

Egdon Resources

FY18 results

UK shale appraisal in focus

We have slightly increased our valuation of Egdon's conventional asset base from 12.5p/share to 12.7p/share (+2%). Moving parts include higher forecast Ceres production in FY19 and a stronger dollar offset by the removal of Holmwood. Our valuation of Egdon's net shale resource (188,000 net acres) remains uncertain but, in our view, has the potential to be worth a risked c 100p/share based on current expectations of well cost, type curves and forward gas prices. Appraisal activity at Cuadrilla operated Preston New Road is set to provide information on horizontal well flow rates in the Bowland Basin with results due at the end of CY18 or early 2019. Initial flow-back gas at Preston New Road announced on 2 November is encouraging.

Year end	Revenue (£m)	PBT* (£m)	Net cash/ (debt) (£m)	EBITDA (£m)	Capex (£m)
07/17	1.0	(2.2)	6.1	(1.2)	(1.1)
07/18	0.8	(1.7)	2.8	(2.2)	(1.8)
07/19e	3.2	(0.6)	0.9	0.1	(2.4)
07/20e	4.2	(2.0)	(0.2)	(0.1)	(1.5)

Note: *PBT and EPS are normalised, excluding amortisation of acquired intangibles, exceptional items and share-based payments.

Small upgrade to conventional value

Our valuation of Egdon's conventional asset portfolio increases by 2%, driven by higher than expected gas production from Ceres in FY19 and a stronger dollar, but offset by the removal of Holmwood where the site lease was not renewed. The operator is looking at new site locations for the drilling of Holmwood, and we expect to revisit this asset once new plans emerge. Production guidance for H119 stands at 150–180boed with Ceres gas production expected to increase over the year and H219 (Edison estimates 211boed for FY19).

Upcoming activity

Drilling operations are expected to commence at Biscathorpe (Egdon 35.8% part carried) in late 2018, aiming to evaluate the 1987 BP oil discovery with net mean prospective resource of 5mmbo. Spud of the play opening unconventional exploration well at Springs Road-1 in the Gainsborough Trough (Egdon 14.5% carried) is expected in early 2019. Drilling at North Kelsey and Resolution/Endeavour remains contingent on farm-down/external investment.

Valuation: An option on UK shale

At end-July 2018 Egdon had cash of £2.8m, which we expect to cover anticipated costs (post farm-down) through most of FY19. This is contingent on oil and gas price realisations. We have slightly increased our conventional valuation from 12.5p/share to 12.7p/share. We believe the key value proposition for shareholders is Egdon's net [UK shale exposure and conventional E&A](#).

Oil & gas

12 November 2018

Price **7.50p**
Market cap **£20m**

US\$/£ 1.33

Net cash (£m) at 31 July 2018 2.8

Shares in issue 260.0m

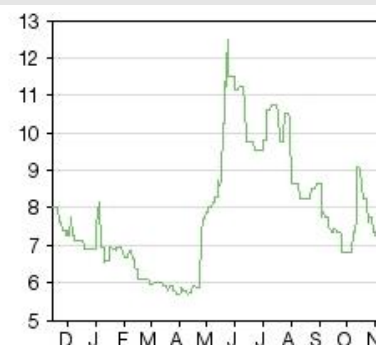
Free float 47%

Code EDR

Primary exchange AIM

Secondary exchange N/A

Share price performance



% 1m 3m 12m

Abs 0.7 (14.5) (3.0)

Rel (local) 2.7 (6.9) 2.2

52-week high/low 12.5p 5.7p

Business description

Egdon Resources is an AIM-listed onshore oil and gas exploration company. The group has conventional and unconventional assets in the UK and access to over 188,000 net shale acres.

Next events

Biscathorpe drilling Late 2018

Springs Road-1 drilling Early 2019

Analysts

Sanjeev Bahl +44 (0)20 3077 5700

Elaine Reynolds +44 (0)20 3077 5713

Carlos Gomes +44 (0)20 3077 5700

oilandgas@edisongroup.com
[Edison profile page](#)

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Key valuation changes

We make several changes to our conventional valuation, with the net impact slightly increasing our RENAV from 12.5p/share to 12.7p/share. Key changes include:

- Increased FY19 production expectations for Ceres after re-start of production in November 2018 following the installation of a new flowmeter. Egdon expects to update Ceres production expectations once production has stabilised.
- Removal of Holmwood from asset value until a new drilling site location has been confirmed.
- A small increase in UK NBP gas price assumptions from 56p/therm to 59p/therm CY18 (inflated by 2.5% thereafter) based on current spot prices and the forward curve.
- Movement in exchange rate from US\$/£1.37 to US\$/£1.33 (based on six-month historical average).

Exhibit 1: Egdon detailed valuation

	Country	WI	CCoS	Net	NPV/boe	NPV _{12.5}	Risked
Assets		%	%	mmboe	\$/boe	\$m	/share (p)
Net cash at January 2018						5.4	1.6
G&A (3yrs)						(3.8)	(1.1)
Production							
Keddington	UK	45%	100%	0.06	(10.7)	(0.7)	0.0
Ceres	UK	10%	100%	0.44	11.5	5.0	1.4
Fiskerton	UK	80%	100%	0.08	9.3	0.8	0.2
Wressle (Ashover Grit)	UK	30%	60%	0.15	23.6	2.1	0.6
Core NAV						8.8	2.7
Exploration							
North Kelsey	UK	80%	12%	4.94	11.1	6.6	1.9
Louth	UK	65%	20%	0.85	10.3	1.8	0.5
Wressle (upside)	UK	30%	25%	0.46	17.7	2.0	0.6
Broughton	UK	25%	23%	0.11	17.7	0.4	0.1
Biscathorpe	UK	36%	20%	4.91	12.8	12.6	3.6
Resolution	UK	50%	18%	12.52	5.1	11.1	3.2
Appraisal & Exploration NAV						34.5	10.0
RENAV						43.3	12.7
Indicative shale valuation P50	UK	50%	67%			344.3	99.5

Source: Edison Investment Research. Note: US\$/£1.33, shares 260m.

Exhibit 2: Financial summary

	£000's	2016	2017	2018	2019e	2020e
July		IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS						
Revenue		1,586	1,039	779	3,214	4,243
Cost of Sales		(3,206)	(1,576)	(1,754)	(1,579)	(2,831)
Gross Profit		(1,620)	(537)	(975)	1,635	1,412
EBITDA		(733)	(1,193)	(2,219)	135	(88)
Operating Profit (before amort. and except.)		(4,571)	(2,121)	(1,656)	(528)	(1,934)
Intangible Amortisation		0	0	0	0	0
Exceptionals		0	0	0	0	0
Other		0	0	0	0	0
Operating Profit		(4,571)	(2,121)	(1,656)	(528)	(1,934)
Net Interest		(34)	(42)	(41)	(48)	(48)
Profit Before Tax (norm)		(4,604)	(2,163)	(1,697)	(576)	(1,982)
Profit Before Tax (FRS 3)		(4,604)	(2,163)	(1,697)	(576)	(1,982)
Tax		0	0	0	0	0
Profit After Tax (norm)		(4,604)	(2,163)	(1,697)	(576)	(1,982)
Profit After Tax (FRS 3)		(4,604)	(2,163)	(1,697)	(576)	(1,982)
Average Number of Shares Outstanding (m)		221	249	260	260	260
EPS - normalised (p)		(2.1)	(0.9)	(0.7)	(0.2)	(0.8)
EPS - normalised fully diluted (p)		(1.2)	(0.7)	(0.8)	(0.2)	(0.8)
EPS - (IFRS) (p)		(2.1)	(0.9)	(0.7)	(0.2)	(0.8)
Dividend per share (p)		0.0	0.0	0.0	0.0	0.0
Gross Margin (%)		-102.1	-51.7	-125.2	50.9	33.3
EBITDA Margin (%)		-46.2	-114.8	-284.9	4.2	-2.1
Operating Margin (before GW and except.) (%)		-288.2	-204.1	-212.7	-16.4	-45.6
BALANCE SHEET						
Fixed Assets		27,053	28,495	30,105	31,872	31,530
Intangible Assets		18,370	19,231	19,572	21,363	22,063
Tangible Assets		8,683	9,264	10,534	10,509	9,467
Investments		0	0	0	0	0
Current Assets		5,270	7,613	4,020	2,178	1,038
Stocks		0	0	8	8	8
Debtors		2,541	1,507	1,240	1,240	1,240
Cash		2,679	6,057	2,772	930	(210)*
Other		50	50	0	0	0
Current Liabilities		(1,085)	(1,216)	(1,150)	(1,150)	(1,150)
Creditors		(1,085)	(1,216)	(1,150)	(1,150)	(1,150)
Short term borrowings		0	0	0	0	0
Long Term Liabilities		(1,803)	(2,187)	(2,249)	(2,249)	(2,249)
Long term borrowings		0	0	0	0	0
Other long term liabilities		(1,803)	(2,187)	(2,249)	(2,249)	(2,249)
Net Assets		29,435	32,705	30,727	30,651	29,169
CASH FLOW						
Operating Cash Flow		(159)	(422)	(1,629)	635	412
Net Interest		0	0	0	(48)	(48)
Tax		0	0	0	0	0
Capex		(2,379)	(1,054)	(1,825)	(2,429)	(1,504)
Acquisitions/disposals		0	0	137	0	0
Equity Financing		0	4,865	0	0	0
Other cash flow		8	5	8	0	0
Net Cash Flow		(2,529)	3,394	(3,308)	(1,842)	(1,140)
Opening net debt/(cash)		(5,180)	(2,678)	(6,056)	(2,771)	(929)
HP finance leases initiated		0	0	0	0	0
Other		(28)	16	(23)	(0)	0
Closing net debt/(cash)		(2,678)	(6,056)	(2,771)	(929)	211

Source: Company accounts, Edison Investment Research. Note: *A small amount (£0.210m) of equity or debt funding required based on current projections.

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