

22 October 2020

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Santos Ltd (STO)

Energy

BUY

STO A\$5.18

TARGET PRICE A\$6.92

Santos Ltd provides gas and petroleum exploration services and the production, treatment and marketing of natural gas, crude oil, condensate, naphtha and liquid petroleum gas, transportation by pipeline of crude oil.

Company Data

Number of shares (M)	2,083.1
Market Capitalisation	\$10,790.3M
Free float (%)	84.6
12-month high/low	\$9.07/\$2.73
Average Daily Turnover (\$m)	44.6757
% S&P/ASX200	0.63%
DDM Ranking	63
% All Ordinaries	0.54%
GICS Industry Group	Energy

Source: FactSet, Barclay Pearce Capital

Earnings Summary (AUD)

Year end December	2020A	2021F	2022F	2023F	2024F
Revenue (\$M)	6,085.3	4,977.7	5,569.9	5,915.8	6,000.5
Reported NPAT (\$M)	1,017.0	-269.9	683.5	979.0	1,436.7
Adjusted NPAT (\$M)	1,084.9	476.0	669.6	992.0	1,261.5
Reported EPS (c)	48.4	2.0	34.9	52.8	69.0
Adjusted EPS (c - FD)	52.1	23.6	34.8	46.8	57.7
Adjusted EPS growth (%)	5.7	-54.7	47.6	34.4	23.4
Adjusted P/E (x)	10.0	22.0	14.9	11.1	9.0
Dividend (c/sh)	16.6	7.8	9.3	11.5	6.6
Gross yield (%)	4.6	2.1	2.6	3.2	1.8
Net yield (%)	3.2	1.5	1.8	2.2	1.3
ROIC (%)	6.3	-1.1	4.6	6.2	7.2

Source: Barclay Pearce Capital

Barclay Pearce Capital contributes all company estimates to Thomson Reuters, FactSet and Capital IQ.

Share price performance



Source: FactSet, Barclay Pearce Capital

Santos 2020 Third Quarter Report

On 22 October 2020 Santos Ltd (STO) announced a quarterly update with the following highlights:

Record quarterly production and sales volumes

- Third quarter production of 25.1 mmboe was a record for Santos representing 22% qoq;
- Production was higher in all five core assets, primarily driven by higher domestic gas and LNG volumes;
- Quarterly sales revenue of US\$797m was 2% higher than the prior quarter, demonstrating the strength of Santos' diversified portfolio of fixed-price domestic gas contracts combined with a higher equity level in Bayu-Undan, which more than offset lower JCC-linked LNG pricing;
- STO' disciplined operating model continues to drive costs lower, with 2020 upstream unit cost guidance lowered to US\$8.25-8.75/boe;

Strong free cash flow and low breakeven oil price

- STO generated US\$143 million in free cash flow in the quarter, bringing total free cash flow for the nine months to-date to US\$574 million;
- Targeting 2020 free cash flow breakeven oil price of less than US\$25 per barrel (before hedging);
- Net debt at the end of September was US\$3,677 million and gearing was 33.6%;

Growth projects progressing while maintaining flexibility in commitment timing

- Barossa LNG project continues to progress toward FID-ready status by year-end, subject to business conditions, joint venture agreements and relevant approvals, while pre-FEED work continues on the Dorado oil project;
- Moomba CCS project progressing well through FEED with the successful completion of a CO2 injection trial into the target storage formation, and;
- Narrabri gas project received approval from the New South Wales Independent Planning Commission.

Guidance

2020 Guidance item	Previous guidance	Updated guidance
Production (mmboe)	83-88 mmboe	No change
Sales volumes (mmboe)	101-107 mmboe	No change
Capital expenditure – base (\$m)	~\$750 million	No change
Capital expenditure – major growth (\$m)	~\$150 million	No change
Upstream production costs (incl COP acquisition) ¹	\$8.50-8.90/boe	\$8.25-8.75/boe

Earnings changes

STO has reported quarterly revenue of \$797m, up 2% on pcp. Sales revenue for 2020 Ytd is at \$2,465m, matching market expectations. Guidance remains flat except for Upstream production costs representing a 3% decline, this change is not expected to materially impact NPAT. Hence, we do not expect any significant earnings revision.

We are initiating on STO with a 12-month price target of \$6.92 and a BUY recommendation. The price target is underpinned by our DDM Valuation.

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Barclay Pearce Capital provides research services to its client. Mr Wright is General Manager of Research and has over twenty (30) years' experience in the financial services industry, particularly in financial analysis and research report writing. Mr Wright joined the Barclay Pearce team in 2020 where he has been involved in the research and publication of reports. Prior to this Mr Wright worked at a number of entities where he held Director/Head of Research and General Manager of Research positions. Mr Wright holds a Bachelor of Mathematics (Honours) from Edinburgh University and has completed the SDIA Accreditation Program (RG146) through DeakinPrime and the Responsible Executive program through ASIC.

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