TENNYSON E&P news – Beacon Energy – Schwarzbach-2(2.) update – anticipated initial flow rate of 900 bopd

Tennyson Securities, Energy Research
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Beacon Energy (BCE LN) has issued an update on the Schwarzbach-2(2.) well, following on from last month's announcement of a substantial oil discovery. The company has completed analysis of the well's flow potential, based on the reservoir parameters, nearby analogue wells, and the oil recovered to surface, with indications of a minimum of 900 bopd expected from this wellbore – at least 50% higher than the considered pre-drill base case of 600 bopd. Since TD was reached, the company has perforated the well in preparation for production, however delays in the programme resulted in the clean-up operation only starting last Friday. Due to the rig having commitments elsewhere, it has now been released, with Beacon finishing clean-up on a rig-less basis. This is ongoing at restricted rates of around 150 bbls/d, before a rod pump can be installed over the coming weeks to allow for a full clean up at rates up to c.250 bbls/d. Once all drilling fluids etc have been recovered, an electrical submersible pump can be installed and production ramped up to the expected commercial rate in excess of 900 bopd.

Meanwhile, Beacon is updating its subsurface model with the learnings of Schwarzbach-2(2.). As previously announced, the company expects the reserve base to substantially increase in the next audit. The new well data now points to current 2P reserves (i.e. base case) up to, and potentially in excess of the 5.8 mmbbl pre-drill high case (versus 3.78 mmbbls pre-drill 2P case). In terms of valuation implications, at 900 bopd, Beacon expects monthly operating cash flow of over US$1.5m per month at US$80/bbl Brent prices – equivalent to almost US$20m per annum. The reserves are yet to be formally upgraded, however assuming the new base case is consistent with the 3P case pre-drill, this would imply an NPV10 valuation of c.US$112m using the assumptions from the CPR (including a realised oil price of trending down to a long term c.US$60/bbl in 2030). This is approximately double the pre-drill best case NPV10 of US$56.5m, and clearly has been de-risked substantially through the drilling of Schwarzbach-2(2.). Furthermore, this valuation does not include anything for the 2C resources of 2.4 mmbbls at the adjacent Schwarzbach South fault block in particular, which will have also been de-risked through the drilling of this well, nor does it include value for any other appraisal or exploration asset within Beacon's substantial German portfolio. Accordingly, we believe that there is considerable running room from Friday's closing 0.27p/shr share price (market cap of c.US$35m) up to fair value. The company has presented the results via an audiocast, which can be found at https://stream.buchanan.uk.com/broadcast/64fda29b84cbf5eec802cc26.

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