

SERICA ENERGY PLC (AIM: SQZ)

November 26, 2024

Share price: £1.39

Target: £2.90

Compressor at Triton back on line

- The first compressor at Triton has been repaired and the platform is expected to be back online this week. This represents a few weeks' delay but the restart will boost production materially.
- With the recent addition of the B6 well (>5 mboe/d net), total production was already over 50 mboe/d on 2 October. Since then, the Gannet GE-05 well has been tied-in and the EC1 well (Guillemot NW field) has reached TD (first production in 1Q25). Overall, we forecast that Serica could produce ~48 mboe/d in 1Q25 assuming no further problems at Triton.
- The second compressor at Triton continues to be expected to be repaired in 1Q25. This will provide some redundancy and address the operational vulnerability at Triton.
- As a result of Triton coming back later than expected, the company has reduced its FY24 production guidance to 37 mboe/d (we forecasted 39.5 mboe/d).
- The FY24 opex and capex guidance is unchanged but with the lower FY24 production plus the proceeds of the Triton December lifting (0.4 mmbbl or ~US\$24 mm) now expected to be received in January, we now forecast YE24 net debt of ~US\$45 mm.
- While our YE24 net has increased, we note UK gas prices (NBP) now stand at ~£1.20 per therm. With Russia cutting gas supplies to Austria, the fundamentals for UK gas prices in the near term are very strong. Serica continues to be committed to significant dividend returns. All else being equal, we continue to forecast >16% dividend yield for 2024.
- We re-iterate our target price of £2.90 per share.

Reflections on Capital allocation

UK NBP futures stand at an average of >£1.10 per therm in 2025. Assuming FY24 production of only ~41 mboe/d (compared to 1Q25 production capacity >50 mboe/d) and Brent prices remaining at current levels (~US\$73/bbl), we forecast that Serica could generate ~US\$500 mm of operating cashflow (post tax and interest) next year. Even assuming FY25 capex in line with FY24 (US\$270 mm), this would lead to US\$230 mm free cash flow. This leaves ample running room to fund a dividend at current levels (~US\$115 mm) and/or make acquisitions. The new fiscal terms stability in the UK has generated multiple opportunities for the company.

Valuation

We have reduced our Brent price forecasts in 4Q24 and 1Q25 from US\$80/bbl to US\$75/bbl but have increased our NBP forecasts from £0.94/sh to £1.10/th in 4Q24. As we incorporate the later production restart at Triton, our Core (2P) NAV and ReNAV are broadly unchanged at ~£2.44 per share and £2.84 per share.

Rating & target	Old	New	
Target	£2.90	n.c.	
Yield		17%	
Implied total return		125%	
Share data	2023	2024e	2025e
Shares dil., mm	402	403	403
Mkt cap, US\$mm	\$1,166	\$719	\$728
EV, US\$mm	\$1,074	\$764	\$633
Financial Data	2023	2024e	2025e
Gas, mmmcf/d	103.0	121.5	110.8
Liquids, bbl/d	20,318	16,052	22,258
Total boe/d (6:1)	40,121	36,994	41,369
CFO, US\$mm	\$98	\$305	\$480
Net capex, US\$mm	\$135	\$283	\$223
Net debt, US\$mm*	(\$92)	\$45	(\$95)
CFPS dil., US\$/shr	\$0.10	\$0.79	\$1.28
EPS dil., US\$/shr	\$0.38	\$0.10	\$0.61
Valuation	2023	2024e	2025e
Share price, £/shr	£2.32	£1.39	£1.39
EV/DACF	8.9x	2.3x	1.3x
EV per boe/d (US\$)	\$26,761	\$20,663	\$15,294
Net asset value			
CNAV, £/shr			£2.44
RENAV, £/shr			£2.84
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
Commodity Prices							
Brent	US\$/bbl	\$82.99	\$79.90	\$74.99	\$70.00	\$70.00	\$70.00
UK NBP	p/th	GBp114	GBp84	GBp94	GBp90	GBp90	GBp90
UK NBP	US\$/mcf	\$14.26	\$10.83	\$12.18	\$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	16,052	22,258	23,366	20,449	16,933
Natural Gas	mmcf/d	103.0	121.5	110.8	124.0	139.0	123.7
Total (6 mcf = 1 boe)	boe/d	40,121	36,994	41,369	44,746	44,408	38,262
% Oil and Liquids	%	51%	43%	54%	52%	46%	44%
Netbacks							
Revenue	US\$/boe	\$61.46	\$62.48	\$68.86	\$64.61	\$63.86	\$63.59
Royalties	US\$/boe	\$0.63	\$0.75	\$0.67	\$0.62	\$0.50	\$0.43
Production & Transport Costs	US\$/boe	\$21.05	\$24.44	\$20.87	\$19.17	\$18.07	\$20.98
Operating Netback	US\$/boe	\$43.20	\$38.63	\$45.80	\$44.66	\$45.28	\$42.18
Taxes	US\$/boe	\$17.80	\$11.58	\$11.66	\$6.62	\$21.42	\$24.92
Cash Flow Netback	US\$/boe	\$9.45	\$24.39	\$33.25	\$35.19	\$27.30	\$15.56
Financials							
Cash Flow from Ops. before tax and							
fin. Costs (CFO)	US\$mm	\$469	\$484	\$661	\$705	\$710	\$565
CFO less current tax	US\$mm	\$240	\$327	\$484	\$597	\$363	\$217
CFO less cash tax and fin. Costs	US\$mm	\$98	\$305	\$480	\$553	\$421	\$195
CFPS - diluted	US\$/shr	\$0.10	\$0.79	\$1.28	\$1.47	\$1.13	\$0.55
EBITDAX	US\$mm	\$512	\$481	\$668	\$705	\$710	\$565
E&D Capex (incl. decom.)	US\$mm	\$78	\$272	\$223	\$273	\$36	\$0
A&D Capex, Net	US\$mm	\$57	\$10	\$0	\$0	\$0	\$0
Total Net Capex	US\$mm	\$135	\$283	\$223	\$273	\$36	\$0
Total Net Capex/CFO	x	1.4x	0.9x	0.5x	0.5x	0.1x	0.0x
Leverage							
Net Debt	US\$mm	(\$92)	\$45	(\$95)	(\$258)	(\$525)	(\$604)
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.	0.1x	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	\$719	\$728	\$728	\$728	\$728
Enterprise Value	US\$mm	\$1,074	\$764	\$633	\$470	\$202	\$124
Dividends & Sustainability							
Dividends	US\$mm	\$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	%	16.5%	16.5%	16.5%	16.5%	16.5%	16.5%
Share Buybacks	US\$mm	\$0	\$19	\$0	\$0	\$0	\$0
Free Cash Flow	US\$mm	\$19	\$32	\$257	\$280	\$385	\$195
Cash returned to shareholders as % of	%	113.0%	43.0%	24.4%	21.2%	27.9%	60.0%
Cash invested/CFO	%	138%	93%	46%	49%	8%	0%
Performance							
Prod. Per Shr Growth (Y/Y) - dil.	%		-22%	12%	8%	-1%	-14%
PPS Growth (Y/Y) DDA - dil.	%		-41%	30%	42%	46%	7%
CFPS Growth (Y/Y) - dil.	%		717%	62%	14%	-23%	-51%
CFPS Growth (Y/Y) DDA - dil.	%		427%	88%	51%	13%	-39%
ROCE	%		5%	30%	39%	38%	25%
Net Asset Value							
CNAV (Atax) - diluted	£/shr	£2.44					
RENAV (Atax) - diluted	£/shr	£2.84					
Unrisked NAV (Atax) - diluted	£/shr	£3.59					
P/CNAV	x	0.6x					
P/RENAV	x	0.5x					
P/Unrisked NAV	x	0.4x					
Valuation							
Share Price, YE/Current	£/shr	£2.32	£1.39	£1.39	£1.39	£1.39	£1.39
P/CF	x	29.9x	2.3x	1.4x	1.2x	1.6x	3.3x
EV/DACF	x	8.9x	2.3x	1.3x	0.8x	0.5x	0.6x
Target EV/DACF	x	42.4x	5.0x	2.8x	2.2x	2.2x	4.2x
EV per boe/d	\$/boepd	\$26,761	\$20,663	\$15,294	\$10,507	\$4,553	\$3,239
Proved Plus Probable		140	127	112	95	95	95
EV per 2P boe	US\$/boe	\$7.65	\$6.03	\$5.66	\$4.93	\$2.12	\$1.30
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 25-Nov-24

Figure 2. NAV Table

Asset Valuation	2P/2C/P50		Unrisked	EMV	Riskd	Unriskd	% Total
	(mmboe)	CoS (%)	(US\$ mm)	(US\$ mm)	£/Share	£/Share	
Net Cash (YE24)			-45	-45	-0.09	-0.09	-3%
Dividend 2024			112	112	0.22	0.22	8%
G&A			-81	-81	-0.16	-0.16	-6%
Bruce Hub 2P (NNS)	84		536	536	1.04	1.04	36%
Triton Hub 2P (CNS)	49		663	663	1.28	1.28	45%
Other assets							
Orlando 2P (NNS)	2		17	17	0.03	0.03	1%
Columbus 2P (CNS)	2		28	28	0.05	0.05	2%
Erskine 2P (CNS)	2		31	31	0.06	0.06	2%
Total Core NAV			1,260	1,260	2.44	2.44	86%
Buchan area (OMF)							
Buchan main 2C	21	60%	115	69	0.13	0.22	5%
J2 2C	4	35%	20	7	0.01	0.04	0%
Verbier 2C	7	35%	39	14	0.03	0.08	1%
Bruce Hub (NNS)							
Bruce field further infill (3 wells)	20	50%	113	56	0.11	0.22	4%
Kyle redevelopment 2C							
Kyle redevelopment 2C	10	50%	53	26	0.05	0.10	2%
Other assets							
Mansell redevelopment 2C	16	0%	84	0	0.00	0.16	0%
Skerryvore Exploration Mey target (Shallow)	10	14%	57	8	0.01	0.11	1%
Skerryvore Exploration Chalk target (Deep)	21	27%	114	31	0.06	0.22	2%
Total Risked Appraisal & Exploration			595	211	0.41	1.15	14%
Total NAV			1856	1471	2.84	3.59	100%
P/Core NAV					57%		
P/NAV					49%		
P/Unrisked NAV					39%		

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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