

SERICA ENERGY PLC (AIM: SQZ)

December 12, 2024

Share price: £1.30

Target: £3.00

Bolt-on acquisition provides tax synergies and operational flexibility

- Serica is acquiring the UK assets of the Parkmead Group for an initial consideration US\$6.5 mm in cash.
- The transaction includes 50% WI in the Skerryvore prospect (Serica already owns 20%) and 50% in Fynn Beaully (heavy oil discovery). An additional deferred consideration of US\$11.7 mm will be paid in stages over the next 3 years. On approval of a FDPs, Serica would make contingent payments of £0.8/bbl with a cap of £30 mm for Skerryvore and £90 mm for Fynn Beaully.
- The transaction is expected to complete in 1H25.
- The transaction offers Serica significant tax synergies. Upon completion of the acquisition, Serica's tax loss balance will increase by £197 mn for RCT, £193 mn for SCT (including £12 mn in activated investment allowances), and £1 mm for EPL, as of 30 June 2024. Previously, we forecasted that Serica's tax losses for SCT and RCT would be exhausted by mid-2027 and mid-2028, respectively. With this acquisition, these tax losses will now extend until mid-2028 and 2030
- The value of these tax losses could increase further if the company makes a more material acquisition of tax paying producing assets in the UK. This remains one of Serica's strategic goal.
- The acquisition provides operational flexibility. With a 70% interest in Skerryvore, Serica now controls the timing of exploration and drilling activities. However, given the current context of poor visibility on environmental approvals and the UK government's attitude towards exploration, drilling at Skerryvore is likely to be delayed.
- We have increased our target price from £2.90 per share to £3.00 per share, which captures the accretive nature of the acquisition.

Valuation

We have incorporated the acquired tax losses into our valuation for Serica. We have also moved forward our DCF for the company by one year to YE25. As a result, our Core (2P) NAV has increased from £2.41 per share to £2.58 per share, and our ReNAV has risen from £2.82 per share to £3.04 per share. Approximately 50% of this increase reflects the value created by the acquisition.

Rating & target	Old	New	
Target	£2.90	£3.00	
Yield		19%	
Implied total return		160%	
Share data	2023	2024e	2025e
Shares dil., mm	402	403	403
Mkt cap, US\$mm	\$1,166	\$642	\$649
EV, US\$mm	\$1,074	\$726	\$630
Financial Data	2023	2024e	2025e
Gas, mmcf/d	103.0	120.1	110.8
Liquids, bbl/d	20,318	14,590	22,258
Total boe/d (6:1)	40,121	35,293	41,369
CFO, US\$mm	\$98	\$261	\$481
Net capex, US\$mm	\$135	\$278	\$261
Net debt, US\$mm*	(\$92)	\$84	(\$19)
CFPS dil., US\$/shr	\$0.10	\$0.67	\$1.28
EPS dil., US\$/shr	\$0.38	(\$0.01)	\$0.56
Valuation	2023	2024e	2025e
Share price, £/shr	£2.32	£1.24	£1.24
EV/DACF	8.9x	2.5x	1.3x
EV per boe/d (US\$)	\$26,761	\$20,563	\$15,221
Net asset value			
CNAV, £/shr			£2.58
RENAV, £/shr			£3.04
Unrisked NAV, £/shr			£4.55
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					
Financial & Operating Information		2023	2024e	2025e	2026e	2027e	2028e
Commodity Prices							
Brent	US\$/bbl	\$82.99	\$79.90	\$73.74	\$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	14,590	22,258	23,366	20,449	16,933
Natural Gas	mmcf/d	103.0	120.1	110.8	124.0	139.0	123.7
Total (6 mcf = 1 boe)	boe/d	40,121	35,293	41,369	44,746	44,408	38,262
% Oil and Liquids	%	51%	41%	54%	52%	46%	44%
Netbacks							
Revenue	US\$/boe	\$61.46	\$61.87	\$68.02	\$64.61	\$63.86	\$63.59
Royalties	US\$/boe	\$0.63	\$0.80	\$0.67	\$0.62	\$0.50	\$0.43
Production & Transport Costs	US\$/boe	\$21.05	\$25.62	\$20.87	\$19.17	\$18.07	\$20.98
Operating Netback	US\$/boe	\$43.20	\$36.86	\$44.99	\$44.66	\$45.28	\$42.18
Taxes	US\$/boe	\$17.80	\$12.14	\$10.36	\$5.14	\$20.78	\$23.72
Cash Flow Netback	US\$/boe	\$9.45	\$22.17	\$33.32	\$36.57	\$28.23	\$16.61
Financials							
Cash Flow from Ops. before tax and							
fin. Costs (CFO)	US\$m	\$469	\$440	\$648	\$705	\$710	\$565
CFO less current tax	US\$m	\$240	\$284	\$492	\$621	\$373	\$234
CFO less cash tax and fin. Costs	US\$m	\$98	\$261	\$481	\$575	\$436	\$210
CFPS - diluted	US\$/shr	\$0.10	\$0.67	\$1.28	\$1.52	\$1.17	\$0.59
EBITDAX	US\$m	\$512	\$435	\$655	\$705	\$710	\$565
E&D Capex (incl. decom.)	US\$m	\$78	\$268	\$250	\$273	\$36	\$0
A&D Capex, Net	US\$m	\$57	\$10	\$11	\$4	\$4	\$0
Total Net Capex	US\$m	\$135	\$278	\$261	\$277	\$40	\$0
Total Net Capex/CFO	x	1.4x	1.1x	0.5x	0.5x	0.1x	0.0x
Leverage							
Net Debt	US\$m	(\$92)	\$84	(\$19)	(\$201)	(\$480)	(\$573)
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.	0.2x	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\$m	\$1,166	\$642	\$649	\$649	\$649	\$649
Enterprise Value	US\$m	\$1,074	\$726	\$630	\$448	\$170	\$77
Dividends & Sustainability							
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	%	18.5%	18.5%	18.5%	18.5%	18.5%	18.5%
Share Buybacks	US\$m	\$0	\$19	\$0	\$0	\$0	\$0
Free Cash Flow	US\$m	\$19	(\$7)	\$231	\$302	\$400	\$210
Cash returned to shareholders as % of	%	113.0%	50.2%	24.4%	20.4%	26.9%	55.8%
Cash invested/CFO	%	138%	107%	54%	48%	9%	0%
Performance							
Prod. Per Shr Growth (Y/Y) - dil.	%		-25%	17%	8%	-1%	-14%
PPS Growth (Y/Y) DDA - dil.	%		-47%	32%	48%	52%	16%
CFPS Growth (Y/Y) - dil.	%		594%	91%	19%	-23%	-49%
CFPS Growth (Y/Y) DDA - dil.	%		315%	114%	62%	17%	-32%
ROCE	%		-1%	28%	41%	39%	26%
Net Asset Value							
CNAV (Atax) - diluted	£/shr	£2.58					
RENAV (Atax) - diluted	£/shr	£3.04					
Unrisked NAV (Atax) - diluted	£/shr	£4.55					
P/CNAV	x	0.5x					
P/RENAV	x	0.4x					
P/Unrisked NAV	x	0.3x					
Valuation							
Share Price, YE/Current	£/shr	£2.32	£1.24	£1.24	£1.24	£1.24	£1.24
P/CF	x	29.9x	2.4x	1.3x	1.1x	1.4x	2.7x
EV/DACF	x	8.9x	2.5x	1.3x	0.8x	0.4x	0.3x
Target EV/DACF	x	43.9x	6.2x	3.1x	2.3x	2.4x	4.3x
EV per boe/d	\$/boepd	\$26,761	\$20,563	\$15,221	\$10,022	\$3,817	\$2,002
Proved Plus Probable		140	127	112	96	96	96
EV per 2P boe	US\$/boe	\$7.65	\$5.70	\$5.61	\$4.67	\$1.77	\$0.80
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 11-Dec-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 + Div 2025 (YE25)			137	137	0.26	0.26	9%
G&A			-84	-84	-0.16	-0.16	-5%
Bruce Hub 2P (NNS)	84		527	527	1.02	1.02	33%
Triton Hub 2P (CNS)	49		702	702	1.36	1.36	45%
Other assets							
Orlando 2P (NNS)	2		16	16	0.03	0.03	1%
Columbus 2P (CNS)	2		18	18	0.03	0.03	1%
Erskine 2P (CNS)	2		20	20	0.04	0.04	1%
Total Core NAV			1,335	1,335	2.58	2.58	85%
Buchan area (OMF)							
Buchan main 2C	21	60%	115	69	0.13	0.22	4%
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%	111	55	0.11	0.21	4%
Kyle redevelopment 2C							
Kyle redevelopment 2C	10	50%	52	26	0.05	0.10	2%
Other assets							
Mansell redevelopment 2C	16	0%	83	0	0.00	0.16	0%
Skerryvore Exploration Mey target (Shallow)	37	7%	200	14	0.03	0.39	1%
Skerryvore Exploration Chalk target (Deep)	73	14%	400	54	0.10	0.77	3%
Total Risked Appraisal & Exploration			1020	238	0.46	1.97	15%
Total NAV			2356	1574	3.04	4.55	100%
P/Core NAV					48%		
P/NAV					41%		
P/Unrisked NAV					27%		

Source: Auctus Advisors, Company Disclosures

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