

Egdon Resources

Deferred Ceres output offset by higher gas prices

Operations update

Oil & gas

Egdon's operational update highlights lower production for FY18 at 84boed versus guidance of 100boed as a result of unplanned downtime at Ceres. Management remains confident in future production expectations and potential for increased gas recovery at Ceres based on pressure build-up analysis during shutdown. Our conventional asset RENAV moves to 12.5p/share from 12.8p/share (-2%) as a result of lower FY18 production and a higher risking applied to Wressle, offset by an increase in our short-term EIA-based oil price forecasts and higher NBP gas price assumptions. The valuation of Egdon's net shale resource (205,000 net acres) remains uncertain but in our view has the potential to be worth over risked 100p/share based on current expectations of well cost, type curves and forward gas prices.

Year end	Revenue (£m)	PBT* (£m)	Net cash/ (debt) (£m)	EBITDA (£m)	Capex (£m)
07/16	1.6	(2.7)	2.7	(0.7)	(2.4)
07/17	1.0	(1.7)	6.1	(1.2)	(1.1)
07/18e	1.1	(1.5)	2.8	(1.1)	(1.6)
07/19e	2.4	0.3	0.8	0.1	(2.1)

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

Conventional value moving parts

Our valuation of Egdon's conventional asset portfolio has been negatively affected by a short-term production deferment at Ceres and higher commercial risking applied to Wressle (from 90% chance of success to 60%), which remains contingent on planning approval. This is partly offset by an increase in expected recoverable gas at Ceres and higher oil and gas price expectations (we move our CY18 UK gas price assumption from 41p/therm to 56p/therm, in line with a year to date NBP gas price of 56p/therm). Initial production guidance for H119 stands at 160–180kboed (Edison 160kboed for FY19).

Upcoming activity

Drilling operations are expected to commence at Biscathorpe (Egdon 35.8% part carried) in October/November 2018, with the aim of evaluating 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 Q418. Drilling at North Kelsey and Resolution/Endeavour remains contingent on farm-down/external investment.

Valuation: An option of UK shale

At end January 2018 Egdon had cash of £4.1m, which we expect to cover anticipated costs (post farm-down) to end FY19. Our conventional valuation stands at 12.5p/share (from 12.8p/share). We believe the key value proposition for shareholders is Egdon's net [UK shale exposure and conventional E&A](#).

3 September 2018

Price 8.65p

Market cap £23m

US\$/£0.73

Net cash (£m) at 31 January 2018 4.1

Shares in issue 260.0m

Free float 51%

Code EDR

Primary exchange AIM

Secondary exchange N/A

Share price performance



% 1m 3m 12m

Abs (14.4) (24.8) 0.3

Rel (local) (11.3) (22.7) (0.5)

52-week high/low 12.50p 5.70p

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 205,000 net shale acres.

Next events

FY18 results November 2018

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Updated valuation

We make several changes to our conventional valuation with the net impact of reducing our RENAV from 12.8p/share to 12.5p/share (-2%). Key changes include:

- Lower production for FY18 from Edison 95boed to 84boed driven by lower short-term output from Ceres offset by higher long-term gas recovery.
- Higher risking for Wressle with chance of commercial success reduced from 90% to 60% after planning delays and uncertainty.
- Higher short-term oil price expectations based on EIA projections at \$71.7/bbl in CY18 and \$70.6/bbl in CY19.
- A material increase in UK NBP gas price assumptions from 41p/therm to 56p/therm CY18 (inflated by 2.5% thereafter) based on current spot prices and forward curve.
- A modest move in exchange rate from \$/£1.40 to \$/£1.37 (based on six-month historical average).

Exhibit 1: Egdon asset valuation (NPV_{12.5})

Assets	Country/ licence	WI %	CCoS %	Net mmboe	NPV/boe \$/boe	NPV _{12.5} \$m	Riskd /share (p)
\$1.37/£, shares 259m							
Net (debt) cash January 2018						5.6	1.6
G&A (three years)						-4.0	-1.1
Production							
Keddington	UK	45	100	0.07	(3.8)	-0.3	0.00
Ceres	UK	10	100	0.42	9.8	4.1	1.1
Fiskerton	UK	80	100	0.08	8.0	0.7	0.2
Wressle (Ashover Grit)	UK	30	60	0.15	19.1	1.7	0.5
Core NAV						7.7	2.2
Exploration							
North Kelsey	UK	80	12	4.94	10.7	6.4	1.8
Louth	UK	65	20	0.85	9.9	1.7	0.5
Wressle (upside)	UK	30	25	0.46	14.3	1.6	0.5
Broughton	UK	25	23	0.11	14.3	0.3	0.1
Biscathorpe	UK	36	20	4.91	12.4	12.2	3.4
Holmwood	UK	18	17	1.03	7.9	1.3	0.4
Resolution	UK	50*	18	12.65	5.9	13.0	3.7
Appraisal & Exploration NAV						36.6	10.3
RENAV						44.3	12.5
Indicative shale valuation P50	UK	50	67			381.3	107.1

Source: Edison Investment Research. Note: *Assumed 50% post farm-down (Egdon holds 100% equity).

Exhibit 2: Financial summary

	£000's	2015	2016	2017	2018e	2019e
July		IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS						
Revenue		2,068	1,586	1,039	1,055	2,401
Cost of Sales		(5,131)	(1,287)	(1,112)	(1,070)	(1,116)
Gross Profit		(3,063)	299	(73)	(15)	1,285
EBITDA		(4,015)	(733)	(1,193)	(1,108)	85
Operating Profit (before amort. and except.)		(4,539)	(2,652)	(1,657)	(1,435)	(305)
Intangible Amortisation		0	0	0	0	0
Exceptionals		0	0	0	0	0
Other		0	0	0	0	0
Operating Profit		(4,539)	(2,652)	(1,657)	(1,435)	(305)
Net Interest		(2)	(34)	(42)	(20)	0
Profit Before Tax (norm)		(4,540)	(2,686)	(1,699)	(1,455)	(305)
Profit Before Tax (FRS 3)		(4,540)	(2,686)	(1,699)	(1,455)	(305)
Tax		0	0	0	0	0
Profit After Tax (norm)		(4,540)	(2,686)	(1,699)	(1,455)	(305)
Profit After Tax (FRS 3)		(4,540)	(2,686)	(1,699)	(1,455)	(305)
Average Number of Shares Outstanding (m)		221	221	249	259	259
EPS - normalised (p)		(2.1)	(1.2)	(0.7)	(0.6)	(0.1)
EPS - normalised and fully diluted (p)		(2.0)	(1.2)	(0.7)	(0.6)	(0.1)
EPS - (IFRS) (p)		(2.1)	(1.2)	(0.7)	(0.6)	(0.1)
Dividend per share (p)		0.0	0.0	0.0	0.0	0.0
Gross Margin (%)		N/A	18.8	N/A	N/A	53.5
EBITDA Margin (%)		N/A	N/A	N/A	N/A	N/A
Operating Margin (before GW and except.) (%)		N/A	N/A	N/A	N/A	N/A
BALANCE SHEET						
Fixed Assets		26,703	27,053	28,495	29,704	31,406
Intangible Assets		17,864	18,370	19,231	20,699	22,742
Tangible Assets		8,838	8,683	9,264	9,005	8,664
Investments		0	0	0	0	0
Current Assets		8,120	5,270	7,613	4,625	2,617
Stocks		0	0	0	0	0
Debtors		2,889	2,541	1,507	1,808	1,808
Cash		5,180	2,679	6,057	2,767	759
Other		50	50	50	50	50
Current Liabilities		(941)	(1,085)	(1,216)	(878)	(878)
Creditors		(941)	(1,085)	(1,216)	(878)	(878)
Short term borrowings		0	0	0	0	0
Long Term Liabilities		(1,827)	(1,803)	(2,187)	(2,201)	(2,201)
Long term borrowings		0	0	0	0	0
Other long term liabilities		(1,827)	(1,803)	(2,187)	(2,201)	(2,201)
Net Assets		32,054	29,435	32,705	31,250	30,944
CASH FLOW						
Operating Cash Flow		(1,437)	(159)	(422)	(1,808)	85
Net Interest		(0)	0	0	0	0
Tax		0	0	0	0	0
Capex		(3,255)	(2,379)	(1,054)	(1,620)	(2,093)
Acquisitions/disposals		78	0	0	137	0
Equity Financing		0	0	4,865	0	0
Other cash flow		35	8	5	4	0
Net Cash Flow		(4,580)	(2,529)	3,394	(3,287)	(2,008)
Opening net debt/(cash)		(9,667)	(5,180)	(2,679)	(6,057)	(2,767)
HP finance leases initiated		0	0	0	0	0
Other		(93)	(28)	16	3	0
Closing net debt/(cash)		(5,180)	(2,679)	(6,057)	(2,767)	(759)

Source: Company data, Edison Investment Research

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