

AJ Lucas Group

Initial flow test results

Flow test results

Oil & gas

7 February 2019

Price **A\$0.17**

Market cap **A\$127m**

Net debt (A\$m) at 30 June 2018 75

Shares in issue 750.1m

Free float 32%

Code AJL

Primary exchange ASX

Secondary exchange N/A

Share price performance



Business description

AJ Lucas has investments in the exploration and commercialisation of shale gas in the UK through licence equity interests and a stake in Cuadrilla. It also has two Australia-based operating business units: Drilling Services (LDS) and Engineering & Construction (LEC).

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Cuadrilla has become the first operator to have flowed gas from a horizontal shale gas exploration well in the UK. Initial results are encouraging, with recovered gas containing very high methane content (96%), no H₂S and minimal CO₂. Core samples suggest the Bowland shale is quartz rich, with low clay content and excellent properties for fracturing. Gas flowed to the surface from PNR1-z at a peak rate of 0.2mmscfd, but with just two of 41 installed stages along the horizontal section fully fractured as designed. Less than 14% of sand planned for injection was put in place as Cuadrilla attempted to operate within the regulatory micro-seismic traffic light system. Cuadrilla estimates that a 2.5km horizontal well, with all stages fractured as planned, would have a potential initial production (IP) rate of 3–8mmscfd (no IP time period stated). Data were not provided on type curve or potential estimated ultimate gas recovery (EUR) given the limited duration of the test. EUR would be a key additional input when determining commerciality. In our initiation note published on 9 April 2018, we estimated a minimum commercial 30-day IP rate of 5mmscfd for a 2.5km lateral.

Year end	Revenue (A\$m)	Gross profit (A\$m)	Underlying EBITDA* (A\$m)	Capex (A\$m)	Net debt (A\$m)
06/17	122.6	1.4	(3.8)	(12.8)	85.1
06/18	127.1	21.6	15.4	(13.5)	75.0
06/19e**	127.2	17.8	13.5	(23.0)	86.3
06/20e	129.7	18.2	13.9	(3.0)	77.7

Note: *Before share of loss from equity accounted investees, UK investment overhead, asset sales and one-off costs. **Assumes sale of Lucas Engineering & Construction.

UK shale valuation. Our [last published](#) P50 valuation of AJ Lucas stands at A\$0.93/share. Given current uncertainty around Bowland shale type curves, well costs, rig availability and gas prices, we use a probabilistic approach to valuation, which does not include political or regulatory risk. Our base case assumed a probabilistic-type curve based on data from consultancy Anderson Thompson (we interpreted mid-case 30-day IP rate of 15mmscfd and 6.5bcf EUR for 2.5km lateral).

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United Kingdom

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