

# SDX ENERGY PLC (AIM: SDX)

January 27, 2021

Share price: £0.18

Target: £0.40

## Conservative and sensible FY21 guidance

- FY21 production guidance has been set at 5,620-5,920 boe/d (net entitlement). While this is below the FY20 net production of 5,987 boe/d, we note that the FY20 net production (excluding Gemsa) was above the initial guidance of 5,650-5,950 boe/d (excluding Gemsa) which had been set in January 2020, pre-COVID. Adjusting for a normalized environment, this suggests that the FY20 production exceeded expectations by a significant margin.
- This might suggest that the FY21 production guidance is equally conservative.
- The FY21 production guidance assumes 44-46 mmcf/d at South Disouq including 4-5 mmcf/d at SD-12x, from which SDX gets 100% of revenue and cashflow.
- FY21 gross production guidance in Morocco of 7.0-7.3 mmcf/d looks conservative in light of the ~8.5 mmcf/d achieved in 4Q20 and incorporates a 7-10 day maintenance period as well as two Eid holidays. The 4Q20 8.5 mmcf/d production included catch-up volumes following an extended COVID related period of shutdown at customers. We are reducing our FY21 gross production forecast from 8.0 mmcf/d to 7.3 mmcf/d.
- FY21 cash capex has been set at US\$25-26.5 mm in line with our expectations and includes US\$15.5-16 mm for Morocco.
- The Hanut exploration well in Egypt (£0.17 per share unrisks) is expected to be drilled in 3Q21. Drilling is starting in Morocco in 2Q21 with the well test of LMS-2 expected to take place in 3Q21. The 2021 activity programme in Morocco is particularly important for SDX as it will define the way forward for this asset.

## Revisiting our NAV but no change to the investment profile

We continue to view FY21 operating cashflow as more than covering the company cash capex programme.

We have updated our Core NAV to reflect our more conservative future production estimates in Morocco, which is offset by the positive impact of lower opex at South Disouq from 2024 (as high water cut wells come offline) and lower opex and capex than we previously estimated at West Gharib.

The shares trade at EV/DACF multiples of 1.3x in 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		129%	
Share data	2019	2020e	2021e
Shares dil., mm	206	206	206
Mkt cap, US\$mm	\$60	\$47	\$48
EV, US\$mm	\$51	\$37	\$37
Financial Data	2019	2020e	2021e
Gas, mmcf/d	10.9	32.6	33.4
Liquids, bbl/d	2,246	990	510
Total boe/d (6:1)	4,062	6,422	6,069
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	\$0.03
Valuation	2019	2020e	2021e
Share price, £/shr	£0.23	£0.18	£0.18
EV/DACF	2.0x	1.4x	1.3x
EV per boe/d (US\$)	\$12,500	\$5,759	\$6,071
Net asset value			
CNAV, £/shr			£0.22
RENNAV, £/shr			£0.37
Unrisks NAV, £/shr			£1.63
P/CNAV			0.8x
P/RENNAV			0.5x
P/ENNAV			0.1x

All figures in US\$ unless otherwise noted

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**Figure 1. Financial & operating information**

<b>SDX Energy (SDX LN)</b>								
<b>Financial &amp; Operating Information</b>			2019	2020e	2021e	2022e	2023e	2024e
<b>Commodity Prices</b>								
Brent	US\$/bbl		\$71.65	\$41.23	\$52.48	\$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
<b>Production</b>								
Oil and Liquids	bbl/d		2,246	990	510	634	604	523
Natural Gas	mmcf/d		10.9	32.6	33.4	32.6	30.6	29.4
Total (6 mcf = 1 boe)	boe/d		4,062	6,422	6,069	6,071	5,711	5,423
% Oil and Liquids	%		55%	15%	8%	10%	11%	10%
<b>Netbacks</b>								
Realized Price	US\$/boe		\$46.32	\$23.89	\$26.41	\$27.20	\$24.97	\$22.80
Royalties	US\$/boe		\$10.42	\$4.50	\$6.12	\$6.14	\$6.16	\$5.13
Production & Transport Costs	US\$/boe		\$14.99	\$3.94	\$5.15	\$5.53	\$5.64	\$3.93
Operating Netback	US\$/boe		\$20.92	\$15.44	\$15.15	\$15.53	\$13.18	\$13.75
Taxes	US\$/boe		\$3.90	\$1.59	\$0.41	\$0.31	\$0.53	\$1.84
Cash Flow Netback	US\$/boe		\$17.25	\$11.27	\$12.57	\$12.64	\$9.85	\$8.91
Government Take	%		8%	7%	2%	1%	2%	8%
<b>Financials</b>								
Cash Flow (CFO)	US\$m		\$25	\$27	\$28	\$28	\$21	\$18
CFPS - diluted	US\$/shr		\$0.12	\$0.13	\$0.14	\$0.14	\$0.10	\$0.09
EBITDAX	US\$m		\$26	\$32	\$30	\$31	\$24	\$23
E&D Capex	US\$m		\$31	\$26	\$27	\$14	\$3	\$1
A&D Capex, Net	US\$m		(\$1)	\$1	\$0	\$0	\$0	\$0
Total Net Capex	US\$m		\$31	\$27	(\$27)	(\$14)	(\$3)	(\$1)
Total Net Capex/CFO	x		1.2x	1.0x	-1.0x	-0.5x	-0.1x	-0.1x
<b>Leverage</b>								
Net Debt	US\$m		(\$10)	(\$10)	(\$11)	(\$25)	(\$43)	(\$60)
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\$m		\$60	\$47	\$48	\$47	\$48	\$48
Enterprise Value	US\$m		\$51	\$37	\$37	\$22	\$5	(\$12)
<b>Dividends &amp; Sustainability</b>								
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	\$1	\$14	\$18	\$17
Cash Use/CFO	%		122%	102%	-95%	-48%	-14%	-6%
<b>Performance</b>								
Prod. Per Shr Growth (Y/Y) - dil.	%		14%	58%	-6%	0%	-6%	-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%	5%	1%	-27%	-14%
CFPS Growth (Y/Y) DDA - dil.	%			-15%	16%	42%	169%	-155%
ROCE	%		n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
<b>Net Asset Value</b>								
CNAV (Atax) - diluted	£/shr		£0.22					
RENAV (Atax) - diluted	£/shr		£0.37					
Unrisked NAV (Atax) - diluted	£/shr		£1.63					
P/CNAV	x		0.8x					
P/RENAV	x		0.5x					
P/Unrisked NAV	x		0.1x					
<b>Valuation</b>								
Share Price, YE/Current	£/shr		£0.18	£0.18	£0.18	£0.18	£0.18	£0.18
P/CF	x		1.9x	1.4x	1.3x	1.3x	1.8x	2.0x
EV/DACF	x		2.0x	1.4x	1.3x	0.8x	0.2x	0.3x
Target EV/DACF	x		3.7x	3.5x	3.4x	2.8x	3.0x	2.6x
EV per boe/d	\$/boepd		\$12,500	\$5,759	\$6,071	\$3,609	\$798	(\$2,207)
EV per 2P boe	US\$/boe		\$5.08	\$3.36	\$4.19	\$3.34	\$1.02	\$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 26-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	11%
G&A			-24	-24	-0.09	-0.09	-24%
Egypt: West Gharib 2P + 2C	4.50	100%	12	12	0.04	0.04	12%
Egypt: South Disouq 2P + Sobhi	12.0	100%	36	36	0.13	0.13	36%
Morocco 2P + volumes discovered in 2020	1.00	100%	26	26	0.10	0.10	26%
<b>Total Core NAV</b>			<b>61</b>	<b>61</b>	<b>0.22</b>	<b>0.22</b>	<b>60%</b>
Morocco core area Northern extension: 2C OYF-2 & BMK-1 discovered resources	0.31	50%	13	3	0.01	0.05	3%
Morocco core area Northern extension: OYF cluster additional prospects (2)	0.14	80%	6	3	0.01	0.02	3%
Morocco core area Northern extension: OLM cluster additional prospects (4)	0.48	60%	20	0	0.00	0.07	0%
Morocco core area Northern extension: BMK cluster additional prospects (10)	1.25	60%	52	0	0.00	0.19	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%	10	0	0.00	0.04	0%
Lala Mimouna LMS-2	0.94	40%	39	16	0.06	0.15	16%
Lala Mimouna LMS-2 follow prospects (2x)	0.44	20%	18	4	0.01	0.07	4%
Morocco: Exp additional P50 Lala Mimouna North	3.19	20%	134	0	0.00	0.50	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%	45	15	0.06	0.17	15%
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%
<b>Total Risked Exploration</b>			<b>380</b>	<b>40</b>	<b>0.15</b>	<b>1.41</b>	<b>40%</b>
<b>Total NAV</b>			<b>441</b>	<b>100</b>	<b>0.37</b>	<b>1.63</b>	<b>100%</b>
<b>P/Core NAV</b>					<b>78%</b>		
<b>P/NAV</b>					<b>47%</b>		
<b>P/Unrisked NAV</b>					<b>11%</b>		

Source: Auctus Advisors, Company Disclosures



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