

# SERICA ENERGY PLC (AIM: SQZ)

October 31, 2024

Share price: £1.43

Target: **£2.90**

## UK budget better than feared

- While the new fiscal regime for UK upstream oil and gas in yesterday's UK budget incorporates a 3% increase in EPL (to 38%) and the elimination of the 29% investment uplift allowance for EPL purposes, this is a better outcome than feared.
- While these changes were expected, the industry and investors had been concerned by the possibility that capex investment might not be fully deductible for EPL purposes. That risk has now been removed.
- In addition, the 62.5% investment uplift allowance for SCT purposes (10% rate) remains in place.
- Overall, this means that £1 of spending triggers 84.15% of tax shield vs a 78% tax rate. This is better than our assumption of 78%/78%.
- Importantly, the new fiscal regime provides stability and visibility to the industry for the duration of the current government until 2030. The new fiscal regime allows Serica to continue to invest in the UK North Sea.
- Of particular interest is the Bruce area where multiple growth opportunities have been identified. No new wells have been drilled at Bruce since 2012. The same subsurface team (from Tailwind Energy) that successfully encountered new development opportunities at Triton will now focus on Bruce.
- A stable fiscal regime will also probably make UK M&A transactions more likely.
- While economics are now strong enough to sanction the Buchan Horst development, the key risk there remains the environment permitting process. The result of the ongoing consultation that will define the new rules is expected in the spring. We therefore do not anticipate much capex spending at Buchan in 2025.
- With the fiscal uncertainty now removed and a sustainable dividend (yield is ~16% assuming current commodity prices), Serica Energy is a "must own" stock.
- We re-iterate our target price of £2.90 per share.

## Valuation

We have not changed our production and capex forecasts ahead of the operating update expected to be published by Serica in mid-November. As we incorporate the new UK fiscal terms and the impact of the unexpected shut in of Triton until mid-November, our Core NAV and ReNAV are respectively ~£2.50 per share and £2.90 per share. The Core NAV reflects our valuation for the company based on its 2P reserves. We have not changed our risk factor for Buchan (60%). Sanctioning Buchan would add £0.22 per share to our Core NAV.

Rating & target	Old	New	
Target	£2.90	n.c.	
Yield		16%	
Implied total return		117%	
Share data	2023	2024e	2025e
Shares dil., mm	402	403	403
Mkt cap, US\$mm	\$1,166	\$745	\$754
EV, US\$mm	\$1,074	\$753	\$607
Financial Data	2023	2024e	2025e
Gas, mmcf/d	103.0	125.4	112.5
Liquids, bbl/d	20,318	17,842	22,831
Total boe/d (6:1)	40,121	39,454	42,235
CFO, US\$mm	\$98	\$345	\$494
Net capex, US\$mm	\$135	\$286	\$223
Net debt, US\$mm*	(\$92)	\$8	(\$147)
CFPS dil., US\$/shr	\$0.10	\$0.90	\$1.32
EPS dil., US\$/shr	\$0.38	\$0.25	\$0.67
Valuation	2023	2024e	2025e
Share price, £/shr	£2.32	£1.44	£1.44
EV/DACF	8.9x	2.0x	1.2x
EV per boe/d (US\$)	\$26,761	\$19,079	\$14,379
Net asset value			
CNAV, £/shr			£2.49
RENAV, £/shr			£2.90
Unrisked NAV, £/shr			£3.64
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	17,842	22,831	23,366	20,449	16,933
Natural Gas	mmcf/d	103.0	125.4	112.5	124.0	139.0	123.7
Total (6 mcf = 1 boe)	boe/d	40,121	39,454	42,235	44,746	44,408	38,262
% Oil and Liquids	%	51%	45%	54%	52%	46%	44%
<b>Netbacks</b>							
Revenue	US\$/boe	\$61.46	\$62.48	\$69.13	\$64.61	\$63.86	\$63.59
Royalties	US\$/boe	\$0.63	\$0.70	\$0.65	\$0.62	\$0.50	\$0.43
Production & Transport Costs	US\$/boe	\$21.05	\$22.52	\$20.44	\$19.17	\$18.07	\$20.98
Operating Netback	US\$/boe	\$43.20	\$40.56	\$46.55	\$44.66	\$45.28	\$42.18
Taxes	US\$/boe	\$17.80	\$10.84	\$11.53	\$8.57	\$21.95	\$25.93
Cash Flow Netback	US\$/boe	\$9.45	\$25.68	\$33.48	\$33.85	\$26.29	\$14.68
<b>Financials</b>							
Cash Flow from Ops. before tax and							
fin. Costs (CFO)	US\$mm	\$469	\$546	\$687	\$705	\$710	\$565
CFO less current tax	US\$mm	\$240	\$390	\$509	\$565	\$354	\$203
CFO less cash tax and fin. Costs	US\$mm	\$98	\$345	\$494	\$531	\$404	\$183
CFPS - diluted	US\$/shr	\$0.10	\$0.90	\$1.32	\$1.41	\$1.09	\$0.52
EBITDAX	US\$mm	\$512	\$544	\$694	\$705	\$710	\$565
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	0.8x	0.5x	0.5x	0.1x	0.0x
<b>Leverage</b>							
Net Debt	US\$mm	(\$92)	\$8	(\$147)	(\$287)	(\$539)	(\$605)
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.	0.0x	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\$mm	\$1,166	\$745	\$754	\$754	\$754	\$754
Enterprise Value	US\$mm	\$1,074	\$753	\$607	\$467	\$215	\$149
<b>Dividends &amp; Sustainability</b>							
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	%	16.0%	16.0%	16.0%	16.0%	16.0%	16.0%
Share Buybacks	US\$mm	\$0	\$19	\$0	\$0	\$0	\$0
Free Cash Flow	US\$mm	\$19	\$70	\$271	\$258	\$369	\$183
Cash returned to shareholders as % of	%	113.0%	38.0%	23.7%	22.1%	29.0%	64.0%
Cash invested/CFO	%	138%	83%	45%	51%	9%	0%
<b>Performance</b>							
Prod. Per Shr Growth (Y/Y) - dil.	%		-17%	7%	6%	-1%	-14%
PPS Growth (Y/Y) DDA - dil.	%		-32%	29%	35%	46%	3%
CFPS Growth (Y/Y) - dil.	%		823%	47%	7%	-23%	-52%
CFPS Growth (Y/Y) DDA - dil.	%		542%	77%	36%	13%	-42%
ROCE	%		13%	34%	34%	37%	23%
<b>Net Asset Value</b>							
CNAV (Atax) - diluted	£/shr	£2.49					
RENAV (Atax) - diluted	£/shr	£2.90					
Unrisked NAV (Atax) - diluted	£/shr	£3.64					
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	£1.44	£1.44	£1.44	£1.44	£1.44
P/CF	x	29.9x	2.1x	1.4x	1.3x	1.7x	3.6x
EV/DACF	x	8.9x	2.0x	1.2x	0.8x	0.5x	0.7x
Target EV/DACF	x	42.4x	4.3x	2.7x	2.2x	2.3x	4.5x
EV per boe/d	\$/boepd	\$26,761	\$19,079	\$14,379	\$10,426	\$4,841	\$3,894
Proved Plus Probable		140	126	110	94	94	94
EV per 2P boe	US\$/boe	\$7.65	\$5.98	\$5.50	\$4.96	\$2.28	\$1.58
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 31-Oct-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)			-8	-8	-0.01	-0.01	-1%
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>529</b>	<b>529</b>	<b>1.02</b>	<b>1.02</b>	<b>35%</b>
<b>Triton Hub 2P (CNS)</b>	49		<b>668</b>	<b>668</b>	<b>1.29</b>	<b>1.29</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>1,290</b>	<b>1,290</b>	<b>2.49</b>	<b>2.49</b>	<b>86%</b>
<b>Buchan area (OMF)</b>							
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%
<b>Bruce Hub (NNS)</b>							
Bruce field further infill (3 wells)	20	50%	111	56	0.11	0.22	4%
<b>Kyle redevelopment 2C</b>							
Kyle redevelopment 2C	10	50%	52	26	0.05	0.10	2%
<b>Other assets</b>							
Mansell redevelopment 2C	16	0%	83	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%
<b>Total Risked Appraisal &amp; Exploration</b>			<b>592</b>	<b>210</b>	<b>0.41</b>	<b>1.14</b>	<b>14%</b>
<b>Total NAV</b>			<b>1883</b>	<b>1500</b>	<b>2.90</b>	<b>3.64</b>	<b>100%</b>
<b>P/Core NAV</b>				<b>58%</b>			
<b>P/NAV</b>				<b>50%</b>			
<b>P/Unrisked NAV</b>				<b>40%</b>			

Source: Auctus Advisors, Company Disclosures

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