

SDX Energy

Strong netback; active 2019 well programme

Q218 results

Oil & gas

The acquisition of Circle Oil assets, strong oil prices and cost discipline drove up group operational netbacks from US\$22.5/boe in H117 to US\$32.9/boe in H118, with the group generating net cash from operations of US\$20.3m. Funds from operations helped SDX Energy to support an active H118 drilling programme while maintaining a strong balance sheet position, ending the half-year with US\$25.2m of cash and an undrawn credit facility of US\$10m. As highlighted in our recent research note, [Looking ahead at 2019 work programme](#), SDX remains on track to double production in 2018, while investing in an active E&A programme and development drilling in both Egypt and Morocco. Our valuation remains broadly unchanged at 92.7p/share (from 92.5p/share) as we include a slightly higher capex estimate for delivery of first gas at South Disouq.

Year end	Revenue (\$m)	PBT* (\$m)	Operating cash flow (\$m)	Net cash (\$m)	Capex (\$m)
12/16	12.9	(26.7)	(1.9)	4.7	(11.9)
12/17	39.2	32.8	21.6	25.8	(24.9)
12/18e	56.0	18.6	42.3	28.7	(40.7)
12/19e	86.7	51.1	63.1	56.5	(37.2)

Note: *PBT is normalised, excluding amortisation of acquired intangibles, exceptional items and share-based payments. Includes Circle acquisition (\$28.1m).

Upcoming catalysts

2019 drilling will focus on Ibn Yunus lookalikes in Egypt, with combined unrisks recoverable volumes of c.201.5bcf and 34bcf in the Abu Madi structural trap. In addition, an upcoming bid round in Egypt could provide SDX with an option to extend its acreage position to include further Kafr el Sheik targets. SDX is also looking to test oil potential at South Disouq through the four-way drip, 50mmbo unrisks Young prospect in 2019. In Morocco, SDX has an 87% appraisal/development well success rate based on calibrated 3D seismic and is looking to leverage this success targeting 20bcf of gross unrisks resource in 2019.

Netbacks and balance sheet remain robust

SDX remains fully funded for planned work programmes based on our current forecasts with US\$25m of cash at the half-year and an undrawn credit facility of US\$10m from the European Bank of Reconstruction and Development, retaining the financial flexibility to pursue bolt-on acquisitions or additional activity through licensing rounds. Netbacks at US\$32.9/boe were robust in H118, but we expect them to fall to US\$19.4/boe in FY19 as higher volume/lower margin gas production from South Disouq comes on stream.

Valuation: No material changes

Our updated RENAV is broadly unchanged at 92.7p/share (from 92.5p/share). Key changes include an update on South Disouq prospective resource, and slightly higher capex offset by an increase in our short-term oil price estimates for FY18 and FY19, which are based on the latest EIA projections.

30 August 2018

Price 60p

Market cap £123m

US\$/£0.73

Net cash (\$m) at 30 June 2018 25.2

Shares in issue 204.5m

Free float 86%

Code SDX

Primary exchange AIM

Secondary exchange TSX Venture

Share price performance



% 1m 3m 12m

Abs 4.2 (2.8) 32.6

Rel (local) 5.8 (2.1) 28.0

52-week high/low 73.0p 43.8p

Business description

SDX Energy is a North African E&P listed in London and Toronto. It has oil and gas production in Egypt and Moroccan gas production.

Next events

South Disouq 3D seismic acquisition Q418

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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Valuation update

Our updated valuation is based on a 100bcf gas development at South Disouq and drill-ready gas prospects targeting 235.5bcf of mean unrisks prospective resource, with four prospects in Kafr El Sheik (Salah, Kahraba, Samir and Mohsen) and two prospects in the Abu Madi. We also continue to include the Young oil prospect, drilling for which is planned in 2019. In Morocco, we include our estimates of current discovered resource (following the 2017/18 E&A programme – excluding Lalla Mimouna until the well is tested). We also include Lalla Mimouna discoveries and 12 planned 2019 appraisal/development wells in our core valuation, as risks are only around individual wells meeting the minimum threshold for commerciality – we include these at a 75% chance of success.

Key changes include an increase in drill-ready prospective resource at South Disouq, slightly higher capex estimated for South Disouq offset by an increase in our short-term oil price assumptions, which move to US\$71.7/bbl and US\$70.6/bbl for 2018 and 2019. Our long-term oil price assumption remains at US\$70.0/bbl Brent (2022). Our FX assumption has also changed slightly to US\$/£0.73, based on the average of the first six months of 2018.

As a result, we have slightly increased our RENAV from 92.5p/share to 92.7p/share (0.2%), with our core value standing at 78.8p/share. We note that our valuation has a significant core value component at 85% of our RENAV.

Exhibit 1: Changes to our valuation

	Old (p/share)	New (p/share)	Change (%)
Core NAV	79.8	78.8	-1.3
Development NAV	3.7	3.4	-9.9
Exploration risked upside	9.0	10.6	14.9
Group RENAV	92.5	92.7	0.2

Source: Edison Investment Research

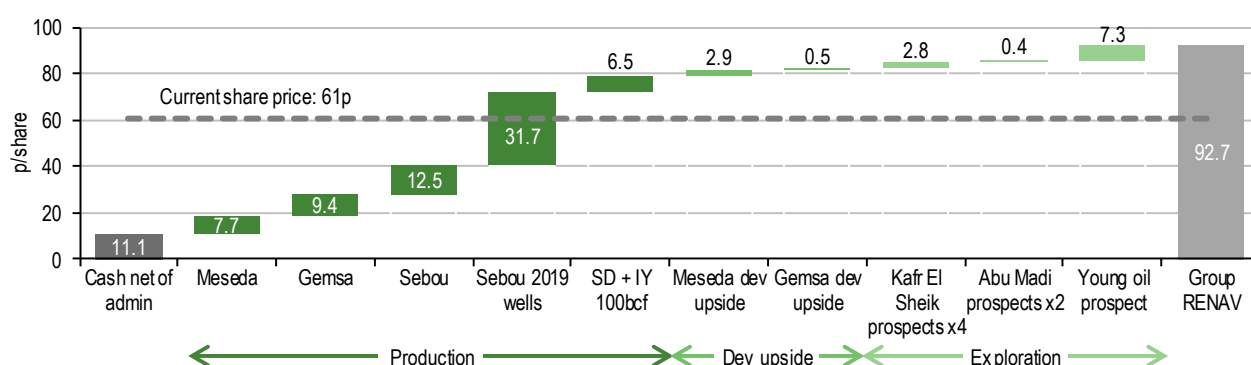
A full breakdown of our risked valuation is provided in the table below. We split our valuation between core value, which includes booked 2P reserves, recent discoveries and low-risk development upside in Morocco. We include risked development upside at Meseda and Gemsa and risked exploration potential at South Disouq in our risked exploration NAV (RENAV).

Exhibit 2: SDX Energy detailed valuation

Asset	Country	Diluted WI	CoS	Recoverable reserves			Net riskd value @12.5%			
				Gross	Net WI	Net	NPV	Absolute	GBp/ share	C\$/ share
		%	%	mmboe	mmboe	mmboe	\$/boe	\$m		
Net (debt)/cash – December 2017e		100%	100%					25.8	9.2	0.2
SG&A – NPV _{12.5} of 3 years		100%	100%					(12.5)	(4.4)	(0.1)
E&A expense for exploration prospects		100%	100%					(18.5)	(6.6)	(0.1)
NPV of net receivable recovery		100%	100%					19.9	7.1	0.1
Sebou pipeline residual value (50% cost)		100%	100%					16.4	5.8	0.1
Production										
Meseda Base + Workovers + Rabul	Egypt	50%	90%	9.8	4.9	1.9	4.9	21.7	7.7	0.1
Gemsa 2P	Egypt	50%	100%	4.5	2.3	2.3	11.7	26.4	9.4	0.2
Sebou 2P volume + discoveries to be booked	Morocco	75%	100%	1.2	0.9	0.9	38.7	35.1	12.5	0.2
Sebou 12-well 2019 programme	Morocco	75%	75%	5.3	4.0	4.0	29.6	89.0	31.7	0.6
South Disouq/Ibn Yunus	Egypt	55%	100%	17.6	9.7	9.7	1.9	18.2	6.5	0.1
Core NAV				38.5	21.8	18.7	8.8	221.5	78.8	1.4
Development upside										
Meseda Waterflood Upside	Egypt	50%	50%	6.3	3.1	1.2	5.1	8.0	2.9	0.1
Gemsa - Edison modelling on full field	Egypt	50%	75%	0.9	0.5	0.5	4.1	1.4	0.5	0.0
Exploration (known)										
Kafr el Sheik prospects x4	Egypt	55%	27%	33.6	18.5	18.5	1.6	8.0	2.8	0.1
Abu Madi prospect x2	Egypt	55%	23%	5.7	3.1	3.1	1.6	1.1	0.4	0.0
Young oil prospect	Egypt	55%	19%	50.0	27.5	27.5	4.0	20.6	7.3	0.1
Group RENAV				135.0	74.5	69.5		260.7	92.7	1.6

Source: Edison Investment Research; Note: Number of shares = 204.5m, FX = US\$/£0.73.

The waterfall diagram below shows our valuation relative to the current share price.

Exhibit 3: SDX Energy valuation waterfall


Source: Edison Investment Research

Exhibit 4: Financial summary

Accounts: IFRS, Year-end: December, US\$000s	2015	2016	2017	2018e	2019e	2020e
INCOME STATEMENT						
Total revenues	11,372	12,914	39,166	56,002	86,654	85,544
Cost of sales	(4,973)	(5,282)	(10,254)	(11,334)	(15,320)	(13,529)
Gross profit	6,399	7,632	28,912	44,667	71,334	72,015
SG&A (expenses)	(4,770)	(3,679)	(8,793)	(5,500)	(5,775)	(6,064)
Other income/(expense)	1,021	1,701	1,820	1,186	1,914	1,526
Exceptionals and adjustments	(7,676)	(29,089)	(725)	(9,500)	(1,000)	(1,000)
Depreciation and amortisation	(2,057)	(3,266)	(17,824)	(12,244)	(15,374)	(14,618)
Reported EBIT	(7,083)	(26,701)	3,390	18,609	51,099	51,860
Finance income/(expense)	(96)	4	(129)	0	0	0
Other income/(expense)	18,289	0	29,558	0	0	0
Exceptionals and adjustments	0	0	0	0	0	0
Reported PBT	11,110	(26,697)	32,819	18,609	51,099	51,860
Income tax expense (includes exceptionals)	(1,063)	(1,503)	(4,541)	(1,831)	(2,941)	(2,604)
Reported net income	10,047	(28,200)	28,278	16,778	48,158	49,255
Shares at end of period - basic	38	80	204	204	204	204
BALANCE SHEET						
Property, plant and equipment	18,401	12,605	54,445	76,210	92,386	90,600
Goodwill	0	0	0	0	0	0
Intangible assets	23,473	10,623	15,231	13,412	19,063	21,361
Other non-current assets	2,106	2,503	2,724	2,724	2,724	2,724
Total non-current assets	43,980	25,731	72,400	92,346	114,173	114,685
Cash and equivalents	8,170	4,725	25,844	28,655	56,517	109,188
Inventories	1,188	1,698	5,157	5,700	7,705	6,804
Trade and other receivables	6,678	9,463	37,656	28,242	22,594	18,075
Other current assets	0	0	0	0	0	0
Total current assets	16,036	15,886	68,657	62,597	86,815	134,067
Non-current loans and borrowings	0	0	0	0	0	0
Other non-current liabilities	286	290	4,506	4,506	4,506	4,506
Total non-current liabilities	286	290	4,506	4,506	4,506	4,506
Trade and other payables	3,556	3,674	19,459	15,567	12,454	9,963
Current loans and borrowings	0	0	0	0	0	0
Other current liabilities	928	389	2,473	2,473	2,473	2,473
Total current liabilities	4,484	4,063	21,932	18,040	14,927	12,436
Equity attributable to company	55,246	37,264	114,619	132,397	181,555	231,811
Non-controlling interest	0	0	0	0	0	0
CASH FLOW STATEMENT						
Profit before tax	11,110	(26,697)	32,819	18,609	51,099	51,860
Net finance expenses	0	0	0	0	0	0
Depreciation and amortisation	2,057	3,266	17,824	12,244	15,374	14,618
Share based payments	761	(47)	538	1,000	1,000	1,000
Other adjustments	(12,281)	25,742	(34,613)	7,314	(1,914)	(1,526)
Movements in working capital	(2,183)	(3,440)	5,412	4,979	530	2,929
Interest paid/received	0	0	0	0	0	0
Income taxes paid	(4,678)	(766)	(364)	(1,831)	(2,941)	(2,604)
Cash from operations (CFO)	(5,214)	(1,942)	21,616	42,315	63,148	66,276
Capex	(5,120)	(11,890)	(24,917)	(40,691)	(37,200)	(15,131)
Acquisitions & disposals net	0	0	(24,948)	0	0	0
Other investing activities	4,836	825	760	1,186	1,914	1,526
Cash used in investing activities (CFIA)	(12,524)	(284)	(11,065)	(49,105)	(39,504)	(35,286)
Net proceeds from issue of shares	0	10,127	48,510	0	0	0
Movements in debt	(3,702)	(96)	(43)	0	0	0
Other financing activities	0	0	0	0	0	0
Cash from financing activities (CFF)	(3,702)	10,031	48,467	0	0	0
Increase/(decrease) in cash and equivalents	(9,200)	(2,976)	20,978	2,811	27,862	52,672
Currency translation differences and other	(565)	(469)	141	0	0	0
Cash and equivalents at start of period	17,935	8,170	4,725	25,844	28,655	56,517
Net (debt)/cash end of period	8,170	4,725	25,844	28,655	56,517	109,188
Movement in net (debt)/cash over period	(7,558)	(3,445)	21,119	2,811	27,862	52,672

Source: Company accounts, Edison Investment Research

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