

# SERICA ENERGY PLC (AIM: SQZ)

October 29, 2024

Share price: £1.27

Target: £2.90

## Operational glitch creates an opportunity

- Production at the Triton FPSO has been interrupted due to potential dry gas seal failure at the A gas compressor. The vulnerability of Triton to an issue with the single compressor was flagged previously, and improving the robustness of production was highlighted by Serica's new CEO as a priority. The second compressor would have reduced the operational vulnerability of the FPSO but it has not yet been repaired. This second compressor is now expected to be brought back in service in 1Q25 instead of 4Q24, given that the priority will be to repair the A compressor.
- Production at the Triton FPSO is expected to be restored mid November.
- As a result of this 2-3 week shut down, average annual production is now expected to be slightly below 41 mboe/d.
- Pending publication of the UK budget on Wednesday and the subsequent operating update to be published by Serica in mid-November, we have not changed our estimates for 2024. Reducing our production forecast for 2024 by 1-2 mboe/d is expected to have a minimal impact on our valuation
- Any share price weakness could offer an opportunity for investors. At the current share price the dividend yield is ~18%. Current UK gas prices are high (97.9 p per therm so far in 4Q24 vs our assumptions of 95 p per therm) and even assuming very punitive fiscal terms in the UK, the high free cash flow generation of the company suggests this level of dividend is sustainable.
- We re-iterate our target price of £2.90 per share

## UK budget to be published on 30 October

The key newsflow for Serica is the upcoming UK budget to be published on 30 October that will provide visibility on the UK fiscal regime. 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 ~50% 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 £2.55/sh and £2.92/sh respectively. The Core NAV reflects our valuation for the company based on its 2P reserves. We carry only £0.14/sh for Buchan in our ReNAV.

Rating & target	Old	New	
Target	£2.90	n.c.	
Yield		18%	
Implied total return		146%	
Share data	2023	2024e	2025e
Shares dil., mm	402	403	403
Mkt cap, US\$mm	\$1,166	\$657	\$665
EV, US\$mm	\$1,074	\$616	\$418
Financial Data	2023	2024e	2025e
Gas, mmcf/d	103.0	126.7	116.4
Liquids, bbl/d	20,318	19,305	24,728
Total boe/d (6:1)	40,121	41,156	44,792
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	£1.27	£1.27
EV/DACF	8.9x	1.5x	0.7x
EV per boe/d (US\$)	\$26,761	\$14,978	\$9,342
Net asset value			
CNAV, £/shr			£2.55
RENAV, £/shr			£2.92
Unrisked NAV, £/shr			£3.59
P/CNAV			0.5x
P/RENAV			0.4x
P/ENAV			0.4x

All figures in US\$ unless otherwise noted  
\* based on cash rather than working capital

## Contact details

Analyst:

Stephane Foucaud

sf@auctusadvisors.co.uk

+44 7854 891249

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	24,728	23,976	20,951	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	44,792	45,412	44,953	38,711
% 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	\$19.27	\$18.89	\$17.86	\$20.73
Operating Netback	US\$/boe	\$43.20	\$42.11	\$47.97	\$45.02	\$45.58	\$42.50
Taxes	US\$/boe	\$17.80	\$10.39	\$12.26	\$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\$mm	\$469	\$595	\$753	\$722	\$724	\$576
CFO less current tax	US\$mm	\$240	\$439	\$553	\$546	\$346	\$166
CFO less cash tax and fin. Costs	US\$mm	\$98	\$394	\$546	\$516	\$391	\$155
CFPS - diluted	US\$/shr	\$0.10	\$1.02	\$1.45	\$1.37	\$1.05	\$0.45
EBITDAX	US\$mm	\$512	\$592	\$760	\$722	\$724	\$576
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	0.7x	0.4x	0.5x	0.1x	0.0x
<b>Leverage</b>							
Net Debt	US\$mm	(\$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\$mm	\$1,166	\$657	\$665	\$665	\$665	\$665
Enterprise Value	US\$mm	\$1,074	\$616	\$418	\$293	\$54	\$17
<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	%	18.1%	18.1%	18.1%	18.1%	18.1%	18.1%
Share Buybacks	US\$mm	\$0	\$19	\$0	\$0	\$0	\$0
Free Cash Flow	US\$mm	\$19	\$118	\$323	\$243	\$355	\$155
Cash returned to shareholders as % of	%	113.0%	33.3%	21.5%	22.7%	30.0%	75.8%
Cash invested/CFO	%	138%	73%	41%	53%	9%	0%
<b>Performance</b>							
Prod. Per Shr Growth (Y/Y) - dil.	%		-13%	9%	1%	-1%	-14%
PPS Growth (Y/Y) DDA - dil.	b %		-25%	48%	35%	72%	-3%
CFPS Growth (Y/Y) - dil.	%		951%	42%	-5%	-23%	-57%
CFPS Growth (Y/Y) DDA - dil.	b %		665%	93%	26%	34%	-52%
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	0.5x					
P/RENAV	x	0.4x					
P/Unrisked NAV	x	0.4x					
<b>Valuation</b>							
Share Price, YE/Current	£/shr	£2.32	£1.27	£1.27	£1.27	£1.27	£1.27
P/CF	x	29.9x	1.6x	1.1x	1.2x	1.6x	3.7x
EV/DACF	x	8.9x	1.5x	0.7x	0.5x	0.1x	0.1x
Target EV/DACF	x	42.4x	3.7x	2.2x	2.1x	2.2x	4.9x
EV per boe/d	\$/boepd	\$26,761	\$14,978	\$9,342	\$6,444	\$1,210	\$441
Proved Plus Probable		140	125	109	92	92	92
EV per 2P boe	US\$/boe	\$7.65	\$4.92	\$3.84	\$3.17	\$0.59	\$0.18
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 28-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)			17	17	0.03	0.03	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>518</b>	<b>518</b>	<b>1.00</b>	<b>1.00</b>	<b>34%</b>
<b>Triton Hub 2P (CNS)</b>	49		<b>678</b>	<b>678</b>	<b>1.31</b>	<b>1.31</b>	<b>45%</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>1,313</b>	<b>1,313</b>	<b>2.54</b>	<b>2.54</b>	<b>87%</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>13%</b>
<b>Total NAV</b>			<b>1847</b>	<b>1502</b>	<b>2.90</b>	<b>3.57</b>	<b>100%</b>
<b>P/Core NAV</b>				<b>50%</b>			
<b>P/NAV</b>				<b>44%</b>			
<b>P/Unrisked NAV</b>				<b>36%</b>			

Source: Auctus Advisors, Company Disclosures

## Copyright and Risk Warnings

### **Serica Energy Plc (“Serica” or the “Company”) is a corporate client of Auctus Advisors LLP (“Auctus”).**

Auctus receives, and has received in the past 12 months, compensation for providing corporate broking and/or investment banking services to the Company, including the publication and dissemination of marketing material from time to time.

### **MiFID II Disclosures**

This document, being paid for by a corporate issuer, is believed by Auctus to be an ‘acceptable minor non-monetary benefit’ as set out in Article 12 (3) of the Commission Delegated Act C(2016) 2031 which is part of UK law by virtue of the European Union (Withdrawal) Act 2018. It is produced solely in support of our corporate broking and corporate finance business. Auctus does not offer a secondary execution service in the UK.

**This note is a marketing communication and NOT independent research. As such, it has not been prepared in accordance with legal requirements designed to promote the independence of investment research and this note is NOT subject to the prohibition on dealing ahead of the dissemination of investment research.**

### **Author**

The research analyst who prepared this research report was Stephane Foucaud, a partner of Auctus.

### **Not an offer to buy or sell**

Under no circumstances is this note to be construed to be an offer to buy or sell or deal in any security and/or derivative instruments. It is not an invitation or an inducement to engage in investment activity under section 21 of the Financial Services and Markets Act 2000.

### **Note prepared in good faith and in reliance on publicly available information**

Comments made in this note have been arrived at in good faith and are based, at least in part, on current public information that Auctus considers reliable, but which it does not represent to be accurate or complete, and it should not be relied on as such. The information, opinions, forecasts and estimates contained in this document are current as of the date of this document and are subject to change without prior notification. No representation or warranty either actual or implied is made as to the accuracy, precision, completeness or correctness of the statements, opinions and judgements contained in this document.

### **Auctus’ and related interests**

The persons who produced this note may be partners, employees and/or associates of Auctus. Auctus and/or its employees and/or partners and associates may or may not hold shares, warrants, options, other derivative instruments or other financial interests in the Company and reserve the right to acquire, hold or dispose of such positions in the future and without prior notification to the Company or any other person.

### **Information purposes only**

This document is intended to be for background information purposes only and should be treated as such. This note is furnished on the basis and understanding that Auctus is under no responsibility or liability whatsoever in respect thereof, whether to the Company or any other person.

### **Investment Risk Warning**

The value of any potential investment made in relation to companies mentioned in this document may rise or fall and sums realised may be less than those originally invested. Any reference to past performance should not be construed as being a guide to future performance. Investment in small companies, and especially upstream oil & gas companies, carries a high degree of risk and investment in the companies or commodities mentioned in this document may be affected by related currency variations. Changes in the pricing of related currencies and or commodities mentioned in this document may have an adverse effect on the value, price or income of the investment.

### **Distribution**

This document is directed at persons having professional experience in matters relating to investments to whom Article 19 of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (“FPO”) applies, or high net worth organisations to whom Article 49 of the FPO applies. The investment or investment activity to which this communication relates is available only to such persons and other persons to whom this communication may lawfully be made (“relevant persons”) and will be engaged in only with such persons. This Document must not be acted upon or relied upon by persons who are not relevant persons. Without limiting the foregoing, this note may not be distributed to any persons (or groups of persons), to whom such distribution would contravene the UK Financial Services and Markets Act 2000 or would constitute a contravention of the corresponding statute or statutory instrument in any other jurisdiction.

### **Disclaimer**

This note has been forwarded to you solely for information purposes only and should not be considered as an offer or solicitation of an offer to sell, buy or subscribe to any securities or any derivative instrument or any other rights pertaining thereto (“financial instruments”). This note is intended for use by professional and business investors only. This note may not be reproduced without the prior written consent of Auctus.

The information and opinions expressed in this note have been compiled from sources believed to be reliable but, neither Auctus, nor any of its partners, officers, or employees accept liability from any loss arising from the use hereof or makes any representations as to its accuracy and completeness. Any opinions, forecasts or estimates herein constitute a judgement as at the date of this note. There can be no assurance that future results or events will be consistent with any such opinions, forecasts or estimates. Past performance should not be taken as an indication or guarantee of future performance, and no representation or warranty, express or implied is made regarding future performance. This information is subject to change without notice, its accuracy is not guaranteed, it may be incomplete or condensed and it may not contain all material information concerning the company and its subsidiaries. Auctus is not agreeing to nor is it required to update the opinions, forecasts or estimates contained herein.

The value of any securities or financial instruments mentioned in this note can fall as well as rise. Foreign currency denominated securities and financial instruments are subject to fluctuations in exchange rates that may have a positive or adverse effect on the value, price or income of such securities or financial instruments. Certain transactions, including those involving futures, options and other derivative instruments, can give rise to substantial risk and are not suitable for all investors. This note does not have regard to the specific instrument objectives, financial situation and the particular needs of any specific person who may receive this note.

Auctus (or its partners, officers or employees) may, to the extent permitted by law, own or have a position in the securities or financial instruments (including derivative instruments or any other rights pertaining thereto) of the Company or any related or other company referred to herein, and may add to or dispose of any such position or may make a market or act as principle

in any transaction in such securities or financial instruments. Partners of Auctus may also be directors of the Company or any other of the companies mentioned in this note. Auctus may, from time to time, provide or solicit investment banking or other financial services to, for or from the Company or any other company referred to herein. Auctus (or its partners, officers or employees) may, to the extent permitted by law, act upon or use the information or opinions presented herein, or research or analysis on which they are based prior to the material being published.

**Further Disclosures for the United Kingdom**

This note has been issued by Auctus Advisors LLP, which is authorised and regulated by the Financial Conduct Authority. This note is not for distribution to private customers. This note is not intended for use by, or distribution to, US corporations that do not meet the definition of a major US institutional investor in the United States or for use by any citizen or resident of the United States.

This publication is confidential and may not be reproduced in whole or in part or disclosed to another party, without the prior written consent of Auctus. Securities referred to in this note may not be eligible for sale in those jurisdictions where Auctus is not authorised or permitted by local law to do so. In particular, Auctus does not permit the distribution or redistribution of this note to non-professional investors or other persons to whom disclosure would contravene local securities laws. Auctus expressly disclaims and will not be held responsible in any way, for third parties who affect such redistribution.

© Auctus Advisors LLP All rights reserved 2024