



# Resources Stocks Down Under

🗨️ *If you spend energy looking for and analysing situations not followed by other investors, your chance of finding bargains increases.* 🗨️

- Joel Greenblatt (b.1957), American academic, author and investor

**JADE GAS**

The other tolgoi from Mongolia you'll be hearing more of

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Stocks Down Under rating: ★★☆☆

**ASX: JGH**  
**Market cap: A\$31.3M**

**52-week range: A\$0.05 / A\$0.092**  
**Share price: A\$0.061**

Late last year the market welcomed the backdoor listing of Jade Gas (ASX: JGH), developer of a coalbed methane project in Mongolia. That company had raised \$7.5m at 3 cents a share but ended the first day of trading on 4 October 2021 at 7.7 cents. Jade Gas shares have since come down to as low as 5.2 cents in recent weeks. But shares have rebounded to over 6 cents in the last week and we think it is well placed for a further re-rating, given the world's sudden need for new sources of gas and the company's recently initiated appraisal well drilling programme.

## Share price chart



Source: Tradingview

If you're looking to make a fortune in natural gas, in an environment where the world doesn't quite have enough of it, Mongolia is a good place to do it. Mongolia? Why, of course. The vast coal resources of the country are well known to be rich in this valuable natural gas, there are lucrative markets domestically and in neighbouring China, and the fiscal terms are favourable. We looked at one would-be Mongolian player, Elixir Energy (ASX: EXR), [in this publication on 31 December 2020](#). This week we look at a more recent entrant, Jade Gas.

## Welcome to the South Gobi

Jade's would-be company maker is Tavantolgoi-XXIII, down in the South Gobi desert. Tavan Tolgoi means 'five hills' in Mongolian. If you've read about the mineral wealth of Mongolia any time in the last ten years you will probably have heard the name Tavan Tolgoi alongside that other Tolgoi, Rio Tinto's world-famous Oyu Tolgoi Copper-Gold Mine, which is not too far away. Tavan Tolgoi is one of the largest undeveloped coal deposits, with about 7 billion tonnes in resource and only modest mining taking place at the moment.

Jade's Tavantolgoi-XXIII lease – technically, a 'Production Sharing Agreement' granted in April 2020 – covers the coalbed methane potential of the Tavan Tolgoi field over 665 sq km. The PSA is a joint venture with a state-owned company called Erdenes Methane where Jade has 60%.

If Jade Gas does its work well - and has correctly understood the Permian-age coal seams at Tavan Tolgoi - the best prospective resource estimate is over one trillion cubic feet of gas, where 'best' means 'most likely' in terms of a potential range of independently generated resource estimates.

## **A trillion cubic feet of gas**

How much is a trillion cubic feet of gas worth? Well, in America the benchmark for natural gas is 'Henry Hub', which this week on Nymex is close to US\$5.00 per mmbtu, that is, millions of British Thermal Units. In 2020, the annual average heat content of natural gas delivered to consumers was about 1,037 BTU per cubic foot. So, a trillion cubic feet is 964 million mmbtu, which is about US\$4.8bn worth of gas if you sold it today at the Henry Hub price. Sure, Tavan Tolgoi is a long way from Erath, Louisiana (which is where Henry Hub exists physically) and the Asian market dynamics are different, but the world is short of gas in a lot of places. We think Jade Gas is on to something.

Tavantolgoi-XXIII is Jade's first project in Mongolia, but there will be more. In February 2022, Jade secured two more coalbed methane permits, one called Shivee Gobi and another called Eastern Gobi, which together cover around 18,000 sq km and sit over sizeable coal deposits. However, the key to a near-term re-rating for Jade Gas is Tavantolgoi-XXIII, where the six appraisal wells will give Jade a good idea what it is sitting on this year.

## **Part of the energy transition**

Mongolia gets a lot of its electricity from burning coal. The government wants to change that with more investment in renewables, but in the meantime is encouraging development of coalbed methane as part of the transition. That makes sense because right now Mongolia is a net importer of gas and gas liquids. And development of Tavantolgoi-XXIII would bring an additional advantage to Mongolia – at the present time there's not enough electricity in the South Gobi to power the mining industry in that region and the power has to come from China. If there's one thing Mongolia really wants, it's to not be economically dependent on its two powerful neighbours – Russia to the north and China to the south.

At Tavantolgoi-XXIII Jade Gas has picked out three seams, called, perhaps unimaginatively, 0, III and IV where it thinks it can find its trillion cubic feet of gas at around 700 to 900 metres below the surface. The first of the six wells, called Red Lake 1, spudded in late November 2021. Jade is now up to Red Lake 4 and in all four wells the gas showings are very high in terms of their methane content – like, 98% in seam III for Red Lake 1 – as well as high in gas overall. And the seams themselves are turning out to be pretty thick.

Before 2022 is out, all six of the Red Lake wells will have been drilled and we'll have a good idea not just of the gas content, but of permeability of the seams, which obviously is the key to getting the gas to the surface.

We think the news from the Red Lake wells, in an environment where natural gas is back in the news, can be good for Jade Gas shareholders. Shortly after those wells are done Jade will be able to obtain a Contingent Resource estimate from its independent consultants. From there it will be moving to sink the first pilot production wells and get its first Reserve estimate. Ahead of that development, this stock is four stars.

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