

# SDX ENERGY PLC (AIM: SDX)

November 20, 2020

Share price: £0.16

**Target: £0.40**

## Targeting ~140 bcf by the drill bit in 2021

- 3Q20 production at South Disouq of ~49 mmcf/d was above our expectations (47 mmcf/d). With maintenance activities at South Disouq expected in 4Q20, the FY20 production and capex guidances are re-iterated.
- SDX held ~US\$10 mm in cash at the end of September and the US\$10 mm EBRD debt facility (undrawn) will be re-established in the coming days. These resources, combined with our estimated operating cashflow of ~US\$30 mm cashflow in 2021, provide ample funding for the 2021 capex programme that we estimate at ~US\$27 mm, including a busy exploration programme.
- In Egypt, Sobhi is expected to come on stream in 1Q21. A production well will be drilled at Ibn Ynus in 2Q/3Q21 immediately followed by the Hanut prospect with 139 bcf gross prospective resources. In 2022, SDX will drill Mohsen (26 bcf) and Warda (14 bcf).
- In Morocco, SDX will test the high impact LMS-2 well and drill a total of four wells including an exploration well in the OYF cluster where infrastructure is already in place and a Nappe exploration well in the core producing area targeting horizons located below the producing reservoir. This deeper horizon potentially holds larger individual pools of gas compared to the pools from which SDX is currently producing.

Rating & target	Old	New	
Target	£0.40	n.c.	
Yield		0%	
Implied total return		150%	
Share data	2019	2020e	2021e
Shares dil., mm	206	206	206
Mkt cap, US\$m	\$60	\$43	\$43
EV, US\$m	\$51	\$35	\$32
Financial Data	2019	2020e	2021e
Gas, mmcf/d	10.9	32.1	35.1
Liquids, bbl/d	2,246	993	647
Total boe/d (6:1)	4,062	6,350	6,504
CFO, US\$m	\$25	\$25	\$30
Net capex, US\$m	\$31	\$27	(\$27)
Net debt, US\$m	(\$10)	(\$8)	(\$11)
CFPS dil., US\$/s	\$0.12	\$0.12	\$0.15
EPS dil., US\$/sh	(\$0.09)	(\$0.00)	\$0.03
Valuation	2019	2020e	2021e
Share price, £/s	£0.23	£0.16	£0.16
EV/DACF	2.0x	1.4x	1.1x
EV per boe/d (U \$12,500)	\$5,462	\$4,937	
Net asset value			
CNAV, £/shr			£0.27
RENAV, £/shr			£0.41
Unrisked NAV, £/shr			£1.61
P/CNAV			0.6x
P/RENAV			0.4x
P/ENAV			0.1x

All figures in US\$ unless otherwise noted

## Revisiting the value build to YE22

Our 2P NAV for the company at the end of 2020 is ~£0.27 per share, representing ~70% upside per share. Overall, we value the prospects the company will target with the drill bit in 2021 at £0.34 per share, which represents 2x the current share price. The main components are the LMS-2 well test in Morocco (£0.14 per share) and the Hanut well in Egypt (£0.17 per share). In 2022, further drilling success in Morocco (assuming two small prospects at the BMK/OYF prospects and one Nappe follow-on prospect) and Egypt (Mohsen and Warda) would take our unrisks NAV at YE22 for the firm to £0.81 per share. This represents 5x the current share price.

## EV/DACF and distribution considerations

The shares trade at EV/DACF multiples of only 1.4x in 2020. In 2021, assuming a normalized year in Morocco, we estimate an EV/DACF multiple of only 1.1x, falling further to 0.3x at YE22. SDX is also looking at putting in place a shareholder distribution programme in the near future.

Our target price of £0.40 per share reflects our ReNAV.

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**Figure 1. Financial & operating information**

<b>SDX Energy (SDX LN)</b>		<b>2019</b>	<b>2020e</b>	<b>2021e</b>	<b>2022e</b>	<b>2023e</b>	<b>2024e</b>
<b>Financial &amp; Operating Information</b>							
<b>Commodity Prices</b>							
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
<b>Production</b>							
Oil and Liquids	bbl/d	2,246	993	647	730	633	549
Natural Gas	mmcf/d	10.9	32.1	35.1	37.8	35.2	33.8
Total (6 mcf = 1 boe)	boe/d	4,062	6,350	6,504	7,022	6,507	6,174
% Oil and Liquids	%	55%	16%	10%	10%	10%	9%
<b>Netbacks</b>							
Realized Price	US\$/boe	\$46.39	\$23.50	\$25.17	\$26.34	\$23.92	\$22.06
Royalties	US\$/boe	\$10.48	\$4.68	\$5.89	\$5.67	\$5.72	\$5.26
Production & Transport Costs	US\$/boe	\$14.99	\$3.97	\$3.91	\$3.93	\$3.76	\$3.57
Operating Netback	US\$/boe	\$20.92	\$14.84	\$15.37	\$16.74	\$14.44	\$13.23
Taxes	US\$/boe	\$3.90	\$1.56	\$0.54	\$0.76	\$1.22	\$2.01
Cash Flow Netback	US\$/boe	\$17.25	\$10.67	\$12.60	\$13.87	\$10.89	\$8.71
Government Take	%	8%	7%	2%	3%	5%	9%
<b>Financials</b>							
Cash Flow (CFO)	US\$mm	\$25	\$25	\$30	\$36	\$26	\$20
CFPS - diluted	US\$/shr	\$0.12	\$0.12	\$0.15	\$0.17	\$0.13	\$0.10
EBITDAX	a US\$mm	\$26	\$31	\$32	\$39	\$30	\$25
E&D Capex	US\$mm	\$31	\$26	\$27	\$12	\$2	\$2
A&D Capex, Net	US\$mm	(\$1)	\$1	\$0	\$0	\$0	\$0
Total Net Capex	US\$mm	\$31	\$27	(\$27)	(\$12)	(\$2)	(\$2)
Total Net Capex/CFO	x	1.2x	1.1x	-0.9x	-0.3x	-0.1x	-0.1x
<b>Leverage</b>							
Net Debt	US\$mm	(\$10)	(\$8)	(\$11)	(\$34)	(\$58)	(\$76)
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.
<b>Capital Structure</b>							
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\$mm	\$60	\$43	\$43	\$43	\$44	\$44
Enterprise Value	US\$mm	\$51	\$35	\$32	\$9	(\$15)	(\$32)
<b>Dividends &amp; Sustainability</b>							
Dividends	US\$mm	\$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\$mm	(\$6)	(\$1)	\$3	\$23	\$24	\$18
Cash Use/CFO	%	122%	109%	-90%	-34%	-8%	-9%
<b>Performance</b>							
Prod. Per Shr Growth (Y/Y) - dil	%	14%	57%	2%	8%	-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%	-3%	21%	19%	-27%	-24%
CFPS Growth (Y/Y) DDA - dil. b	%		-25%	39%	138%	-202%	-73%
ROCE	%	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
<b>Net Asset Value</b> c							
CNAV (Atax) - diluted	£/shr	£0.27					
RENAV (Atax) - diluted	£/shr	£0.41					
Unrisked NAV (Atax) - diluted	£/shr	£1.61					
P/CNAV	x	0.6x					
P/RENAV	x	0.4x					
P/Unrisked NAV	x	0.1x					
<b>Valuation</b>							
Share Price, YE/Current	£/shr	£0.16	£0.16	£0.16	£0.16	£0.16	£0.16
P/CF	x	1.9x	1.3x	1.1x	0.9x	1.3x	1.7x
EV/DACF	x	2.0x	1.4x	1.1x	0.3x	-0.6x	-0.7x
Target EV/DACF	x	3.7x	3.8x	3.1x	2.0x	1.8x	1.5x
EV per boe/d	\$/boepd	\$12,500	\$5,462	\$4,937	\$1,290	(\$2,234)	(\$5,236)
EV per 2P boe	US\$/boe	\$5.08	\$3.15	\$3.72	\$1.49	(\$3.94)	\$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 19-Nov-20

## More details on the 2021 programme

We estimate the 2021 capex programme at US\$25-27 mm including US\$16-18 mm in Morocco, US\$5 mm at South Disouq (development and production), US\$4 mm to drill the Hanut prospect (assuming 100% WI) and the balance at West Gharib.

The development capex programme in Egypt will include one new development well at Ibn Ynus (+16 mmcf/d) to maintain production at South Disouq.

The Hanut prospect is a Turbidite channel prospect. The trap is stratigraphic and the main area of risk is the fact that SDX cannot map clearly the eastern closure. The prospect is estimated to hold 90-200 bcf with a P50 case of 139 bcf.

At West Gharib, production is profitable even at ~US\$20/bbl and the drilling programme to develop the contingent resources is expected to start in 2021.

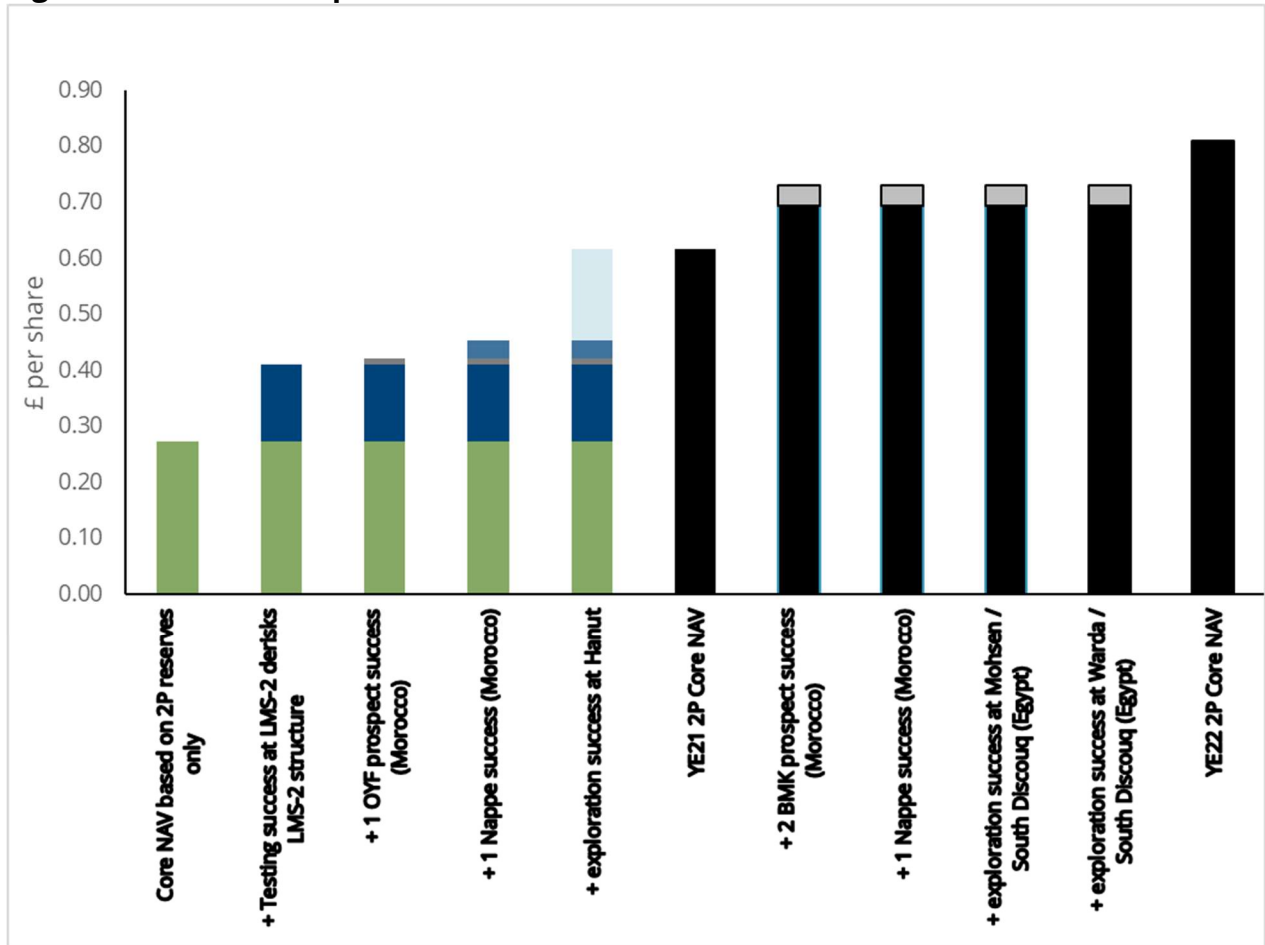
In Morocco, SDX plans to test the LMS-2 well (that was initially planned for 2020) and drill four wells including one OYF cluster well that was derisked by the 2020 campaign and one Nappe well in the core producing area. The Nappe formation was encountered in the Lala Mimouna area. SDX plans to target that same formation in its core area by deepening wells. The potential gas pools in this area are larger than the pools encountered in the shallower formations currently in production.

## Value build-up

Our 2P NAV for the company at the end of 2020 is ~£0.27 per share, representing ~70% upside per share. Overall, we value the prospects the company will target with the drill bit in 2021 at £0.34 per share, which represents 2x 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 (£0.17 per share).

In 2022, further drilling success in Morocco (assuming two small prospects at the BMK/OYF prospects and one Nappe follow-on prospect) and Egypt (Mohsen and Warda) would take our unrisks NAV at YE22 for the firm to £0.81 per share.

**Figure 2. Value build-up**



Source: Auctus

**Figure 3. NAV Table**

Asset Valuation	2P/2C/P50 (mmboe)	CoS (%)	Unrisked (US\$ mm)	EMV (US\$ mm)	Riskd £/Share	Unrisked £/Share	% Total
Net Cash (YE20)			11	11	0.04	0.04	10%
G&A			-26	-26	-0.10	-0.10	-24%
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	39%
Morocco 2P + volumes discovered in 2020	1.00	100%	40	40	0.15	0.15	36%
<b>Total Core NAV</b>			<b>73</b>	<b>73</b>	<b>0.27</b>	<b>0.27</b>	<b>66%</b>
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	3	0.01	0.02	2%
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	13%
Lala Mimouna LMS-2 follow prospects (2x)	0.44	20%	17	3	0.01	0.06	3%
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	2.38	51%	8	0	0.00	0.03	0%
Egypt - Hanut prospect	12.74	33%	44	15	0.05	0.17	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%
<b>Total Risked Exploration</b>			<b>358</b>	<b>38</b>	<b>0.14</b>	<b>1.34</b>	<b>34%</b>
<b>Total NAV</b>			<b>431</b>	<b>111</b>	<b>0.41</b>	<b>1.61</b>	<b>100%</b>
<b>P/Core NAV</b>					<b>58%</b>		
<b>P/NAV</b>					<b>39%</b>		
<b>P/Unrisked NAV</b>					<b>10%</b>		

Source: Auctus Advisors, Company Disclosures

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