A Sea Change in Communication to Shareholders

The following is intended as a framework for use by readers to undertake their own research and does not attempt to advise shareholders in any way.

The time was right, and the presentation delivered by the CEO on 14 May, was **a game changing communication of key parameters associated with post NGP gas sales.**

Key strategic objectives were nominated with respect to amortisation of debt and renewed emphasis was placed on high value exploration as the prime means of achieving increased shareholder value.

Expected free cash flow to finance exploration was quantified and the presentation should put an end to shareholder concerns on future profitability.

My take on the Key Business Parameters that were presented.

- **The future adjusted FCF after debt service of $13M/year for 2019-20 and $20M/year after 2021**

  Supported by:-

- Average Adjusted (Site gate) Gas Sale Price **$5.14**/GJ
- Unit Cash Production Cost **$2.28/GJ**
- Total Adjusted Sale Price of $5.14/GJ would indicate operating margins in the order **of $2.75-$3.00**/GJ.
- A **$1.00** increase in margin (Resulting from rising East Coast Gas Prices) would add **$14M**/Year in Free Cash Flow after Debt Service Based on Current Sales.
- Debt Amortisation Period over **7** Years with $22M paid from Earnings in 2019.
- Go Forward Sustaining CAPEX & other exploration inclusive of production drilling & recurring exploration costs could be in the **order of $10M** per annum.
- Approximate Reserve life averaged across all fields **10** Years

My Personal Comments: -

1. I would expect that **$2.28** Cost of production would trend downwards and that the refinancing exercise would result in lower interest rates on outstanding debt **however the major improvement in adjusted FCF after debt service is more likely to come from future GSA's that reflect a rising East Coast market.**

A $2.00 increase in GSA prices could easily double the $20M post 2021 FCFAD target to say $40M/Year.

If we add say a further $15M/Year from the Range Gas Project (See below), we could now have > $50M before tax Etc. to feed into "high-potential exploration activities".

- The underpinning financial strategy looks pretty sound to me and short of a hostile take-over, the CTP board are now in a much better position to wait for an attractive transactional offer to shareholders.

2. Using the average adjusted sale price **$5.14/GJ** site gate price and its associated **$2.75-$3.00/GJ**, margin shareholders can now come up with a reasonable approximation of future FCF as East Coast gas prices rise.

   Published rates for haulage (Say to Wallumbilla) are easily obtained from the Jemena & APA websites and the Wallumbilla Gas prices from the AEMO website to estimate GSA site gate prices.

https://www.apa.com.au/our-services/gas-transmission/current-tariffs-and-terms/current-tariffs-and-terms/

https://jemena.com.au/pipelines/northern-gas-pipeline/services

3. **IMO the production side of the business is best thought of as a cash production machine that provides exploration funding.**

    - **Simply valuing the business as a production operation tends to overlook CTP's true share price valued in accordance with its potential as an exploration company.**

    - **CTP is now in the enviable position of being able to fund organic growth through exploration from our current gas production operation.**

4. From a shareholder perspective I think this means that dividends are unlikely to be paid to shareholders during the 7 year amortisation period for existing debt and that the ultimate reward to shareholders will be delivered by a takeover.

The Next cab off the rank is Dukas.

At this point I would like to take this opportunity to thank psi81 for excellent comments on Dukas, Surprise Etc. written so they can be easily understood by shareholders.

Much as I would like to see this level of detail coming from CTP, I am very thankful that we have these posts and as I have said before I am not a geologist so please take notice of psi where my comments inadvertently differ from psi's.

To make things easy I have taken the liberty of adding the following are links to some of psi's posts from the HC search engine under "Dukas".

These are well worth reading first!

https://hotcopper.com.au/threads/2018-price-target.3846614/page-15?post_id=28994183 https://hotcopper.com.au/threads/ann-latest-company-presentation.4426064/page-2?post_id=35545580

https://hotcopper.com.au/threads/ctp-use-of-ngp-capacity.4415219/page-40?post_id=35644376

https://hotcopper.com.au/threads/ann-reserves-update.4532523/page-34?post_id=36496961

https://hotcopper.com.au/threads/dukas.4541345/page-14?post_id=37227278

https://hotcopper.com.au/threads/ann-resignation-of-director.4626481/page-16?post_id=37366436

https://hotcopper.com.au/threads/ann-resignation-of-director.4626481/page-33?post_id=37408284

https://hotcopper.com.au/threads/march-19-quarterly-projections.4697702/page-22?post_id=38363363

(If the HC links don't open try selecting both lines carefully & paste them into your web browser.)

IMO it is however worth bearing in mind that with a drilling success could pave the way for the entire basin becoming a gas province.

The following is a first cut at a relationship between Tcf from a success case to share price., "On the back of a cigarette packet"!

The broker reports tend to focus on 2 fundamentals.

- What is the likely CTP's share of Dukas reserves?
  The rocks haven't spoken yet so we are still guessing!

- What value would a potential buyer place per gigajoule on these reserves?
  Well this is brokers stock in trade so their guess is as good as any!

  Psi's posts above provide some sort of an idea on the chance of success.

The CPSA recently advised that "Well known O&G scribe Peter Strachan has given us permission to distribute his article on the CTP Santos Dukas JV." It is well worth reading.

See PDF File Attached to this HC post.

The above StockAnalysis article assesses a 1.5 Tcf discovery, ascribing an **in situ value of A$0.90 per GJ** to gas discovered in this location.

- At this point it is worth noting that Dukas is potentially a multi Tcf target so for this exercise I have gone with a 1 Tcf example as opposed to the StockAnalysis number of 1.5 Tcf. which gives 300 PJ net to Central.

I don't blame retail shareholders for getting lost here but what happens is that there is a convenient approximation for conversion of trillions of cubic feet of natural gas (Used to discuss potential discoveries) and Petajoules (Used to discuss reserves).

Put simply…

1 Tcf (Trillion Cubic Feet of gas) is about 1,000 PJ

If we take the in situ **transaction price of $0.90/GJ** mentioned in the StockAnalysis article this gives us…

CTP 30% share of 300PJ = 300 Million GJ X $0.90/GJ **=$270M** as an indicative value for the CTP 30% share of a successful Dukas 1Tcf outcome.

Divided by the number of CTP shares this comes out at **$0.37/Share/Tcf** which is lower than the $55C/share mentioned in the StockAnalysis article based a 1.5 Tcf success case.

- The whole thing at this point is an educated guess but at least it gives us some idea!

  Interestingly, the 18/05/19 CTP market cap of $99.81M divided by 30/06/18 2P reserves of 122.9PJ (With a connected pipeline to the East Coast market) comes out at $0.81C/GJ of 2P reserves.

To get some idea of Dukas timing, please refer to a really informative HC post by Michaeljob.

https://hotcopper.com.au/threads/ann-dukas-1-well-spuds.4717531/page-65?post_id=38625145

I am not aware of any present plans to connect Dukas to the Amadeus pipeline and would be interested to hear any news on this.

I am still working on the basis that last Santos annual report showed a dotted pipeline to the Santos processing facility at Moomba and in any case, it is a much more direct to local & East Coast Export markets.

IMO a pipeline from Dukas to Mereenie surface facilities may have access approval issues & in any case CTP needs the Mereenie processing operation for say 10 years.

Surat Basin CSG Range Project (ATP2031)

- Targeting 75-90 PJ Net to Central
- 5 well exploration programme planned for the fourth quarter of this financial year, with the potential for another 4 well pilot project depending on technical results.
- The permit area covers 77km^2
- Rough Transaction Value of say $1.80 /GJ

    Based on a historic (CSG) transaction prices of say $1.80/GJ and the recent Ironbark Transaction of $1.79

    75 Million Gigajoules Net to Central X say $1.80 gives a hypothetical transaction value of **$135M = 19C/CTP** Share

    Unlike Dukas the Range CSG tenement IMO has a pretty good chance of being commercial and CTP are in the very good position of not having to spend money until IPL execute a 5 well Exploration & Appraisal drilling program.

- Looked at as a contribution to FCF, and a CTP share of extracted gas of say 20 TJ/day for 10 years (Which is at the lower end of Net to Central share) & say a margin of $2.00/GJ which should be conservatively achievable with rising East Coast Gas Prices would give us an **FCF of say $15M/year before tax which would add to our exploration funding capability.**

Closing Comments

I personally see the latest CTP presentation as heralding a much clearer understanding by shareholders of future business performance and hope that this will promote a much more realistic understanding of CTP share value.

As I wrote this, I was increasingly convinced that CTP now has a solid foundation on which to grow shareholder value organically using existing gas production assets together with the Range gas Project.

Exploration success at Dukas and other CTP tenements will simply accelerate the process.

Regards

OGP