

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

### Still See Home Run Potential At Sinu-9, But The Outfield Fence Is Closer

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**Event:** GASX issued an operational update this morning that highlighted the similar target formation for GASX's Hechizo prospect as a recent Canacol Energy (CNE-T, not rated) well as well as a brief update on the wells in GASX's Maria Conchita Block.

**Anticipation building at Sinu-9 Block.** Last week, CNE reported that its Aguas Vivas-1 well has 412 feet of net gas pay, more than 100 feet thicker than its "thickest" well to date (Clarinete-5 at 309 feet, which tested 43 mmcf/d). The target formation in both those CNE wells was the Cienaga de Oro.

GASX's Hechizo prospect on the Sinu-9 Block will also target the Cienaga de Oro formation and GASX sees similar structure as Hicizo is ~10 km west of Agua Vivas.

GASX expects to receive environmental approval in July and will then begin the process (civil works and road access) to drill an initial 4 wells on the Sinu-9 Block. The 1<sup>st</sup> well is to be Magico-1X (Q3/21) with Hechizo in Q4/21.

**Delays at Maria Conchita, but 1<sup>st</sup> production nears.** Covid restrictions and social unrest (i.e.: tax reform protests) have impacted equipment movement such that only 3.7 km of the 14 km of pipe needed has arrived on site. Once the pipeline is installed and permits received, we expect the Aruchara and Istanbul wells to begin production at a combined rate of 15-20 mmcf/d gross (7.5-10 mmcf/d net), likely mid-to-late Q3/21.

**Conclusion & Recommendation:** The plan that GASX put in place early this year is still in place, albeit delayed. Initial gas production will come from the Maria Conchita Block with home-run potential at Sinu-9 that will be drilled in H2/21. By running a higher Cdn \$ thru our model, we are trimming our target price to \$2.90. We maintain a Buy rating.

#### Operational Update

**BUY (unch) \$2.90 (was \$3.00)**

Recent price	\$1.06
12-month Target Price	\$2.90
Potential Return	174%
52 Week Price Range	\$0.24 - \$1.88
FYE	Dec 31

Assumptions	2019A	2020E	2021E	2022E
Brent (US\$/bbl)	\$64.45	\$43.04	\$66.10	\$70.00
HHUB (US\$/mcf)	\$2.55	\$2.13	\$2.77	\$2.82
US\$/CDN\$	\$0.75	\$0.75	\$0.81	\$0.80

Production	2019A	2020E	2021E	2022E
Crude oil & Liquids (bbl/d)	31	-	-	-
Natural Gas (mmcf/d)	-	-	7.2	61.3
Total Production (boe/d)	31	-	1,197	10,215

Financial (US\$MM, except Per Share item)	2019A	2020E	2021E	2022E
FFO	(\$3.9)	(\$1.6)	\$2.7	\$52.6
CAPEX	\$1.4	\$2.2	\$32.5	\$60.0
YE Net Debt	\$0.7	(\$4.1)	\$16.0	\$20.8
Net Debt/CF	-0.2x	2.6x	6.0x	0.4x
FFOPS - Fully Diluted	(\$0.32)	(\$0.03)	\$0.03	\$0.45
EPS - Fully Diluted	\$0.09	(\$0.11)	(\$0.02)	\$0.10

Valuation	2019A	2020E	2021E	2022E
P/CF			40.9x	2.4x
EV/DACF			24.5x	2.2x
EV/BOEPD			\$106,717	\$12,974

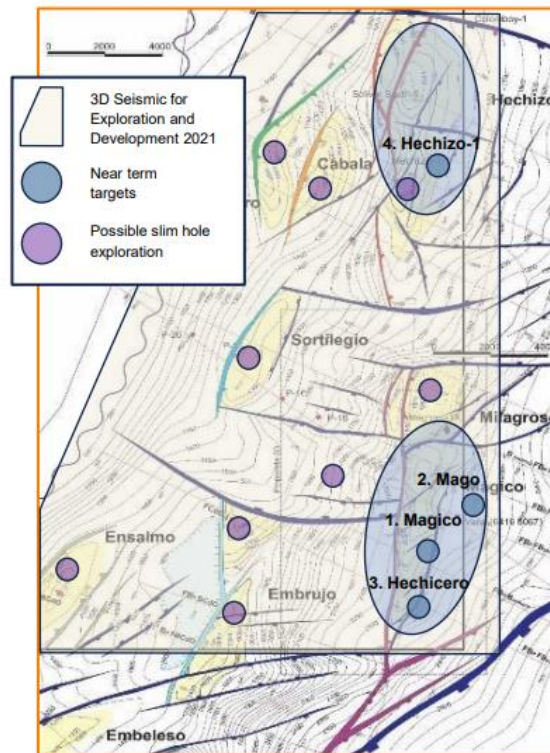
Stock Data	2019A	2020E	2021E	2022E
Shares Outstanding, Basic (MM)			105.4	
Shares Outstanding, Diluted (MM)			136.9	
Insider Holdings, Basic			34%	
Market Capitalization (MM)			\$111.7	
Enterprise value (MM)			\$97.3	

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



- As shown in Exhibit 1, the company has 4 wells planned for its initial drilling on the Sinu-9 Block. The first well is to be Magico-1X that will likely be followed by the Mago prospect. We expect both these wells to be drilled in Q3/21.
- GASX needs to get an approval of the Environmental Impact Study before operations on Sinu-9 can proceed. That document was submitted in December 2020 and a follow up in May 2021. Approval by the National Environmental Licensing Authority (ANLA) is expected in July.

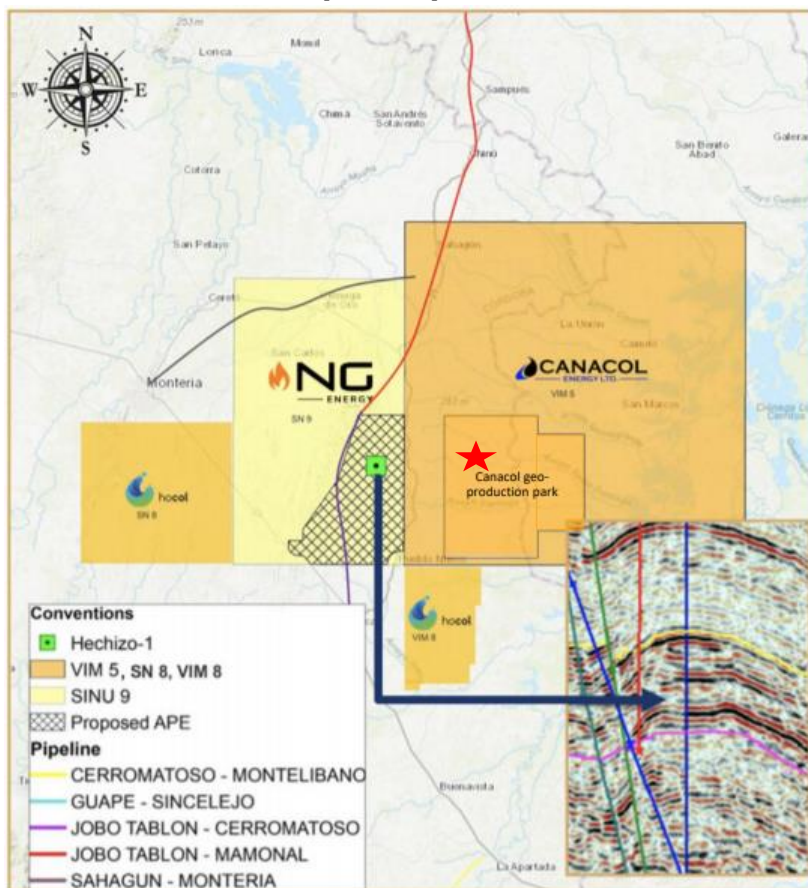
**Exhibit 1: Sinu-9 Block Prospects**



Source: Company presentation

- GASX has secured all drilling and completion activities through an agreement with CPVEN, meaning the initial civil works and road construction can begin as soon as the environmental approval is received.

**Exhibit 2: Sinu-9 Block (72% WI)**

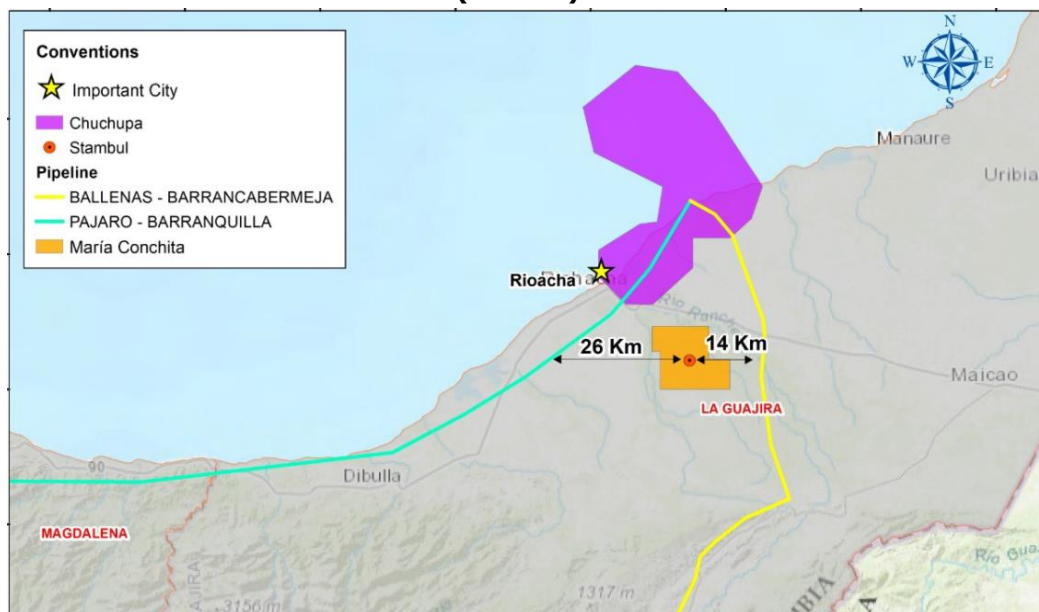


Source: Company presentation, Beacon Securities Limited

- While all the prospects in Sinu-9 hold high impact potential, perhaps the largest gem is the Hichizo target (shown as the green square in Exhibit 2).
- Hechizo is approximately 10 km west of the recently reported Aguas Vivas well drilled by Canacol Energy, which has the thickest net gas column at 412 feet.
- GASX believes there is considerable similarity between the Hechizo prospect and the Aguas Vivas well. To us, that means Hechizo holds the potential of 25-50 mmcf/d gross, which would make Hechizo alone a company-maker for GASX.

- Similar to Sinu-9, GASX is waiting for various environmental approvals to proceed with getting production from its Maria Conchita Block.
- Istanbul-1 may commence production once the pipe is installed as the company already has production approval in place. Although test data has not been released, GASX believes the best way forward is to put the well into continuous production ASAP. We expect that this well will have an initial rate of 2.4 mmcf/d gross.

**Exhibit 3: Maria Conchita Block (80% WI)**



Source: Company presentation

- As shown in Exhibit 3, the Aruchara and Istanbul wells are approximately 14 km west of one of the main natural gas pipelines in Colombia. GTX International, the company created to construct the plant and install pipelines for GASX, has 3.7 km of pipe on site and is waiting for the remaining 10 km to arrive.

With the recent strength of the Canadian dollar on the Fx market, we have updated our model using a higher Canadian dollar for both 2021 and 2022 as the company reports in US dollars.

We maintain our equal weighting to each of our EV/DACF and Risked, After-tax Exploration NAV methods to determine our \$2.90 per share 12-month target price. We apply a 25% tax-rate to the value of the potential before-tax reserves (see Exhibit 5) to give a more accurate estimation of the value of the company on an after-tax basis.

**Exhibit 4: Target Price Calculation**

	2022 DACF multiple	Risked Atx 10% NAV	Total
	3.5x		
Value	\$2.00	\$3.77	
Weighting	50%	50%	100%
Target Price	\$1.00	\$1.88	<b>\$2.89</b>

Source; Company Reports, Beacon Securities Limited

**Exhibit 5: Risked Exploration Net Asset Value**

	Assets		BTx 10%	
			NPV (US\$mm)	Per FD Share
<b>Reserves</b>				
PDP	0.0	bcf	\$0.0	\$0.00
PNP	0.0	bcf	\$0.0	\$0.00
PUD	11.7	bcf	\$12.7	\$0.09
<b>Total Proved (1P)</b>	<b>11.7</b>	<b>bcf</b>	<b>\$12.7</b>	<b>\$0.09</b>
Probable	14.1	bcf	\$35.8	\$0.26
<b>Proved &amp; Probable (2P)</b>	<b>25.9</b>	<b>bcf</b>	<b>\$48.5</b>	<b>\$0.35</b>
<b>Other Assets / Liabilities</b>				
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
			<b>Btx 10% Unrisked</b>	<b>Btx 10% Risked</b>
<b>Undiscovered Upside</b>			<b>(US\$mm) Per FD Share</b>	<b>(US\$mm) Per FD Share</b>
Maria Conchita	156	bcf	\$168.7 \$1.23	\$101.2 \$0.74
SN-9 Phase 1	248	bcf	\$268.5 \$1.96	\$120.8 \$0.88
SN-9 remainder	850	bcf	\$920.0 \$6.72	\$184.0 \$1.34
Tiburon	500	bcf	\$541.1 \$3.95	\$54.1 \$0.40
Total			\$1,898.3 \$13.87	\$460.2 \$3.36
NAV per share - PDP with exploration upside			\$1,940.2 \$14.17	\$502.0 \$3.67
NAV per share - 1P with exploration upside			\$1,952.8 \$14.26	\$514.7 \$3.76
NAV per share - 2P with exploration upside			\$1,988.6 \$14.53	\$550.5 \$4.02
<b>C\$ NAV at \$0.79</b>				
			<b>(C\$mm) Per FD Share</b>	<b>(C\$mm) Per FD Share</b>
NAV per share - PDP			\$52.3	\$0.38
NAV per share - 1P			\$68.2	\$0.50
NAV per share - 2P			\$112.9	\$0.82
NAV per share - PDP with exploration upside			\$2,425.2 \$17.72	\$627.5 \$4.58
NAV per share - 1P with exploration upside			\$2,441.1 \$17.83	\$643.4 \$4.70
NAV per share - 2P with exploration upside			\$2,485.8 \$18.16	\$688.1 \$5.03

Source: Company reports, Beacon Securities Limited

## Operating & Financial Summary

**NG ENERGY INTERNATIONAL CORP.**
**Recommendation: BUY Target price: \$2.90**

SHARE INFORMATION					VALUATION				
Price			\$1.06		EV/DACF			24.5x	2.2x
Shares O/S – basic (mm)			105.4		P/CF (diluted)			40.9x	2.4x
Shares O/S – float (mm)			56.6		P/E			neg	10.2x
Shares O/S – f.d. (mm)			136.9		EV/production (\$/boe/d)			\$109,658	\$14,728
Market cap (C\$m)			\$112		Price/ PDP NAV	n.a.			
Enterprise value (C\$m)			\$97		Price/ 1P NAV	n.a.			
52-week range			\$1.88 - \$0.24		Price/ 2P NAV	n.a.			
<b>Total projected return</b>			<b>174%</b>						

COMMODITY PRICES					NETBACKS (US\$/boe)				
Brent (US\$/bbl)	2019A	2020E	2021E	2022E	Revenue (incl. hedging)	2019A	2020E	2021E	2022E
HHUB (US\$/mcf)	\$64.45	\$43.04	\$66.10	\$70.00	Royalties	\$116.41	-	\$30.00	\$31.50
Fx (C\$/US\$)	\$2.55	\$2.13	\$2.77	\$2.82	Operating & Trans	(\$8.99)	-	(\$4.80)	(\$5.04)
	\$0.75	\$0.75	\$0.81	\$0.80	Operating Netback	(\$33.81)	-	(\$2.00)	(\$9.00)
					G&A	\$73.60	-	\$16.20	\$17.46
					Interest	(\$353.37)	-	(\$5.49)	(\$0.80)
					Other	(\$6.27)	-	(\$5.15)	(\$1.21)
					<b>Cash Flow Netback</b>	<b>(\$325.32)</b>	-	<b>\$6.40</b>	<b>\$14.13</b>
					DD&A	(\$45.18)	-	(\$10.00)	(\$10.00)
					Stock based compensation	\$8.80	-	(\$0.46)	(\$0.05)
					Other non-cash	\$465.42	-	(\$0.92)	(\$0.11)
					Deferred tax	\$0.00	-	\$0.39	(\$0.68)
					<b>Earnings Netback</b>	<b>\$93.13</b>	-	<b>(\$4.86)</b>	<b>\$3.26</b>

PRODUCTION					RESERVES (mmboe)				
Oil & Liquids (bbl/d)	2019A	2020E	2021E	2022E	PDP	2018A	2019A	2020E	
Natural Gas (mmcf/d)	31	0	0	0	Proved (1P)	-	-	-	
<b>boe/d (6:1)</b>	<b>31</b>	<b>0</b>	<b>1,197</b>	<b>10,215</b>	Proved + Probable (2P)	-	-	4.3	
% Liquids	0%	n.a.	100%	100%	PDP NAV BT (US\$/Share)	-	-	\$0.08	
Production Growth		-100%	n.a.	753%	1P NAV BT (US\$/Share)	-	-	\$0.20	
Prod Growth Per Share	-88%	-100%	n.a.	667%	2P NAV BT (US\$/Share)	-	-	\$0.53	

FINANCIAL (US\$m)					CAPITAL EFFICIENCIES				
Revenue	2019A	2020E	2021E	2022E	PDP FD&A (US\$/boe)	2018A	2019A	2020E	3-yr WAvg
Royalties	1.3	0.5	13.1	117.4	PDP Op. Recycle Ratio	-	-	n.a.	\$1,486.99
Operating & Trans	(0.1)	(0.0)	(2.1)	(18.8)	PDP CF Recycle Ratio	-	-	n.a.	0.0x
G&A	(0.4)	(0.1)	(3.9)	(33.6)	2P FD&A (US\$/boe)	-	-	\$0.91	\$7.18
<b>EBITDA</b>	<b>(3.2)</b>	<b>(1.8)</b>	<b>4.7</b>	<b>62.1</b>	2P Op. Recycle Ratio	-	-	n.a.	2.8x
Interest	(4.0)	(2.1)	(2.4)	(3.0)	2P CF Recycle Ratio	-	-	n.a.	-0.9x
DD&A	(0.1)	(0.5)	(2.3)	(4.5)					
Taxes	(0.5)	(0.3)	(4.4)	(37.3)					
Other	0.0	0.0	0.5	(7.4)					
<b>Net Income</b>	<b>4.2</b>	<b>(2.6)</b>	<b>(0.6)</b>	<b>(0.6)</b>					
FFO (mm)	\$1.1	(\$5.3)	(\$2.1)	\$12.1					
FFOPS (basic)	(\$3.9)	(\$1.6)	\$2.7	\$52.6					
<b>FFOPS (diluted)</b>	<b>(\$0.32)</b>	<b>(\$0.03)</b>	<b>\$0.03</b>	<b>\$0.46</b>					
<b>EPS Fully Diluted</b>	<b>\$0.09</b>	<b>(\$0.11)</b>	<b>(\$0.02)</b>	<b>\$0.10</b>					
Net Debt	\$0.7	(\$4.1)	\$16.0	\$20.8					
D/CF - trailing	NA	NA	6.0x	0.4x					
D/CF - forward	NA	NA	0.3x						
Debt capacity (mm)									

CAPITAL PROGRAM					2021 QUARTERLY FORECASTS				
Total Capex (US\$m)	2019A	2020E	2021E	2022E	Liquids (bbl/d)	Q1E	Q2E	Q3E	Q4E
% of cash flow	\$1	\$2	\$33	\$60	Natural Gas (mmcf/d)	0	0	0	0
	-37%	-133%	1215%	114%	Total (boe/d)	0.0	0.0	7.5	21.0
						0	0	1,250	3,500
					EBITDA (US\$m)	-\$0.6	-\$0.6	\$1.3	\$4.6
					FD FFO	-\$0.01	-\$0.01	\$0.01	\$0.03
					FD EPS	-\$0.01	-\$0.01	-\$0.01	\$0.00

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 May 31st, 2021	#Stocks	Distribution
BUY	69	73.4%
Speculative Buy	22	23.4%
Hold	1	1.1%
Sell	0	0.0%
Under Review	1	1.1%
Tender	1	1.1%
Total	94	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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