

Diversified Gas & Oil PLC

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

Q3 trading update

RATING
PRICE TARGET
 Return Potential
 Risk Rating

BUY
GBp 160.00
 42.6%
 Medium

RAISING PRICE TARGET ON DIVIDEND HIKE

Adjusted Q3/20 EBITDA was 3.8% above our forecast and DGOC announced a dividend of USD0.04 (FBe: USD0.0375) putting the share on an annualised yield of 10.9%. This USD0.04 dividend announcement follows the USD0.035 paid out for Q1/20 and the USD0.0375 announced for Q2/20. The 14.3% increase in the Q3/20 vs. the Q1/20 dividend largely reflects the 21% increase in volume from the May acquisition of assets from Carbon Energy and EQT adjusted for the 10% dilution caused by the accompanying share issue. This means that cashflow upside from future acquisitions/the current upward trend in the gas price will be available to finance further dividend increases. 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 44% this year and 48% in 2021. We estimate hedged revenue and fully loaded cost per mcf equivalent (mcf) at USD2.54 and USD1.43 respectively after nine months implying a fully loaded cash margin of 44%. On the basis of DGOC's current hedge book and the futures curve, we estimate hedged revenue per mcf will average USD2.44 over the next five years. Meanwhile fully loaded costs are likely to fall in the medium term as DGOC realises economies of scale. This suggests that the fully loaded cash margin is likely to remain above 40% thereby providing a strong base for future acquisitions and dividend increases. The strategic participation agreement with Oaktree announced in October will make it easier for DGOC to add further value through acquisitions. The Oaktree deal also validates DGOC's operational prowess. We note that production from DGOC's legacy wells (wells acquired before end 2018 which account for around two thirds of total output) was stable for the ninth quarter in a row in Q3/20. The natural annual rate of decline in production of these wells is ca. 5%. The rise in the dividend causes us to raise our price target to GBp160 (previously: GBp150). Our recommendation remains Buy.

FINANCIAL HISTORY & PROJECTIONS

| | 2016 | 2017 | 2018 | 2019 | 2020E | 2021E |
|-----------------------------|--------|--------|--------|--------|--------|--------|
| Revenue (unhedged) (\$ m) | 17.09 | 41.78 | 289.77 | 462.26 | 429.40 | 655.71 |
| Y-o-y growth | 171.1% | 144.5% | 593.6% | 59.5% | -7.1% | 52.7% |
| Adj. EBITDA (hedged)* (\$m) | 4.30 | 17.51 | 146.22 | 273.27 | 295.01 | 295.74 |
| Adj. EBITDA margin (hedged) | 24.9% | 40.4% | 53.3% | 53.4% | 82.7% | 47.1% |
| Net income (\$ m) | 17.68 | 27.45 | 201.12 | 99.40 | 310.50 | 161.78 |
| EPS (diluted) (\$) | 0.42 | 0.23 | 0.52 | 0.15 | 0.45 | 0.23 |
| DPS (US cents) | 1.99 | 5.44 | 11.23 | 13.92 | 15.25 | 16.00 |
| FCF (\$m) | 4.27 | 3.83 | 66.88 | 244.30 | 201.94 | 218.14 |
| Net gearing | 429.9% | 53.7% | 66.0% | 67.7% | 60.2% | 51.6% |
| Liquid assets (\$ m) | 0.22 | 15.17 | 1.37 | 1.66 | 22.68 | 15.20 |

* 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 05 Nov 2020

Closing Price GBp 112.20
 Shares outstanding 707.38m
 Market Capitalisation GBP 793.68m
 52-week Range GBp 59.60 / 115.00
 Avg. Volume (12 Months) 1,842,184

| Multiples | 2019 | 2020E | 2021E |
|------------|------|-------|-------|
| P/E | 9.6 | 3.3 | 6.5 |
| EV/Sales | 3.8 | 4.1 | 2.7 |
| EV/EBIT | 6.5 | 6.0 | 6.0 |
| Div. Yield | 9.5% | 10.4% | 10.9% |

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

Standard Life Aberdeen PLC 7.0%
 AXA SA 5.3%
 Banco Santander 4.1%
 Pelham Capital LLP 4.1%
 Free float and other 79.7%

**Figure 1: Q3/20 results versus our forecasts**

| USD 000s | Q3/20A | Q3/20E | Δ % | Q3/19A | Δ % |
|----------------------------------|---------------|---------------|-------------|---------------|--------------|
| Total revenue (unhedged) | 105,032 | 103,886 | 1.1% | 101,875 | 3.1% |
| MBOE | 9,798 | 9,749 | 0.5% | 8,379 | 16.9% |
| Revenue (unhedged per mcfe) | 1.79 | 1.78 | 0.6% | 2.03 | -11.8% |
| Op. exp. + adjusted G&A | 69,631 | 71,707 | -2.9% | 62,030 | 12.3% |
| Op. exp. + adjusted G&A per mcfe | 1.18 | 1.23 | -3.5% | 1.23 | -4.1% |
| Adjusted EBITDA (unhedged) | 35,401 | 32,179 | 10.0% | 39,845 | -11.2% |
| margin (%) | 34% | 31% | - | 39% | - |
| Gain/loss on settled derivatives | 39,599 | 40,104 | -1.3% | 23,999 | 65.0% |
| Adjusted EBITDA (hedged) | 75,000 | 72,283 | 3.8% | 63,847 | 17.5% |
| margin (%) | 52% | 50% | - | 51% | - |

Source: DGOC, First Berlin Equity research estimates

Adjusted EBITDA (hedged) 3.8% above our forecast Q3/20 adjusted EBITDA (hedged) came in at USD75.0m (FBe: USD72.3m; Q3/20: USD63.8m) and was 3.8% above our forecast. The company did not report revenue but on the basis of the reported margins for adjusted EBITDA (hedged) and adjusted EBITDA (unhedged) of 52% and 34% respectively, we arrive at an unhedged revenue figure of USD105.0m (FBe: USD103.9m; Q3/19: USD101.9m). Volume at 9,798 MBoe (FBe: 9,749 MBoe; Q3/19: 8,379 MBoe) was 16.9% above the prior year figure due to the acquisition of the Carbon Energy and EQT assets in May this year and a full quarter's contribution from EdgeMarc (acquired September 2019). This implies unhedged revenue per mcfe of USD1.79 (FBe: USD1.78; Q3/19: USD2.03). The 11.8 % decline in unit revenue was mainly a function of an 11% fall in the average gas settlement price. Q3/20 unit cash expense at USD1.18/Mcfe was 4% below the Q3/19 of USD1.23/Mcfe and 4% below our forecast of USD1.23/Mcfe.

We estimate recovery in NGL pricing caused USD6m sequential revenue uplift A full quarter contribution from the Carbon Energy and EQT assets acquired in May did not significantly change the volume mix at DGOC which in Q2/20 was 91% gas, 8% NGL and 1% oil. On the basis of this volume mix and the reported unhedged gas price of USD1.58/mcf (Q3/19: USD1.91), we calculate Q3/20 unhedged gas revenue at USD84.3m (Q3/19: USD86.3m). As we have seen, overall Q3/20 revenue was ca. USD105m implying some USD21m of revenue from NGLs, oil and midstream revenue. In Q2/20 the gap between gas revenue and overall revenue was only USD11.7m. The expansion of this gap was caused mainly by a recovery in NGL pricing which we estimate caused a sequential rise in NGL revenue from Q2/20's reported USD1.5m to USD8m. We estimate that the midstream assets acquired from Carbon Energy accounted for a further USD2m in revenue uplift between Q2/20 and Q3/20.

Production from legacy wells stable for the ninth quarter in a row in Q3/20 The Smarter Asset Management programme continues to maintain production above the level indicated by the natural rate of decline of DGOC's wells. DGOC's legacy wells (acquired before the end of 2018), most of which are conventional rather than unconventional, account for around two thirds of total output. The natural annual rate of decline in production of vertical wells is ca. 5%. Production from these wells was stable for the ninth quarter in a row in Q3/20.

Bringing PDNP wells acquired from EQT into production DGOC has announced plans to bring two of the thirteen PDNP (proved developed non-producing) wells acquired from EQT in May into production in December. Estimated initial net gas production from these wells is 4 MMcfpd (666 Boepd). This corresponds to 0.6% of DGOC's Q3/20 production rate of 107 MBoepd.



During the investor call following the Q3 trading update management indicated that the cost of connecting these wells to gathering infrastructure had been modest and held out the prospect that more of these PDNP wells will be brought back into production in 2021. The PDNP wells were excluded from the valuation which formed the basis for the price paid by for DGOC for the EQT assets. Management further noted during the call that bringing non-producing wells back into production is a key component of the Smarter Asset Management programme.

Oaktree agreement makes it easier for DGOC to add further value through acquisitions

Under the Initial Promote component of October's strategic participation agreement with Oaktree, DGOC will receive a 52.5% working interest for a 50% investment. Meanwhile the Reversion Promote component of the agreement stipulates that Oaktree transfer 15% of its working interest to DGOC on achieving a 10% unlevered IRR on its investment. In this scenario DGOC's stake in an acquired asset would rise to 59.625% and Oaktree's stake would fall to 40.375%.

Figure 2: DGOC natural gas hedgebook as of 26 October

| | Weighted av. hedge price (USD/MMBtu) | Average hedged gas vol. (MMBtu/day) | Total gas vol. (MMBtu/day)* | % hedged* | Av. futures price (USD/MMBtu) |
|----------|--------------------------------------|-------------------------------------|-----------------------------|-----------|-------------------------------|
| REM 2020 | 2.76 | 492,158 | 617,410 | 80% | 3.02 |
| 2021 | 2.65 | 500,675 | 623,667 | 80% | 3.02 |
| 2022 | 2.55 | 325,710 | 591,486 | 55% | 2.78 |
| 2023 | 2.54 | 243,718 | 559,199 | 44% | 2.59 |
| 2024 | 2.42 | 223,331 | 525,782 | 42% | 2.55 |

Source: DGOC, *First Berlin Equity Research estimates

Figure 3: Changes to our forecasts

| USD 000s | 2020E | | | 2021E | | |
|---|----------------|----------------|--------------|----------------|----------------|--------------|
| | Old | New | % Δ | Old | New | % Δ |
| MBOE | 36,746 | 36,838 | 0.3% | 37,183 | 37,183 | 0.0% |
| Total revenue (unhedged) | 445,932 | 429,403 | -3.7% | 633,799 | 655,706 | 3.5% |
| of which: | | | | | | |
| Natural gas | 392,985 | 362,646 | -7.7% | 573,871 | 575,164 | 0.2% |
| NGLs | 11,727 | 23,182 | 97.7% | 12,295 | 32,405 | 163.6% |
| Oil | 12,283 | 12,825 | 4.4% | 11,249 | 9,940 | -11.6% |
| Total commodity revenue | 416,995 | 398,653 | -4.4% | 597,415 | 617,509 | 3.4% |
| Midstream revenue | 27,873 | 29,686 | 6.5% | 34,784 | 36,597 | 5.2% |
| Other | 1,063 | 1,063 | 0.0% | 1,600 | 1,600 | 0.0% |
| Base lease operating expenses | 94,856 | 90,545 | -4.5% | 98,535 | 93,416 | -5.2% |
| Gathering and compression, owned | 53,130 | 53,130 | 0.0% | 55,031 | 58,749 | 6.8% |
| Gathering and transportation, 3rd party | 53,571 | 54,156 | 1.1% | 57,634 | 57,634 | 0.0% |
| Production taxes | 18,427 | 18,042 | -2.1% | 26,028 | 29,600 | 13.7% |
| Recurring admin. expenses | 47,129 | 47,129 | 0.0% | 48,000 | 48,000 | 0.0% |
| Total recurring expenses | 267,113 | 263,002 | -1.5% | 285,228 | 287,399 | 0.8% |
| Adjusted EBITDA (unhedged) | 178,818 | 166,400 | -6.9% | 348,570 | 368,307 | 5.7% |
| Settled hedges | 124,362 | 128,609 | 3.4% | -44,314 | -72,570 | n.a. |
| of which: | | | | | | |
| Natural gas | 92,002 | 102,809 | 11.7% | -46,230 | -70,021 | n.a. |
| NGLs | 25,675 | 20,352 | -20.7% | 37 | -5,768 | n.a. |
| Oil | 6,585 | 5,448 | -17.3% | 1,880 | 3,219 | 71.2% |
| Adjusted EBITDA (hedged) | 303,180 | 295,009 | -2.7% | 304,256 | 295,737 | -2.8% |
| per BOE (USD) | | | | | | |
| Revenue (unhedged) | 12.14 | 11.66 | -4.0% | 17.05 | 17.63 | 3.4% |
| Total recurring expenses | 7.27 | 7.14 | -1.8% | 7.67 | 7.73 | 0.8% |
| of which: | | | | | | |
| Base LOE | 2.58 | 2.46 | -4.7% | 2.65 | 2.51 | -5.2% |
| Gathering and compression, owned | 1.45 | 1.44 | -0.5% | 1.48 | 1.58 | 6.8% |
| Gathering and transportation, 3rd party | 1.46 | 1.47 | 0.7% | 1.55 | 1.55 | 0.0% |
| Production taxes | 0.50 | 0.49 | -2.1% | 0.70 | 0.80 | 13.7% |
| Recurring admin. expenses | 1.28 | 1.28 | -0.1% | 1.29 | 1.29 | 0.1% |
| Adjusted EBITDA (unhedged) | 4.87 | 4.52 | -7.2% | 9.37 | 9.91 | 5.7% |

Source: First Berlin Equity Research estimates



Hedgebook emphasis is on securing cashflow stability As figure 2 shows, DGOC's hedgebook is below the current futures curve. The recent upward move in the curve means that we now forecast a realised loss on derivative instruments of USD73m compared with a loss of USD44m in our most recent note of 7 October. During the Q3 trading update investor call management reiterated its willingness to forego a certain amount of price upside on hedged volumes in the interests of cashflow stability and protecting the downside. Although the overall pricing environment has improved in recent months, our adjusted EBITDA (hedged) forecasts for 2020 and 2021 come down by 2.7% and 2.8% respectively because of a recent widening in basis differentials.

VALUATION MODEL

DGOC's target is that not less than ca. 40% of adjusted free cashflow (defined as hedged adjusted EBITDA 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 44% this year and 48% in 2021, and so close to this target.

Figure 4: Dividend payout and return on capital employed

| USD 000s | 2018A | 2019A | 2020E | 2021E |
|---|-----------|-----------|-----------|-----------|
| Adjusted EBITDA (hedged) | 146,217 | 273,266 | 295,009 | 295,737 |
| Expenditures on oil and gas properties | -18,515 | -32,313 | -21,000 | -21,000 |
| Finance expense (interest) | -15,433 | -32,715 | -35,398 | -34,748 |
| Asset retirement (plugging) | -1,171 | -2,541 | -3,100 | -3,129 |
| Free cashflow (adjusted) | 111,098 | 205,697 | 235,511 | 236,860 |
| Net fixed assets | 1,420,700 | 1,832,751 | 2,084,157 | 1,974,561 |
| Net working capital | 9,449 | -18,361 | -6,462 | -5,867 |
| Total capital employed | 1,430,149 | 1,814,390 | 2,077,695 | 1,968,694 |
| Average capital employed | 825,189 | 1,622,270 | 1,946,043 | 2,023,195 |
| Free cashflow (adjusted) ROCE | 13.5% | 12.7% | 12.1% | 11.7% |
| Dividends paid and declared | 52,566 | 86,605 | 104,305 | 113,155 |
| as % free cashflow (adjusted) | 47.3% | 42.1% | 44.3% | 47.8% |
| Dividends paid and declared per share (USD) | 0.1128 | 0.1382 | 0.1475 | 0.1600 |
| Dividends declared per share (USD) | 0.1123 | 0.1392 | 0.1525 | 0.1600 |

Source: First Berlin Equity Research estimates

We have updated our dividend discount valuation of DGOC which is based on the formula:

$$p^0 = d^1 / (r - g) \text{ where:}$$

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 GBp150 to GBp160. Buy recommendation maintained

We derive g from ROCE adjusted for the production decline rate and payout ratio. Following the publication of the Q3/20 trading update, we now estimate average ROCE for 2020 and 2021 at 11.9% (previously: 12.2%). The change relates to the downward revision in our 2020 EBITDA (hedged) forecasts. 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 11.9% by 5.9% to reflect declining production produces a return of 5.3%.



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 3.2%. Plugging our estimates for d^1 (USD0.16), r (11.0%) and g (3.2%) into the formula above produces a valuation (see figures 5 and 6 below) for the DGOC share of GBP1.56 (previously: GBP1.52). Our recommendation remains Buy with a price target of GBP1.60 (previously: GBP1.50).

Figure 5: Sensitivity of valuation to growth rates and return requirements (GBP)

| | | return requirement | | | | | | |
|-------------|------|--------------------|------|-------|-------|-------|-------|-------|
| | | 8.0% | 9.0% | 10.0% | 11.0% | 12.0% | 13.0% | 14.0% |
| growth rate | 1.2% | 1.79 | 1.56 | 1.38 | 1.24 | 1.13 | 1.03 | 0.95 |
| | 2.2% | 2.09 | 1.79 | 1.56 | 1.38 | 1.24 | 1.13 | 1.03 |
| | 3.2% | 2.53 | 2.09 | 1.79 | 1.56 | 1.38 | 1.24 | 1.13 |
| | 4.2% | 3.19 | 2.53 | 2.09 | 1.79 | 1.56 | 1.38 | 1.24 |
| | 5.2% | 4.32 | 3.19 | 2.53 | 2.09 | 1.79 | 1.56 | 1.38 |
| | 6.2% | 6.69 | 4.32 | 3.19 | 2.53 | 2.09 | 1.79 | 1.56 |

Source: First Berlin Equity Research

Figure 6: Sensitivity of valuation to growth rates and return requirements (USD)

| | | return requirement | | | | | | |
|-------------|------|--------------------|------|-------|-------|-------|-------|-------|
| | | 8.0% | 9.0% | 10.0% | 11.0% | 12.0% | 13.0% | 14.0% |
| growth rate | 1.2% | 2.35 | 2.05 | 1.81 | 1.63 | 1.48 | 1.35 | 1.25 |
| | 2.2% | 2.75 | 2.35 | 2.05 | 1.81 | 1.63 | 1.48 | 1.35 |
| | 3.2% | 3.32 | 2.75 | 2.35 | 2.05 | 1.81 | 1.63 | 1.48 |
| | 4.2% | 4.19 | 3.32 | 2.75 | 2.35 | 2.05 | 1.81 | 1.63 |
| | 5.2% | 5.67 | 4.19 | 3.32 | 2.75 | 2.35 | 2.05 | 1.81 |
| | 6.2% | 8.79 | 5.67 | 4.19 | 3.32 | 2.75 | 2.35 | 2.05 |

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 | 429,403 | 655,706 |
| Operating expense | -11,303 | -20,908 | -107,793 | -202,385 | -215,873 | -239,399 |
| Depreciation and depletion | -4,039 | -7,536 | -41,988 | -98,139 | -118,594 | -130,596 |
| Gross profit | 1,746 | 13,333 | 139,988 | 161,732 | 94,935 | 285,711 |
| 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 | 128,609 | -72,570 |
| 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 | 296,848 | 150,141 |
| 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 | 244,322 | 95,405 |
| Taxation on income | -14,829 | -2,250 | -60,676 | -32,091 | 66,177 | 66,375 |
| Net income / loss | 17,682 | 27,454 | 201,119 | 99,400 | 310,499 | 161,780 |
| Diluted EPS (in USD) | 0.42 | 0.23 | 0.52 | 0.15 | 0.45 | 0.23 |
| Adjusted EBITDA (hedged)* | 4,297 | 17,514 | 146,217 | 273,266 | 295,009 | 295,737 |
| Ratios | | | | | | |
| Gross margin | 10.2% | 31.9% | 48.3% | 35.0% | 22.1% | 43.6% |
| Adjusted EBITDA margin (hedged) | 25.1% | 41.9% | 50.5% | 59.1% | 68.7% | 45.1% |
| Net margin | 103.5% | 65.7% | 69.4% | 21.5% | 72.3% | 24.7% |
| Tax rate | 45.6% | 7.6% | 23.2% | 24.4% | -27.1% | -69.6% |
| Expenses as % of revenues | | | | | | |
| Operating expense | 66.1% | 50.0% | 37.2% | 43.8% | 50.3% | 36.5% |
| Depreciation and depletion | 23.6% | 18.0% | 14.5% | 21.2% | 27.6% | 19.9% |
| Administrative expenses | 16.5% | 21.3% | 14.0% | 12.2% | 15.3% | 9.6% |
| Y-Y Growth | | | | | | |
| Revenues | 171.1% | 144.5% | 593.6% | 59.5% | -7.1% | 52.7% |
| Adjusted EBITDA (hedged) | 65.8% | 307.6% | 734.9% | 86.9% | 8.0% | 0.2% |
| Net income/ loss | n.a. | 55.3% | 632.6% | -50.6% | 212.4% | -47.9% |

* 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 | 182,575 | 181,732 |
| Cash and cash equivalents | 224 | 15,168 | 1,372 | 1,661 | 22,682 | 15,196 |
| Restricted cash | 0 | 744 | 1,730 | 1,207 | 1,988 | 3,035 |
| 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 | 2,100,660 | 1,994,374 |
| Oil and gas properties, net | 76,793 | 215,325 | 1,092,951 | 1,490,905 | 1,742,352 | 1,643,885 |
| Property, plant & equipment, net | 3,348 | 6,947 | 327,749 | 341,846 | 341,805 | 330,676 |
| Restricted cash | 117 | 0 | 0 | 6,505 | 6,870 | 9,180 |
| 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 | 2,283,235 | 2,176,106 |
| Shareholders' equity & debt | | | | | | |
| Current liabilities, total | 38,499 | 15,346 | 84,471 | 126,855 | 167,961 | 170,318 |
| 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 | 1,248 | 1,905 |
| 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 | 1,001,525 | 914,473 |
| Long-term debt | 10,113 | 70,619 | 482,528 | 598,778 | 621,538 | 505,338 |
| Capital lease | 274 | 836 | 2,694 | 1,015 | 3,992 | 6,096 |
| 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 | 84,114 | 64,160 |
| 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 | 1,113,749 | 1,091,314 |
| Total consolidated equity and debt | 85,875 | 253,650 | 1,556,972 | 2,005,940 | 2,283,235 | 2,176,106 |
| Ratios | | | | | | |
| Current ratio (x) | 0.12 | 1.98 | 1.32 | 1.26 | 1.09 | 1.07 |
| Quick ratio (x) | 0.12 | 1.98 | 1.32 | 1.26 | 1.09 | 1.07 |
| Net debt | 39,387 | 58,162 | 493,998 | 635,039 | 670,268 | 562,754 |
| Net gearing | 429.9% | 53.7% | 66.0% | 67.7% | 60.2% | 51.6% |
| Book value per share (in GBp) | 0.17 | 0.55 | 1.08 | 1.09 | 1.27 | 1.24 |
| Return on equity (ROE) | n.a. | 46.8% | 46.9% | 11.8% | 30.3% | 14.7% |



CASH FLOW STATEMENT

| All figures in USD '000 | 2016A | 2017A | 2018A | 2019A | 2020E | 2021E |
|---|---------------|----------------|-----------------|-----------------|-----------------|-----------------|
| Net profit | 17,682 | 27,454 | 201,119 | 99,400 | 310,499 | 161,780 |
| Depreciation and depletion | 4,039 | 7,536 | 41,988 | 98,139 | 118,594 | 130,596 |
| 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 | -66,177 | -66,375 |
| (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 | -3,129 |
| 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 | 226,045 | 242,265 |
| Oil and gas properties and equipment | -862 | -2,935 | -18,515 | -32,313 | -21,000 | -21,000 |
| Free cash flow | 4,267 | 3,831 | 66,878 | 244,302 | 201,945 | 218,136 |
| Acquisitions | -8,438 | -89,785 | -750,256 | -439,272 | -210,000 | 0 |
| Increase in restricted cash | -2 | -627 | -986 | -5,302 | -1,146 | -3,357 |
| 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 | -232,146 | -24,357 |
| 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 | 3,427 | 2,762 |
| 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 | -113,155 |
| Repurchase of shares | 0 | 0 | 0 | -52,902 | -15,634 | 0 |
| Financing cash flow | 4,214 | 101,113 | 665,318 | 188,020 | 27,122 | -225,393 |
| Other | 0 | 0 | 0 | | 0 | 0 |
| Net cash flows | 134 | 14,944 | -13,796 | 289 | 21,021 | -7,485 |
| Cash, start of the year | 90 | 224 | 15,168 | 1,372 | 1,661 | 22,682 |
| Cash, end of the year | 224 | 15,168 | 1,372 | 1,661 | 22,682 | 15,196 |

Y-Y Growth

| | | | | | | |
|---------------------|------|-------|---------|--------|--------|--------|
| Operating cash flow | n.a. | 33.4% | 1164.8% | 222.5% | -19.0% | 7.2% |
| Free cash flow | n.a. | 89.8% | 1745.7% | 365.3% | 82.7% | 108.0% |
| EBITDA/share | n.a. | n.a. | 159.5% | 12.6% | 0.9% | -2.7% |

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|--------------------------------------|--|---------------|-------------|
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| 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 | GBp94.40 | Buy | GBp130.00 |
| 2 | 1 September 2020 | GBp110.40 | Buy | GBp150.00 |
| 3 | 7 October 2020 | GBp108.00 | Buy | GBp150.00 |
| 4 | Today | GBp112.20 | Buy | GBp160.00 |

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