

SERICA ENERGY PLC (AIM: SQZ)

September 10, 2024

Share price: £1.14

Target: £2.90

Cumulative free cash flow near market cap by YE27 if UK tax regime constrains investments

- 1H24 production was 43.7 mboe/d, which is in line with our expectations. Net cash of ~US\$143 mm at the end of June was also near our forecasts.
- The FY24 production is expected to be towards the bottom end of the guidance of 41-46 mboe/d, mostly due to more downtime than expected at the Triton hub. The summer maintenance lasted >61 days instead of scheduled 40 days.
- With further visibility on the UK fiscal regime expected at the end of October, the key takeaway from the announcement is Serica's financial framework. Given the strength of the company's balance sheet, Serica has declared an interim dividend of £0.09/sh (in line with last year). Assuming the worst case fiscal regime, Serica's future investments in the UK will be very limited. Under such a scenario, Serica estimates that the UK business could generate >US\$500-600 mm of cumulative free cash flow by YE27. This represents almost the current market cap of the company. On our commodity price scenario and production forecast, this could be achieved as early as YE26.
- This leaves ample room to continue to fund a generous dividend. By YE24, the company will have already returned ~US\$130 mm to shareholders (dividends plus share buybacks) which represents >20% of the current market cap.
- We continue to value the company at ~£1.80 per share based on the worst case fiscal regime changes. This represents 50% upside to the current share price. Our target price is unchanged at £2.90 per share.

Drilling newsflow and addressing downtime

The Triton drilling campaign is on track. The Bittern B6 horizontal well is promising and expected on stream imminently. The Gannet GE-05 well has been drilled below budget. The well is expected to start production in November. We carry an additional ~3 mbb/d net production for B6 and ~2 mbb/d for GE-05 once on stream. This would boost the company's production at YE24. The second compressor at Triton (which provides redundancy) is expected to be repaired by YE24, reducing shutdown risk. Serica will focus on processes and maintenance to increase overall production efficiency and reduce the duration of shutdown.

Valuation

Our lower oil price and production assumptions (we assume ~41 mboe/d for FY24 with US\$80/bbl for Brent in 2H24) have minimal impact on our Core NAV of ~£2.50/sh and ReNAV of ~£2.90/sh. We have also assumed that first oil at Buchan is delayed by a year.

Rating & target	Old	New	
Target	£2.90	n.c.	
Yield		20%	
Implied total return		175%	
Share data	2023	2024e	2025e
Shares dil., mm	402	403	403
Mkt cap, US\$mm	\$1,166	\$590	\$597
EV, US\$mm	\$1,074	\$551	\$376
Financial Data	2023	2024e	2025e
Gas, mmcf/d	103.0	127.9	115.6
Liquids, bbl/d	20,318	19,125	23,814
Total boe/d (6:1)	40,121	41,171	43,753
CFO, US\$mm	\$98	\$391	\$523
Net capex, US\$mm	\$135	\$286	\$223
Net debt, US\$mm*	(\$92)	(\$39)	(\$221)
CFPS dil., US\$/shr	\$0.10	\$1.01	\$1.39
EPS dil., US\$/shr	\$0.38	\$0.37	\$0.74
Valuation	2023	2024e	2025e
Share price, £/shr	£2.32	£1.14	£1.14
EV/DACF	8.9x	1.3x	0.7x
EV per boe/d (US\$)	\$26,761	\$13,393	\$8,590
Net asset value			
CNAV, £/shr			£2.50
RENAV, £/shr			£2.87
Unrisked NAV, £/shr			£3.53
P/CNAV			0.5x
P/RENAV			0.4x
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					
		2023	2024e	2025e	2026e	2027e	2028e
Financial & Operating Information							
Commodity Prices							
Brent	US\$/bbl	\$82.99	\$81.74	\$76.22	\$70.00	\$70.00	\$70.00
UK NBP	p/th	GBP114	GBP81	GBP92	GBP90	GBP90	GBP90
UK NBP	US\$/mcf	\$14.26	\$10.43	\$12.02	\$11.70	\$11.70	\$11.70
USD / GBP	US\$/£	\$1.25	\$1.29	\$1.30	\$1.30	\$1.30	\$1.30
Production							
Oil and Liquids	bbl/d	20,318	19,125	23,814	23,263	20,394	16,915
Natural Gas	mmcf/d	103.0	127.9	115.6	123.8	138.8	123.6
Total (6 mcf = 1 boe)	boe/d	40,121	41,171	43,753	44,600	44,320	38,217
% Oil and Liquids	%	51%	46%	54%	52%	46%	44%
Netbacks							
Revenue	US\$/boe	\$61.46	\$63.03	\$69.12	\$64.60	\$63.85	\$63.59
Royalties	US\$/boe	\$0.63	\$0.67	\$0.63	\$0.62	\$0.50	\$0.43
Production & Transport Costs	US\$/boe	\$21.05	\$21.58	\$19.73	\$19.23	\$18.11	\$21.00
Operating Netback	US\$/boe	\$43.20	\$42.03	\$47.33	\$44.59	\$45.24	\$42.16
Taxes	US\$/boe	\$17.80	\$10.52	\$11.99	\$10.16	\$22.59	\$27.29
Cash Flow Netback	US\$/boe	\$9.45	\$27.68	\$34.10	\$32.42	\$25.29	\$13.51
Financials							
Cash Flow from Ops. before tax and							
fin. Costs (CFO)	US\$mm	\$469	\$594	\$725	\$702	\$708	\$564
CFO less current tax	US\$mm	\$240	\$436	\$533	\$536	\$342	\$183
CFO less cash tax and fin. Costs	US\$mm	\$98	\$391	\$523	\$506	\$387	\$167
CFPS - diluted	US\$/shr	\$0.10	\$1.01	\$1.39	\$1.35	\$1.04	\$0.48
EBITDAX	US\$mm	\$512	\$591	\$732	\$702	\$708	\$564
E&D Capex (incl. decom.)	US\$mm	\$78	\$275	\$223	\$273	\$36	\$0
A&D Capex, Net	US\$mm	\$57	\$10	\$0	\$0	\$0	\$0
Total Net Capex	US\$mm	\$135	\$286	\$223	\$273	\$36	\$0
Total Net Capex/CFO	x	1.4x	0.7x	0.4x	0.5x	0.1x	0.0x
Leverage							
Net Debt	US\$mm	(\$92)	(\$39)	(\$221)	(\$337)	(\$571)	(\$621)
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	391	392	392	392	392	392
Diluted Shares o/s @ YE	mm	402	403	403	403	403	403
Market Capitalization	US\$mm	\$1,166	\$590	\$597	\$597	\$597	\$597
Enterprise Value	US\$mm	\$1,074	\$551	\$376	\$260	\$26	(\$24)
Dividends & Sustainability							
Dividends	US\$mm	\$110	\$112	\$117	\$117	\$117	\$117
Dividends	£/shr	£0.23	£0.23	£0.23	£0.23	£0.23	£0.23
Dividends	\$/shr	\$0.29	\$0.30	\$0.30	\$0.30	\$0.30	\$0.30
Dividend Yield	%	20.2%	20.2%	20.2%	20.2%	20.2%	20.2%
Share Buybacks	US\$mm	\$0	\$19	\$0	\$0	\$0	\$0
Free Cash Flow	US\$mm	\$19	\$116	\$300	\$233	\$352	\$167
Cash returned to shareholders as % of	%	113.0%	33.5%	22.4%	23.2%	30.3%	70.4%
Cash invested/CFO	%	138%	73%	43%	54%	9%	0%
Performance							
Prod. Per Shr Growth (Y/Y) - dil.	%		-13%	6%	2%	-1%	-14%
PPS Growth (Y/Y) DDA - dil.	b	%	-27%	43%	36%	83%	11%
CFPS Growth (Y/Y) - dil.	%		945%	37%	-3%	-22%	-54%
CFPS Growth (Y/Y) DDA - dil.	b	%	648%	85%	30%	43%	-41%
ROCE	%		19%	36%	31%	36%	20%
Net Asset Value							
CNAV (Atax) - diluted	£/shr	£2.50					
RENAV (Atax) - diluted	£/shr	£2.87					
Unrisked NAV (Atax) - diluted	£/shr	£3.53					
P/CNAV	x	0.5x					
P/RENAV	x	0.4x					
P/Unrisked NAV	x	0.3x					
Valuation							
Share Price, YE/Current	£/shr	£2.32	£1.14	£1.14	£1.14	£1.14	£1.14
P/CF	x	29.9x	1.4x	1.1x	1.1x	1.4x	3.1x
EV/DACF	x	8.9x	1.3x	0.7x	0.5x	0.1x	-0.1x
Target EV/DACF	x	42.4x	3.7x	2.4x	2.2x	2.3x	4.8x
EV per boe/d	\$/boepd	\$26,761	\$13,393	\$8,590	\$5,832	\$576	(\$623)
Proved Plus Probable		140	125	109	93	93	93
EV per 2P boe	US\$/boe	\$7.65	\$4.40	\$3.44	\$2.80	\$0.27	(\$0.26)
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 10-Sep-24

Figure 2. NAV Table

Asset Valuation	2P/2C/P50 (mmboe)	CoS (%)	Unrisked (US\$ mm)	EMV (US\$ mm)	Riskd £/Share	Unrisked £/Share	% Total
Net Cash (YE24)			39	39	0.07	0.07	3%
Dividend 2024			112	112	0.22	0.22	8%
G&A			-81	-81	-0.16	-0.16	-5%
Bruce Hub 2P (NNS)	84		518	518	1.00	1.00	35%
Triton Hub 2P (CNS)	49		638	638	1.23	1.23	43%
Other assets							
Orlando 2P (NNS)	2		17	17	0.03	0.03	1%
Columbus 2P (CNS)	2		25	25	0.05	0.05	2%
Erskine 2P (CNS)	2		27	27	0.05	0.05	2%
Total Core NAV			1,294	1,294	2.50	2.50	87%
Buchan area (OMF)							
Buchan main 2C	21		97	58	0.11	0.19	4%
J2 2C	4		17	6	0.01	0.03	0%
Verbier 2C	7		33	12	0.02	0.06	1%
Bruce Hub (NNS)							
Bruce field further infill (3 wells)	20		109	55	0.11	0.21	4%
Kyle redevelopment 2C							
Kyle redevelopment 2C	10		51	25	0.05	0.10	2%
Other assets							
Mansell redevelopment 2C	16		82	0	0.00	0.16	0%
Skerryvore Exploration Mey target (Shallow)	10		48	7	0.01	0.09	0%
Skerryvore Exploration Chalk target (Deep)	21		97	26	0.05	0.19	2%
Total Risked Appraisal & Exploration			534	188	0.36	1.03	13%
Total NAV			1828	1483	2.87	3.53	100%
P/Core NAV				46%			
P/NAV				40%			
P/Unrisked NAV				32%			

Source: Auctus Advisors, Company Disclosures

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