

SDX ENERGY PLC (AIM: SDX)

January 06, 2021

Share price: £0.20

Target: £0.40

Strong production in Morocco, Exciting drilling in 2021

- The SDX management team has delivered a very good year with production ahead of expectations and lower capex.
- FY20 entitlement production was 6,427 boe/d, ahead of guidance of 6,000-6,270 boe/d given strong production at South Disouq (49.5 mmcf/d versus guidance of 47-49 mmcf/d) and in Morocco (6.5 mmcf/d versus guidance of 5.3-6.0 mmcf/d). The strong production in Morocco reflects the second CITIC Dicastal factory coming online as well as higher than expected offtake across the customer group towards the end of the year.
- We view the strong 4Q20 production in Morocco (~8.5 mmcf/d) as very important for FY21 cash flow given the very high netbacks. We are increasing our FY21 gross production forecast from 7.0 mmcf/d to 8.0 mmcf/d.
- At South Disouq, the SDX-12X well was brought on stream six weeks early, resulting in strong 4Q20 production.
- SDX held ~US\$9.6 mm in cash at YE20 and the new US\$10 mm EBRD debt facility (undrawn) is expected to be available by end 1Q21. The existing EBRD facility remains undrawn at US\$2.5 mm.
- The FY21 drilling programme is confirmed with nine wells with an unrisks value of £0.39 per share, including the Hanut exploration well (£0.17 per share unrisks NAV) in Egypt and four appraisal/development wells in Morocco including two wells targeting the more material Top Nappe play.

Early look at capex and valuation

The FY21 drilling programme is expected to cost ~US\$17.5 mm (net to SDX) including US\$12 mm in Morocco, US\$1.5 mm at West Gharib and the balance at South Disouq (SDX's partner in Egypt has confirmed its participation in the programme). Ahead of formal guidance expected later in January, we are now carrying an overall FY21 cash capex of ~US\$27 mm including capex associated with the 2020 programme in Morocco and bonus payments in Egypt. With our forecast of US\$27 mm operating cashflow in 2021, the company is very well funded.

The shares trade at an EV/DACF multiple of only 1.6x for 2021. Our target of £0.40 per share suggests 100% upside.

Rating & target	Old	New	
Target	£0.40	n.c.	
Yield		0%	
Implied total return		100%	
Share data	2019	2020e	2021e
Shares dil., mm	206	206	206
Mkt cap, US\$mm	\$60	\$53	\$55
EV, US\$mm	\$51	\$44	\$44
Financial Data	2019	2020e	2021e
Gas, mmcf/d	10.9	32.6	35.9
Liquids, bbl/d	2,246	990	644
Total boe/d (6:1)	4,062	6,422	6,626
CFO, US\$mm	\$25	\$27	\$28
Net capex, US\$mm	\$31	\$27	(\$27)
Net debt, US\$mm	(\$10)	(\$10)	(\$11)
CFPS dil., US\$/shr	\$0.12	\$0.13	\$0.14
EPS dil., US\$/shr	(\$0.09)	\$0.00	\$0.02
Valuation	2019	2020e	2021e
Share price, £/shr	£0.23	£0.20	£0.20
EV/DACF	2.0x	1.6x	1.5x
EV per boe/d (US\$)	\$12,500	\$6,800	\$6,583
Net asset value			
CNAV, £/shr			£0.26
RENAV, £/shr			£0.40
Unrisks NAV, £/shr			£1.61
P/CNAV			0.8x
P/RENAV			0.5x
P/ENAV			0.1x

All figures in US\$ unless otherwise noted

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Figure 1. Financial & operating information
SDX Energy (SDX LN)

Financial & Operating Information		2019	2020e	2021e	2022e	2023e	2024e
Commodity Prices							
Brent	US\$/bbl	\$71.65	\$41.23	\$50.00	\$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	\$1.33	\$1.32	\$1.32	\$1.33
Production							
Oil and Liquids	bbl/d	2,246	990	644	730	633	549
Natural Gas	mmcf/d	10.9	32.6	35.9	38.1	36.7	35.3
Total (6 mcf = 1 boe)	boe/d	4,062	6,422	6,626	7,084	6,757	6,424
% Oil and Liquids	%	55%	15%	10%	10%	9%	9%
Netbacks							
Realized Price	US\$/boe	\$46.32	\$23.89	\$26.01	\$26.66	\$25.37	\$23.65
Royalties	US\$/boe	\$10.42	\$4.50	\$5.75	\$5.73	\$5.66	\$5.26
Production & Transport Costs	US\$/boe	\$14.99	\$3.94	\$5.92	\$5.91	\$5.71	\$5.54
Operating Netback	US\$/boe	\$20.92	\$15.44	\$14.34	\$15.02	\$14.00	\$12.85
Taxes	US\$/boe	\$3.90	\$1.59	\$0.63	\$0.53	\$0.77	\$1.43
Cash Flow Netback	US\$/boe	\$17.25	\$11.27	\$11.72	\$12.28	\$10.87	\$8.88
Government Take	%	8%	7%	2%	2%	3%	6%
Financials							
Cash Flow (CFO)	US\$mm	\$25	\$27	\$28	\$32	\$27	\$21
CFPS - diluted	US\$/shr	\$0.12	\$0.13	\$0.14	\$0.15	\$0.13	\$0.10
EBITDAX	US\$mm	\$26	\$32	\$31	\$35	\$31	\$26
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	1.0x	-1.0x	-0.4x	-0.1x	-0.1x
Leverage							
Net Debt	US\$mm	(\$10)	(\$10)	(\$11)	(\$31)	(\$55)	(\$75)
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\$mm	\$60	\$53	\$55	\$54	\$54	\$55
Enterprise Value	US\$mm	\$51	\$44	\$44	\$24	(\$1)	(\$20)
Dividends & Sustainability							
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	\$1	\$20	\$25	\$19
Cash Use/CFO	%	122%	102%	-95%	-39%	-7%	-8%
Performance							
Prod. Per Shr Growth (Y/Y) - dil.	%	14%	58%	3%	7%	-5%	-5%
PPS Growth (Y/Y) DDA - dil.	%	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
CFPS Growth (Y/Y) - dil.	%	-11%	4%	7%	12%	-16%	-22%
CFPS Growth (Y/Y) DDA - dil.	%	n.a.	-13%	15%	64%	512%	-118%
ROCE	%	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Net Asset Value							
CNAV (Atax) - diluted	£/shr	£0.26					
RENAV (Atax) - diluted	£/shr	£0.40					
Unrisked NAV (Atax) - diluted	£/shr	£1.61					
P/CNAV	x	0.8x					
P/RENAV	x	0.5x					
P/Unrisked NAV	x	0.1x					
Valuation							
Share Price, YE/Current	£/shr	£0.20	£0.20	£0.20	£0.20	£0.20	£0.20
P/CF	x	1.9x	1.6x	1.5x	1.3x	1.5x	2.0x
EV/DACF	x	2.0x	1.6x	1.5x	0.7x	0.0x	0.0x
Target EV/DACF	x	3.7x	3.5x	3.3x	2.3x	1.8x	1.5x
EV per boe/d	\$/boepd	\$12,500	\$6,800	\$6,583	\$3,322	(\$140)	(\$3,101)
EV per 2P boe	US\$/boe	\$5.08	\$3.97	\$5.08	\$3.93	(\$0.27)	\$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-Jan-21

Figure 2. NAV Table

Asset Valuation	2P/2C/P50 (mboe)	CoS (%)	Unrisked (US\$ mm)	EMV (US\$ mm)	Risked £/Share	Unrisked £/Share	% Total
Net Cash (YE21)			11	11	0.04	0.04	10%
G&A			-24	-24	-0.09	-0.09	-22%
Egypt: West Gharib 2P + 2C	1.73	100%	5	5	0.02	0.02	4%
Egypt: South Disouq 2P + Sobhi	12.0	100%	36	36	0.13	0.13	34%
Morocco 2P + volumes discovered in 2020	1.00	100%	41	41	0.15	0.15	38%
Total Core NAV			69	69	0.26	0.26	64%
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	3%
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%	50	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	0.06	0.14	14%
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%	127	0	0.00	0.47	0%
Egypt - Warda prospect	1.28	50%	5	0	0.00	0.02	0%
Egypt - Mohsen prospect	2.38	51%	9	0	0.00	0.03	0%
Egypt - Hanut prospect	12.74	33%	46	15	0.06	0.17	14%
Egypt - Ibrn/Newton	1.47	40%	5	0	0.00	0.02	0%
Egypt - El Deep prospect	2.11	29%	8	0	0.00	0.03	0%
Egypt - Shikabala prospect	2.67	40%	10	0	0.00	0.04	0%
Total Risked Exploration			365	39	0.14	1.35	36%
Total NAV			434	108	0.40	1.61	100%
P/Core NAV					78%		
P/NAV					50%		
P/Unrisked NAV					12%		

Source: Auctus Advisors, Company Disclosures

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