

# SERICA ENERGY PLC (AIM: SQZ)

January 18, 2025

Share price: £1.52

Target: **£3.00**

## 40 mboe/d production in 2025. Expect generous shareholders' distribution in 2025

- FY24 production of 34.6 mboe/d had been reported previously.
- The GE-05 well (Serica WI: 100%) has been brought into production at a stable rate of 6 mbb/d after having flowed 9 mbb/d on test. This exceeds our estimate of 3 mbb/d. The recent B6 well had a net IP rate of over 5 mboe/d (~8 mboe/d gross) when brought online.
- YE24 net debt was US\$71 mm; which is below our estimate of US\$105 mm. The company expects an additional US\$12 mm cash inflow from a December lifting post YE24 (to be received in January).
- At Triton, the resumption of operations with two compressors continues to be expected in 1Q25. This is crucial for providing redundancy and addressing operational vulnerabilities at Triton.
- Serica expects to produce ~40 mboe/d in 2025 with capex of US\$220-250 mm. This compares with our expectations of ~41 mboe/d and capex of US\$250 mm. The FY25 production guidance includes numerous contingencies due to the operating challenges faced in 2024.
- In 2024, Serica's oil production was sold under a contract with a fixed price in the low US\$60's/bbl. This contract has ended and FY25 oil production will be sold at a level consistent with Brent. Based on our Brent and NBP assumptions for 2025 (~US\$74/bbl for Brent vs. ~US\$80/bbl currently and 94p per therm vs. FY25 futures in excess of 115p per therm), we forecast that Serica will generate free cash flow of >US\$185 mm. This suggests that Serica can continue to fund generous shareholder distributions (~US\$133 mm in 2024).
- The publication of the first contingent resources estimate in April will provide further visibility on growth opportunities beyond the 2P reserves. We re-iterate our target price of £3.00 per share.

### FY25 production guidance and well performance

The FY25 guidance is based on the P90 profile of the new wells. So far, the wells have performed well above expectations, exceeding our assumptions by 60-100%. The guidance also factors in an 80% production efficiency, along with 12 days of maintenance at Bruce (representing an additional 3% downtime) and 45 days at Triton (+12% downtime). Consequently, the overall production efficiency at Bruce and Triton is approximately 77% and 68%, respectively. In 2023, the UK's average production efficiency in 2023 was 77% and Serica achieved 80%. The R3 well at the Rhum field (netting 7 mboe/d to Serica) is coming to the end of a three week shut down.

### Valuation

Our Core NAV and ReNAV of respectively £2.50/sh and £2.97/sh are broadly unchanged as we incorporate the FY25 production and capex guidance (we assume US\$240 mm capex).

Rating & target	Old	New	
Target	£3.00	n.c.	
Yield		15%	
Implied total return		111%	
Share data	2023	2024e	2025e
Shares dil., mm	402	403	403
Mkt cap, US\$mm	\$1,166	\$776	\$755
EV, US\$mm	\$1,074	\$847	\$762
Financial Data	2023	2024e	2025e
Gas, mmcf/d	103.0	111.4	113.3
Liquids, bbl/d	20,318	15,394	20,562
Total boe/d (6:1)	40,121	34,600	40,103
CFO, US\$mm	\$98	\$272	\$427
Net capex, US\$mm	\$135	\$276	\$251
Net debt, US\$mm*	(\$92)	\$71	\$7
CFPS dil., US\$/shr	\$0.10	\$0.61	\$1.11
EPS dil., US\$/shr	\$0.38	\$0.04	\$0.42
Valuation	2023	2024e	2025e
Share price, £/shr	£2.32	£1.53	£1.53
EV/DACF	8.9x	2.9x	1.7x
EV per boe/d (US\$)	\$26,761	\$24,494	\$19,010
Net asset value			
CNAV, £/shr			£2.50
RENAV, £/shr			£2.97
Unrisked NAV, £/shr			£4.54
P/CNAV			0.6x
P/RENAV			0.5x
P/ENAV			0.3x

*All figures in US\$ unless otherwise noted  
\* based on cash rather than working capital*

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**Figure 1. Financial & operating information**

Serica Energy (SQZ LN)		Historical & Auctus Outlook						
Financial & Operating Information		2023	2024e	2025e	2026e	2027e	2028e	2029e
<b>Commodity Prices</b>								
Brent	US\$/bbl	\$82.99	\$79.90	\$73.74	\$70.00	\$70.00	\$70.00	\$70.00
UK NBP	p/th	GBp114	GBp84	GBp94	GBp90	GBp90	GBp90	GBp90
UK NBP	US\$/mcf	\$14.26	\$10.55	\$11.47	\$11.25	\$11.25	\$11.25	\$11.25
USD / GBP	US\$/£	\$1.25	\$1.26	\$1.23	\$1.25	\$1.25	\$1.25	\$1.25
<b>Production</b>								
Oil and Liquids	bbl/d	20,318	15,394	20,562	22,000	19,282	15,935	13,829
Natural Gas	mmcf/d	103.0	111.4	113.3	123.6	138.6	123.4	111.9
Total (6 mcf = 1 boe)	boe/d	40,121	34,600	40,103	43,313	43,185	37,217	33,117
% Oil and Liquids	%	51%	44%	51%	51%	45%	43%	42%
<b>Netbacks</b>								
Revenue	US\$/boe	\$61.46	\$61.07	\$65.66	\$63.29	\$62.40	\$62.08	\$61.92
Royalties	US\$/boe	\$0.63	\$0.81	\$0.69	\$0.64	\$0.51	\$0.45	\$0.50
Production & Transport Costs	US\$/boe	\$21.05	\$26.13	\$22.48	\$19.80	\$18.59	\$21.57	\$24.24
Operating Netback	US\$/boe	\$43.20	\$35.68	\$41.74	\$42.87	\$43.30	\$40.07	\$37.18
Taxes	US\$/boe	\$17.80	\$8.90	\$10.46	\$3.98	\$19.05	\$22.08	\$21.71
Cash Flow Netback	US\$/boe	\$9.45	\$23.46	\$30.66	\$35.46	\$27.74	\$16.22	\$12.45
<b>Financials</b>								
Cash Flow from Ops. before tax and								
fin. Costs (CFO)	US\$m	\$469	\$451	\$592	\$654	\$658	\$520	\$425
CFO less current tax	US\$m	\$240	\$338	\$439	\$591	\$358	\$220	\$163
CFO less cash tax and fin. Costs	US\$m	\$98	\$272	\$427	\$539	\$415	\$198	\$129
CFPS - diluted	US\$/shr	\$0.10	\$0.61	\$1.11	\$1.43	\$1.12	\$0.56	\$0.38
EBITDAX	US\$m	\$512	\$410	\$587	\$654	\$658	\$520	\$425
E&D Capex (incl. decom.)	US\$m	\$78	\$266	\$240	\$273	\$36	\$0	\$0
A&D Capex, Net	US\$m	\$57	\$10	\$11	\$4	\$4	\$0	\$0
Total Net Capex	US\$m	\$135	\$276	\$251	\$277	\$40	\$0	\$0
Total Net Capex/CFO	x	1.4x	1.0x	0.6x	0.5x	0.1x	0.0x	0.0x
<b>Leverage</b>								
Net Debt	US\$m	(\$92)	\$71	\$7	(\$142)	(\$405)	(\$490)	(\$506)
Net debt/CFO (Trailing)	x	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Entry Net Debt/CFO	x	n.a.	n.a.	0.2x	0.0x	n.a.	n.a.	n.a.
<b>Capital Structure</b>								
Basic Shares o/s @ YE	mm	391	392	392	392	392	392	392
Diluted Shares o/s @ YE	mm	402	403	403	403	403	403	403
Market Capitalization	US\$m	\$1,166	\$776	\$755	\$770	\$770	\$770	\$770
Enterprise Value	US\$m	\$1,074	\$847	\$762	\$629	\$365	\$280	\$264
<b>Dividends &amp; Sustainability</b>								
Dividends	US\$m	\$110	\$112	\$113	\$113	\$113	\$113	\$113
Dividends	£/shr	£0.23	£0.23	£0.23	£0.23	£0.23	£0.23	£0.23
Dividends	\$/shr	\$0.29	\$0.29	\$0.28	\$0.29	\$0.29	\$0.29	\$0.29
Dividend Yield	%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%
Share Buybacks	US\$m	\$0	\$19	\$0	\$0	\$0	\$0	\$0
Free Cash Flow	US\$m	\$19	\$6	\$187	\$266	\$380	\$198	\$129
Cash returned to shareholders as % of	%	113.0%	48.2%	26.4%	20.9%	27.1%	56.8%	87.6%
Cash invested/CFO	%	138%	102%	59%	51%	10%	0%	0%
<b>Performance</b>								
Prod. Per Shr Growth (Y/Y) - dil.	%		-27%	16%	8%	0%	-14%	-11%
PPS Growth (Y/Y) DDA - dil.	%		-45%	20%	35%	33%	2%	-5%
CFPS Growth (Y/Y) - dil.	%		530%	82%	28%	-22%	-50%	-32%
CFPS Growth (Y/Y) DDA - dil.	%		304%	89%	60%	4%	-40%	-27%
ROCE	%		3%	21%	37%	37%	25%	18%
<b>Net Asset Value</b>								
CNAV (Atax) - diluted	£/shr	£2.50						
RENAV (Atax) - diluted	£/shr	£2.97						
Unrisked NAV (Atax) - diluted	£/shr	£4.54						
P/CNAV	x	0.6x						
P/RENAV	x	0.5x						
P/Unrisked NAV	x	0.3x						
<b>Valuation</b>								
Share Price, YE/Current	£/shr	£2.32	£1.53	£1.53	£1.53	£1.53	£1.53	£1.53
P/CF	x	29.9x	3.2x	1.7x	1.3x	1.7x	3.4x	5.0x
EV/DACF	x	8.9x	2.9x	1.7x	1.1x	0.8x	1.3x	1.8x
Target EV/DACF	x	43.9x	6.7x	3.4x	2.4x	2.5x	4.6x	6.7x
EV per boe/d	\$/boepd	\$26,761	\$24,494	\$19,010	\$14,511	\$8,461	\$7,515	\$7,964
Proved Plus Probable		140	128	113	97	97	97	97
EV per 2P boe	US\$/boe	\$7.65	\$6.64	\$6.74	\$6.46	\$3.76	\$2.88	\$2.71
EV per 2P boe, with FDC	US\$/boe	n.a.	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 20-Jan-25

**Figure 2. NAV Table**

Asset Valuation	2P/2C/P50		Unrisked	EMV	Riskd	Unriskd	% Total
	(mmboe)	CoS (%)	(US\$ mm)	(US\$ mm)	£/Share	£/Share	
Net Cash + Div 2025 (YE25)			105	105	0.21	0.21	7%
G&A			-84	-84	-0.17	-0.17	-6%
<b>Bruce Hub 2P (NNS)</b>	84		<b>496</b>	<b>496</b>	<b>1.01</b>	<b>1.01</b>	<b>34%</b>
<b>Triton Hub 2P (CNS)</b>	49		<b>666</b>	<b>666</b>	<b>1.35</b>	<b>1.35</b>	<b>45%</b>
<b>Other assets</b>							
Orlando 2P (NNS)	2		16	16	0.03	0.03	1%
Columbus 2P (CNS)	2		16	16	0.03	0.03	1%
Erskine 2P (CNS)	2		18	18	0.04	0.04	1%
<b>Total Core NAV</b>			<b>1,233</b>	<b>1,233</b>	<b>2.50</b>	<b>2.50</b>	<b>84%</b>
<b>Buchan area (OMF)</b>							
Buchan main 2C	21	60%	115	69	0.14	0.23	5%
J2 2C	4	35%	20	7	0.01	0.04	0%
Verbier 2C	7	35%	39	14	0.03	0.08	1%
<b>Bruce Hub (NNS)</b>							
Bruce field further infill (3 wells)	20	50%	104	52	0.11	0.21	4%
<b>Kyle redevelopment 2C</b>							
Kyle redevelopment 2C	10	50%	49	24	0.05	0.10	2%
<b>Other assets</b>							
Mansell redevelopment 2C	16	0%	78	0	0.00	0.16	0%
Skerryvore Exploration Mey target (Shallow)	37	7%	200	14	0.03	0.41	1%
Skerryvore Exploration Chalk target (Deep)	73	14%	400	54	0.11	0.81	4%
<b>Total Risked Appraisal &amp; Exploration</b>			<b>1006</b>	<b>234</b>	<b>0.47</b>	<b>2.04</b>	<b>16%</b>
<b>Total NAV</b>			<b>2239</b>	<b>1467</b>	<b>2.97</b>	<b>4.54</b>	<b>100%</b>
<b>P/Core NAV</b>					<b>61%</b>		
<b>P/NAV</b>					<b>51%</b>		
<b>P/Unrisked NAV</b>					<b>34%</b>		

Source: Auctus Advisors, Company Disclosures

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