

## NG Energy International Corp. (GASX-V)

### \$7 Million Equity Issue To Accelerate Sinu-9 Drilling

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Kirk Wilson, CFA

(403) 819-5280

[kwilson@beaconsecurities.ca](mailto:kwilson@beaconsecurities.ca)

**Event:** GASX announced a non-brokered private placement for C\$7 million via the issuance of 7 million units at a price of C\$1.00 per unit. Each unit consists of 1 common share and 1 warrant that entitles the holder to purchase 1 common share for C\$1.20 until October 2023.

Proceeds from the financing will allow GASX to expedite the drilling program at the Sinu-9 Block by building roads and drilling pads (~US\$750k per location) concurrently rather than consecutively. This should save GASX several weeks per well. The pre-drilling work is underway at the Magico-1X well with drilling to commence in the next few weeks as the rig is standing by at a nearby location. Sinu-9 Phase 1 drilling consists of four wells and each well has the potential for 15-30 mmcf/d gross (perhaps more at Hechizo).

In addition, the company will install a submersible pump system to deal with the downhole water at Istanbul-1. This should allow initial production of 4 mmcf/d from this well to begin by initially trucking the natural gas to one end user at US\$5/mcf net.

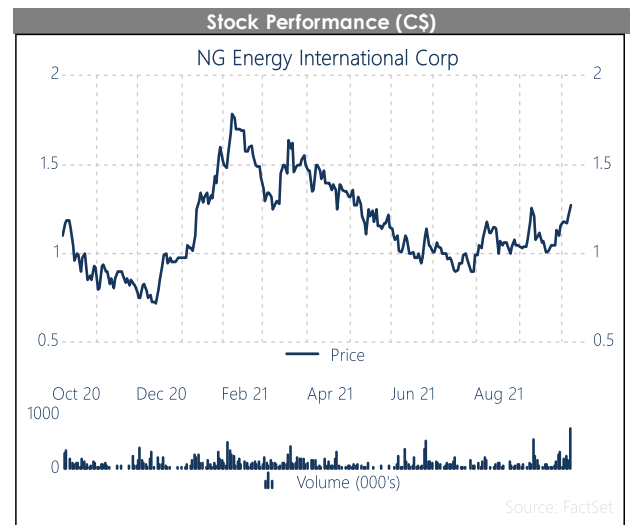
The production from the Maria Conchita Block should be pipeline connected in the next 6-8 weeks as GASX is dealing with final environmental approvals. When complete, the Aruchara-1 and Istanbul-1 wells will contribute 15-20 mmcf/d gross at full capacity.

**Conclusion & Recommendation:** The injection of equity capital at this time allows GASX to expedite activities in Colombia and de-risks the financing question. The dilution is basically offset from the lower risk. As such, we maintain our \$2.80 target price and our Buy rating.

Equity Financing				
BUY (unch)	\$2.80 (unch)			
Recent price	\$1.38			
12-month Target Price	\$2.80			
Potential Return	103%			
52 Week Price Range	\$0.69 - \$1.88			
FYE	Dec 31			
Assumptions	2019A	2020A	2021E	2022E
Brent (US\$/bbl)	\$64.45	\$43.04	\$67.63	\$70.00
HHUB (US\$/mcf)	\$2.55	\$2.13	\$3.01	\$2.90
US\$/CDN\$	\$0.75	\$0.75	\$0.80	\$0.80
Production				
Crude oil & Liquids (bbl/d)	31	-	-	-
Natural Gas (mmcf/d)	-	-	1.8	61.2
Total Production (boe/d)	31	-	294	10,200
Financial (US\$MM, except Per Share item)				
FFO	(\$3.9)	(\$1.3)	(\$2.9)	\$53.0
CAPEX	\$1.4	\$4.5	\$27.6	\$61.5
YE Net Debt	\$0.7	\$2.8	\$19.3	\$25.1
Net Debt/CF	-0.2x	-2.1x	-6.7x	0.5x
FFOPS - Fully Diluted	(\$0.32)	(\$0.03)	(\$0.03)	\$0.43
EPS - Fully Diluted	\$0.09	(\$0.49)	(\$0.04)	\$0.10
Valuation				
P/CF			-50.0x	3.2x
EV/DACF			-92.1x	2.9x
EV/BOEPD			\$597,441	\$17,793
Stock Data				
Shares Outstanding, Basic (MM)				113.3
Shares Outstanding, Diluted (MM)				153.1
Insider Holdings, Basic				32%
Market Capitalization (MM)				\$156.3
Enterprise value (MM)				\$158.7

#### About the Company

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



# Operating & Financial Summary

**NG ENERGY INTERNATIONAL CORP.**
**Recommendation: BUY Target price: \$2.80**

SHARE INFORMATION					VALUATION				
					2020A	2021E	2022E		
Price			\$1.38		EV/DACF		-92.1x	2.9x	
Shares O/S – basic (mm)			113.3		P/CF (diluted)		-50.0x	3.2x	
Shares O/S – float (mm)			56.6		P/E		neg	13.5x	
Shares O/S – f.d. (mm)			153.1		EV/production (\$/boe/d)		\$613,882	\$20,033	
Market cap (C\$mm)			\$156		Price/ PDP NAV	247%			
Enterprise value (C\$mm)			\$159		Price/ 1P NAV	206%			
52-week range			\$1.88 - \$0.69		Price/ 2P NAV	140%			
<b>Total projected return</b>			<b>103%</b>						
COMMODITY PRICES					NETBACKS (US\$/boe)				
2019A	2020A	2021E	2022E		2019A	2020A	2021E	2022E	
Brent (US\$/bbl)	\$64.45	\$43.04	\$67.63	\$70.00	Revenue (incl. hedging)	\$116.41	-	\$30.00	\$31.50
HHUB (US\$/mcf)	\$2.55	\$2.13	\$3.01	\$2.90	Royalties	(\$8.99)	-	(\$4.80)	(\$5.04)
Fx (C\$/US\$)	\$0.75	\$0.75	\$0.80	\$0.80	Operating & Trans	(\$33.81)	=	(\$9.00)	(\$9.00)
					Operating Netback	\$73.60	-	\$16.20	\$17.46
					G&A	(\$353.37)	-	(\$28.39)	(\$0.81)
					Interest	(\$6.27)	-	(\$16.34)	(\$1.02)
					Other	(\$39.29)	=	\$2.19	(\$1.36)
					<b>Cash Flow Netback</b>	<b>(\$325.32)</b>	-	<b>(\$26.35)</b>	<b>\$14.28</b>
					DD&A	(\$45.18)	-	(\$10.03)	(\$10.00)
					Stock based compensation	\$8.80	-	(\$0.93)	(\$0.05)
					Other non-cash	\$465.42	-	(\$5.17)	(\$0.11)
					Deferred tax	\$0.00	=	\$0.88	(\$0.71)
					<b>Earnings Netback</b>	<b>\$93.13</b>	-	<b>(\$42.17)</b>	<b>\$3.37</b>
PRODUCTION					RESERVES (mmboe)				
2019A	2020A	2021E	2022E		2018A	2019A	2020A		
Oil & Liquids (bbl/d)	31	0	0	0	PDP	-	-	-	
Natural Gas (mmcf/d)	0.0	0.0	1.8	61.2	Proved (1P)	-	-	2.0	
<b>boe/d (6:1)</b>	<b>31</b>	<b>0</b>	<b>294</b>	<b>10,200</b>	Proved + Probable (2P)	-	-	4.3	
% Liquids	0%	n.a.	100%	100%	PDP NAV BT (US\$/Share)	-	-	\$0.56	
					1P NAV BT (US\$/Share)	-	-	\$0.67	
Production Growth		-100%	n.a.	3369%	2P NAV BT (US\$/Share)	-	-	\$0.98	
Prod Growth Per Share	-88%	-100%	n.a.	2853%					
FINANCIAL (US\$mm)					CAPITAL EFFICIENCIES				
2019A	2020A	2021E	2022E		2018A	2019A	2020A	3-yr WAvg	
Revenue	1.3	0.5	3.2	117.3	PDP FD&A (US\$/boe)	-	-	n.a.	\$0.00
Royalties	(0.1)	(0.0)	(0.5)	(18.8)	PDP Op. Recycle Ratio	-	-	n.a.	0.0x
Operating & Trans	(0.4)	(0.1)	(1.0)	(33.5)	PDP CF Recycle Ratio	-	-	n.a.	0.0x
G&A	(4.0)	(1.9)	(3.0)	(3.0)	2P FD&A (US\$/boe)	-	-	\$1.92	\$8.19
<b>EBITDA</b>	<b>(3.2)</b>	<b>(1.6)</b>	<b>(1.3)</b>	<b>62.0</b>	2P Op. Recycle Ratio	-	-	n.a.	2.4x
Interest	(0.1)	(0.4)	(1.8)	(3.8)	2P CF Recycle Ratio	-	-	n.a.	-0.8x
DD&A	(0.5)	(0.3)	(1.1)	(37.2)					
Taxes	0.0	0.0	0.3	(7.7)					
Other	4.2	(21.2)	(0.7)	(0.6)					
<b>Net Income</b>	<b>\$1.1</b>	<b>(\$23.7)</b>	<b>(\$4.5)</b>	<b>\$12.6</b>	2021 QUARTERLY FORECASTS				
FFO (mm)	(\$3.9)	(\$1.3)	(\$2.9)	\$53.0	Q1	Q2	Q3E	Q4E	
FFOPS (basic)	(\$0.32)	(\$0.03)	(\$0.03)	\$0.43	Liquids (bbl/d)	0	0	0	0
<b>FFOPS (diluted)</b>	<b>(\$0.32)</b>	<b>(\$0.03)</b>	<b>(\$0.03)</b>	<b>\$0.43</b>	Natural Gas (mmcf/d)	0.0	0.0	0.0	7.0
					Total (boe/d)	0	0	0	1,167
<b>EPS Fully Diluted</b>	<b>\$0.09</b>	<b>(\$0.49)</b>	<b>(\$0.04)</b>	<b>\$0.10</b>	EBITDA (US\$MM)	-\$0.8	-\$0.8	-\$0.8	\$1.0
Net Debt	\$0.7	(\$2.1)	\$19.3	\$25.1	FD FFO	-\$0.01	-\$0.01	-\$0.01	\$0.00
D/CF - trailing	NA	NA	NA	0.5x	FD EPS	-\$0.01	-\$0.01	-\$0.02	-\$0.01
D/CF - forward	NA	NA	0.4x						
Debt capacity (mm)									
CAPITAL PROGRAM									
2019A	2020A	2021E	2022E						
Total Capex (US\$mm)	\$1	\$5	\$28	\$62					
% of cash flow	-37%	-341%	-954%	116%					

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 at September 30th, 2021	#Stocks	Distribution
BUY	73	76.0%
Speculative Buy	19	19.8%
Hold	1	1.0%
Sell	0	0.0%
Under Review	2	2.1%
Tender	1	1.0%
<b>Total</b>	<b>96</b>	<b>100%</b>

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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