

SDX ENERGY

PRICE 17.5p
VALUATION (UPSIDE) 21p (+20%) ■ 41p (+134%)

Morocco drilling campaign gets underway

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Active 2021 drilling program gets underway in Morocco

Three wells are planned in the first phase of the 2021 Morocco drilling program, with up to 2 wells to follow in Morocco from September/October 2021.

Initial results expected July 2021

Drilling operations on the OYF-3 appraisal/development well started on 30 April, and an update will be provided once the initial program is completed (anticipated July 2021). The start of the program has been delayed by around one month owing to COVID-19 related travel restrictions.

Targeting reserves additions for quick tie-in at low cost

The program is planned to add reserves for delivery to customers under the existing gas contracts; the wells are targeting the same geological play from which existing production is sourced.

Initial Morocco program targets 1.8bcf gross un-risked resource potential (best estimate)

The first three wells in Morocco are targeting gross resource potential of 1.8bcf on a P50 (best estimate) basis, or 1.3bcf on a P90 basis (90% chance of exceeding this figure). We attribute 1.0p/sh risked (1.7p/sh un-risked) for 1bcf of gross resource potential onshore Morocco.

Egyptian program to commence in June, with four wells planned

SDX also has an active drilling program planned in Egypt, incorporating development, appraisal and exploration potential. The large Hanut prospect (3.1p/sh risked, 10.7p/sh un-risked) is expected to be drilled by the second well of this program, starting around mid 3Q 2021.

Shares trading with 20% upside to Discovered Resource NAV; un-risked exploration and appraisal potential worth ~3.5x current share price

Our valuation range stands at 21-41p/sh, defined by our 21p/sh discovered resource NAV and our 41p/sh RENAV. We believe the company's drilling programs offer material upside potential.

Price (30 April 2021)	17.5p	Performance ⁽¹⁾	1w	1m	3m	12m			
Market cap (USDm / GBPm)	50 / 36	Absolute(%)	3	3	6	(13)			
Free float (USDm / GBPm)	40 / 29	Rel. Oil & Gas(%)	3	5	2	(29)			
EV (USDm / GBPm)	46.7 / 34	Rel. MSCI SMID(%)	3	(2)	(3)	(40)			
3m avg volume (USDm / GBPm)	0.1 / 0.0								
Refinitiv / Bloomberg	SDX.L / SDX LN								
Country / Sub Sector	UK / Exploration & Production								
Financials	12/21e	12/22e	12/23e	12/24e	Valuation metrics	12/21e	12/22e	12/23e	12/24e
EPS, Adjusted (USD)	0.01	(0.02)	(0.05)	(0.05)	P/E (x)	26.2	-	-	-
EPS - Refinitiv (USD)	0.04	0.02	(0.03)	(0.05)	Net yield (%)	-	-	-	-
Net dividend (USD)	-	-	-	-	FCF yield (%)	(4.2)	25.2	6.6	(4.1)
Sales (USDm)	47.6	43.0	28.8	21.6	EV/Sales (x)	1.0	0.8	1.1	1.5
EBITA, Adj. (USDm)	6.4	0.6	(6.4)	(7.2)	EV/EBITDA (x)	1.4	1.2	1.9	3.3
Net profit, Adj.(USDm)	1.9	(4.3)	(10.4)	(10.2)	EV/EBITA (x)	7.3	52.1	-	-
ROCE (%)	4.4	0.5	(6.5)	(8.5)	EV/CE (x)	0.5	0.4	0.5	0.6
Net Debt/EBITDA, Adj. (x)	-	-	-	-					

Source: Exane BNPP (estimates), Refinitiv (consensus) (1) In listing currency, with dividend reinvested

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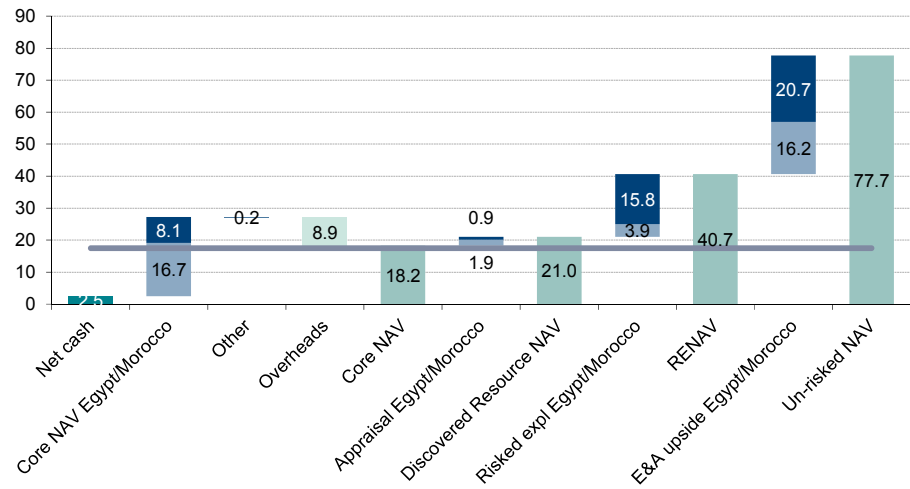
* Date and time (London Time) on which the investment recommendation was finalised. It may differ from the date and time of broad dissemination on the website. See Appendix (on p5) for Analyst Certification, Important Disclosures and Non-US Research Analyst disclosures.

Figure 1: Risked NAV - detail

Country	Field	Gross res (mmboe)	Int. %	W.I. Res., mboe	CoS (%)	NAV@ 10.0% Morocco/12.0% Egypt as of 1st Jan					
						\$m	\$/Wl boe	£m	p/sh	Unrisked p/sh	
Production											
Morocco	Morocco - 2P	0.7	75%	0.55	100%	23	41.5	17	8.1	8.1	
Egypt	W Gharib - 2P + 2C	8.9	50%	4.30	100%	20	4.5	14	7.0	7.0	
Egypt	Sth Disouq - 2P incl Ibn Yunus Nth (Sobhi)	11.5	64%	7.31	100%	27	3.7	20	9.7	9.7	
Total producing		21.1		12.2		70	5.7	51	24.8	24.8	
NPV of overheads (5yrs)						-25		-18	(8.9)	(8.9)	
Net cash (debt) excl restricted cash/incl lease liabs						7		5	2.5	2.5	
Cash return completed post B/S date						0		0	0.0	0.0	
Proceeds from disposals/acqn costs						0		0	0.0	0.0	
Est'd exploration expenditure incurred post B/S date						0		0	0.0	0.0	
Other costs (incl licence bonus)						-1		0	(0.2)	(0.2)	
Core NAV - Prod		21.1		12.2		51		37	18.2	18.2	
Development											
Total development		0.0		0.0		0	0.0	0	0.0	0.0	
Core NAV - Prod & Dev		21.1		12.2		51		37	18.2	18.2	
Appraisal											
Morocco	LMS-2 (7.5bcf, incl separate compartments)	1.3	75%	0.9	20%	2	13.1	2	0.9	5.3	
Egypt	Ibn Yunus Nth (Sobhi)-2 (appraisal upside)	1.9	100%	1.9	55%	4	3.4	3	1.3	2.9	
Egypt	Ibn Yunus-2 (appraisal upside)	1.3	55%	0.7	55%	2	5.1	1	0.7	1.2	
Total appraisal		4.4		3.5		8	4.9	6	2.8	9.4	
Discovered resource NAV		25.5		15.7		59	4.3	43	21.0	27.6	
Exploration											
Morocco	2021 2 near-infra expl w ells	0.2	75%	0.1	75%	3	29.1	2	1.0	1.7	
Morocco	Top Nappe	TBC	75%								
Morocco	OYF cluster (2 further prospect remaining)	0.2	75%	0.1	80%	4	32.8	3	1.3	1.9	
Morocco	BMK cluster (9 prospects+BMK-1 disc)	1.6	75%	1.2	70%	24	27.8	17	8.4	14.2	
Morocco	OLM cluster (4 prospects remaining)	0.6	75%	0.5	60%	8	28.2	6	2.9	5.9	
Morocco	RML cluster (3 prospects remaining)	0.2	75%	0.2	55%	0	3.7	0	0.1	1.6	
Morocco	SSF cluster (3 prospects remaining)	0.5	75%	0.4	60%	6	27.3	4	2.1	4.7	
Morocco	LMS area (2 prospects)	0.6	75%	0.4	10%	0	0.0	0	0.0	2.1	
Egypt	Hanut	23.2	55%	12.7	33%	9	2.1	6	3.1	10.7	
Egypt	Warda	2.3	55%	1.3	35%	0	0.0	0	0.0	1.1	
Egypt	Mohsen	4.3	55%	2.4	51%	2	1.6	1	0.7	2.0	
Egypt	El Deeb	3.7	55%	2.0	29%	0	0.0	0	0.0	1.7	
Egypt	Ibn New ton/New ton	2.7	55%	1.5	43%	0	0.5	0	0.1	1.2	
Egypt	Shikabala cluster (2 w ells)	2.7	55%	1.5	33%	0	0.0	0	0.0	1.2	
Exploration upside		42.7		24.3		55	6.0	40	19.7	50.0	
Risked Expl NAV		68.2		39.9		114	5.0	84	40.7	77.7	
Share price									17.5	17.5	
Core NAV up/(down)side vs share price									4%	4%	
Discovered resource NAV up/(down)side vs share price									20%	58%	
Upside NAV up/(down)side vs share price									133%	344%	

Source: Exane BNP Paribas estimates

Figure 2: Risked NAV waterfall chart



Source: Exane BNP Paribas estimates

Investment case, valuation and risks

SDX Energy

Investment case

With a net cash position, low cost cash generative production, and exploration prospects within tie-back distance to the company's infrastructure, 2021 will see drilling to add low-cost resource, extend asset lives, and create value for shareholders.

Valuation methodology

We value the company using a risked NAV approach, discounting the future cash-flows from the asset base and adjusting for the balance sheet and corporate overheads.

Risks

To the upside:

Exploration success through the company's drilling programs should deliver upside since the shares trade today around the risked NAV of the producing assets, and the identified exploration potential is worth multiples of the current share price in the un-risked success case.

Positive revisions to reserves estimates for the producing assets would be additive to our forecasts, which are based upon recovery of the existing reserves base.

The business has limited leverage to prevailing oil prices, with the bulk of revenues sourced from fixed price gas contracts. There is, however, some upside potential from higher oil prices.

To the downside:

Exploration failure would remove some of the potential upside from the story, and although the shares are trading in-line with the NAV of the producing assets, the shares could move to trade at a greater discount to discovered resource NAV. The cost incurred in drilling unsuccessful exploration wells would also negatively impact the balance sheet and the producing asset NAV, with no offset from resource addition.

Negative revisions to reserves estimates for the producing assets would be detrimental to our forecasts, which are based upon recovery of the existing reserves base. Negative reserves revisions were recorded in Egypt and Morocco at year-end 2020. In Egypt water and sand production from some wells at South Disouq in late 2020 necessitated workovers to shut-off zones, and negative reserves revisions. Water and sand production is fairly common from certain zones in the Nile Delta. Ibn Yunus North (Sobhi), Ibn Yunus, and the larger exploration prospects are in horizons not typically prone to water production.

Drilling of the Hanut prospect requires parliamentary ratification of a licence extension. This extension has been agreed with state company EGAS, and parliamentary ratification is expected H1 2021.

Following the 'Arab Spring', receivables rose across the Egyptian oil industry owing to payment delays. The bulk of these receivables have been paid down, with smaller operators investing in-country prioritised during that process, and we model the current situation persisting. We incorporate a 12% discount rate in our Egyptian NAVs and a 10% discount rate in Morocco.

DISCLOSURE APPENDIX

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SDX Energy	13

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Price and Ratings Chart

SDX Energy

Historical closing price & target price (as of 30/04/2021)

No historical data

Source: Exane BNP Paribas

Historical rating & target price changes

The latest company-specific disclosures, valuation methodologies and investment case risks for all other companies covered by this document are available on <http://cube.exane.com/compliance>.

Price at 30 Apr. 21: 17.5p

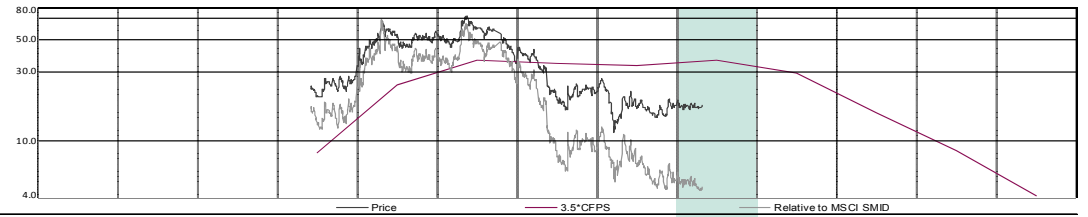
Valuation range (p): 21.0 (+20%) | 41.0 (+134%)

Refinitiv / Bloomberg: SDXL / SDXL LN

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SDX ENERGY
Exploration & Production | Oil & Gas - United Kingdom

Company Highlights		USDm / EURm	
Enterprise value		47 / 39	
Market capitalisation		50 / 41	
Free float		40 / 34	
3m average volume		0.1 / 0.1	
Performance (*)			
	1m	3m	12m
Absolute	3%	6%	(13%)
Rel. Sector	5%	2%	(29%)
Rel. MSCI SMD	(2%)	(3%)	(40%)
12m Hi/Low: 22p -20% / 14.5p +21%			
CAGR			
	2017/2021	2021/2025	
EPS restated	(6%)	NC	
CFPS	10%	(42%)	



	23.9	49.4	53.8	27.0	17.7	17.5	17.5	17.5	17.5	17.5
	Dec. 16	Dec. 17	Dec. 18	Dec. 19	Dec. 20	Dec. 21e	Dec. 22e	Dec. 23e	Dec. 24e	Dec. 25e
PER SHARE DATA (USD)										
No of shares year end, basic, (m)	79,844	204,493	204,723	204,723	205,378	205,378	205,378	205,378	205,378	205,378
Avg no of shares, diluted, excl. treasury stocks (m)	71,450	186,172	206,958	204,735	204,969	205,378	205,378	205,378	205,378	205,378
EPS reported, Gaap	(58.25)	16.34	0.04	(8.90)	(1.01)	0.93	(2.09)	(5.04)	(4.97)	(4.26)
EPS company definition	(58.25)	16.34	0.04	(8.90)	(1.01)	0.93	(2.09)	(5.04)	(4.97)	(4.26)
EPS restated, fully diluted	(0.34)	0.01	0.00	(0.03)	(0.02)	0.01	(0.02)	(0.05)	(0.05)	(0.04)
% change	NS	NS	(94.7%)	NS	41.9%	NS	NS	(141.4%)	1.5%	14.2%
Book value (BVPS) (a)	0.5	0.6	0.6	0.5	0.5	0.5	0.5	0.4	0.4	0.3
Net dividend										
STOCKMARKET RATIOS										
P / E (P/ EPS restated)	NC	57.2x	NS	NC	NC	26.2x	NC	NC	NC	NC
P / E relative to MSCI SMD	NC	312%	NS	NC	NC	119%	NC	NC	NC	NC
P / CF	10.3x	7.2x	5.3x	2.8x	1.9x	1.7x	2.1x	4.0x	7.2x	14.9x
FCF yield	(56.6%)	(2.2%)	(5.7%)	(9.5%)	(15.7%)	(4.2%)	25.2%	6.6%	(4.1%)	(11.1%)
P / BVPS	0.69x	1.13x	1.27x	0.72x	0.48x	0.51x	0.53x	0.60x	0.68x	0.77x
Net yield										
Payout	NC			NC	NC		NC	NC	NC	NC
EV / Sales	1.23x	2.39x	2.47x	1.21x	0.91x	0.98x	0.79x	1.06x	1.51x	2.31x
EV / Restated EBITDA	NS	4.6x	4.6x	2.8x	1.6x	1.4x	1.2x	1.9x	3.3x	6.9x
EV / Restated EBITA	NS	36.8x	11.6x	NS	22.4x	7.3x	52.1x	NS	NS	NS
EV / NOPAT	NS	56.6x	17.8x	NS	34.5x	11.2x	80.1x	NS	NS	NS
EV / OpFCF	NS	NS	NS	NS	NS	NS	2.5x	8.5x	NS	NS
EV / Capital employed (incl. gross goodwill)	0.5x	1.0x	1.3x	0.7x	0.5x	0.5x	0.4x	0.5x	0.6x	0.7x
ENTERPRISE VALUE (USDm)	16	94	133	64	42	47	34	31	33	38
Market cap	23	118	147	71	47	50	50	50	50	50
+ Adjusted net debt	(5)	(26)	(16)	(8)	(7)	(6)	(18)	(22)	(20)	(14)
+ Other liabilities and commitments	0	5	5	6	6	6	6	6	6	6
+ Revalued minority interests										
- Revalued investments	3	3	3	4	4	4	4	4	4	4
P & L HIGHLIGHTS (USDm)										
Sales	13	39	54	53	46	48	43	29	22	17
Restated EBITDA (b)	(20)	20	29	23	27	34	29	16	10	6
Depreciation	(3)	(18)	(17)	(26)	(25)	(27)	(28)	(23)	(17)	(12)
Restated EBITA (b)	(23)	3	11	(4)	2	6	1	(6)	(7)	(7)
Reported operating profit (loss)	(27)	3	8	(12)	2	6	1	(6)	(7)	(7)
Net financial income (charges)	0	29	(1)	(1)	(0)	(1)	(1)	(1)	(1)	(1)
Affiliates										
Other	0	0	0	0	2	0	0	0	0	0
Tax	(2)	(5)	(7)	(6)	(5)	(4)	(4)	(3)	(2)	(2)
Minorities										
Net attributable profit reported	(28)	28	0	(18)	(2)	2	(4)	(10)	(10)	(9)
Net attributable profit restated (c)	(24)	2	0	(6)	(3)	2	(4)	(10)	(10)	(9)
CASH FLOW HIGHLIGHTS (USDm)										
EBITDA (reported)	(19)	21	29	23	27	34	29	16	10	6
EBITDA adjustment (b)	(0)	(1)	0	0	0	0	0	0	0	0
Other items	22	(4)	(0)	4	(1)	(4)	(4)	(4)	(3)	(2)
Change in WCR	(3)	6	9	(0)	(3)	(5)	0	0	0	0
Operating cash flow	(1)	22	37	27	23	25	25	13	7	3
Capex	(12)	(25)	(45)	(31)	(29)	(26)	(11)	(9)	(9)	(9)
Operating free cash flow (OpFCF)	(13)	(3)	(8)	(5)	(6)	(1)	14	4	(2)	(6)
Net financial items + tax paid	(0)	0	(1)	(2)	(1)	(1)	(1)	(0)	(0)	(0)
Free cash flow	(13)	(3)	(8)	(7)	(7)	(2)	13	3	(2)	(6)
Net financial investments & acquisitions	0	(25)	0	0	4	0	0	0	0	0
Other	(0)	0	(2)	(1)	3	1	0	0	0	0
Capital increase (decrease)	10	49	0	0	0	0	0	0	0	0
Dividends paid	0	0	0	0	0	0	0	0	0	0
Increase (decrease) in net financial debt	3	(21)	10	8	1	1	(13)	(3)	2	6
Cash flow, group share	2	16	28	25	24	29	24	12	7	3
BALANCE SHEET HIGHLIGHTS (USDm)										
Net operating assets	23	70	88	88	84	82	65	51	43	40
WCR	7	21	14	3	8	13	13	13	13	13
Restated capital employed, incl. gross goodwill	30	91	101	91	91	95	77	64	56	52
Shareholders' funds, group share	37	115	116	98	96	98	94	84	73	65
Minorities							0	0	0	0
Provisions/ Other liabilities	0	5	5	6	6	6	5	5	5	5
Net financial debt (cash)	(5)	(26)	(16)	(8)	(7)	(6)	(18)	(22)	(20)	(14)
FINANCIAL RATIOS (%)										
Sales (% change)	13.5%	203.4%	37.0%	(0.8%)	(13.5%)	3.3%	(9.5%)	(33.1%)	(25.0%)	(23.5%)
Organic sales growth										
Restated EBITA (% change)	NC	NC	349.9%	NC	NC	242.8%	(89.9%)	NC	(13.2%)	9.1%
Restated attributable net profit (% change)	NC	NC	(94.1%)	NC	NC	41.8%	NC	(141.4%)	1.5%	14.2%
Personnel costs / Sales	NC	NC	NC	NC	NC	NC	NC	NC	NC	NC
Restated EBITDA margin	(151.8%)	52.0%	53.5%	42.8%	58.8%	71.2%	67.5%	57.3%	45.7%	33.4%
Restated EBITA margin	(177.1%)	6.5%	21.3%	(6.6%)	4.1%	13.5%	1.5%	(22.2%)	(33.4%)	(39.7%)
Tax rate	NC	13.9%	NC	NC	NC	67.7%	NC	NC	NC	NC
Net margin	(187.1%)	5.3%	0.2%	(11.0%)	(7.4%)	4.0%	(10.0%)	(36.0%)	(47.2%)	(52.9%)
Capex / Sales	92.1%	63.6%	83.8%	59.1%	63.2%	54.2%	26.1%	31.9%	41.2%	53.8%
OpFCF / Sales	(101.0%)	(7.6%)	(14.0%)	(9.4%)	(13.2%)	(1.7%)	31.4%	12.5%	(8.9%)	(33.3%)
WCR / Sales	55.0%	53.4%	25.2%	5.8%	16.3%	26.3%	29.1%	43.5%	58.0%	75.8%
Capital employed (excl. gdw./intangibles) / Sales	152.6%	192.2%	115.9%	136.6%	145.0%	149.2%	126.8%	144.7%	158.7%	192.9%
ROE	(64.8%)	1.8%	0.1%	(6.0%)	(3.5%)	1.9%	(4.6%)	(12.4%)	(13.9%)	(13.5%)
Gearing	(13%)	(23%)	(14%)	(8%)	(7%)	(6%)	(20%)	(26%)	(27%)	(22%)
EBITDA / Financial charges	NC	NS	53.2x	44.7x	45.3x	63.3x	54.3x	30.8x	18.4x	10.3x
Adjusted financial debt / EBITDA	NC	NC	NC	NC	NC	NC	NC	NC	NC	NC
ROCE excl. gdw./intangibles	NS	2.2%	12.0%	(3.1%)	1.8%	5.9%	0.8%	(9.9%)	(13.7%)	(13.4%)
ROCE incl. gross goodwill	(49.1%)	1.8%	7.4%	(2.5%)	1.3%	4.4%	0.5%	(6.5%)	(8.5%)	(8.2%)
WACC	11.2%	10.8%	11.2%	11.4%	11.4%	10.5%	10.5%	10.5%	10.5%	10.5%

Latest Model update: 27 Apr. 21

(a) Intangibles: USD24.46m, or 0p per share. (b) adjusted for capital gains/losses, exceptional restructuring charges, capitalized R&D; EBITA also adjusted for impairments and am. of intangibles from M&A (c) after EBITA adjustments and financial result/tax adjustments. (*) In listing currency, w. div. reinvested

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