

SDX ENERGY PLC (AIM: SDX)

March 22, 2021

Share price: £0.17

Target: £0.40

Good financial results, High impact drilling on the horizon

- SDX held US\$10 mm in cash at YE20. While this had been reported previously, we note that the cash position is net of a US\$4 mm reduction in payables compared to the end of September (while receivables were stable).
- FY20 production had already been reported and FY21 production guidance of 5,620-5,920 boe/d (net entitlement) with capex of US\$25-26.5 mm has been reiterated. The FY21 guidance incorporates some maintenance at South Disouq and 1-2 wells to be taken offline for work-overs.
- The 2021 activity programme has also been confirmed with (1) the Hanut exploration well in Egypt (£0.17 per share unrisks) expected to be drilled in 3Q21 and targeting 139 bcf (unrisks, 33% CoS) and (2) drilling restarting in Morocco in 2Q21 with the well test of LMS-2 expected to take place in 3Q21. The 2021 activity programme in Morocco will define the way forward for this asset.
- YE20 2P reserves were 11.1 mmboe with 0.9 mmboe 2C resources at West Gharib in Egypt. The YE20 2P reserves include 7 mmboe for South Disouq, 3.5 mmbbl at West Gharib and 0.5 mmboe in Morocco.
- The Ibn Yunus-2 development well could recover 5-10 bcf gross incremental resources from the eastern feature (not included in the 2P reserves). Our risks NAV assumes 4.1 bcf or 0.69 mmboe net to SDX's 55% working interest.
- The company's operated assets recorded a carbon intensity of 1.8-2.2kg CO₂e/boe in 2020, which is one of the lowest rates in the industry.

Deep value and exploration upside.

The shares continue to offer deep value. They trade at EV/DACF multiples of only 1.3x in 2021 and 0.8x in 2022. Our Core NAV is 35% above the current share price.

Our Unrisks NAVs for the drilling programme in Egypt and Morocco are respectively £0.18 and £0.24 per share respectively. These represent respectively 100% and 140% of the current share price.

Our target of £0.40 per share suggests >100% upside.

Rating & target	Old	New	
Target	£0.40	n.c.	
Yield		0%	
Implied total return		135%	
Share data	2020	2021e	2022e
Shares dil., mm	206	206	206
Mkt cap, US\$m	\$45	\$47	\$46
EV, US\$m	\$36	\$38	\$23
Financial Data	2020	2021e	2022e
Gas, mmcf/d	32.6	33.4	32.6
Liquids, bbl/d	990	510	635
Total boe/d (6:1)	6,422	6,069	6,072
CFO, US\$m	\$24	\$29	\$28
Net capex, US\$m	(\$24)	(\$31)	(\$14)
Net debt, US\$m	(\$10)	(\$8)	(\$23)
CFPS dil., US\$/s	\$0.13	\$0.14	\$0.14
EPS dil., US\$/sh	(\$0.01)	\$0.03	\$0.03
Valuation	2020	2021e	2022e
Share price, £/s	£0.17	£0.17	£0.17
EV/DACF	1.3x	1.3x	0.8x
EV per boe/d (U)	\$5,546	\$6,319	\$3,839
Net asset value			
CNAV, £/shr			£0.22
RENNAV, £/shr			£0.36
Unrisks NAV, £/shr			£1.59
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

SDX Energy (SDX LN)		2019	2020	2021e	2022e	2023e	2024e
Financial & Operating Information							
Commodity Prices							
Brent	US\$/bbl	\$71.65	\$41.23	\$57.48	\$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
Production							
Oil and Liquids	bbl/d	2,246	990	510	635	614	544
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	6,072	5,722	5,444
% Oil and Liquids	%	55%	15%	8%	10%	11%	10%
Netbacks							
Realized Price	US\$/boe	\$46.32	\$24.15	\$26.98	\$27.20	\$25.02	\$22.90
Royalties	US\$/boe	\$10.42	\$4.50	\$6.12	\$6.13	\$6.15	\$5.11
Production & Transport Costs	US\$/boe	\$14.99	\$4.07	\$5.15	\$5.53	\$5.66	\$3.99
Operating Netback	US\$/boe	\$20.92	\$15.59	\$15.72	\$15.53	\$13.21	\$13.81
Taxes	US\$/boe	\$3.90	\$2.24	\$0.41	\$0.31	\$0.53	\$1.83
Cash Flow Netback	US\$/boe	\$17.25	\$11.54	\$12.96	\$12.69	\$9.94	\$9.04
Government Take	%	8%	9%	2%	1%	2%	8%
Financials							
Cash Flow (CFO)	US\$mm	\$25	\$24	\$29	\$28	\$21	\$18
CFPS - diluted	US\$/shr	\$0.12	\$0.13	\$0.14	\$0.14	\$0.10	\$0.09
EBITDAX	a US\$mm	\$26	\$33	\$31	\$31	\$24	\$24
E&D Capex	US\$mm	\$31	\$26	\$31	\$14	\$3	\$1
A&D Capex, Net	US\$mm	(\$1)	(\$2)	\$0	\$0	\$0	\$0
Total Net Capex	US\$mm	\$31	\$24	(\$31)	(\$14)	(\$3)	(\$1)
Total Net Capex/CFO	x	1.2x	1.0x	-1.1x	-0.5x	-0.1x	-0.1x
Leverage							
Net Debt	US\$mm	(\$10)	(\$10)	(\$8)	(\$23)	(\$41)	(\$58)
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	\$45	\$47	\$46	\$46	\$46
Enterprise Value	US\$mm	\$51	\$36	\$38	\$23	\$6	(\$11)
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)	(\$3)	(\$2)	\$15	\$18	\$17
Cash Use/CFO	%	122%	102%	-107%	-48%	-14%	-6%
Performance							
Prod. Per Shr Growth (Y/Y) - dil	%	14%	58%	-6%	0%	-6%	-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%	6%	6%	-2%	-26%	-13%
CFPS Growth (Y/Y) DDA - dil. b	%		-12%	16%	32%	189%	-148%
ROCE	%	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Net Asset Value c							
CNAV (Atax) - diluted	£/shr	£0.22					
RENAV (Atax) - diluted	£/shr	£0.36					
Unrisked NAV (Atax) - diluted	£/shr	£1.59					
P/CNAV	x	0.8x					
P/RENAV	x	0.5x					
P/Unrisked NAV	x	0.1x					
Valuation							
Share Price, YE/Current	£/shr	£0.17	£0.17	£0.17	£0.17	£0.17	£0.17
P/CF	x	1.9x	1.3x	1.2x	1.2x	1.7x	1.9x
EV/DACF	x	2.0x	1.3x	1.3x	0.8x	0.3x	0.3x
Target EV/DACF	x	3.7x	3.3x	3.3x	2.8x	3.0x	2.5x
EV per boe/d	\$/boepd	\$12,500	\$5,546	\$6,319	\$3,839	\$1,000	(\$2,047)
EV per 2P boe	US\$/boe	\$5.08	\$3.24	\$4.37	\$3.55	\$1.28	\$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 21-Mar-21

Figure 2. NAV Table

Asset Valuation	2P/2C/P50		Unrisked	EMV	Riskd	Unrisked	% Total
	(mmboe)	CoS (%)	(US\$ mm)	(US\$ mm)	£/Share	£/Share	
Net Cash (YE21)			8	8	0.03	0.03	8%
G&A			-24	-24	-0.09	-0.09	-25%
Egypt: West Gharib 2P + 2C	4.37	100%	12	12	0.04	0.04	13%
Egypt: South Disouq 2P	7.0	100%	36	36	0.13	0.13	37%
Morocco 2P	0.50	100%	26	26	0.10	0.10	27%
Total Core NAV			58	58	0.22	0.22	60%
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 - IY2 upside	0.69	40%	2	1	0.00	0.01	1%
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	16%
Egypt - Ibn/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			370	38	0.14	1.37	40%
Total NAV			428	96	0.36	1.59	100%
P/Core NAV							79%
P/NAV							48%
P/Unrisked NAV							11%

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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