

# SERICA ENERGY PLC (AIM: SQZ)

May 06, 2025

Share price: £1.27

Target: £2.70

## Catalysts ahead

- The envisaged merger between EnQuest and Serica is not proceeding at this time. Given the drop in Brent since the potential transaction leaked on 7 March, this outcome is unsurprising. Given Serica's prospects as a standalone company, there was no imperative for the company to force a deal. There are multiple catalysts to the share price in the coming months.
- Production at Triton is expected to restart in June. With the W7Z well on the Guillemot North West field (Serica: 10%) and the EV02 well on the Evelyn field (Serica: 100%) coming on stream, production at Triton alone has the potential to reach up to 30,000 boe/d net to Serica.
- Solidified drilling plans at Kyle and the first new wells on Bruce since 2012 could support production >40,000 boe/d until the end of the decade. Some contingent resources at BKR (33.4 mmboe) and Kyle (11.1 mmboe) may be converted into 2P reserves in 2025, as Serica evaluates infill drilling opportunities. Kyle could be sanctioned in 1H26, pending regulatory approvals, with production of 6-10 mbb/d in 2028.
- An improved political environment may also be the catalyst for FID on the Buchan Horst prospect.
- Serica continues to actively pursue other M&A opportunities in the UK and internationally
- With a final dividend for 2024 of £0.10/sh and with Auctus assumed 2025 interim dividend of £0.06/sh, Serica could distribute a total of £0.16/sh in dividends in 2025, representing a ~12.5% yield. As we incorporate the FY25 production guidance, the YE24 2P reserves, higher £/US\$ exchange rate (US\$1.30/£ vs. US\$1.23/£ previously) and lower Brent price assumptions for 2025, we have changed our target price to £2.70/sh.

## Reflections on the merger discussions with EnQuest

With higher net debt, decom liabilities and opex/boe than Serica, EnQuest is likely to face a greater relative negative impact on its cash flow generation and value in a lower Brent environment. Despite this, EnQuest's share price outperformed Serica's during the offer period, causing a divergence that likely impacted ability to agree deal terms.

## Valuation and forecasts

We now forecast 35.7 mboe/d production for 2025, near the midpoint of Serica's guidance (33-37 mboe/d). We have lowered our valuation of the 2P reserves at BKR but we have incorporated the additional 2C resources at BKR and Kyle. Given the associated low regulatory risk, we are attributing a 75% chance of success. We have reduced our cash tax forecasts for FY25 by US\$71 mm (overpaid in 2024). We now assume US\$65/bbl for Brent in 2Q25 and 3Q25. Overall our new Core NAV and ReNAV are £2.38/sh and £2.67/sh. Despite lower FY25 production and commodity prices, we forecast that the aggregate FCF from 2025 to 2027 will be equal to the current market cap.

Rating & target	Old	New	
Target	£3.00	£2.70	
Yield		13%	
Implied total return		131%	
Share data	2024	2025e	2026e
Shares dil., mm	404	404	404
Mkt cap, US\$mm	\$647	\$670	\$667
EV, US\$mm	\$717	\$697	\$466
Financial Data	2024	2025e	2026e
Gas, mmcf/d	111.4	110.6	117.8
Liquids, bbl/d	15,394	16,660	22,658
Total boe/d (6:1)	34,600	35,735	42,968
CFO, US\$mm	\$243	\$376	\$424
Net capex, US\$mm	\$254	\$251	\$114
Net debt, US\$mm*	\$71	\$27	(\$201)
CFPS dil., US\$/shr	\$0.53	\$0.98	\$1.13
EPS dil., US\$/shr	\$0.24	\$0.09	\$0.75
Valuation	2024	2025e	2026e
Share price, £/shr	£1.27	£1.27	£1.27
EV/DACF	2.5x	1.8x	1.0x
EV per boe/d (US\$)	\$20,734	\$19,509	\$10,853
Net asset value			
CNAV, £/shr			£2.38
RENAV, £/shr			£2.67
Unrisked NAV, £/shr			£4.09
P/CNAV			0.5x
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**

<b>Serica Energy (SQZ LN)</b>		<b>Historical &amp; Auctus Outlook</b>						
<b>Financial &amp; Operating Information</b>		<b>2023</b>	<b>2024</b>	<b>2025e</b>	<b>2026e</b>	<b>2027e</b>	<b>2028e</b>	<b>2029e</b>
<b>Commodity Prices</b>								
Brent	US\$/bbl	\$82.99	\$79.90	\$68.73	\$70.00	\$70.00	\$70.00	\$70.00
UK NBP	p/th	GBp114	GBp84	GBp87	GBp82	GBp82	GBp82	GBp82
UK NBP	US\$/mcf	\$14.26	\$10.55	\$11.40	\$10.72	\$10.72	\$10.72	\$10.72
USD / GBP	US\$/£	\$1.25	\$1.26	\$1.31	\$1.30	\$1.30	\$1.30	\$1.30
<b>Production</b>								
Oil and Liquids	bbl/d	20,318	15,394	16,660	22,658	18,730	15,844	13,713
Natural Gas	mmcf/d	103.0	111.4	110.6	117.8	121.3	115.0	104.0
Total (6 mcf = 1 boe)	boe/d	40,121	34,600	35,735	42,968	39,646	35,664	31,649
% Oil and Liquids	%	51%	44%	47%	53%	47%	44%	43%
<b>Netbacks</b>								
Revenue	US\$/boe	\$61.46	\$57.58	\$62.26	\$62.36	\$61.63	\$61.04	\$60.85
Royalties	US\$/boe	\$0.63	\$0.54	\$0.46	\$0.64	\$0.56	\$0.46	\$0.52
Production & Transport Costs	US\$/boe	\$21.05	\$24.54	\$25.33	\$19.96	\$20.25	\$22.51	\$25.36
Operating Netback	US\$/boe	\$43.20	\$34.98	\$36.15	\$41.75	\$40.83	\$38.07	\$34.96
Taxes	US\$/boe	\$17.80	\$1.10	\$4.36	\$13.23	\$11.89	\$19.81	\$19.24
Cash Flow Netback	US\$/boe	\$9.45	\$22.30	\$30.49	\$28.44	\$26.61	\$18.77	\$12.79
<b>Financials</b>								
Cash Flow from Ops. before tax and								
fin. Costs (CFO)	US\$m	\$469	\$434	\$455	\$633	\$569	\$474	\$382
CFO less current tax	US\$m	\$240	\$420	\$309	\$425	\$397	\$216	\$160
CFO less cash tax and fin. Costs	US\$m	\$98	\$243	\$376	\$424	\$363	\$222	\$126
CFPS - diluted	US\$/shr	\$0.10	\$0.53	\$0.98	\$1.13	\$0.98	\$0.62	\$0.38
EBITDAX	US\$m	\$512	\$373	\$450	\$633	\$569	\$474	\$382
E&D Capex (incl. decom.)	US\$m	\$78	\$251	\$240	\$110	\$116	\$0	\$0
A&D Capex, Net	US\$m	\$57	\$3	\$11	\$4	\$4	\$0	\$0
Total Net Capex	US\$m	\$135	\$254	\$251	\$114	\$120	\$0	\$0
Total Net Capex/CFO	x	1.4x	1.0x	0.7x	0.3x	0.3x	0.0x	0.0x
<b>Leverage</b>								
Net Debt	US\$m	(\$92)	\$71	\$27	(\$201)	(\$363)	(\$483)	(\$527)
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	0.1x	n.a.	n.a.	n.a.
<b>Capital Structure</b>								
Basic Shares o/s @ YE	mm	391	393	393	393	393	393	393
Diluted Shares o/s @ YE	mm	402	404	404	404	404	404	404
Market Capitalization	US\$m	\$1,166	\$647	\$670	\$667	\$667	\$667	\$667
Enterprise Value	US\$m	\$1,074	\$717	\$697	\$466	\$305	\$184	\$141
<b>Dividends &amp; Sustainability</b>								
Dividends	US\$m	\$110	\$113	\$82	\$82	\$82	\$102	\$82
Dividends	£/sh	£0.23	£0.19	£0.16	£0.16	£0.20	£0.16	£0.16
Dividends	\$/shr	\$0.29	\$0.24	\$0.21	\$0.21	\$0.26	\$0.21	\$0.21
Dividend Yield	%	18.1%	15.0%	12.6%	12.6%	15.7%	12.6%	12.6%
Share Buybacks	US\$m	\$0	\$19	\$0	\$0	\$0	\$0	\$0
Free Cash Flow	US\$m	\$19	(\$8)	\$136	\$314	\$248	\$222	\$126
Cash returned to shareholders as % of Cash invested/CFO	%	113.0%	54.5%	21.8%	19.3%	22.5%	46.0%	65.0%
<b>Performance</b>								
Prod. Per Shr Growth (Y/Y) - dil.	%		-27%	3%	20%	-8%	-10%	-11%
PPS Growth (Y/Y) DDA - dil.	%		-33%	-5%	68%	38%	21%	13%
CFPS Growth (Y/Y) - dil.	%		444%	85%	16%	-14%	-37%	-40%
CFPS Growth (Y/Y) DDA - dil.	%		326%	71%	61%	29%	-14%	-23%
ROCE	%		13%	5%	37%	32%	24%	17%
<b>Net Asset Value</b>								
CNAV (Atax) - diluted	£/shr	£2.38						
RENAV (Atax) - diluted	£/shr	£2.67						
Unrisked NAV (Atax) - diluted	£/shr	£4.09						
P/CNAV	x	0.5x						
P/RENAV	x	0.5x						
P/Unrisked NAV	x	0.3x						
<b>Valuation</b>								
Share Price, YE/Current	£/shr	£2.32	£1.27	£1.27	£1.27	£1.27	£1.27	£1.27
P/CF	x	29.9x	3.0x	1.7x	1.5x	1.7x	2.7x	4.4x
EV/DACF	x	8.9x	2.5x	1.8x	1.0x	0.8x	0.8x	1.0x
Target EV/DACF	x	39.2x	7.0x	3.8x	2.7x	2.7x	3.8x	6.0x
EV per boe/d	\$/boepd	\$26,761	\$20,734	\$19,509	\$10,853	\$7,682	\$5,173	\$4,439
Proved Plus Probable		140	128	115	99	99	99	99
EV per 2P boe	US\$/boe	\$7.65	\$5.62	\$6.08	\$4.71	\$3.08	\$1.86	\$1.42
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 3-May-25

**Figure 2. NAV Table**

Asset Valuation	2P/2C/P50 (mmboe)	CoS (%)	Unrisked (US\$ mm)	EMV (US\$ mm)	Riskd £/Share	Unrisked £/Share	% Total
Net Cash + Div 2025 (YE25)			55	55	0.10	0.10	4%
G&A			-77	-77	-0.15	-0.15	-5%
<b>Bruce Hub 2P (NNS)</b>	70		<b>380</b>	<b>380</b>	<b>0.72</b>	<b>0.72</b>	<b>27%</b>
<b>Triton Hub 2P (CNS)</b>	42		<b>636</b>	<b>636</b>	<b>1.21</b>	<b>1.21</b>	<b>45%</b>
<b>Other assets</b>							
Orlando 2P (NNS)	2		36	36	0.07	0.07	3%
Columbus 2P (CNS)	2		13	13	0.02	0.02	1%
Erskine 2P (CNS)	3		24	24	0.04	0.04	2%
<b>Bruce Hub 2C Resources (NNS)</b>							
BKR 2C resources	33	75%	182	137	0.26	0.35	10%
<b>Triton Hub 2C Resources (CNS)</b>							
Kyle redevelopment 2C	11	75%	60	45	0.09	0.12	3%
<b>Total Core NAV</b>			<b>1,309</b>	<b>1,248</b>	<b>2.38</b>	<b>2.49</b>	<b>89%</b>
<b>Buchan area (OMF)</b>							
Buchan main 2C	21	60%	115	69	0.13	0.22	5%
J2 2C	3	30%	16	5	0.01	0.03	0%
Verbier 2C	6	30%	33	10	0.02	0.06	1%
<b>Triton Hub (CNS)</b>							
Remaining 2C Resources	5	20%	29	6	0.01	0.05	0%
<b>Other assets</b>							
Mansell redevelopment 2C	9	0%	49	0	0.00	0.09	0%
Skerryvore Exploration Mey target (Shallow)	37	7%	200	14	0.03	0.38	1%
Skerryvore Exploration Chalk target (Deep)	73	14%	400	54	0.10	0.76	4%
<b>Total Risked Appraisal &amp; Exploration</b>			<b>842</b>	<b>157</b>	<b>0.30</b>	<b>1.60</b>	<b>11%</b>
<b>Total NAV</b>			<b>2151</b>	<b>1405</b>	<b>2.67</b>	<b>4.09</b>	<b>100%</b>
<b>P/Core NAV</b>				<b>53%</b>			
<b>P/NAV</b>				<b>47%</b>			
<b>P/Unrisked NAV</b>				<b>31%</b>			

Source: Auctus Advisors, Company Disclosures

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