

SDX ENERGY PLC (AIM: SDX)

October 05, 2020

Share price: £0.15

Target: £0.40

Growing the prize, accelerating drilling

- Production is slightly over guidance with a particular strong performance at South Disouq.
- Importantly, sales in Morocco are now almost back to pre-COVID-19 levels (90%). This is important for cash flow.
- SDX has now mapped additional prospects on the South Disouq license, resulting in gross prospective resources increasing by 139 bcf to 233 bcf.
- Drilling in Egypt is being accelerated to start in 2Q21 with two initial wells targeting 165 bcf, including the new Hanut prospect with 139 bcf gross prospective resources and a 33% Chance of Success. The volumes targeted by the first part of the programme are 5x larger than what we were previously anticipating (34 bcf).
- In Morocco, further analysis of the LMS-2 well results and a re-interpretation of the 3D seismic across SDX's concessions has revealed that larger structures similar to LMS-2 are present throughout the Company's acreage, including in horizons slightly deeper than the core production and development areas which are close to infrastructure. The Company is evaluating options to target these structures with dual target wells in the core production area as part of the 2021 drilling programme, which the company is also seeking to accelerate to 1H21.

Rating & target	Old	New	
Target	£0.40	n.c.	
Yield		0%	
Implied total return		167%	
Share data	2019	2020e	2021e
Shares dil., mm	206	206	206
Mkt cap, US\$m	\$60	\$40	\$40
EV, US\$m	\$51	\$30	\$14
Financial Data	2019	2020e	2021e
Gas, mcmf/d	10.9	32.4	36.0
Liquids, bbl/d	2,246	989	644
Total boe/d (6:1)	4,062	6,388	6,636
CFO, US\$m	\$25	\$27	\$30
Net capex, US\$m	\$31	\$27	(\$14)
Net debt, US\$m	(\$10)	(\$10)	(\$26)
CFPS dil., US\$/shr	\$0.12	\$0.11	\$0.15
EPS dil., US\$/shr	(\$0.09)	(\$0.01)	\$0.03
Valuation	2019	2020e	2021e
Share price, £/shr	£0.23	£0.15	£0.15
EV/DACF	2.0x	1.3x	0.5x
EV per boe/d (US\$)	\$12,500	\$4,721	\$2,169
Net asset value			
CNAV, £/shr			£0.27
RENAV, £/shr			£0.40
Unrisked NAV, £/shr			£1.61
P/CNAV			0.6x
P/RENAV			0.4x
P/ENAV			0.1x

All figures in US\$ unless otherwise noted

12 months of high impact drilling

At the end of September, SDX held US\$9.2 mm in cash with the majority of the 2020 capex programme having already been incurred. With no debt and expected FY21 cashflow of ~US\$30 mm (largely unaffected by oil price movements), this leaves the company with ample liquidity to fund the upcoming drilling programme. Overall we estimate the prospects the company will target with the drill bit over the next twelve months at £0.38 per share, which represents 2.4x the current share price. The main items are the LMS-2 well test in Morocco (£0.14 per share) and the Hanut well in Egypt (£0.16 per share). This does not include the potential for additional look-alike prospects to LMS-2 to be drilled in 2021.

EV/DACF<1.0 in 2021

While the company continues to deliver on its targets, Morocco operations are returning to normality and the near-term drilling programme is becoming more material. The shares continue to trade at EV/DACF multiples of 1.3x in 2020 and 0.5x in 2021. Our NAV based on the company's 2P reserves stands at £0.27 per share (~2x the current share price).

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Figure 1. Financial & operating information

Financial & Operating Information		2019	2020e	2021e	2022e	2023e	2024e
Commodity Prices							
Brent	US\$/bbl	\$71.65	\$41.23	\$47.52	\$57.52	\$60.00	\$60.00
UK NBP	US\$/mcf	\$4.56	\$5.41	\$5.92	\$6.04	\$6.08	\$6.09
USD/CAD	US\$/C\$	\$0.77	\$0.78	\$0.78	\$0.78	\$0.78	\$0.75
USD / GBP	US\$/£	\$1.28	\$1.30	\$1.31	\$1.32	\$1.32	\$1.33
Production							
Oil and Liquids	bbl/d	2,246	989	644	730	633	549
Natural Gas	mmcf/d	10.9	32.4	36.0	37.8	35.2	33.8
Total (6 mcf = 1 boe)	boe/d	4,062	6,388	6,636	7,022	6,507	6,174
% Oil and Liquids	%	55%	15%	10%	10%	10%	9%
Netbacks							
Realized Price	US\$/boe	\$46.39	\$22.89	\$25.00	\$26.34	\$23.92	\$22.06
Royalties	US\$/boe	\$10.48	\$4.69	\$5.89	\$5.68	\$5.74	\$5.27
Production & Transport Costs	US\$/boe	\$14.99	\$3.92	\$3.82	\$3.93	\$3.76	\$3.57
Operating Netback	US\$/boe	\$20.92	\$14.28	\$15.29	\$16.73	\$14.42	\$13.21
Taxes	US\$/boe	\$3.90	\$1.57	\$0.59	\$0.75	\$1.21	\$2.00
Cash Flow Netback	US\$/boe	\$17.25	\$10.11	\$12.52	\$13.87	\$10.89	\$8.71
Government Take	%	8%	7%	2%	3%	5%	9%
Financials							
Cash Flow (CFO)	US\$m	\$25	\$27	\$30	\$36	\$26	\$20
CFPS - diluted	US\$/shr	\$0.12	\$0.11	\$0.15	\$0.17	\$0.13	\$0.10
EBITDAX	a US\$m	\$26	\$29	\$33	\$39	\$30	\$25
E&D Capex	US\$m	\$31	\$26	\$14	\$16	\$2	\$2
A&D Capex, Net	US\$m	(\$1)	\$1	\$0	\$0	\$0	\$0
Total Net Capex	US\$m	\$31	\$27	(\$14)	(\$16)	(\$2)	(\$2)
Total Net Capex/CFO	x	1.2x	1.0x	-0.5x	-0.5x	-0.1x	-0.1x
Leverage							
Net Debt	US\$m	(\$10)	(\$10)	(\$26)	(\$45)	(\$69)	(\$87)
Net debt/CFO (Trailing)	x	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Entry Net Debt/CFO	x	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Capital Structure							
Basic Shares o/s @ YE	mm	205	205	205	205	205	205
Diluted Shares o/s @ YE	mm	206	206	206	206	206	206
Market Capitalization	US\$m	\$60	\$40	\$40	\$41	\$41	\$41
Enterprise Value	US\$m	\$51	\$30	\$14	(\$5)	(\$28)	(\$46)
Dividends & Sustainability							
Dividends	US\$m	\$0	\$0	\$0	\$0	\$0	\$0
Dividends	\$/shr	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Dividend Yield	%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Free Cash Flow	US\$m	(\$6)	\$1	\$16	\$19	\$24	\$18
Cash Use/CFO	%	122%	101%	-47%	-46%	-8%	-9%
Performance							
Prod. Per Shr Growth (Y/Y) - dil.	%	14%	58%	4%	6%	-7%	-5%
PPS Growth (Y/Y) DDA - dil.	b %	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
CFPS Growth (Y/Y) - dil.	%	-11%	-8%	29%	17%	-27%	-24%
CFPS Growth (Y/Y) DDA - dil.	b %	%	-32%	89%	1293%	-106%	-60%
ROCE	%	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Net Asset Value							
CNAV (Atax) - diluted	£/shr	£0.27					
RENAV (Atax) - diluted	£/shr	£0.40					
Unrisked NAV (Atax) - diluted	£/shr	£1.61					
P/CNAV	x	0.6x					
P/RENAV	x	0.4x					
P/Unrisked NAV	x	0.1x					
Valuation		2019	2020e	2021e	2022e	2023e	2024e
Share Price, YE/Current	£/shr	£0.15	£0.15	£0.15	£0.15	£0.15	£0.15
P/CF	x	1.9x	1.3x	1.0x	0.9x	1.2x	1.6x
EV/DACF	x	2.0x	1.3x	0.5x	-0.1x	-1.1x	-1.4x
Target EV/DACF	x	3.7x	4.0x	2.7x	1.7x	1.5x	1.1x
EV per boe/d	\$/boepd	\$12,500	\$4,721	\$2,169	(\$665)	(\$4,345)	(\$7,462)
EV per 2P boe	US\$/boe	\$5.08	\$2.74	\$1.68	(\$0.78)	(\$7.77)	\$0.00
EV per 2P boe, with FDC	US\$/boe	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

a) EBITDAX = Pre-Int. & Pre-Tax Cash Flow; b) DDA = Debt-and-Dividend-Adjusted

c) CNAV incl. 2P reserves, RENAV incl. 2P reserves + Risked LT inventory upside, ENAV incl. 2P reserves + Unrisked LT inventory upside

Source: Auctus Advisors, Company Disclosures

**Futures strip as of 5-Oct-20

Figure 2. NAV Table

Asset Valuation	2P/2C/P50 (mmboe)	CoS (%)	Unrisked (US\$ mm)	EMV (US\$ mm)	Risked £/Share	Unrisked £/Share	% Total
Net Cash (YE20)			10	10	0.04	0.04	9%
G&A			-26	-26	-0.10	-0.10	-25%
Egypt: West Gharib 2P + 2C	1.73	100%	5	5	0.02	0.02	5%
Egypt: South Disouq 2P + Sobhi	12.0	100%	43	43	0.16	0.16	40%
Morocco 2P + volumes discovered in 2020	1.00	100%	40	40	0.15	0.15	37%
Total Core NAV			72	72	0.27	0.27	67%
Morocco core area Northern extension: 2C OYF-2 & BMK-1 discovered resources	0.31	50%	12	2	0.01	0.05	2%
Morocco core area Northern extension: OYF cluster additional prospects (2)	0.14	80%	5	0	0.00	0.02	0%
Morocco core area Northern extension: OLM cluster additional prospects (4)	0.48	60%	19	0	0.00	0.07	0%
Morocco core area Northern extension: BMK cluster additional prospects (10)	1.25	60%	49	0	0.00	0.18	0%
Morocco core area Northern extension: RML cluster additional prospects (3)	0.18	60%	7	0	0.00	0.03	0%
Morocco core area Northern extension: SSF cluster additional prospects (3)	0.24	60%	9	0	0.00	0.03	0%
Lala Mimouna LMS-2	0.94	40%	37	15	0.05	0.14	14%
Lala Mimouna LMS-2 follow prospects (2x)	0.44	20%	17	0	0.00	0.06	0%
Morocco: Exp additional P50 Lala Mimouna North	3.19	20%	125	0	0.00	0.47	0%
Egypt - Warda prospect	1.28	50%	4	0	0.00	0.02	0%
Egypt - Mohsen prospect	2.29	51%	8	4	0.01	0.03	4%
Egypt - Hanut prospect	12.74	33%	44	14	0.05	0.16	13%
Egypt - Ibn/Newton	1.47	40%	5	0	0.00	0.02	0%
Egypt - El Deep prospect	2.11	29%	7	0	0.00	0.03	0%
Egypt - Shikabala prospect	2.67	40%	9	0	0.00	0.03	0%
Total Risked Exploration			357	36	0.13	1.34	33%
Total NAV			429	108	0.40	1.61	100%
P/Core NAV					56%		
P/NAV					37%		
P/Unrisked NAV					9%		

Source: Auctus Advisors, Company Disclosures

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The research analyst who prepared this research report was Stephane Foucaud, a partner of Auctus.

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