV per share - 2P			\$114.3	\$0.84
NAV per share - PDP with exploration upside			\$2,455.9	\$17.94
NAV per share - 1P with exploration upside			\$2,472.0	\$18.06
NAV per share - 2P with exploration upside			\$2,517.3	\$18.39

Source: Company reports, Beacon Securities Limited

Operating & Financial Summary

NG ENERGY INTERNATIONAL CORP.
Recommendation: BUY Target price: \$3.00

SHARE INFORMATION					VALUATION				
	2019A	2020E	2021E	2022E	2019A	2020E	2021E	2022E	
Price				\$1.64	EV/DACF		0.0x	10.7x	2.9x
Shares O/S – basic (mm)				105.4	P/CF (diluted)		0.0x	14.4x	3.6x
Shares O/S – float (mm)				56.6	P/E		neg	438.1x	15.5x
Shares O/S – f.d. (mm)				136.9	EV/production (\$/boe/d)		n.a.	\$64,008	\$20,304
Market cap (C\$mm)				\$173	Price/ PDP NAV		n.a.		
Enterprise value (C\$mm)				\$158	Price/ 1P NAV		n.a.		
52-week range				\$1.88 - \$0.17	Price/ 2P NAV		n.a.		
Total projected return				83%					
COMMODITY PRICES					NETBACKS (US\$/boe)				
	2019A	2020E	2021E	2022E	2019A	2020E	2021E	2022E	
Brent (US\$/bbl)	\$64.45	\$43.04	\$57.26	\$70.00	Revenue (incl. hedging)	\$116.41	-	\$30.00	\$31.50
HHUB (US\$/mcf)	\$2.55	\$2.13	\$2.78	\$2.82	Royalties	(\$8.99)	-	(\$4.80)	(\$5.04)
Fx (C\$/US\$)	\$0.75	\$0.75	\$0.78	\$0.79	Operating & Trans	(\$33.81)	-	(\$9.00)	(\$9.00)
					Operating Netback	\$73.60	-	\$16.20	\$17.46
					G&A	(\$353.37)	-	(\$2.30)	(\$0.80)
					Interest	(\$6.27)	-	(\$2.16)	(\$1.20)
					Other	(\$39.29)	-	(\$0.48)	(\$1.32)
					Cash Flow Netback	(\$325.32)	-	\$11.25	\$14.14
					DD&A	(\$45.18)	-	(\$10.00)	(\$10.00)
					Stock based compensation	\$8.80	-	(\$0.19)	(\$0.05)
					Other non-cash	\$465.42	-	(\$0.38)	(\$0.11)
					Deferred tax	\$0.00	-	(\$0.20)	(\$0.68)
					Earnings Netback	\$93.13	-	\$0.37	\$3.26
PRODUCTION					RESERVES (mmboe)				
	2019A	2020E	2021E	2022E	2018A	2019A	2020E		
Oil & Liquids (bbl/d)	31	0	0	0	PDP	-	-	-	
Natural Gas (mmcf/d)	0.0	0.0	17.1	61.5	Proved (1P)	-	-	2.0	
boe/d (6:1)	31	0	2,853	10,244	Proved + Probable (2P)	-	-	4.3	
% Liquids	0%	n.a.	100%	100%	PDP NAV BT (US\$/Share)	-	-	\$0.08	
					1P NAV BT (US\$/Share)	-	-	\$0.20	
Production Growth		-100%	n.a.	259%	2P NAV BT (US\$/Share)	-	-	\$0.53	
Prod Growth Per Share	-88%	-100%	n.a.	223%					
FINANCIAL (US\$mm)					CAPITAL EFFICIENCIES				
	2019A	2020E	2021E	2022E	2018A	2019A	2020E	3-yr WAvg	
Revenue	1.3	0.5	31.2	117.8	PDP FD&A (US\$/boe)	-	-	n.a.	\$1,486.99
Royalties	(0.1)	(0.0)	(5.0)	(18.8)	PDP Op. Recycle Ratio	-	-	n.a.	0.0x
Operating & Trans	(0.4)	(0.1)	(9.4)	(33.7)	PDP CF Recycle Ratio	-	-	n.a.	0.0x
G&A	(4.0)	(2.1)	(2.4)	(3.0)	2P FD&A (US\$/boe)	-	-	\$0.91	\$7.18
EBITDA	(3.2)	(1.8)	14.5	62.3	2P Op. Recycle Ratio	-	-	n.a.	2.8x
Interest	(0.1)	(0.5)	(2.3)	(4.5)	2P CF Recycle Ratio	-	-	n.a.	-0.9x
DD&A	(0.5)	(0.3)	(10.4)	(37.4)					
Taxes	0.0	0.0	(0.7)	(7.5)					
Other	4.2	(2.6)	(0.6)	(0.6)					
Net Income	\$1.1	(\$5.3)	\$0.4	\$12.2					
FFO (mm)	(\$3.9)	(\$1.6)	\$11.6	\$52.7					
FFOPS (basic)	(\$0.32)	(\$0.03)	\$0.11	\$0.46					
FFOPS (diluted)	(\$0.32)	(\$0.03)	\$0.11	\$0.46					
EPS Fully Diluted	\$0.09	(\$0.11)	\$0.00	\$0.11					
Net Debt	\$0.7	(\$4.1)	\$7.6	\$12.2					
D/CF - trailing	NA	NA	0.7x	0.2x					
D/CF - forward	NA	NA	0.1x						
Debt capacity (mm)									
CAPITAL PROGRAM					2021 QUARTERLY FORECASTS				
	2019A	2020E	2021E	2022E	Q1E	Q2E	Q3E	Q4E	
Total Capex (US\$mm)	\$1	\$2	\$33	\$60	Liquids (bbl/d)	0	0	0	0
% of cash flow	-37%	-133%	284%	114%	Natural Gas (mmcf/d)	0.0	15.0	19.0	34.1
					Total (boe/d)	0	2,500	3,167	5,680
					EBITDA (US\$MM)	-\$0.6	\$3.1	\$4.1	\$7.9
					FD FFO	-\$0.01	\$0.03	\$0.03	\$0.06
					FD EPS	-\$0.01	\$0.00	\$0.00	\$0.01

Source: Company reports, Beacon Securities Limited

Risks

- **Commodity Price Fluctuations** – The company has direct exposure to Colombian natural gas prices. Downward movements in this commodity can adversely affect the financial performance of the company. To offset this risk, the company may enter into derivative risk management contracts to manage its exposure to commodity price fluctuations.
- **Financing** – Exploring and developing for hydrocarbons may require a combination of debt and equity capital. We do not forecast additional equity; however, our models incorporate fluctuations in net debt. There is no certainty that the company can raise equity capital or that its bank lines will remain static or increase.
- **Foreign exchange & Interest Rates** – Any movement in either of these rates has the potential to adversely affect the company's financial performance.
- **Cost Overruns** – Unexpected drilling, completion and/or operational cost overruns can mitigate the operational and financial performance of the company.
- **Country risk** – A change in government may lead to policies or laws that are detrimental to the industry or company, which may impact results. As Colombia is a democratically-elected government that ranks within the top-100 on the 2019 Corruption Perceptions Index, this risk is muted.
- **Weather and Seasonal Factors** – Extreme weather conditions may influence results.
- **Change in Fiscal Regime** – A change in the royalty or tax rates as they relate to oil and gas production may adversely affect cash flows.
- **Well Performance** – The company may have a higher than normal amount of risk associated with its wells or plays due to the early-stage nature of its asset base. Lower production volumes, higher decline rates and/or dry holes can adversely affect the results of the company, particularly from a potential negative reserve revision perspective. Past performance may not be indicative of future execution.

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As of February 28th, 2021	#Stocks	Distribution
BUY	64	71.1%
Speculative Buy	17	18.9%
Hold	1	1.1%
Sell	0	0.0%
Under Review	7	7.8%
Tender	1	1.1%
Total	90	100%

BUY Total 12-month return expected to be > 15%
 Speculative Buy Potential 12-month return is high (>15%) but given elevated risk, investment could result in a material loss
 Hold Total 12-month return is expected to be between 0% and 15%
 Sell Total 12-month return is expected to be negative
 Under Review
 Tender Clients are advised to tender their shares to a takeover bid or similar offer

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