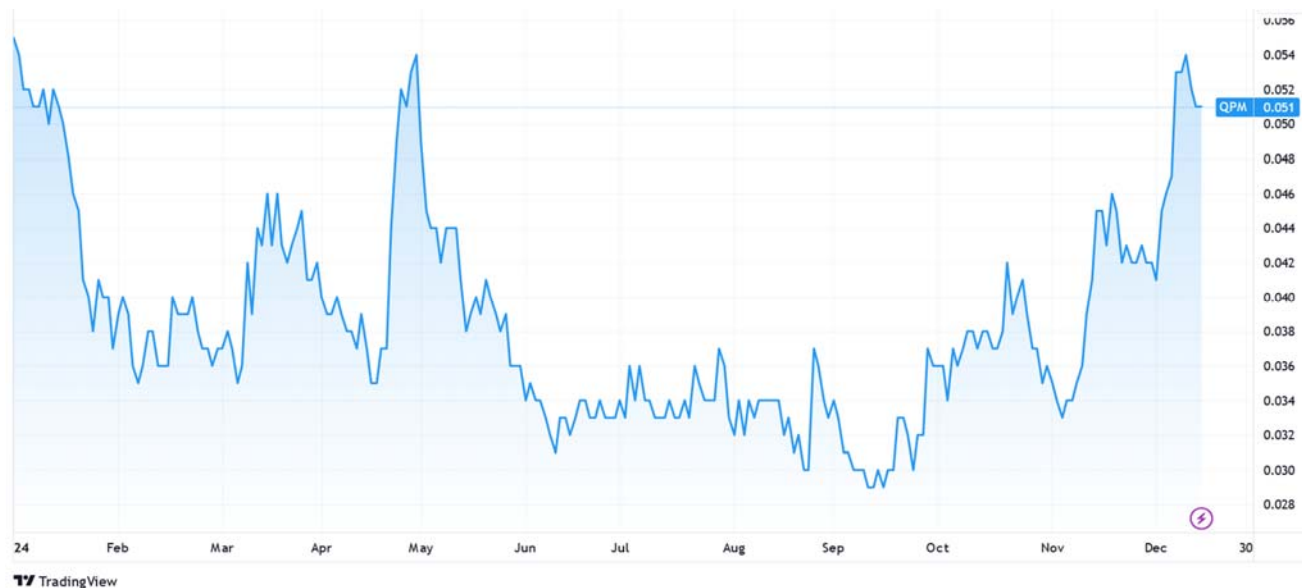


Saturday 14th December, 2024

Portfolio Stock Update

QPM Energy - (ASX: QPM, Share Price: \$0.051, Market Cap: \$129m, coverage initiated @ \$0.038 in October 2020 – current gain of 34%)



Key Catalyst

Agreements to utilise the 12.8MW Moranbah Power Station in QLD, which is co-located and directly connected to the Moranbah Gas Project's gas gathering network to generate electricity.

We introduced QPM to our coverage universe in Oct 2020, based on the company's focus on the development of a modern battery metals refinery in northern Queensland, dubbed the Townsville Energy Chemicals Hub (or TECH). The operation would see QPM process imported, high-grade nickel-cobalt laterite ore from New Caledonia in order to produce nickel sulphate, cobalt sulphate and other valuable co-products. More recently, QPM has added a second business division to its Queensland operations, QPM Energy Pty Ltd, which harvests Waste Mine Gas from the Bowen Basin for beneficial use and electricity generation in Northern Queensland. Given the current challenging nickel price environment, QPM's gas interests have now become its primary area of focus. QPM's Moranbah Gas project has the potential to be a company-maker, with a deal to utilise the nearby 12.8MW Moranbah Power Station.

Latest Activity

Moranbah Gas Project Update

QPM has provided an important update with respect to its Moranbah Gas Project in Queensland's Bowen Basin, where the aim is to boost overall gas production that in turn will be utilised for electricity generation.

Overview

QPM had originally acquired the Moranbah Gas Project (MGP), situated within Queensland's Bowen Basin, in August last year, from Arrow Energy and AGL, in order to secure gas supplies for its then-flagship TECH nickel project. But Moranbah has now taken centre stage in its own right.

QPM has entered into agreements to utilise the 12.8MW Moranbah Power Station (MPS), which is co-located and directly connected to the MGP gas gathering network in order to generate electricity.

The MPS consists of eight 1.6MW reciprocating gas engines, with a total generation capacity of 12.8MW. The MPS is configured to supply the MPG load directly and has a grid connection allowing it to export up to 12MW. The MGP gas gathering network is directly connected to the MPS and supplies up to 3.2TJ/day when the power station is operating at full load.

Under existing legacy commercial contracts, the MGP buys ~3MW of electricity from SEI to power the gas field. QPM can elect to supply gas to the MPS to reduce overall electricity costs.

QPM will have operational and dispatch control of the MPS, including the capability to buy electricity directly from the grid at the National Electricity Market (NEM) spot price. This gives QPM the flexibility to buy electricity at low to negative pricing during the day, and to generate electricity for self-consumption and export at other times.

As such, the MPS has the ability to deliver both increased revenue and reduced operating costs for QPM as the existing legacy contracts with SEI will be terminated.

Carbon Logica Funding Agreement

CL is a private company that provides carbon abatement services to the mining industry, having recently developed Stage 1 of the Ironbark power station located near Moranbah. CL is owned by Xcoal and LMS Energy, and is investing in infrastructure to support emissions reduction within the resource sector. With aligned interests in the Northern Bowen Basin, QPM and CL entered into a MOU for a Strategic Partnership in February 2023.

CL will acquire the MPS from SEI and lease it to QPM. Upon making all necessary payments, ownership of the MPS will transfer to QPM at the end of the agreement term. Completion of the transaction is anticipated to occur on 31 December 2024. The key terms of the agreement are listed below:

- **Agreement Term:** 4 years
- **Payments to CL:** \$10.5m over a 4-year period. Upon making all the payments, ownership of the MPS will transfer to QPM.
- **Operating Rights:** All electricity generation to QPM's benefit. Operations and maintenance are the responsibility of QPM.



Image 1: Moranbah Power Station.

Technical Significance

QPM continues to make great progress in delivering on the potential of the Moranbah Gas Project. The Moranbah Power Station transaction delivers QPM immediate operating cost savings and additional electricity revenue. The MPS acquisition is a significant stepping stone towards QPM's stated aim of developing a significant portfolio of electricity generation assets in Moranbah.

QPM will have full operating and electricity dispatch rights for the MPS, including the capacity to purchase electricity directly from the grid during periods of low and negative market prices. QPM also has the option to acquire the MPS at the conclusion of the operating agreement.

QPM will benefit from:

- *An immediate reduction in field electricity costs of >\$500k/month (~5% of monthly operating costs)*
- *Increased electricity revenue through dispatch of excess electricity generation to the grid*
- *Being able to use increased quantities of waste coal mine gas as fuel for the MPS*

We estimate MPS will generate \$3-5M in revenue annually as a low-cost peaking power station. QPM can also purchase electricity directly from the grid during low or negative prices, saving \$6M annually (\$500,000/month) in field electricity costs vs the current legacy arrangements expiring year-end. Using waste coal mine gas at MPS also frees up more gas to go into power generation at TPS.

Outlook

The MPS deal is well timed, as the AEMO has recently warned of increased blackout risk in Queensland due to hot weather, high demand, and aging coal plants offline. This strain on the grid is likely to persist as summer approaches, driving up electricity prices and providing a boost to QPM's earnings. Power generation is key for QPM to monetise its excess gas, offering higher returns compared with straight gas sales. With 90% of coal plants set to close by 2030, QPM can monetise its >200 PJ of uncontracted gas via the Townsville Power Station (TPS) to generate power during peak demand.

Financials

QPM recently shared that it has hit \$43M in revenue for FY25 as of November 11, vs \$75M for the whole of FY24. Electricity prices hit \$6,671/MWh and \$3,589/MWh on November 7 and December 2, leading to TPS generating nearly \$10M revenue from these two days alone, highlighting the significant opportunity from price volatility. Assuming power prices follow last year's trends, QPM is on track to boost 2Q FY25 revenue by at least 20% QoQ to over \$30M, bringing the 1H FY25 total to \$55M (+175% YoY), with any price surge offering further upside potential. QPM is therefore on track to hit above \$100M revenue in FY25.

The next quarter in fact presents an attractive opportunity to double revenue. QPM could generate over \$60M in revenue during 3Q FY25, driven by: (1) higher gas production of up to 35TJ/d from the seven new wells, (2) additional gas for TPS as Dyno undergoes 8-week maintenance, and (3) strong summer power prices. To capitalise on this, current TPS and North Queensland Gas Pipeline (NQGP) contracts will extend to March 31, 2025, maximising electricity generation at TPS. This will help offset the impact from TPS shut-down for maintenance during 4Q FY25, with QPM exploring options to sell the surplus gas.

We note just-released Foster Stockbroking estimates for QPM to achieve \$42M EBITDA in FY26, with a valuation of \$0.17/share, reflecting 4x upside. Given QPM's unique exposure to both gas production and electricity generation, they have used ASX-listed gas producers and utilities companies as comparisons. Gas producers are trading at an average of \$2/GJ EV/2P Reserves, supported by Hancock's acquisition of Mineral Resources' gas assets at the same valuation. For EV/EBITDA FY26e, gas producers trade at 4x while utilities companies trade at 10x.

Summary

QPM Energy is an energy supply business that was initially acquired in order to provide a source of reliable and cost-effective gas for the company's proposed TECH nickel project. Now, it has

become the main game itself. Timing is everything of course, and QPM is set to take full advantage of very strong fundamentals at play within the east coast gas market.

Key catalysts in terms of potential upside include stronger production, cost savings from new contracts, reserves upgrades, new power generation at Moranbah, and potential third-party gas sales and supply. Additionally, QPM's TECH nickel project adds optional value if it can be monetised/developed.

QPM therefore remains firmly within our coverage Portfolio.

Disclaimer: Gavin Wendt, who is a director of Mine Life Pty Ltd ACN 140 028 799, compiled this document. It does not constitute investment advice. I wrote this article myself, it expresses my own opinions and I am not receiving compensation for it. In preparing this article, no account was taken of the investment objectives, financial situation and particular needs of any particular person. Investors need to consider, with or without the assistance of a securities adviser, whether the information is appropriate in light of the particular investment needs, objectives and financial circumstances of the investor. Although the information contained in this publication has been obtained from sources considered and believed to be both reliable and accurate, no responsibility is accepted for any opinion expressed or for any error or omission in that information. I have no positions in the stock mentioned and no plans to initiate any positions within the next 72 hours.