Diversified Gas & Oil PLC

United States / Energy
London Stock Exchange
Bloomberg: DGOC LN
ISIN: GB00BYX7JT74

Update

RATING	**BUY**
PRICE TARGET	**GBp 150.00**
Return Potential	35.9%
Risk Rating	Medium

WHICH ONE IS WRONG: THE FUTURES CURVE OR THE DGOC SHARE PRICE?

Following the H1 results we have reworked our dividend discount valuation of the DGOC share to reflect both a higher Q2 dividend of USD0.0375 (FBe: USD0.035) than we had forecast, and rising gas futures prices since our end-June initiating coverage study. Based on a futures curve which slopes upward for the remainder of this decade and DGOC's existing hedge portfolio, we expect the natural gas prices realised by the company over the next five years (after the impact of cash-settled derivatives) to be stable in the range USD2.34/mcf to USD2.57/mcf. This compares with our 2020 forecast of USD2.30/mcf. Fully loaded H1/20 cash costs (after operating expenses, capex, well retirement costs and cash interest) were USD1.36/mcf. This indicates a free cashflow margin on sales of at least 42%-47% (economies of scale are likely to push unit costs lower as the company expands) during the next five years. DGOC should thus have plenty of firepower to keep making the regular acquisitions through which it has secured over 95% of its current production since early 2017. DGOC's target is that not less than ca. 40% of adjusted free cashflow, defined as adjusted EBITDA (hedged) less maintenance capex, interest expense and well retirement costs, should be paid out as dividends. On our forecasts the payout ratio on this basis at the current dividend level will be 43% this year and 44% in 2021, and so we think the current dividend is sustainable. The combination of a dividend yield above 10% and strong and stable cash generation reinforces our view that the share is substantially undervalued. Moreover, the current market cap. warrants DGOC's inclusion in the FTSE 250 Index. New index members will be announced after the market close on 2 September with effect from 21 September. Our recommendation is Buy with a price target of GBP1.50 (previously: GBP1.30).

H1/20 profits up despite commodity price weakness DGOC succeeded in raising its headline profit figure - adjusted EBITDA (hedged) – by 11% to USD146.3m in H1/20 despite a 40% decline in average realised commodity prices (excluding the impact of cash-settled derivatives). (p.t.o.)

FINANCIAL HISTORY & PROJECTIONS

	2016	2017	2018	2019	2020E	2021E
Revenue (unhedged) ($ m)	17.09	41.78	289.77	462.26	445.93	633.80
Y-o-y growth	171.1%	144.5%	593.6%	59.5%	-3.5%	42.1%
Adj. EBITDA (hedged)* ($m)	4.30	17.51	146.22	273.27	303.18	304.26
Adj. EBITDA margin	25.1%	41.9%	50.5%	59.1%	68.0%	48.0%
Net income ($ m)	17.68	27.45	201.12	99.40	317.81	171.01
EPS (diluted) ($)	0.42	0.23	0.52	0.15	0.46	0.24
DPS (US cents)	1.99	5.44	11.23	13.92	14.75	15.00
FCF ($m)	4.27	3.83	66.88	244.30	207.12	223.64
Net gearing	429.9%	53.7%	66.0%	67.7%	59.6%	48.6%
Liquid assets ($ m)	0.22	15.17	1.37	1.66	27.71	33.09

* excludes non-recurring items, non-cash equity compensation, includes hedge portfolio gains/losses

RISKS

Acquisitions are a vital part of DGOC's strategy for protecting and growing its cashflow. There can be no guarantee that the group will be able to continue to source acquisitions at attractive valuations.

COMPANY PROFILE

Diversified Gas & Oil PLC is an established, independent owner and operator of producing natural gas & oil wells concentrated in the Appalachian Basin in the United States. Natural gas accounted for 90% of 2019 production by volume. Field operations are densely located throughout the adjacent states of Tennessee, Kentucky, Virginia, West Virginia, Ohio, and Pennsylvania.

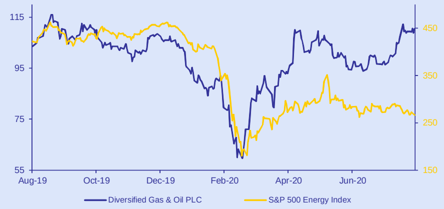
MARKET DATA

As of 28 Aug 2020

Closing Price	GBp 110.40
Shares outstanding	707.27m
Market Capitalisation	GBP 780.8m
52-week Range	GBp 59.60 / 116.00
Avg. Volume (12 Months)	1,425,381

Multiples	2019	2020E	2021E
P/E	9.6	3.2	6.1
EV/Sales	3.8	4.0	2.8
EV/EBIT	6.5	5.8	5.8
Div. Yield	9.4%	10.0%	10.1%

STOCK OVERVIEW



COMPANY DATA

As of 30 Jun 2020

Liquid Assets	$ 6.72m
Current Assets	$ 153.30m
Intangible Assets	$ 0.00m
Total Assets	$ 2,288.99m
Current Liabilities	$ 176.34m
Shareholders' Equity	$ 976.81m

SHAREHOLDERS

Sand Grove Capital Management LLP	8.9%
HSBC Bank PLC	7.6%
Pelham Capital Ltd.	5.7%
Caius Capital LLP	4.8%
Free float and other	73.0%

Analyst: Simon Scholes, Tel. 49 30 80 93 96 94

This feat was made possible by an acquisition-led 26% increase in volume vs. H1/19, stable output for the eighth quarter in a row at the group's legacy assets (70% of H1/20 volume) and a 15% decline in recurring unit costs. In addition, the company booked a USD84m gain on cash-settled derivatives.

Figure 1: H1/20 results vs. our forecasts

USD 000s	H1 20A	H1 20 FBe	% Δ	H1 19A	% Δ
mBOE	**17,317**	**16,398**	**5.6%**	**13,701**	**26.4%**
BOE/day	95,148	90,099	5.6%	75,696	25.7%
Total commodity revenue	170,832	150,713	13.3%	223,297	-23.5%
Other/midstream revenue	14,046	13,700	2.5%	14,161	-0.8%
Total revenue (unhedged)	**184,878**	**164,413**	**12.4%**	**237,458**	**-22.1%**
Total recurring expenses	**122,080**	**119,373**	**2.3%**	**113,599**	**7.5%**
Adjusted EBITDA (unhedged)	**62,798**	**45,040**	**39.4%**	**123,859**	**-49.3%**
Settled hedges	**83,506**	**95,362**	**-12.4%**	**7,422**	**1025.1%**
Adjusted EBITDA (hedged)	**146,304**	**140,401**	**4.2%**	**131,281**	**11.4%**
per BOE (USD)					
Total commodity revenue	9.86	9.19	7.3%	16.30	-39.5%
Other/midstream revenue	0.81	0.84	-2.9%	1.03	-21.5%
Total revenue (unhedged)	10.68	10.03	6.5%	17.33	-38.4%
Total recurring expenses	**7.05**	**7.28**	**-3.2%**	**8.29**	**-15.0%**
of which:					
Base LOE	2.50	2.67	-6.4%	3.78	-33.9%
Gathering and compression, owned	1.41	1.54	-8.4%	1.50	-6.0%
Gathering and transportation, 3rd party	1.35	1.46	-7.5%	1.13	19.5%
Production taxes	0.45	0.45	0.0%	0.53	-15.1%
Recurring admin. expenses	1.34	1.16	15.5%	1.35	-0.7%
Adjusted EBITDA (unhedged)	3.63	2.75	32.0%	9.04	-59.9%
Settled hedges	4.82	5.82	-17.1%	0.54	790.2%
Adjusted EBITDA (hedged)	8.45	8.56	-1.3%	9.58	-11.8%

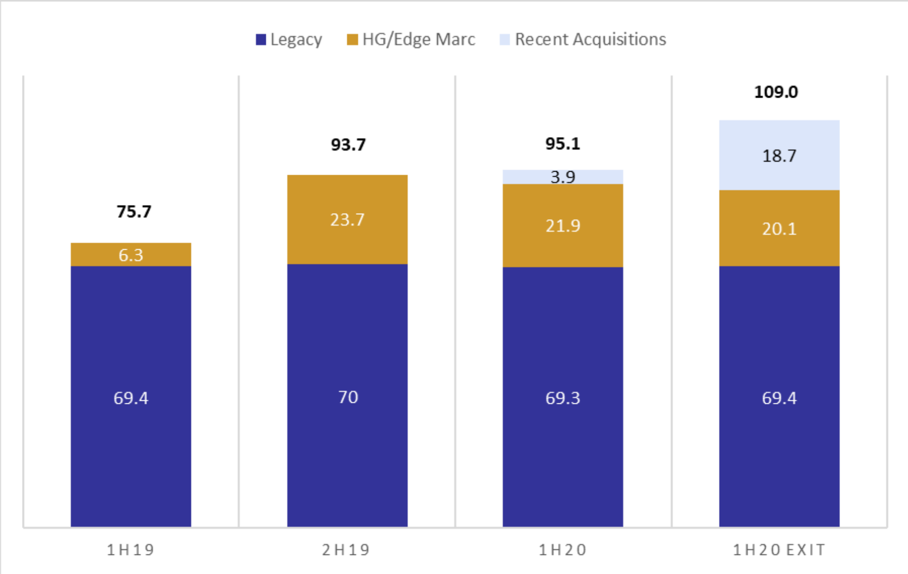
Source: DGOC, First Berlin Equity Research estimates

H1/20 realised gas price (before impact of cash-settled derivatives) down 37% y-o-y Natural gas accounted for 90% of volume in H1/20 (H1/19: 89%). Average realised price per BOE (excluding the impact of derivatives settled in cash) at USD9.86 in H1/20 was 40% below the H1/19 level of USD16.30. This decline was led by a 37% drop in the natural gas price, which weakened due to a warm winter, a surge in 2019 dry gas production and SARS-CoV-2 related demand destruction.

26% y-o-y volume rise attributable to acquisitions and stable output at legacy wells The 26% increase in volume to 95,148 Boed (barrels of oil equivalent/day) stemmed from the acquisitions shown in figure 2 overleaf as well as a stable contribution from the group's legacy assets. HG Energy was acquired in April 2019, EdgeMarc in September 2019 and assets from Carbon Energy and EQT (the recent acquisitions in figure 2) in May 2020. By legacy assets, DGOC means the predominantly conventional wells acquired before 2019. The "natural" rate of decline in production for conventional wells is 5% p.a. Q2/20 was the eighth quarter in a row in which DGOC succeeded in maintaining stable output at its legacy wells. DGOC has achieved this through implementing its Smarter Well Management programme (as described in our initiating coverage note of 30 June).

H1/20 recurring unit costs down 15% y-o-y Recurring unit costs fell 15.0% to USD7.05/BOE (H1/19: USD8.29/BOE) due to cost control and economies of scale. Only one cost item - gathering and transportation, 3rd party - rose on a per unit basis. This was a consequence of the acquisitions of HG Energy and EdgeMarc. The proportion of output at these acquisitions whose output is transported through third party infrastructure is higher than the average figure for the rest of the company. However, there is a close link between volume and costs, and so declining production at these assets will result in lower costs.

Figure 2: H1/20 net production (mBoepd)



Source: DGOC

Settled hedges accounted for 57% of adjusted EBITDA (hedged) in H1/20 We estimate that 80-85% of H1/20 natural gas production of 94,093 MMcf was hedged at ca. USD2.70/MMBtu. With contract prices at around the USD1.80 level during H1/20, gains on natural gas derivative settlements were USD63m. This figure accounted for 76% of total H1/20 gains of USD84m on settled commodity derivative settlements which in turn accounted for 57% of adjusted EBITDA (hedged).

We forecast stable realised gas prices during 2021-2025 Figure 3 below shows our forecasts for natural gas prices realised by DGOC based on the current futures curve and the company's existing financial hedge book (see figure 4 overleaf). We expect the natural gas prices realised by the company over the next five years (after the impact of cash-settled derivatives) to be stable in the range USD2.34/mcf to USD2.57/mcf. This compares with our 2020 forecast of USD2.30/mcf.

Figure 3: Unhedged and hedged natural gas prices realised by DGOC 2020A-2025E

	2020E	2021E	2022E	2023E	2024E	2025E
Natural gas production (Mcf/day)	547,805	556,909	528,040	499,116	469,224	441,786
MMBTU/Mcf conversion ratio (x)	1.124	1.120	1.120	1.120	1.121	1.121
MMBTU/day	615,928	623,667	591,486	559,199	525,782	495,104
Average Henry Hub/NYMEX futures price (USD/MMBtu)	2.13	2.91	2.65	2.53	2.54	2.56
Blended natural gas price including physical contracts (USD/MMBtu)	**2.14**	**2.91**	**2.65**	**2.53**	**2.54**	**2.56**
Basis adjustment (USD)	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40
Contractual differential (USD)	-0.10	0.00	0.00	0.00	0.00	0.00
Realised price/MMBtu (USD)	1.64	2.51	2.25	2.13	2.14	2.16
Realised price/Mcf (excluding impact of cash-settled derivatives, USD)	**1.84**	**2.81**	**2.52**	**2.39**	**2.40**	**2.42**
Average natural gas financial hedge price/MMBtu (USD)	2.69	2.62	2.51	2.44	2.42	2.39
% volume hedged	70.9%	70.2%	47.1%	43.6%	42.5%	36.4%
Hedge price - futures price/MMBtu (USD)	0.56	-0.29	-0.14	-0.09	-0.12	-0.17
Realised price/Mcf (including impact of cash-settled derivatives, USD)	**2.30**	**2.57**	**2.44**	**2.34**	**2.35**	**2.35**
Realised price/Mcf (including impact of cash-settled derivatives, USD) ∆ vs. 2020E	**0.0%**	**11.7%**	**5.8%**	**1.7%**	**1.9%**	**2.0%**

Source: DGOC, First Berlin Equity Research estimates

Figure 4: DGOC natural gas financial hedges 2020-2025

	Weighted av. hedge price (USD)	Average hedged gas vol. (MMBtu/day)	Total gas vol. (MMBtu/day)*	% hedged*
2020	2.69	436,747	615,928	70.9%
2021	2.62	437,991	623,667	70.2%
2022	2.51	278,696	591,486	47.1%
2023	2.44	243,718	559,199	43.6%
2024	2.42	223,331	525,782	42.5%
2025	2.39	180,449	495,104	36.4%

*Source: DGOC, *First Berlin Equity Research estimates*

Forecast upgrades due mainly to higher expected natural gas prices We have increased our natural gas revenue forecasts for both 2020 and 2021 (see figure 5 below). For 2020, the increase reflects both a stronger than expected H1/20 result and an increase in natural gas futures prices since the publication of our initiating coverage study on 30 June. On the basis of the futures curve we now expect the natural gas price to average USD2.43/MMBtu during H2/20 (previously: USD1.90). For 2021 we model an average natural gas price of USD2.91 (previously: USD2.58). The increase in our natural gas price forecasts reduces gains on settled hedges in 2020 and 2021 by USD58m and USD56m respectively. However, the net impact on adjusted EBITDA (hedged) is positive, raising our 2020 forecast by 6% and our 2021 forecast by 5%.

Figure 5: Changes to our forecasts

USD 000s	2020E Old	2020E New	2020E % ∆	2021E Old	2021E New	2021E % ∆
MBOE	**35,897**	**36,746**	**2.4%**	**36,976**	**37,183**	**0.6%**
Total revenue (unhedged)	**367,110**	**445,932**	**21.5%**	**562,156**	**633,799**	**12.7%**
of which:						
Natural gas	324,676	392,985	21.0%	509,402	573,871	12.7%
NGLs	2,035	11,727	476.3%	3,980	12,295	208.9%
Oil	11,209	12,283	9.6%	12,274	11,249	-8.4%
Total commodity revenue	337,920	416,995	23.4%	525,655	597,415	13.7%
Midstream revenue	27,190	27,873	2.5%	34,101	34,784	2.0%
Other	2,000	1,063	-46.9%	2,400	1,600	-33.3%
Base lease operating expenses	91,921	94,856	3.2%	95,532	98,535	3.1%
Gathering and compression, owned	58,400	53,130	-9.0%	59,161	55,031	-7.0%
Gathering and transportation, 3rd party	52,409	53,571	2.2%	53,245	57,634	8.2%
Production taxes	16,520	18,427	11.5%	26,148	26,028	-0.5%
Recurring admin. expenses	45,091	47,129	4.5%	49,178	48,000	-2.4%
Total recurring expenses	**264,341**	**267,113**	**1.0%**	**283,264**	**285,229**	**0.7%**
Adjusted EBITDA (unhedged)	**102,768**	**178,818**	**74.0%**	**278,891**	**348,570**	**25.0%**
Settled hedges	**182,217**	**124,362**	**-31.8%**	**11,364**	**-44,314**	**n.a.**
of which:						
Natural gas	141,577	92,002	-35.0%	5,873	-46,230	n.a.
NGLs	32,974	25,675	-22.1%	1,869	37	-98.0%
Oil	7,666	6,685	-12.8%	3,622	1,880	-48.1%
Adjusted EBITDA (hedged)	**284,986**	**303,180**	**6.4%**	**290,255**	**304,256**	**4.8%**
per BOE (USD)						
Revenue (unhedged)	**10.23**	**12.14**	**18.6%**	**15.20**	**17.05**	**12.1%**
Total recurring expenses	**7.36**	**7.27**	**-1.2%**	**7.66**	**7.67**	**0.1%**
of which:						
Base LOE	2.56	2.58	0.8%	2.58	2.65	2.7%
Gathering and compression, owned	1.63	1.45	-11.3%	1.60	1.48	-7.5%
Gathering and transportation, 3rd party	1.46	1.46	-0.1%	1.44	1.55	7.6%
Production taxes	0.46	0.50	9.0%	0.71	0.70	-1.4%
Recurring admin. expenses	1.26	1.28	1.8%	1.33	1.29	-2.9%
Adjusted EBITDA (unhedged)	**2.86**	**4.87**	**70.1%**	**7.54**	**9.37**	**24.3%**

Source: First Berlin Equity Research estimates

Our bargain purchase gain forecast is based on PV10; a different interest rate may be used Our 2020 P&L forecast includes a USD139m gain on bargain purchase in connection with the May acquisition of assets from Carbon Energy and EQT. The USD139m is based on the USD374m PV10 number for these assets less the purchase consideration of USD235m. However, as of the H1/20 results, the company was still awaiting the completion of third party fair valuation of the acquired assets – which will in turn determine the amount of any potential gain. We note that discount rates in the range 8.0% to 10.5% were used to value the six acquisitions of gas and oil reserves made by the company in 2018 and 2019. So depending on the discount rate used, the outcome of the valuation process could deviate significantly from our estimate.

VALUATION MODEL

DGOC's target is that not less than ca. 40% of adjusted free cashflow, defined as adjusted EBITDA (hedged) less maintenance capex, interest expense and well retirement costs, should be paid out as dividends. On our forecasts the payout ratio on this basis at the current dividend level will be 43% this year and 44% in 2021, and so close to this target.

Figure 6: Dividend payout and return on capital employed

USD 000s	2018A	2019A	H1 20A	2020E	2021E
Adjusted EBITDA (hedged)	146,217	273,266	146,304	303,180	304,256
Expenditures on oil and gas properties	-18,515	-32,313	-11,775	-24,000	-24,000
Finance expense (interest)	-15,433	-32,715	-17,683	-35,398	-34,748
Asset retirement (plugging)	-1,171	-2,541	-1,201	-3,100	-3,137
Free cashflow (adjusted)	111,098	205,697	115,645	240,682	242,372
Net fixed assets	1,420,700	1,832,751	2,052,339	2,086,591	1,981,068
Net working capital	9,449	-18,361	-36,309	-6,462	-5,867
Total capital employed	1,430,149	1,814,390	2,016,030	2,080,129	1,975,201
Average capital employed	825,189	1,622,270	1,915,210	1,947,259	2,027,665
Free cashflow (adjusted) ROCE	13.5%	12.7%	12.1%	12.4%	12.0%
Dividends paid and declared	52,566	86,605	49,496	102,537	106,083
as % free cashflow (adjusted)	47.3%	42.1%	42.8%	42.6%	43.8%
Dividends paid and declared per share (USD)	0.1128	0.1382	0.0700	0.1450	0.1500
Dividends declared per share (USD)	0.1123	0.1392	0.7250	0.1475	0.1500

Source: First Berlin Equity Research estimates

We have updated our dividend discount valuation of DGOC which is based on the formula:
$p^0 = d^1/(r-g)$ where:

p^0 is our assessment of the fair value of the DGOC share today
d^1 is the value of dividends over the next year
r is the required rate of return
g is the expected long term organic growth rate

Price target raised from GBP1.30 to GBP1.50. Buy recommendation maintained We derive g from ROCE adjusted for the production decline rate and payout ratio. Following the publication of the H1/20 results, we now estimate average ROCE for 2020 and 2021 at 12.2% (previously: 10.5%).The change relates to the upward revision in our profit forecasts and a change to our calculation of net working capital which now no longer includes derivative financial instruments. Our estimates of the rate of production decline and r are unchanged at 5.9% and 11% respectively. Adjusting our return on capital employed figure of 12.2% by 5.9% to reflect declining production produces a return of 5.6%.

If we then reduce this number by 40% to reflect the dividend payout, we arrive at a sustainable growth rate in free cashflow (adjusted) of 3.3%. Plugging our estimates for d[1] (USD0.15), r (11.0%) and g (3.3%) into the formula above produces a valuation (see figures 7 and 8 below) for the DGOC share of GBP1.46 (previously: GBP1.32). Our recommendation remains Buy with a price target of GBP1.50 (previously: GBP1.30).

Figure 7: Sensitivity of valuation to growth rates and return requirements (GBP)

growth rate \ return requirement	8.0%	9.0%	10.0%	11.0%	12.0%	13.0%	14.0%
1.3%	1.68	1.46	1.29	1.16	1.05	0.96	0.88
2.3%	1.98	1.68	1.46	1.29	1.16	1.05	0.96
3.3%	2.40	1.98	1.68	**1.46**	1.29	1.16	1.05
4.3%	3.06	2.40	1.98	1.68	1.46	1.29	1.16
5.3%	4.22	3.06	2.40	1.98	1.68	1.46	1.29
6.3%	6.77	4.22	3.06	2.40	1.98	1.68	1.46

Source: First Berlin Equity Research

Figure 8: Sensitivity of valuation to growth rates and return requirements (USD)

growth rate \ return requirement	8.0%	9.0%	10.0%	11.0%	12.0%	13.0%	14.0%
1.3%	2.26	1.96	1.73	1.55	1.41	1.29	1.19
2.3%	2.65	2.26	1.96	1.73	1.55	1.41	1.29
3.3%	3.22	2.65	2.26	**1.96**	1.73	1.55	1.41
4.3%	4.11	3.22	2.65	2.26	1.96	1.73	1.55
5.3%	5.66	4.11	3.22	2.65	2.26	1.96	1.73
6.3%	9.08	5.66	4.11	3.22	2.65	2.26	1.96

Source: First Berlin Equity Research

INCOME STATEMENT

All figures in USD '000	2016A	2017A	2018A	2019A	2020E	2021E
Revenues	**17,088**	**41,777**	**289,769**	**462,256**	**445,932**	**633,799**
Operating expense	-11,303	-20,908	-107,793	-202,385	-219,984	-237,229
Depreciation and depletion	-4,039	-7,536	-41,988	-98,139	-119,160	-129,523
Gross profit	**1,746**	**13,333**	**139,988**	**161,732**	**106,787**	**267,047**
Administrative expenses	-2,813	-8,919	-40,524	-56,619	-65,696	-63,000
Gain on oil/gas programme and equipment	34	95	4,079	0	0	0
Gain (loss) on derivative financial instruments	-810	-441	17,981	73,854	124,362	-44,314
Gain on bargain purchase	24,293	37,093	173,473	1,540	139,000	0
Operating income (EBIT)	**22,450**	**41,161**	**294,997**	**180,507**	**304,453**	**159,734**
Finance costs	-3,291	-5,225	-17,743	-36,667	-35,398	-34,748
Loss on early retirement of debt	14,149	-4,468	-8,358	0	0	0
Accretion of asset retirement obligation	-797	-1,764	-7,101	-12,349	-17,128	-19,988
Income before taxation	**32,511**	**29,704**	**261,795**	**131,491**	**251,927**	**104,998**
Taxation on income	-14,829	-2,250	-60,676	-32,091	65,888	66,010
Net income / loss	**17,682**	**27,454**	**201,119**	**99,400**	**317,815**	**171,008**
Diluted EPS (in USD)	**0.42**	**0.23**	**0.52**	**0.15**	**0.46**	**0.24**
Adusted EBITDA (hedged)*	**4,297**	**17,514**	**146,217**	**273,266**	**303,180**	**304,256**
Ratios						
Gross margin	10.2%	31.9%	48.3%	35.0%	23.9%	42.1%
Adjusted EBITDA margin (hedged)	25.1%	41.9%	50.5%	59.1%	68.0%	48.0%
Net margin	103.5%	65.7%	69.4%	21.5%	71.3%	27.0%
Tax rate	45.6%	7.6%	23.2%	24.4%	-26.2%	-62.9%
Expenses as % of revenues						
Operating expense	66.1%	50.0%	37.2%	43.8%	49.3%	37.4%
Depreciation and depletion	23.6%	18.0%	14.5%	21.2%	26.7%	20.4%
Administrative expenses	16.5%	21.3%	14.0%	12.2%	14.7%	9.9%
Y-Y Growth						
Revenues	171.1%	144.5%	593.6%	59.5%	-3.5%	42.1%
Adjusted EBITDA (hedged)	65.8%	307.6%	734.9%	86.9%	10.9%	0.4%
Net income/ loss	n.a.	55.3%	632.6%	-50.6%	219.7%	-46.2%

** adjusted for non-recurring items such as gain on the sale of assets, acquisition-related expenses and integration costs, mark-to-market adjustments related to the company's hedge portfolio, non-cash equity compensation charges and items of a similar nature.*

BALANCE SHEET

All figures in USD '000	2016A	2017A	2018A	2019A	2020E	2021E
Assets						
Current assets, total	**4,619**	**30,342**	**111,596**	**160,360**	**187,683**	**199,526**
Cash and cash equivalents	224	15,168	1,372	1,661	27,713	33,092
Restricted cash	0	744	1,730	1,207	2,064	2,934
Receivables	3,084	13,917	78,451	73,924	92,405	93,000
Derivative financial instruments	0	0	17,573	73,705	55,000	60,000
Other current assets	1,311	513	12,470	9,863	10,500	10,500
Non-current assets, total	**81,256**	**223,308**	**1,445,376**	**1,845,580**	**2,103,359**	**2,000,574**
Oil and gas properties, net	76,793	215,325	1,092,951	1,490,905	1,742,595	1,644,129
Property, plant & equipment, net	3,348	6,947	327,749	341,846	343,995	336,939
Restricted cash	117	0	0	6,505	7,135	8,873
Indemnification receivable		0	2,133	2,133	2,133	2,133
Derivative financial instruments	0	0	21,745	3,803	4,000	5,000
Other non-current assets	998	1,036	798	388	3,500	3,500
Total assets	**85,875**	**253,650**	**1,556,972**	**2,005,940**	**2,291,041**	**2,200,101**
Shareholders' equity & debt						
Current liabilities, total	**38,499**	**15,346**	**84,471**	**126,855**	**168,009**	**170,255**
Short-term debt	27,181	373	286	23,723	57,213	58,413
Accounts payable	4,627	2,132	9,383	17,053	15,000	15,000
Capital lease	169	324	842	798	1,296	1,842
Derivative financial instruments	939	961	0	0	4,500	5,000
Other current liabilities	5,583	11,556	73,960	85,281	90,000	90,000
Long-term liabilities, total	**38,214**	**130,066**	**723,638**	**940,950**	**1,007,753**	**908,351**
Long-term debt	10,113	70,619	482,528	598,778	621,538	505,338
Capital lease	274	836	2,694	1,015	4,146	5,892
Asset retirement obligation	12,265	35,448	140,190	196,871	229,748	266,746
Deferred tax liability	15,148	17,399	95,033	124,112	90,188	58,241
Uncertain tax position	0	0	2,133	2,133	2,133	2,133
Derivative financial instruments	0	1,943	0	15,706	50,000	60,000
Other non-current liabilities	414	3,821	1,060	2,335	10,000	10,000
Shareholders' equity	**9,162**	**108,238**	**748,863**	**938,135**	**1,115,279**	**1,121,495**
Total consolidated equity and debt	**85,875**	**253,650**	**1,556,972**	**2,005,940**	**2,291,041**	**2,200,101**
Ratios						
Current ratio (x)	0.12	1.98	1.32	1.26	1.12	1.17
Quick ratio (x)	0.12	1.98	1.32	1.26	1.12	1.17
Net debt	39,387	58,162	493,998	635,039	665,237	544,858
Net gearing	429.9%	53.7%	66.0%	67.7%	59.6%	48.6%
Book value per share (in GBp)	0.17	0.55	1.08	1.09	1.27	1.27
Return on equity (ROE)	n.a.	46.8%	46.9%	11.8%	31.0%	15.3%

CASH FLOW STATEMENT

All figures in USD '000	2016A	2017A	2018A	2019A	2020E	2021E
Net profit	**17,682**	**27,454**	**201,119**	**99,400**	**317,815**	**171,008**
Depreciation and depletion	4,039	7,536	41,988	98,139	119,160	129,523
Accretion of asset retirement obligation	797	1,764	7,101	12,349	17,128	19,988
Deferred income taxes	14,829	2,250	60,676	32,091	-65,888	-66,010
(Gain)/loss on derivative financial instruments	957	1,965	-32,768	-20,270	0	0
Asset retirement, plugging	0	-78	-1,171	-2,541	-3,100	-3,137
Gain on oil/gas programme and equipment	-84	-396	-4,079	0	0	0
Gain on bargain purchase	-24,293	-37,093	-173,473	-1,540	-139,000	0
Finance costs	3,291	4,510	17,743	36,677	0	0
Cancellation/retirement of debt	-14,149	0	8,358	0	0	0
Changes in working capital	1,754	-1,854	-39,713	21,786	-11,899	-595
Non cash equity compensation	340	59	783	3,065	0	0
Other adjustments	-34	727	0	0	0	0
Operating cash flow	**5,129**	**6,844**	**86,564**	**279,156**	**234,216**	**250,777**
Oil and gas properties and equipment	-862	-2,935	-18,515	-32,313	-24,000	-24,000
Free cash flow	**4,267**	**3,831**	**66,878**	**244,302**	**207,116**	**223,640**
Acquisitions	-8,438	-89,785	-750,256	-439,272	-210,000	0
Increase in restricted cash	-2	-627	-986	-5,302	-1,487	-2,608
Proceeds on disposal of oil/gas properties	93	334	4,079	10,000	0	0
Investment cash flow	**-9,209**	**-93,013**	**-765,678**	**-466,887**	**-235,487**	**-26,608**
Repayment of borrowings	-6,794	-42,514	-280,890	-618,010	-297,000	-115,000
Proceeds of borrowings	14,915	75,000	581,221	765,236	353,250	0
Financing expense	-3,222	-3,298	-15,433	-32,715	0	0
Cost incurred to secure financing	0	0	-17,176	-11,574	0	0
Proceeds from capital lease	435	1,246	4,401	0	3,629	2,293
Repayment of capital lease	-164	-529	-1,093	-1,724	0	0
Proceeds from equity issuance, net	0	76,984	425,601	221,860	81,594	0
Dividends to shareholders	-956	-5,776	-31,313	-82,151	-98,515	-106,083
Repurchase of shares	0	0	0	-52,902	-15,634	0
Financing cash flow	**4,214**	**101,113**	**665,318**	**188,020**	**27,324**	**-218,790**
Other	**0**	**0**	**0**		**0**	**0**
Net cash flows	**134**	**14,944**	**-13,796**	**289**	**26,052**	**5,379**
Cash, start of the year	90	224	15,168	1,372	1,661	27,713
Cash, end of the year	**224**	**15,168**	**1,372**	**1,661**	**27,713**	**33,092**

Y-Y Growth						
Operating cash flow	n.a.	33.4%	1164.8%	222.5%	-16.1%	7.1%
Free cash flow	n.a.	89.8%	1745.7%	365.3%	84.8%	108.0%
EBITDA/share	n.a.	n.a.	159.5%	12.6%	3.7%	-2.6%

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Category		1	2
Current market capitalisation (in €)		0 - 2 billion	> 2 billion
Strong Buy[1]	An expected favourable price trend of:	> 50%	> 30%
Buy	An expected favourable price trend of:	> 25%	> 15%
Add	An expected favourable price trend of:	0% to 25%	0% to 15%
Reduce	An expected negative price trend of:	0% to -15%	0% to -10%
Sell	An expected negative price trend of:	< -15%	< -10%

[1] The expected price trend is in combination with sizable confidence in the quality and forecast security of management.

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Report No.:	Date of publication	Previous day closing price	Recommendation	Price target
Initial Report	30 June 2020	GBp94.4	Buy	GBp130.00
2	Today	GBp110.40	Buy	GBp150.00

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