

Diversified Gas & Oil PLC

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

Trading update

RATING BUY
PRICE TARGET Gbp 150.00
 Return Potential 30.2%
 Risk Rating Medium

90% OF 2021 GAS VOLUME NOW HEDGED AT >2X UNIT COST

DGOC has released a trading statement on FY2020 operations. The full 2020 report will be published on 8 March. Most of the metrics published so far are close to our expectations. FY 2020 production rose 18% to 99.8 M boepd (000s of barrels of oil equivalent per day) compared with our forecast of 100.7 Mboepd and the prior year figure of 84.8 Mboepd. The increase stemmed from the acquisitions of assets from EQT and Carbon Energy at mid-year 2020. Production from DGOC's legacy wells (mainly conventional wells acquired before end 2018) came in at 69 Mboepd (2019: 70 Mboepd). This performance demonstrates the continued success of DGOC's smarter asset management programme in bolstering production of wells whose natural rate of decline is ca. 5% p.a. Meanwhile, management has recently layered in additional hedge protection for both this year and 2022. At the end of October last year, 80% of expected 2021 natural gas volume was hedged at USD2.65/MMBtu and 55% of expected 2022 natural gas volume at USD2.55/MMBtu. These numbers are now 90% of 2021 volume at USD2.66/MMBtu and 60% of 2022 volume at USD2.55/MMBtu. 2020 unit cost was well under half these numbers at ca. USD1.13 per MMBtu. Based on a dividend discount valuation model (the current annualised yield is 10.1%) we now see fair value for the stock at Gbp150. (previously: Gbp160). The reduction in our price target stems from the impact on our valuation of a higher FY/20 net debt figure than we had forecast (USD725m vs FBe USD670m), as well as the depreciation of the US Dollar against sterling since our last report of 6 November. We maintain our Buy recommendation.

Five new unconventional wells consolidated from end December DGOC has not yet published 2020 revenue and EBITDA numbers. These will be released on 8 March. Q4/20 output was adversely affected by uncontrollable events including a high level of maintenance at third-party midstream and processing facilities. Without these one-time effects, the company reports that FY2020 production would have exceeded our forecast of 100.7 Mboepd. (p.t.o.)

FINANCIAL HISTORY & PROJECTIONS

	2016	2017	2018	2019	2020E	2021E
Revenue (unhedged) (\$ m)	17.09	41.78	289.77	462.26	420.64	626.62
Y-o-y growth	171.1%	144.5%	593.6%	59.5%	-9.0%	49.0%
Adj. EBITDA (hedged) (\$ m)	4.30	17.51	146.22	273.27	296.73	299.19
Adj. EBITDA margin (hedged)	24.9%	40.4%	53.3%	53.4%	53.9%	51.6%
Net income (\$ m)	17.68	27.45	201.12	99.40	314.54	163.91
EPS (diluted) (\$)	0.42	0.23	0.52	0.15	0.46	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	199.41	226.74
Net gearing	429.9%	53.7%	66.0%	67.7%	64.7%	55.1%
Liquid assets (\$ m)	0.22	15.17	1.37	1.66	2.50	3.88

* 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 29 Jan 2021

Closing Price	Gbp 115.20
Shares outstanding	707.41m
Market Capitalisation	GBP81493.65m
52-week Range	Gbp 59.60 / 115.40
Avg. Volume (12 Months)	2,153,453

Multiples	2019	2020E	2021E
P/E	10.2	3.4	6.8
EV/Sales	4.0	4.4	2.9
EV/EBIT	6.7	6.2	6.1
Div. Yield	8.8%	9.7%	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

Standard Life Aberdeen PLC	7.0%
M&G PLC	5.8%
AXA SA	5.3%
BlackRock Inc	4.2%
Free float and other	77.8%



DGOC announced the bolt-on acquisition of five unconventional wells in the trading update. These wells have an average age of two years and their aggregate production is currently one Mboepd. They have been consolidated since the end of December.

Lower than expected production tax/gathering & transportation cost pushed unit cash expense below our forecast Total unit cash expense was USD6.93/boe (FBe: USD7.14/boe; 2019: USD7.71/boe). The difference between the reported number and our forecast was mainly attributable to lower Q4/20 production taxes and gathering & transportation expense than we had modelled. However, we expect a rebound in unit cash expense to USD7.45/boe this year. The increase stems from higher production taxes due to higher commodity prices as well as higher gathering & transportation costs relating to a full year's contribution from the EQT and Carbon Energy assets.

Net debt rose due to acquisitions but remains in target range Net debt was ca. USD725m at end FY2020 (2019: USD635m) equivalent to 2.2x (2019: 2.3x) proforma adjusted EBITDA (based on annualised earnings contributions from the Carbon and EQT acquisitions). Management target a level for net debt/proforma adjusted EBITDA of <2.5x. The increase in net debt stemmed from the acquisitions of the EQT and Carbon Energy assets and the five recently acquired unconventional wells for which the consideration was USD8.4m.

Figure 1: Changes to our forecasts

USD 000s	2020E			2021E		
	Old	New	% Δ	Old	New	% Δ
MBOE	36,838	36,570	-0.7%	37,183	37,691	1.4%
Total revenue (unhedged)	429,403	420,635	-2.0%	655,706	626,617	-4.4%
of which:						
Natural gas	362,646	355,550	-2.0%	575,164	522,114	-9.2%
NGLs	23,182	24,557	5.9%	32,405	53,327	64.6%
Oil	12,825	13,015	1.5%	9,940	12,980	30.6%
Total commodity revenue	398,653	393,121	-1.4%	617,509	588,421	-4.7%
Midstream revenue	29,686	26,451	-10.9%	36,597	36,597	0.0%
Other	1,063	1,063	0.0%	1,600	1,600	0.0%
Base lease operating expenses	90,545	89,667	-1.0%	93,416	93,382	0.0%
Gathering and compression, owned	53,130	51,169	-3.7%	58,749	55,783	-5.0%
Gathering and transportation, 3rd party	54,156	50,290	-7.1%	57,634	54,653	-5.2%
Production taxes	18,042	13,109	-27.3%	29,600	29,399	-0.7%
Recurring admin. expenses	47,129	49,129	4.2%	48,000	47,491	-1.1%
Total recurring expenses	263,002	253,364	-3.7%	287,399	280,709	-2.3%
Adjusted EBITDA (unhedged)	166,400	167,271	0.5%	368,307	345,909	-6.1%
Settled hedges	128,609	129,456	0.7%	-72,570	-46,722	n.a.
of which:						
Natural gas	102,809	104,326	1.5%	-70,021	-24,826	n.a.
NGLs	20,352	19,804	-2.7%	-5,768	-22,286	n.a.
Oil	5,448	5,326	-2.2%	3,219	390	-87.9%
Adjusted EBITDA (hedged)	295,009	296,727	0.6%	295,737	299,187	1.2%
per BOE (USD)						
Revenue (unhedged)	11.66	11.50	-1.3%	17.63	16.62	-5.7%
Total recurring expenses	7.14	6.93	-2.9%	7.73	7.45	-3.6%
of which:						
Base LOE	2.46	2.45	-0.2%	2.51	2.48	-1.4%
Gathering and compression, owned	1.44	1.40	-3.0%	1.58	1.48	-6.3%
Gathering and transportation, 3rd party	1.47	1.38	-6.5%	1.55	1.45	-6.5%
Production taxes	0.49	0.36	-26.8%	0.80	0.78	-2.0%
Recurring admin. expenses	1.28	1.34	5.0%	1.29	1.26	-2.4%
Adjusted EBITDA (unhedged)	4.52	4.57	1.3%	9.91	9.18	-7.3%

Source: First Berlin Equity Research estimates



We have made only minor changes to our 2020 forecasts following the trading update. The 4.4% reduction in our 2021 revenue (unhedged) forecast reflects the decline in the 2021 natural gas futures strip since our last note of 6 November. However, this is more than balanced out at the adjusted EBITDA (hedged) level by reduced losses on settled hedges.

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 47% in 2021, and so close to this target.

Figure 2: Dividend payout and return on capital employed

USD 000s	2018A	2019A	2020E	2021E
Adjusted EBITDA (hedged)	146,217	273,266	296,727	299,187
Expenditures on oil and gas properties	-18,515	-32,313	-21,000	-21,000
Finance expense (interest)	-15,433	-32,715	-36,054	-36,060
Asset retirement (plugging)	-1,171	-2,541	-3,100	-3,195
Free cashflow (adjusted)	111,098	205,697	236,573	238,932
Net fixed assets	1,420,700	1,832,751	2,138,196	2,028,679
Net working capital	9,449	-18,361	-867	-6,867
Total capital employed	1,430,149	1,814,390	2,137,329	2,021,812
Average capital employed	825,189	1,622,270	1,975,860	2,079,571
Free cashflow (adjusted) ROCE	13.5%	12.7%	12.0%	11.5%
Dividends paid and declared	52,566	86,605	104,305	113,155
as % free cashflow (adjusted)	47.3%	42.1%	44.1%	47.4%
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 reduced from GBp160 to GBp150. Buy recommendation maintained We derive g from ROCE adjusted for the production decline rate and payout ratio. Following the publication of the FY/20 trading update, we now estimate ROCE for 2021 at 11.5% (previously: 11.7%). The change relates to an upward revision in our 2020 capital employed estimate from USD2.08bn to USD2.14bn on the basis of the publication of the FY/net debt figure of USD725m (FBe: USD670m). This upward revision feeds through to our 2021 capital employed forecast which is now USD2.02bn (previously: USD1.97bn). 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 11.5% by 5.9% to reflect declining production produces a return of 4.9%.

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 2.9%. Plugging our estimates for d^1 (USD0.16), r (11.0%) and g (2.9%) into the formula above produces a valuation (see figures 5 and 6 below) for the DGOC share of GBp145 (previously: GBp156). Our recommendation remains Buy with a price target of GBp150 (previously: GBp160). The new price target is based on a GBPUSD rate of 1.37 (previously: 1.32).



Figure 3: 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	0.9%	165	145	129	116	106	97	89
	1.9%	193	165	145	129	116	106	97
	2.9%	231	193	165	145	129	116	106
	3.9%	288	231	193	165	145	129	116
	4.9%	382	288	231	193	165	145	129
	5.9%	568	382	288	231	193	165	145

Source: First Berlin Equity Research

Figure 4: Sensitivity of valuation to growth rates and return requirements (US cents)

		return requirement						
		8.0%	9.0%	10.0%	11.0%	12.0%	13.0%	14.0%
growth rate	0.9%	227	199	177	159	145	133	123
	1.9%	264	227	199	177	159	145	133
	2.9%	317	264	227	199	177	159	145
	3.9%	395	317	264	227	199	177	159
	4.9%	524	395	317	264	227	199	177
	5.9%	779	524	395	317	264	227	199

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	420,635	626,617
Operating expense	-11,303	-20,908	-107,793	-202,385	-204,235	-233,217
Depreciation and depletion	-4,039	-7,536	-41,988	-98,139	-117,455	-130,517
Gross profit	1,746	13,333	139,988	161,732	98,945	262,883
Administrative expenses	-2,813	-8,919	-40,524	-56,619	-65,696	-62,491
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	129,456	-46,722
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	301,705	153,670
Finance costs	-3,291	-5,225	-17,743	-36,667	-36,054	-36,060
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	248,523	97,622
Taxation on income	-14,829	-2,250	-60,676	-32,091	66,018	66,290
Net income / loss	17,682	27,454	201,119	99,400	314,540	163,912
Diluted EPS (in USD)	0.42	0.23	0.52	0.15	0.46	0.23
Adjusted EBITDA (hedged)*	4,297	17,514	146,217	273,266	296,727	299,187
Ratios						
Gross margin	10.2%	31.9%	48.3%	35.0%	23.5%	42.0%
Adjusted EBITDA margin (hedged)	25.1%	41.9%	50.5%	59.1%	70.5%	47.7%
Net margin	103.5%	65.7%	69.4%	21.5%	74.8%	26.2%
Tax rate	45.6%	7.6%	23.2%	24.4%	-26.6%	-67.9%
Expenses as % of revenues						
Operating expense	66.1%	50.0%	37.2%	43.8%	48.6%	37.2%
Depreciation and depletion	23.6%	18.0%	14.5%	21.2%	27.9%	20.8%
Administrative expenses	16.5%	21.3%	14.0%	12.2%	15.6%	10.0%
Y-Y Growth						
Revenues	171.1%	144.5%	593.6%	59.5%	-9.0%	49.0%
Adjusted EBITDA (hedged)	24.9%	40.4%	53.3%	53.4%	53.9%	51.6%
Net income/ loss	n.a.	55.3%	632.6%	-50.6%	216.4%	-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	159,269	169,517
Cash and cash equivalents	224	15,168	1,372	1,661	2,499	3,880
Restricted cash	0	744	1,730	1,207	1,770	2,637
Receivables	3,084	13,917	78,451	73,924	88,000	90,000
Derivative financial instruments	0	0	17,573	73,705	55,000	60,000
Other current assets	1,311	513	12,470	9,863	12,000	13,000
Non-current assets, total	81,256	223,308	1,445,376	1,845,580	2,155,059	2,048,585
Oil and gas properties, net	76,793	215,325	1,092,951	1,490,905	1,795,961	1,696,149
Property, plant & equipment, net	3,348	6,947	327,749	341,846	342,235	332,531
Restricted cash	117	0	0	6,505	6,730	8,773
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	4,000	4,000
Total assets	85,875	253,650	1,556,972	2,005,940	2,314,329	2,218,102
Shareholders' equity & debt						
Current liabilities, total	38,499	15,346	84,471	126,855	164,935	176,234
Short-term debt	27,181	373	286	23,723	57,213	58,413
Accounts payable	4,627	2,132	9,383	17,053	12,000	18,000
Capital lease	169	324	842	798	1,222	1,821
Derivative financial instruments	939	961	0	0	4,500	5,000
Other current liabilities	5,583	11,556	73,960	85,281	90,000	93,000
Long-term liabilities, total	38,214	130,066	723,638	940,950	1,028,535	935,720
Long-term debt	10,113	70,619	482,528	598,778	656,538	540,338
Capital lease	274	836	2,694	1,015	3,911	5,826
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	81,205	55,677
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	5,000	5,000
Shareholders' equity	9,162	108,238	748,863	938,135	1,120,859	1,106,148
Total consolidated equity and debt	85,875	253,650	1,556,972	2,005,940	2,314,329	2,218,102
Ratios						
Current ratio (x)	0.12	1.98	1.32	1.26	0.97	0.96
Quick ratio (x)	0.12	1.98	1.32	1.26	0.97	0.96
Net debt	39,387	58,162	493,998	635,039	725,451	609,070
Net gearing	429.9%	53.7%	66.0%	67.7%	64.7%	55.1%
Book value per share (in GBp)	0.17	0.55	1.08	1.09	1.27	1.26
Return on equity (ROE)	n.a.	46.8%	46.9%	11.8%	30.6%	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	314,540	163,912
Depreciation and depletion	4,039	7,536	41,988	98,139	117,455	130,517
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	-66,018	-66,290
(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	-3,195
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	-17,494	6000
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	223,512	250,932
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	199,412	226,737
Acquisitions	-8,438	-89,785	-750,256	-439,272	-262,900	0
Increase in restricted cash	-2	-627	-986	-5,302	-788	-2,909
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	-284,688	-23,909
Repayment of borrowings	-6,794	-42,514	-280,890	-618,010	-262,000	-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	3,320	2,514
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	62,015	-225,641
Other	0	0	0		0	0
Net cash flows	134	14,944	-13,796	289	838	1,381
Cash, start of the year	90	224	15,168	1,372	1,661	2,499
Cash, end of the year	224	15,168	1,372	1,661	2,499	3,880

Y-Y Growth

Operating cash flow	n.a.	33.4%	1164.8%	222.5%	-19.9%	12.3%
Free cash flow	n.a.	89.8%	1745.7%	365.3%	81.6%	113.7%
EBITDA/share	n.a.	n.a.	159.5%	12.6%	1.5%	-2.1%

Imprint / Disclaimer

First Berlin Equity Research

First Berlin Equity Research GmbH ist ein von der BaFin betreffend die Einhaltung der Pflichten des §85 Abs. 1 S. 1 WpHG, des Art. 20 Abs. 1 Marktmissbrauchsverordnung (MAR) und der Markets Financial Instruments Directive (MiFID) II, Markets in Financial Instruments Directive (MiFID) II Durchführungsverordnung und der Markets in Financial Instruments Regulations (MiFIR) beaufsichtigtes Unternehmen.

First Berlin Equity Research GmbH is one of the companies monitored by BaFin with regard to its compliance with the requirements of Section 85 (1) sentence 1 of the German Securities Trading Act [WpHG], art. 20 (1) Market Abuse Regulation (MAR) and Markets in Financial Instruments Directive (MiFID) II, Markets in Financial Instruments Directive (MiFID) II Commission Delegated Regulation and Markets in Financial Instruments Regulations (MiFIR).

Anschrift:

First Berlin Equity Research GmbH
Mohrenstr. 34
10117 Berlin
Germany

Vertreten durch den Geschäftsführer: Martin Bailey

Telefon: +49 (0) 30-80 93 9 680

Fax: +49 (0) 30-80 93 9 687

E-Mail: info@firstberlin.com

Amtsgericht Berlin Charlottenburg HR B 103329 B

UST-Id.: 251601797

Ggf. Inhaltlich Verantwortlicher gem. § 6 MDStV

First Berlin Equity Research GmbH

Authored by: Simon Scholes, Analyst

All publications of the last 12 months were authored by Simon Scholes.

Company responsible for preparation: First Berlin Equity Research GmbH, Mohrenstraße 34, 10117 Berlin

The production of this recommendation was completed on 1 February 2021 at 15:54

Person responsible for forwarding or distributing this financial analysis: Martin Bailey

Copyright© 2021 First Berlin Equity Research GmbH No part of this financial analysis may be copied, photocopied, duplicated or distributed in any form or media whatsoever without prior written permission from First Berlin Equity Research GmbH. First Berlin Equity Research GmbH shall be identified as the source in the case of quotations. Further information is available on request.

INFORMATION PURSUANT TO SECTION 85 (1) SENTENCE 1 OF THE GERMAN SECURITIES TRADING ACT [WPHG], TO ART. 20 (1) OF REGULATION (EU) NO 596/2014 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL OF APRIL 16, 2014, ON MARKET ABUSE (MARKET ABUSE REGULATION) AND TO ART. 37 OF COMMISSION DELEGATED REGULATION (EU) NO 2017/565 (MIFID) II.

First Berlin Equity Research GmbH (hereinafter referred to as: "First Berlin") prepares financial analyses while taking the relevant regulatory provisions, in particular section 85 (1) sentence 1 of the German Securities Trading Act [WpHG], art. 20 (1) of Regulation (EU) No 596/2014 of the European Parliament and of the Council of April 16, 2014, on market abuse (market abuse regulation) and art. 37 of Commission Delegated Regulation (EU) no. 2017/565 (MiFID II) into consideration. In the following First Berlin provides investors with information about the statutory provisions that are to be observed in the preparation of financial analyses.

CONFLICTS OF INTEREST

In accordance with art. 37 (1) of Commission Delegated Regulation (EU) no. 2017/565 (MiFID) II and art. 20 (1) of Regulation (EU) No 596/2014 of the European Parliament and of the Council of April 16, 2014, on market abuse (market abuse regulation) investment firms which produce, or arrange for the production of, investment research that is intended or likely to be subsequently disseminated to clients of the firm or to the public, under their own responsibility or that of a member of their group, shall ensure the implementation of all the measures set forth in accordance with Article 34 (2) lit. (b) of Regulation (EU) 2017/565 in relation to the financial analysts involved in the production of the investment research and other relevant persons whose responsibilities or business interests may conflict with the interests of the persons to whom the investment research is disseminated. In accordance with art. 34 (3) of Regulation (EU) 2017/565 the procedures and measures referred to in paragraph 2 lit. (b) of such article shall be designed to ensure that relevant persons engaged in different business activities involving a conflict of interests carry on those activities at a level of independence appropriate to the size and activities of the investment firm and of the group to which it belongs, and to the risk of damage to the interests of clients.

In addition, First Berlin shall pursuant to Article 5 of the Commission Delegated Regulation (EU) 2016/958 disclose in their recommendations all relationships and circumstances that may reasonably be expected to impair the objectivity of the financial analyses, including interests or conflicts of interest, on their part or on the part of any natural or legal person working for them under a contract, including a contract of employment, or otherwise, who was involved in producing financial analyses, concerning any financial instrument or the issuer to which the recommendation directly or indirectly relates.

With regard to the financial analyses of Diversified Gas & Oil PLC the following relationships and circumstances are exist which may reasonably be expected to impair the objectivity of the financial analyses: The author, First Berlin, or a company associated with First Berlin reached an agreement with the Diversified Gas & Oil PLC for preparation of a financial analysis for which remuneration is owed.

Furthermore, First Berlin offers a range of services that go beyond the preparation of financial analyses. Although First Berlin strives to avoid conflicts of interest wherever possible, First Berlin may maintain the following relations with the analysed company, which in particular may constitute a potential conflict of:

- The author, First Berlin, or a company associated with First Berlin owns a net long or short position exceeding the threshold of 0,5 % of the total issued share capital of the analysed company;
- The author, First Berlin, or a company associated with First Berlin holds an interest of more than five percent in the share capital of the analysed company;

- The author, First Berlin, or a company associated with First Berlin provided investment banking or consulting services for the analysed company within the past twelve months for which remuneration was or was to be paid;
- The author, First Berlin, or a company associated with First Berlin reached an agreement with the analysed company for preparation of a financial analysis for which remuneration is owed;
- The author, First Berlin, or a company associated with First Berlin has other significant financial interests in the analysed company;

With regard to the financial analyses of Diversified Gas & Oil PLC the following of the aforementioned potential conflicts of interests or the potential conflicts of interest mentioned in Article 6 paragraph 1 of the Commission Delegated Regulation (EU) 2016/958 exist: The author, First Berlin, or a company associated with First Berlin reached an agreement with the Diversified Gas & Oil PLC for preparation of a financial analysis for which remuneration is owed.

In order to avoid and, if necessary, manage possible conflicts of interest both the author of the financial analysis and First Berlin shall be obliged to neither hold nor in any way trade the securities of the company analyzed. The remuneration of the author of the financial analysis stands in no direct or indirect connection with the recommendations or opinions represented in the financial analysis. Furthermore, the remuneration of the author of the financial analysis is neither coupled directly to financial transactions nor to stock exchange trading volume or asset management fees.

INFORMATION PURSUANT TO SECTION 64 OF THE GERMAN SECURITIES TRADING ACT [WPHG], DIRECTIVE 2014/65/EU OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL OF 15 MAY 2014 ON MARKETS IN FINANCIAL INSTRUMENTS AND AMENDING DIRECTIVE 2002/92/EC AND DIRECTIVE 2011/61/EU, ACCOMPANIED BY THE MARKETS IN FINANCIAL INSTRUMENTS REGULATION (MIFIR, REG. EU NO. 600/2014).

First Berlin notes that it has concluded a contract with the issuer to prepare financial analyses and is paid for that by the issuer. First Berlin makes the financial analysis simultaneously available for all interested security financial services companies. First Berlin thus believes that it fulfils the requirements of section 64 WpHG for minor non-monetary benefits.

PRICE TARGET DATES

Unless otherwise indicated, current prices refer to the closing prices of the previous trading day.

AGREEMENT WITH THE ANALYSED COMPANY AND MAINTENANCE OF OBJECTIVITY

The present financial analysis is based on the author's own knowledge and research. The author prepared this study without any direct or indirect influence exerted on the part of the analysed company. Parts of the financial analysis were possibly provided to the analysed company prior to publication in order to avoid inaccuracies in the representation of facts. However, no substantial changes were made at the request of the analysed company following any such provision.

ASSET VALUATION SYSTEM

First Berlin's system for asset valuation is divided into an asset recommendation and a risk assessment.

ASSET RECOMMENDATION

The recommendations determined in accordance with the share price trend anticipated by First Berlin in the respectively indicated investment period are as follows:

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.

Our recommendation system places each company into one of two market capitalisation categories. Category 1 companies have a market capitalisation of €0 – €2 billion, and Category 2 companies have a market capitalisation of > €2 billion. The expected return thresholds underlying our recommendation system are lower for Category 2 companies than for Category 1 companies. This reflects the generally lower level of risk associated with higher market capitalisation companies.

RISK ASSESSMENT

The First Berlin categories for risk assessment are low, average, high and speculative. They are determined by ten factors: Corporate governance, quality of earnings, management strength, balance sheet and financial risk, competitive position, standard of financial disclosure, regulatory and political uncertainty, strength of brandname, market capitalisation and free float. These risk factors are incorporated into the First Berlin valuation models and are thus included in the target prices. First Berlin customers may request the models.

RECOMMENDATION & PRICE TARGET HISTORY

Report No.:	Date of publication	Previous day closing price	Recommendation	Price target
Initial Report	30 June 2020	GBp94.40	Buy	GBp130.00
2...1	↓	↓	↓	↓
2	1 September 2020	GBp110.40	Buy	GBp150.00
3	7 October 2020	GBp108.00	Buy	GBp150.00
4	6 November 2020	GBp115.40	Buy	GBp160.00
5	Today	GBp115.20	Buy	GBp150.00

INVESTMENT HORIZON

Unless otherwise stated in the financial analysis, the ratings refer to an investment period of twelve months.

UPDATES

At the time of publication of this financial analysis it is not certain whether, when and on what occasion an update will be provided. In general First Berlin strives to review the financial analysis for its topicality and, if required, to update it in a very timely manner in connection with the reporting obligations of the analysed company or on the occasion of ad hoc notifications.

SUBJECT TO CHANGE

The opinions contained in the financial analysis reflect the assessment of the author on the day of publication of the financial analysis. The author of the financial analysis reserves the right to change such opinion without prior notification.

Legally required information regarding

- key sources of information in the preparation of this research report
- valuation methods and principles
- sensitivity of valuation parameters

can be accessed through the following internet link: <https://firstberlin.com/disclaimer-english-link/>

SUPERVISORY AUTHORITY: Bundesanstalt für Finanzdienstleistungsaufsicht (German Federal Financial Supervisory Authority) [BaFin], Graurheindorferstraße 108, 53117 Bonn and Marie-Curie-Straße 24-28, 60439 Frankfurt am Main

EXCLUSION OF LIABILITY (DISCLAIMER)

RELIABILITY OF INFORMATION AND SOURCES OF INFORMATION

The information contained in this study is based on sources considered by the author to be reliable. Comprehensive verification of the accuracy and completeness of information and the reliability of sources of information has neither been carried out by the author nor by First Berlin. As a result no warranty of any kind whatsoever shall be assumed for the accuracy and completeness of information and the reliability of sources of information, and neither the author nor First Berlin, nor the person responsible for passing on or distributing the financial analysis shall be liable for any direct or indirect damage incurred through reliance on the accuracy and completeness of information and the reliability of sources of information.

RELIABILITY OF ESTIMATES AND FORECASTS

The author of the financial analysis made estimates and forecasts to the best of the author's knowledge. These estimates and forecasts reflect the author's personal opinion and judgement. The premises for estimates and forecasts as well as the author's perspective on such premises are subject to constant change. Expectations with regard to the future performance of a financial instrument are the result of a measurement at a single point in time and may change at any time. The result of a financial analysis always describes only one possible future development – the one that is most probable from the perspective of the author – of a number of possible future developments.

Any and all market values or target prices indicated for the company analysed in this financial analysis may not be achieved due to various risk factors, including but not limited to market volatility, sector volatility, the actions of the analysed company, economic climate, failure to achieve earnings and/or sales forecasts, unavailability of complete and precise information and/or a subsequently occurring event which affects the underlying assumptions of the author and/or other sources on which the author relies in this document. Past performance is not an indicator of future results; past values cannot be carried over into the future.

Consequently, no warranty of any kind whatsoever shall be assumed for the accuracy of estimates and forecasts, and neither the author nor First Berlin, nor the person responsible for passing on or distributing the financial analysis shall be liable for any direct or indirect damage incurred through reliance on the correctness of estimates and forecasts.

INFORMATION PURPOSES, NO RECOMMENDATION, SOLICITATION, NO OFFER FOR THE PURCHASE OF SECURITIES

The present financial analysis serves information purposes. It is intended to support institutional investors in making their own investment decisions; however in no way provide the investor with investment advice. Neither the author, nor First Berlin, nor the person responsible for passing on or distributing the financial analysis shall be considered to be acting as an investment advisor or portfolio manager vis-à-vis an investor. Each investor must form his own independent opinion with regard to the suitability of an investment in view of his own investment objectives, experience, tax situation, financial position and other circumstances.

The financial analysis does not represent a recommendation or solicitation and is not an offer for the purchase of the security specified in this financial analysis. Consequently, neither the author nor First Berlin, nor the person responsible for passing on or distributing the financial analysis shall as a result be liable for losses incurred through direct or indirect employment or use of any kind whatsoever of information or statements arising out of this financial analysis.

A decision concerning an investment in securities should take place on the basis of independent investment analyses and procedures as well as other studies including, but not limited to, information memoranda, sales or issuing prospectuses and not on the basis of this document.

NO ESTABLISHMENT OF CONTRACTUAL OBLIGATIONS

By taking note of this financial analysis the recipient neither becomes a customer of First Berlin, nor does First Berlin incur any contractual, quasi-contractual or pre-contractual obligations and/or responsibilities toward the recipient. In particular no information contract shall be established between First Berlin and the recipient of this information.

NO OBLIGATION TO UPDATE

First Berlin, the author and/or the person responsible for passing on or distributing the financial analysis shall not be obliged to update the financial analysis. Investors must keep themselves informed about the current course of business and any changes in the current course of business of the analysed company.

DUPLICATION

Dispatch or duplication of this document is not permitted without the prior written consent of First Berlin.

SEVERABILITY

Should any provision of this disclaimer prove to be illegal, invalid or unenforceable under the respectively applicable law, then such provision shall be treated as if it were not an integral component of this disclaimer; in no way shall it affect the legality, validity or enforceability of the remaining provisions.

APPLICABLE LAW, PLACE OF JURISDICTION

The preparation of this financial analysis shall be subject to the law obtaining in the Federal Republic of Germany. The place of jurisdiction for any disputes shall be Berlin (Germany).

NOTICE OF DISCLAIMER

By taking note of this financial analysis the recipient confirms the binding nature of the above explanations.

By using this document or relying on it in any manner whatsoever the recipient accepts the above restrictions as binding for the recipient.

QUALIFIED INSTITUTIONAL INVESTORS

First Berlin financial analyses are intended exclusively for qualified institutional investors.

This report is not intended for distribution in the USA and/or Canada.