

## American Energy Partners, Inc. (OTC: AEPT, Target Price: \$0.12)

AEPT is a diversified energy company that provides various environmental services including water treatment, distribution of reclaimed water, waste stream treatment and plugging & abandonment. The company plans to make complementary accretive acquisitions in the energy sector (buying royalties and producing wells) which in our view will help AEPT to expand its base by cross-selling its water treatment and related environmental offerings. The company announced retaining investment bank, Aqua Terra Asset Management and also hired Josh Hickman, an experienced oil & gas deal maker as its Chief Operating Officer. The company is currently offering 200 million shares at \$0.05 each, looking to raise ~\$10 million, with the majority of proceeds intended to be used in acquiring energy assets that can make use of its water technologies.

### Investment Highlights

#### Aggressive focus on M&A in oil & gas space

AEPT's decision to retain Aqua Terra Asset Management to provide investment banking services signals aggressive intent for more deals in the oil & gas space. The company previously closed a multi-well package of producing oil & gas assets in a timely manner which gives us confidence in management's ability to execute. The management noted of initiating negotiations for further acquisitions in the energy sector that can be vertically integrated with its other service offerings. With Reg A+ funding and investment banking agreement in place, we expect AEPT put more capital to work in the energy sector that should drive topline growth.

#### Oil & Gas market opportunity

The natural gas industry presents enormous opportunities for AEPT. Hydraulic fracturing (fracking), a necessary step in natural gas production, requires huge volumes of water to be pumped in the field. According to estimates, a typical natural gas well requires ~3.5 million gallons of water during fracking. The Marcellus acreage (Pennsylvania), area of interest for AEPT, holds ~50 trillion cubic feet of gas which remains untapped, suggesting high demand of reclaimed water. Further, taking into consideration the other environmental services required such as remediation of impoundments, treatment of flowback and produced water, tremendous opportunities exist in oil and gas for AEPT.

#### AEPT announces new additions to executive team

AEPT has also made progress on the corporate governance front. It announced promoting Josh Hickman to the role of Chief Operating Officer. Mr. Hickman will also remain as President of Gilbert Oil & Gas Company. Mr. Hickman has seventeen years' experience in the oil and gas industry, with ten of those years in unconventional shale development. Mr. Hickman is an experienced oil & gas finder, deal maker and executive which should aid AEPT in its strategy of further acquiring assets in oil & gas sector. AEPT also appointed the retired Pennsylvania state senator, John Pippy to the Board of Directors. We believe Mr. Pippy's background in the government office could be helpful for AEPT when pursuing and closing deals with government and municipal agencies in Pennsylvania.

#### Updating price target to \$0.12

We are updating our price target to \$0.12 for AEPT following the recent announcements reaffirming AEPT's focus on vertically integrated accretive energy acquisitions, retention of investment bank Aqua Terra and appointment of Josh Hickman as AEPT's COO. The company also announced closing of previously announced multi-well package of oil & gas assets in a timely manner which further boasts of management's execution capabilities.

#### Stock Details (1/5/18)

OTC:	AEPT
Sector / Industry	Diversified Energy / Environmental Services
<b>Price target</b>	<b>\$0.12</b>
Recent share price	\$0.08
Shares o/s (mn)	25.8
Market cap (in \$mn)	2.0
52-week high/low	\$0.012 / 1.01

Source: OTC Markets, SeeThruEquity Research

#### Key Financials

In '000s	FY18E	FY19E	FY20E
Revenues	\$2,000.0	\$6,500.0	\$10,000.0
EBITDA	\$580.0	\$2,210.0	\$3,500.0
EBIT	\$520.0	\$2,015.0	\$3,200.0
Net Income	\$364.0	\$1,410.5	\$2,317.4
EPS (\$)	\$0.00	\$0.01	\$0.01

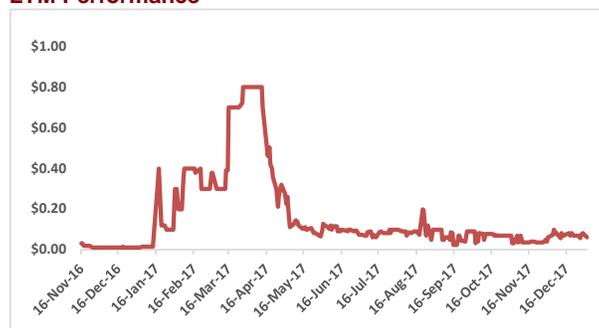
Source: SeeThruEquity Research

#### Key Ratios

	FY18E	FY19E	FY20E
EBIT (%)	26.0	31.0	32.0
EBITDA (%)	29.0	34.0	35.0
Net margin (%)	18.2	21.7	23.2
P/Revenue (x)	1.2	0.4	0.2
EV/Revenue (x)	1.2	0.4	0.2

Source: SeeThruEquity Research

#### LTM Performance



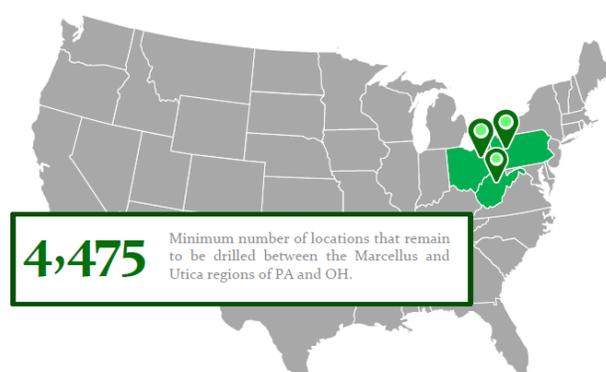
Source: OTC Markets

### AEPT provides update on its M&A strategy

- The company announced aggressive M&A focus in the oil & gas space. It also announced initiation of negotiations with selected, profitable companies as it embarks on a strategic expansion into oil and gas assets in the Northeastern United States.
- The Company previously closed on a multi-well package of currently producing gas and oil assets, as well as an interest in significant unleased mineral acres in Tier 1 zones of both the Wet Marcellus and Dry Utica shale formation.
- Management expects to leverage the previous deal experience to close more deals going forward. In lieu of this, the company has retained Aqua Terra Asset Management to provide investment banking services.
- AEPT noted that it is looking for companies in the midmarket oil & gas services sector that could be vertically integrated with its other service offerings. AEPT will focus on energy acquisitions in the \$5 to \$20 million range.

### Large opportunity in the Oil & Gas space

- **Vertically integrated model:** The company plans to make complementary accretive acquisitions in the energy sector (buying royalties and producing wells) which in our view will help AEPT to expand its base by cross-selling its water treatment and related environmental offerings.
- Large market opportunity: The natural gas industry presents enormous opportunities for AEPT. Hydraulic fracturing (fracking), a necessary step in natural gas production, requires huge volumes of water to be pumped in the field. According to estimates, a typical natural gas well requires ~3.5 million gallons of water during fracking.
- The Marcellus acreage (Pennsylvania), area of interest for AEPT, has seen a surge in drilling activity in recent times. In last year alone, ~3,000 natural gas wells were drilled which suggests ~10.5 billion gallons of water consumption. The acreage still holds ~50 trillion cubic feet of gas which remains untapped, suggesting high demand of water and robust outlook for companies such as HCPA.
- Further, taking into consideration the remediation of impoundments, treatment of flowback, produced and drill cuttings tremendous opportunities exist in oil and gas for AEPT's other service offerings. Infact, AEPT noted that the plugging and abandonment market will represent one of the highest growing components within the oil and gas services sector.



Source: Company

### We are updating our price target to \$0.12 for AEPT

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- The new target is \$0.12 per share, reflecting aggressive M&A which should provide fillip to the topline. In lieu of this, we have also pushed our revenue forecast higher for the period 2018E-2022E.
- According to the management, AEPT's planned capital raise (\$10 million) should satisfy the need for working capital and acquisition funding. The company also reduced the amount of authorized shares from 5 billion to 1.5 billion, suggesting confidence in their ability to execute their business plans with existing funding.
- In our view, key area to watch ahead include AEPT's ability to execute acquisitions in the energy space and expand base by cross-selling its water treatment and related environmental offerings.

## Management Team

### **Brad J. Domitrovitsch, Chairman and Chief Executive Officer**

Mr. Domitrovitsch is an innovative and results-driven entrepreneur. With expertise in analyzing, identifying and developing new market opportunity, he has been able to grow the current sales pipeline into the millions of dollars. His entrepreneurial background spans multiple industries including recycling, water treatment, transportation, real estate and technology.

Mr. Domitrovitsch was the Managing Member of HCPA for the last five years. Prior to his role at AEPT, he was the president of a recycling company servicing the Northeast market. Mr. Domitrovitsch grew this company into a multi-million-dollar business and successfully exited his firm to form AEPT. Mr. Domitrovitsch holds a BS in Economics and obtained his MBA from Moravian College.

Mr. Domitrovitsch brings his experience and skill set to provide value to his shareholders first, while putting to work a suite of environmental solutions with demonstrated success.

### **Josh Hickman, Chief Operating Officer and President (Gilbert Oil & Gas LLC)**

Mr. Hickman has 15 years of experience in the unconventional shale oil and gas industry. Five of those years has been spent in the role of an executive building shareholder value. Before this role with Gilbert Energy, Mr. Hickman was the CEO of Dahlmont Energy Resources, a private oil and gas company. In 2014 he founded, and still holds an interest in, Hickman Geological Consulting, LLC. The focus of that company's work is on the decision space between financial matters and technical data. HGC provides this expertise to financial institutions, startup oil and gas companies, and landowners. Notable achievements with this company include a relationship as Shenhua America's adviser on US oil and gas investments in 2015, and becoming the dominant market shareholder for oil and gas property valuations in the Greater Pittsburgh area.

### **John Pippy, Director**

John Pippy recently joined the company as one of its Board of Directors. Mr. Pippy brings over 20 years' experience in international and domestic government and corporate relations while serving as a Pennsylvania State Representative, Pennsylvania State Senator and most recently as the past CEO of the Pennsylvania Coal Alliance. Mr. Pippy also brings 25 years of military leadership and organizational expertise having commanded multiple units deployed overseas in a theater of combat operations as well as within the United States. Mr. Pippy has a B.S. in Environmental Engineering from West Point, NY, a Masters in International Relations from Irish American University, Dublin, Ireland and a Masters in Strategic Studies from the United States Army War College, Carlisle, PA.

## **About American Energy Partners, Inc.**

AEPT is a publicly traded company that provides environmental services to industrial, energy and government sectors. The services include water treatment, distribution of reclaimed water, waste stream treatment, plugging & abandonment. The company operates via three subsidiaries: 1) Hydration Company PA, which is involved in sourcing and distributing water; 2) American Energy Solutions, which provides water treatment technologies and 3) Gilbert Oil & Gas, which provide cash flow through investment in O&G royalties, producing wells and the development of mineral rights. For more information, visit [www.americanenergy-inc.com](http://www.americanenergy-inc.com).

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