

# SERICA ENERGY PLC (AIM: SQZ)

October 02, 2024

Share price: £1.41  
Target: £2.90

## Very high flow rate at new Bittern well

- The B6 well on the Bittern field is now in production at a stable gross rate of ~8 mboe/d. Net to Serica, this represents ~5.2 mboe/d. This is well above our expectations of ~3 mboe/d (net).
- This result showcases the quality of the subsurface team at Serica, something emphasised by the CEO at the HY results, as the well was drilled horizontally in a thin 245 m long reservoir section just above the oil-water contact.
- Overall production is now above 50 mboe/d. Given a slow ramp-up following the summer shutdown, production needs to remain at this level for FY24 production to average ~41 mboe/d (which is the company's guidance).
- We forecast that the Gannet GE-05 well will add a further ~2 mbb/d once on stream in November.
- The key newsflow for Serica is the upcoming UK budget to be published on 31 October that will provide visibility on the UK fiscal regime. We believe that the share price trades at a discount to the worst case scenario. If UK fiscal terms are too punitive, Serica's future investment in the UK will be very limited. Under such a scenario, Serica estimates that the UK business could generate >U\$500-600 mm of cumulative free cash flow by YE27. This represents almost the current market cap of the company.
- We re-iterate our target price of £2.90 per share

## All eyes on the October budget

Assuming 38% for the EPL (total of 78% tax on profit), no sunset date for the EPL and no allowed depreciation for EPL purposes (ie £1 of spending triggers only 40% of tax shield vs 78% tax) would lead to a core NAV (based on the company's 2P reserves only) of ~£1.80 per share. This represents ~30% upside to the current share price. Assuming "normal" depreciation (78% tax shield vs 78% tax) takes our Core NAV to £2.50 per share and unlocks further investment opportunities, including Buchan, with an overall ReNAV of ~£2.90 per shares.

## Valuation

Our Core NAV and ReNAV for Serica are respectively £2.55 per share and £2.92 per share. The Core NAV reflects our valuation for the company based on its 2P reserves. We carry only £0.14 per share for Buchan in our ReNAV.

Rating & target	Old	New	
Target	£2.90	n.c.	
Yield		16%	
Implied total return		122%	
Share data	2023	2024e	2025e
Shares dil., mm	402	403	403
Mkt cap, US\$mm	\$1,166	\$730	\$738
EV, US\$mm	\$1,074	\$689	\$492
Financial Data	2023	2024e	2025e
Gas, mmcf/d	103.0	126.7	116.4
Liquids, bbl/d	20,318	19,305	24,727
Total boe/d (6:1)	40,121	41,156	44,790
CFO, US\$mm	\$98	\$394	\$546
Net capex, US\$mm	\$135	\$286	\$223
Net debt, US\$mm*	(\$92)	(\$41)	(\$246)
CFPS dil., US\$/shr	\$0.10	\$1.02	\$1.45
EPS dil., US\$/shr	\$0.38	\$0.37	\$0.79
Valuation	2023	2024e	2025e
Share price, £/shr	£2.32	£1.41	£1.41
EV/DACF	8.9x	1.6x	0.9x
EV per boe/d (US\$)	\$26,761	\$16,738	\$10,979
Net asset value			
CNAV, £/shr			£2.55
RENAV, £/shr			£2.92
Unrisked NAV, £/shr			£3.59
P/CNAV			0.6x
P/RENAV			0.5x
P/ENAV			0.4x

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
<b>Commodity Prices</b>							
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
<b>Production</b>							
Oil and Liquids	bbl/d	20,318	19,305	24,727	23,975	20,950	17,349
Natural Gas	mmcf/d	103.0	126.7	116.4	124.3	139.2	123.9
Total (6 mcf = 1 boe)	boe/d	40,121	41,156	44,790	45,411	44,952	38,710
% Oil and Liquids	%	51%	47%	55%	53%	47%	45%
<b>Netbacks</b>							
Revenue	US\$/boe	\$61.46	\$63.11	\$69.26	\$64.68	\$63.92	\$63.66
Royalties	US\$/boe	\$0.63	\$0.67	\$0.62	\$0.61	\$0.49	\$0.43
Production & Transport Costs	US\$/boe	\$21.05	\$21.59	\$19.28	\$18.89	\$17.86	\$20.74
Operating Netback	US\$/boe	\$43.20	\$42.11	\$47.97	\$45.02	\$45.58	\$42.50
Taxes	US\$/boe	\$17.80	\$10.39	\$12.25	\$10.64	\$23.05	\$29.08
Cash Flow Netback	US\$/boe	\$9.45	\$27.84	\$34.72	\$32.45	\$25.16	\$12.49
<b>Financials</b>							
Cash Flow from Ops. before tax and							
fin. Costs (CFO)	US\$m	\$469	\$595	\$753	\$722	\$724	\$576
CFO less current tax	US\$m	\$240	\$439	\$553	\$546	\$346	\$166
CFO less cash tax and fin. Costs	US\$m	\$98	\$394	\$546	\$516	\$391	\$155
CFPS - diluted	US\$/shr	\$0.10	\$1.02	\$1.45	\$1.37	\$1.05	\$0.45
EBITDAX	US\$m	\$512	\$592	\$760	\$722	\$724	\$576
E&D Capex (incl. decem.)	US\$m	\$78	\$275	\$223	\$273	\$36	\$0
A&D Capex, Net	US\$m	\$57	\$10	\$0	\$0	\$0	\$0
Total Net Capex	US\$m	\$135	\$286	\$223	\$273	\$36	\$0
Total Net Capex/CFO	x	1.4x	0.7x	0.4x	0.5x	0.1x	0.0x
<b>Leverage</b>							
Net Debt	US\$m	(\$92)	(\$41)	(\$246)	(\$372)	(\$610)	(\$648)
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	391	392	392	392	392	392
Diluted Shares o/s @ YE	mm	402	403	403	403	403	403
Market Capitalization	US\$m	\$1,166	\$730	\$738	\$738	\$738	\$738
Enterprise Value	US\$m	\$1,074	\$689	\$492	\$366	\$128	\$90
<b>Dividends &amp; Sustainability</b>							
Dividends	US\$m	\$110	\$112	\$117	\$117	\$117	\$117
Dividends	£/sh	£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	%	16.3%	16.3%	16.3%	16.3%	16.3%	16.3%
Share Buybacks	US\$m	\$0	\$19	\$0	\$0	\$0	\$0
Free Cash Flow	US\$m	\$19	\$118	\$323	\$243	\$355	\$155
Cash returned to shareholders as % of Cash invested/CFO	%	113.0%	33.3%	21.5%	22.7%	30.0%	75.8%
<b>Performance</b>							
Prod. Per Shr Growth (Y/Y) - dil.	%		-13%	9%	1%	-1%	-14%
PPS Growth (Y/Y) DDA - dil.	%		-25%	43%	30%	55%	-6%
CFPS Growth (Y/Y) - dil.	%		951%	42%	-5%	-23%	-57%
CFPS Growth (Y/Y) DDA - dil.	%		673%	87%	22%	20%	-53%
ROCE	%		19%	39%	32%	36%	18%
<b>Net Asset Value</b>							
CNAV (Atax) - diluted	£/shr	£2.55					
RENAV (Atax) - diluted	£/shr	£2.92					
Unrisked NAV (Atax) - diluted	£/shr	£3.59					
P/CNAV	x	0.6x					
P/RENAV	x	0.5x					
P/Unrisked NAV	x	0.4x					
<b>Valuation</b>							
Share Price, YE/Current	£/shr	£2.32	£1.41	£1.41	£1.41	£1.41	£1.41
P/CF	x	29.9x	1.8x	1.3x	1.3x	1.7x	4.1x
EV/DACF	x	8.9x	1.6x	0.9x	0.7x	0.3x	0.5x
Target EV/DACF	x	42.4x	3.7x	2.2x	2.1x	2.2x	4.9x
EV per boe/d	\$/boepd	\$26,761	\$16,738	\$10,979	\$8,059	\$2,841	\$2,335
Proved Plus Probable		140	125	109	92	92	92
EV per 2P boe	US\$/boe	\$7.65	\$5.50	\$4.51	\$3.96	\$1.38	\$0.98
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 2-Oct-24

**Figure 2. NAV Table**

<b>Asset Valuation</b>	<b>2P/2C/P50 (mmboe)</b>	<b>CoS (%)</b>	<b>Unrisked (US\$ mm)</b>	<b>EMV (US\$ mm)</b>	<b>Risked £/Share</b>	<b>Unrisked £/Share</b>	<b>% Total</b>
Net Cash (YE24)			41	41	0.08	0.08	3%
Dividend 2024			112	112	0.22	0.22	7%
G&A			-81	-81	-0.16	-0.16	-5%
<b>Bruce Hub 2P (NNS)</b>	84		<b>518</b>	<b>518</b>	<b>1.00</b>	<b>1.00</b>	<b>34%</b>
<b>Triton Hub 2P (CNS)</b>	49		<b>662</b>	<b>662</b>	<b>1.28</b>	<b>1.28</b>	<b>44%</b>
<b>Other assets</b>							
Orlando 2P (NNS)	2		17	17	0.03	0.03	1%
Columbus 2P (CNS)	2		27	27	0.05	0.05	2%
Erskine 2P (CNS)	2		27	27	0.05	0.05	2%
<b>Total Core NAV</b>			<b>1,322</b>	<b>1,322</b>	<b>2.55</b>	<b>2.55</b>	<b>88%</b>
<b>Buchan area (OMF)</b>							
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%
<b>Bruce Hub (NNS)</b>							
Bruce field further infill (3 wells)	20		109	55	0.11	0.21	4%
<b>Kyle redevelopment 2C</b>							
Kyle redevelopment 2C	10		51	25	0.05	0.10	2%
<b>Other assets</b>							
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%
<b>Total Risked Appraisal &amp; Exploration</b>			<b>534</b>	<b>188</b>	<b>0.36</b>	<b>1.03</b>	<b>12%</b>
<b>Total NAV</b>			<b>1856</b>	<b>1510</b>	<b>2.92</b>	<b>3.59</b>	<b>100%</b>
<b>P/Core NAV</b>				<b>54%</b>			
<b>P/NAV</b>				<b>47%</b>			
<b>P/Unrisked NAV</b>				<b>38%</b>			

Source: Auctus Advisors, Company Disclosures

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