Diversified Energy PLC

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

Update

RATING	**BUY**
PRICE TARGET	**GBp150.00**
Return Potential	45.3%
Risk Rating	Medium

POST-BLOOMBERG/COP26 SHARE WEAKNESS IS A BUYING OPPORTUNITY

The DEC share has been under pressure over the past month as both media and politicians have drawn investors' attention to the issue of methane emissions from DEC's wells/other infrastructure. Two articles by Bloomberg questioned the quality of DEC's monitoring of greenhouse gas (GHG) emissions, particularly methane, and also charged that the economic life of the company's wells is overstated thereby understating the asset retirement liability. US government annoucements at COP26 have highlighted legislative steps to lower methane emissions, including fines for emissions above certain thresholds. The Build Back Better Act, which is currently making its way through the US Congress, will, if enacted, entail payments per tonne of methane emitted above thresholds equivalent to 0.05% to 0.2% of natural gas production. Based on DEC's stated 2020 methane emissions, but excluding the thresholds, we estimate the cost to DEC in 2023 at GBp3.0 per share. The good news is that DEC is committed to reducing emissions. The company outlined its emissions reduction programme in its Sustainability Report published in April and we expect further detail at the Capital Markets Day in Houston on 17 November. We find Bloomberg's assertion that the economic lives of DEC's wells are overstated very implausible given that these numbers are reviewed annually by Netherland, Sewell and Associates, one of the most reputable reserves auditors in the world. We maintain our Buy recommendation and raise the price target from GBp140 to GBp150 to reflect the rise in the gas futures curve since our last update of 23 July and also the 0.25 US cent increase in the Q3/21 dividend to 4.25 US cents vs. Q2/21.

Focus on methane due to its high global warming potential The US emitted 6.6bn tonnes of greenhouse gases on a carbon dioxide-equivalent basis in 2019, of which carbon dioxide accounted for 80% and methane for 10%. The reason for the recent focus on methane is that the gas' 20-and 100-year global warming potential is respectively 84x and 28x higher than carbon dioxide. The latter figure is used in carbon dioxide equivalence calculations. (p.t.o.)

FINANCIAL HISTORY & PROJECTIONS

	2018	2019	2020	2021E	2022E	2023E
Revenue (unhedged) ($ m)	289.77	462.26	408.69	1030.36	1327.04	973.93
Y-o-y growth	593.6%	59.5%	-11.6%	152.1%	28.8%	-26.6%
Adj. EBITDA (hedged) ($ m)	146.22	273.27	300.59	359.83	475.59	406.51
Adj. EBITDA margin (hedged)	53.3%	53.4%	54.3%	51.0%	50.9%	48.4%
Net income ($ m)	201.12	99.40	-23.47	201.34	296.56	139.18
EPS (diluted) ($)	0.52	0.15	-0.03	0.25	0.35	0.16
DPS ($)	11.23	13.92	15.25	16.50	17.00	17.00
FCF ($m)	66.88	244.30	217.32	224.58	388.68	355.90
Net gearing	66.0%	67.7%	81.7%	82.5%	58.8%	29.5%
Liquid assets ($ m)	1.37	1.66	1.38	3.49	4.49	9.07

RISKS

Acquisitions are a vital part of DEC'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 Energy PLC is an established, independent owner and operator of producing natural gas & oil wells in the United States. Natural gas accounts for ca. 90% of total production. Followng the acquisition of the Tapstone assets in Oklahoma, ca. 60% of total production will derive from the Appalachian Basin and the balance from the newly entered "Central" Regional Focus Area (Arkansas, Louisiana, Oklahoma, Texas).

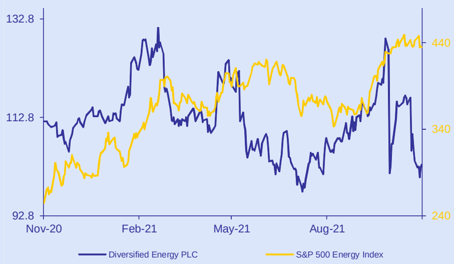
MARKET DATA

As of 12 Nov 2021

Closing Price	GBp 103.20
Shares outstanding	849.60m
Market Capitalisation	GBP867.8m
52-week Range	GBp 97.70 / 131.00
Avg. Volume (12 Mths)	2,458,392

Multiples	2020	2021E	2022E
P/E	n.a.	5.5	4.0
EV/Sales	4.9	2.0	1.5
EV/EBITDA	6.7	5.6	4.2
Div. Yield	11.0%	11.9%	12.3%

STOCK OVERVIEW



COMPANY DATA

As of 30 Jun 2021

Liquid Assets	$ 3.67m
Current Assets	$ 100.86m
Intangible Assets	$ 16.31m
Total Assets	$ 2,813.59m
Current Liabilities	$ 430.81m
Shareholders' Equity	$ 954.31m

SHAREHOLDERS

Abrdn PLC	5.6%
Premier Miton Group PLC	5.4%
BlackRock Inc	5.1%
Pendal Group Ltd	5.0%
Free float and other	78.9%

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

Bloomberg's two articles on DEC raised two main issues in our view The first is the quality of monitoring of greenhouse gas (GHG) emissions, particularly methane, from DEC's wells and the second whether the 50 year average well life which DEC uses to calculate its asset retirement liability accurately represents its wells' economic lives. Bloomberg only visited 44 or 0.5% of DEC's ca. 69,000 wells and itself conceded that its survey "wasn't scientific." Nevertheless, emissions at 59% of the sites visited by Bloomberg did trigger a methane sensor's safety alarm. DEC quickly fixed the leaks identified by Bloomberg at a total cost for all wells of USD2,000 (on average less than USD100 per well). In addition, Bloomberg highlighted a difference between GHG emission estimates published in DEC's 2020 sustainability report in April 2021 and data submitted to the US Environmental Protection Agency (EPA). The 2020 sustainability report showed a 28% cut in annual GHG emissions while the data submitted to the EPA showed a 19% rise. The difference was due to conservative estimates for 2019, which were later revised down as DEC moved to establish a more robust measuring process. DEC has stated that it is committed to investing both in better monitoring of emissions, including third party audit and verification, and their reduction. Given the importance DEC places on stewardship of its mature wells in order to maximise production, as well as increased investor focus on emissions, we find this statement very credible.

DEC's well portfolio comprises ca. 69,000 wells. Over 95% of these wells are vertical wells and the remainder are horizontal. Ultimate recovery of hydrocarbons from vertical wells is only a fraction of that from horizontal wells, but output from vertical wells declines much more slowly than from horizontal wells. This means that a relatively higher share of a vertical well's output is produced during the latter years of its life, which frequently reaches 75 years.

We think understatement of asset retirement liability is very unlikely given the oversight of one of the world's leading reserves auditors DEC discloses its emissions of GHGs both in its own sustainability report and to the EPA, and we expect the quality and consistency of this disclosure to improve steadily in line with increased investor focus on this topic. Bloomberg charges that DEC overstates the economic life of its wells in order to push back their plugging date, thereby understating its asset retirement liability. Bloomberg cites the 2018 acquisition of assets from CNX in which an asset retirement liability of USD197m in the vendor's accounts became a liability of USD14m in DEC's books. In our view, in this case Bloomberg is overlooking the impact of the differences between the two companies' business models on asset retirement liability valuation. CNX is focussed on drilling new wells while DEC does not drill and has the resources to wring maximum production from mature wells. As we have pointed out above, DEC's business model is specifically focussed on the stewardship of mature wells. Peers' businesses are more strongly orientated towards drilling new horizontal wells, which produce high volume in their early years. Maintenance of mature (particularly vertical) wells with lower production is a lower priority for these companies. A comparison of reserve/production ratios for CNX and DEC demonstrates that the two companies have very different business models. For CNX this figure was 9x in 2018 and for DEC 32x. Against this background, we find it unsurprising that DEC's asset retirement liability calculation features a higher average well life than that of peers. DEC's asset retirement liability is furthermore subject to independent review in the form of key inputs. Estimated economic life and timing of retirement is reviewed by Netherland, Sewell and Associates, and the cost inputs (predicated on ca. 100 plugs per annum) and discount rate (regulated by IFRS) are both subject to the regular audit procedures performed by PwC.

Agreements with states provide 10-15 year guarantee against tightening of plugging schedule In 2018 and 2019 DEC concluded agreements (see figure 1) with the four states in which it has its strongest presence in Appalachia. These agreements provide a 10-15 year guarantee against tightening of plugging schedules.

We find it unlikely that the states will tighten the agreed plugging schedule once the 10-15 years have elapsed, as the natural gas industry is likely to remain a key employer and payer of property and production taxes in the area for several decades, and increasing pressure on companies such as DEC only increases the likelihood of transfer of the liability to the public domain.

Figure 1: State agreement details

Pennsylvania	West Virginia	Kentucky	Ohio
15-year agreement[(a)]	15-year agreement[(c)]	10-year agreement[(d)]	10-year agreement[(e)]
50 total wells per year[(b)]	50 total wells per year[(b)]	50 total wells per year[(b)]	20 total wells per year[(b)]
20 min wells plug/year	20 min wells plug/year	20 min wells plug/year	20 min wells plug/year

a) Agreement initiated in Q1/19; initial year plugging requirement of 20 wells

b) Reflects the minimum number of wells to plug or return to production in annual period subsequent to the initial contract year

c) Agreement initiated in Q1/19; initial year plugging requirement of 30 wells

d) Agreement initiated in Q1/19; initial year plugging requirement of 25 wells; Agreement amended in Q3/19 to extend period of agreement from 5 to 10 years

e) Agreement initiated in Q2/18; initial year plugging requirement of 14 wells; Agreement amended in Q1/20 to extend period of agreement from 5 to 10 years

Source: DEC PLC

Unclear whether Build Back Better Act will pass the Senate Later this month, the US House of Representatives is set to vote on a social services and climate change bill better known as the Build Back Better Act. In order to incentivise the reduction of methane emissions, the act stipulates fees to oil and gas producers per tonne of methane emitted. The figures are USD900/tonne in 2023, USD1,200 per tonne in 2024 and USD1,500 from 2025 onwards. For wells, the charge applies to all methane emitted exceeding 0.20% of gas sent to market. For non-producing and transmission systems, the thresholds are 0.05% and 0.11% respectively. According to its sustainability report published in April this year, DEC emitted 1.07m tonnes of methane on a CO_2-equivalent basis in 2020. This equates to 38,000 tonnes of methane. As we have no information on how DEC's methane emissions split between wells, non-producing wells and transmission systems, we have excluded the thresholds from our calculation. On this basis, a payment of USD900 per tonne would entail a total payment of USD34.3m or GBp3.0 per DEC share. To become law, the Build Back Better Act must also pass the Senate. It is unclear if the methane fee will receive enough support in the upper house.

Figure 2: Q3/21 results

USD 000s	Q3/21A	Q3/20A	Δ%
Total revenue (unhedged)	275,000	105,156	161.5%
MBOE	11,794	9,812	20.2%
Revenue (unhedged per mcf)	3.89	1.79	117.6%
Op. exp. + adjusted G&A	96,000	69,618	37.9%
Op. exp. + adjusted G&A per mcf	1.36	1.18	14.7%
Adjusted EBITDA (unhedged)	179,000	35,538	403.7%
margin (%)	65%	34%	-
Gain/loss on settled derivatives	-87,000	39,587	n.a.
Adjusted EBITDA (hedged)	**92,000**	**75,124**	22.5%
margin (%)	**49%**	**52%**	**-**

Source: DEC PLC

Q3/21 adjusted EBITDA (hedged) up 22.5% y-o-y Q3/21 adjusted EBITDA (hedged) came in at USD92m (Q3/20: USD75m). The company did not report revenue but on the basis of the reported margins for adjusted EBITDA (hedged) and adjusted EBITDA (unhedged) of "nearly 50%" and 65%, we arrive at a figures of USD189m (Q3/20: USD145m) for hedged revenue and USD275m (Q3/20: USD105m) for unhedged revenue.

Volume at 11.8 MBoe (Q3/29: 9.8MBoe) was 20.2% above the prior year figure due to the completion of the Indigo and Blackbeard acquisitions in May and early July respectively, and a partial contribution from the Tanos acquisition completed in August. Unhedged revenue per mcf in Q3/21 was USD3.89 (Q3/20: USD1.79).

The 118% increase in unit revenue was mainly a function of a sharp rise in the average gas settlement price. Q3/21 unit cash expense at USD1.36/Mcfe was 15% above the Q3/20 figure of USD1.18/Mcfe due to higher third party gathering and transportation costs (mainly in the Central Region) and higher production taxes (mainly due to higher commodity prices). We expect continued high commodity prices in Q4/21 to push the hedged adjusted EBITDA margin for the full year above 50%.

Figure 3 below shows changes to our forecasts compared with out last note of 23 July. Changes reflect the acquisition of the Tapstone assets as well as rising futures curves (average H2/21 and 2022 gas price +31% and 34% respectively). We have added USD5m to lease operating costs in both 2022 and 2023 to reflect our expectation of higher monitoring costs for the well portfolio. Pending passage of the Build Back Better Act through both houses of congress we have not adjusted our model for methane emission fees. For the first time we also show 2023 forecasts.

Figure 3: Changes to our forecasts

USD 000s	2020A	2021E			2022E			2023E
		FBe Old	FBe New	% Δ	FBe Old	FBe New	% Δ	FBe New
MBOE	**36,538**	**43,443**	**42,469**	**-2.2%**	**46,076**	**49,575**	**7.6%**	**45,362**
Total revenue (unhedged)	**408,693**	**844,756**	**1,030,363**	**22.0%**	**843,126**	**1,327,044**	**57.4%**	**973,930**
of which:								
Natural gas	343,425	661,556	835,394	26.3%	672,260	1,048,648	56.0%	761,326
NGLs	23,173	122,523	128,676	5.0%	112,310	173,847	54.8%	121,692
Oil	15,064	28,672	35,703	24.5%	29,957	75,950	153.5%	63,412
Total commodity revenue	381,662	812,751	999,773	23.0%	814,526	1,298,444	59.4%	946,430
Midstream revenue	25,389	30,405	28,589	-6.0%	27,000	27,000	0.0%	26,000
Other	1,642	1,600	2,001	25.1%	1,600	1,600	0.0%	1,500
Base lease operating expenses	92,286	124,335	126,274	1.6%	137,663	169,725	23.3%	159,030
Gathering and compression, owned	52,816	74,632	66,546	-10.8%	81,308	84,713	4.2%	79,358
Gathering and transportation, 3rd party	45,156	63,808	67,294	5.5%	69,516	88,313	27.0%	82,731
Production taxes	13,705	26,641	21,706	-18.5%	35,827	43,372	21.1%	39,249
Recurring admin. expenses	48,740	65,052	63,648	-2.2%	66,840	72,000	7.7%	74,000
Total recurring expenses	**252,703**	**354,468**	**345,468**	**-2.5%**	**391,153**	**458,124**	**17.1%**	**434,368**
Adjusted EBITDA (unhedged)	**155,990**	**490,209**	**684,895**	**39.7%**	**451,973**	**868,921**	**92.3%**	**539,805**
Settled hedges	**144,600**	**-144,851**	**-325,070**	**n.a.**	**-125,056**	**-393,332**	**n.a.**	**-133,299**
of which:								
Natural gas	121,077	-99,418	-253,353	n.a.	-92,998	-329,934	n.a.	-127,418
NGLs	16,498	-50,235	-74,670	n.a.	-29,907	-61,693	n.a.	-3,779
Oil	7,025	4,802	2,953	n.a.	-2,151	-1,705	n.a.	-2,101
Total revenue (hedged)	**553,294**	**699,905**	**705,293**	**0.8%**	**718,070**	**933,712**	**30.0%**	**840,631**
Adjusted EBITDA (hedged)	**300,590**	**345,358**	**359,825**	**4.2%**	**326,917**	**475,589**	**45.5%**	**406,506**
margin (%)	**54.3%**	**49.4%**	**51.0%**	**-**	**45.5%**	**50.9%**	**-**	**48.4%**
per BOE (USD)								
Total revenue (hedged)	**15.14**	**16.11**	**16.61**	**3.1%**	**15.58**	**18.83**	**20.9%**	**18.53**
Total recurring expenses	**6.92**	**8.16**	**8.13**	**-0.3%**	**8.49**	**9.24**	**8.9%**	**9.58**
of which:								
Base LOE	2.53	2.86	2.97	3.9%	2.99	3.42	14.6%	3.51
Gathering and compression, owned	1.45	1.72	1.57	-8.8%	1.76	1.71	-3.2%	1.75
Gathering and transportation, 3rd party	1.24	1.47	1.58	7.9%	1.51	1.78	18.1%	1.82
Production taxes	0.38	0.61	0.51	-16.7%	0.78	0.87	12.5%	0.87
Recurring admin. expenses	1.33	1.50	1.50	0.1%	1.45	1.45	0.1%	1.63
Adjusted EBITDA (hedged)	**8.23**	**7.95**	**8.47**	**6.6%**	**7.10**	**9.59**	**35.2%**	**8.96**
margin (%)	**54.4%**	**49.4%**	**51.0%**	**-**	**45.5%**	**50.9%**	**-**	**48.4%**
Av no shares (000s)	**688,348**	**797,175**	**797,175**	**0.0%**	**853,726**	**853,726**	**0.0%**	**853,726**
Adj EBITDA hedged per share	**0.44**	**0.43**	**0.45**	**4.2%**	**0.38**	**0.56**	**44.7%**	**0.48**

Source: First Berlin Equity Research estimates

VALUATION MODEL

DEC's target is that not less than ca. 40% of adjusted free cashflow (defined as hedged adjusted EBITDA less maintenance capex, interest expense, well retirement costs and cash taxes) should be paid out as dividends. On this basis, our forecasted payout ratio at the current dividend level will be 46% this year and 36% in 2022.

Figure 4: Dividend payout and return on capital employed

USD 000s	2019A	2020A	2021E	2022E	2023E
Adjusted EBITDA (hedged)	273,266	300,590	359,825	475,589	406,506
Recurring capital expenditures	-17,255	-15,981	-17,000	-17,000	-17,000
Cash interest expenses	-32,715	-34,335	-37,004	-35,016	-28,680
Asset retirement (plugging)	-2,541	-2,442	-2,450	-2,500	-2,800
Cash paid for income taxes	-1,989	-5,850	-15,200	-15,200	-15,200
Free cashflow (adjusted)	218,766	241,982	288,171	405,873	342,826
Net fixed assets	1,816,982	2,137,188	2,547,357	2,435,614	2,287,199
Net working capital	-18,573	-42,499	21,407	40,312	30,074
Total capital employed	1,798,409	2,094,689	2,568,764	2,475,926	2,317,274
Average capital employed	1,614,279	1,946,549	2,331,727	2,522,345	2,396,600
Free cashflow (adjusted) ROCE	13.6%	12.4%	12.4%	16.1%	14.3%
Dividends paid and declared	86,605	104,305	132,333	144,433	144,433
as % free cashflow (adjusted)	39.6%	43.1%	45.9%	35.6%	42.1%
Dividends paid and declared per share (USD)	0.1382	0.1475	0.1558	0.1700	0.1700
Dividends declared per share (USD)	0.1392	0.1525	0.1650	0.1700	0.1700

Source: First Berlin Equity Research estimates

We have updated our dividend discount valuation of DEC which is based on the formula:
$p_0 = d_1/(r-g)$ where:

p_0 is our assessment of the fair value of the DEC 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 to GBp150 (previously: GBp140) and Buy recommendation maintained We derive g from ROCE adjusted for the production decline rate and payout ratio. Based on the H1/21 results and recent months' rise in the gas futures curve, we estimate 2021 and 2022 ROCE at 12.4% and 16.1% respectively (previously: 12.9% and 11.7% respectively). Our first-time estimate for 2023 ROCE is 14.3%. Our estimate for r is unchanged at 11.0%, but following the acquisitions of the Indigo, Blackbeard, Tanos and Tapstone assets, we have revised up our estimate for the rate of production decline from 7.0% to 8.5%. Adjusting the average return on capital employed figure for 2021-2023 of 14.3% by 8.5% to reflect declining production produces a return of 4.5%. 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 2.7%. Plugging our estimates for d1 (USD0.17), r (11.0%) and g (2.7%) into the formula above produces a valuation (see figures 5 and 6 below) for the DEC share of GBp153 (previously: GBp139). We maintain our Buy recommendation but raise the price target to GBp150 (previously: GBp140).

Figure 5: 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%
0.7%	174	153	137	123	112	103	95
1.7%	202	174	153	137	123	112	103
2.7%	240	202	174	**153**	137	123	112
3.7%	296	240	202	174	153	137	123
4.7%	387	296	240	202	174	153	137
5.7%	557	387	296	240	202	174	153

Source: First Berlin Equity Research

Figure 6: 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%
0.7%	234	205	183	165	151	138	128
1.7%	271	234	205	183	165	151	138
2.7%	322	271	234	**205**	183	165	151
3.7%	398	322	271	234	205	183	165
4.7%	519	398	322	271	234	205	183
5.7%	747	519	398	322	271	234	205

Source: First Berlin Equity Research

INCOME STATEMENT

All figures in USD '000	2018A	2019A	2020A	2021E	2022E	2023E
Revenues	**289,769**	**462,256**	**408,693**	**1,030,363**	**1,327,044**	**973,930**
Operating expense	-107,793	-202,385	-203,963	-281,820	-386,124	-360,368
Depreciation and depletion	-41,988	-98,139	-117,290	-139,099	-159,245	-178,229
Gross profit	**139,988**	**161,732**	**87,440**	**609,444**	**781,675**	**435,332**
Administrative expenses	-40,524	-55,889	-77,234	-86,085	-92,000	-94,000
Allowance for expected credit losses	0	-730	-8,490	0	0	0
Gain on oil/gas programme and equipment	4,079	0	-2,059	0	0	0
Gain (loss) on derivative financial instruments	17,981	73,854	-94,397	-325,070	-393,332	-133,299
Gain on bargain purchase	173,473	1,540	17,172	0	0	0
Operating income (EBIT)	**294,997**	**180,507**	**-77,568**	**198,289**	**296,343**	**208,033**
Finance costs	-17,743	-36,667	-43,327	-37,004	-35,016	-28,680
Loss on early retirement of debt	-8,358	0	0	0	0	0
Accretion of asset retirement obligation	-7,101	-12,349	-15,424	-29,949	-34,763	-40,172
Other income (expense)	0	0	-421	0	0	0
Income before taxation	**261,795**	**131,491**	**-136,740**	**131,336**	**226,565**	**139,182**
Taxation on income	-60,676	-32,091	113,266	70,000	70,000	0
Net income / loss	**201,119**	**99,400**	**-23,474**	**201,336**	**296,565**	**139,182**
Diluted EPS (in USD)	**0.52**	**0.15**	**-0.03**	**0.25**	**0.35**	**0.16**
Adusted EBITDA (hedged)*	**146,217**	**273,266**	**300,590**	**359,825**	**475,589**	**406,506**
Ratios						
Gross margin	48.3%	35.0%	21.4%	59.1%	58.9%	44.7%
Adjusted EBITDA margin (hedged)	53.3%	53.4%	54.3%	51.0%	50.9%	48.4%
Net margin	69.4%	21.5%	-5.7%	19.5%	22.3%	14.3%
Tax rate	23.2%	24.4%	82.8%	-53.3%	-30.9%	0.0%
Expenses as % of revenues						
Operating expense	37.2%	43.8%	49.9%	27.4%	29.1%	37.0%
Depreciation and depletion	14.5%	21.2%	28.7%	13.5%	12.0%	18.3%
Administrative expenses	14.0%	12.1%	18.9%	8.4%	6.9%	9.7%
Y-Y Growth						
Revenues	593.6%	59.5%	-11.6%	152.1%	28.8%	-26.6%
Adjusted EBITDA (hedged)	734.9%	86.9%	10.0%	19.7%	32.2%	-14.5%
Net income/ loss	632.6%	-50.6%	n.m.	n.m.	47.3%	-53.1%

** 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	2018A	2019A	2020A	2021E	2022E	2023E
Assets						
Current assets, total	**111,596**	**160,360**	**94,474**	**211,118**	**266,765**	**207,350**
Cash and cash equivalents	1,372	1,661	1,379	3,489	4,494	9,069
Restricted cash	1,730	1,207	250	633	815	1,644
Receivables	78,451	73,924	66,991	168,979	217,635	159,724
Derivative financial instruments	17,573	73,705	17,858	17,858	17,858	17,858
Other current assets	12,470	9,863	7,996	20,159	25,963	19,055
Non-current assets, total	**1,445,376**	**1,845,580**	**2,196,208**	**2,678,135**	**2,646,961**	**2,483,052**
Oil and gas properties, net	1,092,951	1,496,029	1,755,085	2,139,373	2,018,612	1,884,209
Property, plant & equipment, net	327,749	320,953	382,103	407,985	417,002	402,990
Intangible assets		15,981	19,213	23,031	25,069	15,329
Restricted cash	0	6,505	20,100	14,425	21,233	17,531
Indemnification receivable	2,133	2,133	1,837	1,837	1,837	1,837
Derivative financial instruments	21,745	3,803	717	717	717	717
Deferred tax asset		0	14,777	84,777	154,777	154,777
Other non-current assets	798	176	2,376	5,990	7,715	5,662
Total assets	**1,556,972**	**2,005,940**	**2,290,682**	**2,889,252**	**2,913,726**	**2,690,403**
Shareholders' equity & debt						
Current liabilities, total	**84,471**	**126,855**	**196,506**	**264,038**	**279,680**	**197,101**
Short-term debt	286	23,723	64,959	83,681	65,229	35,494
Accounts payable	9,383	17,053	19,366	48,824	62,882	46,150
Capital lease	842	798	5,013	12,638	16,277	11,946
Derivative financial instruments	0	0	15,858	15,858	15,858	15,858
Other current liabilities	73,960	85,281	91,310	103,036	119,434	87,654
Long-term liabilities, total	**723,638**	**940,950**	**1,207,518**	**1,495,729**	**1,397,238**	**1,139,122**
Long-term debt	482,528	598,778	652,281	840,277	654,989	356,406
Capital lease	2,694	1,015	13,865	30,911	39,811	29,218
Asset retirement obligation	140,190	196,871	344,242	399,571	461,744	531,518
Deferred tax liability	95,033	124,112	15,746	30,911	39,811	29,218
Uncertain tax position	2,133	2,133	1,837	1,837	1,837	1,837
Derivative financial instruments	0	15,706	168,524	168,524	168,524	168,524
Other non-current liabilities	1,060	2,335	11,023	23,698	30,522	22,400
Shareholders' equity	**748,863**	**938,135**	**886,658**	**1,129,486**	**1,236,807**	**1,354,180**
Total consolidated equity and debt	**1,556,972**	**2,005,940**	**2,290,682**	**2,889,252**	**2,913,726**	**2,690,403**
Ratios						
Current ratio (x)	1.32	1.26	0.48	0.80	0.95	1.05
Quick ratio (x)	1.32	1.26	0.48	0.80	0.95	1.05
Net debt	493,998	635,039	724,757	931,475	727,735	399,417
Net gearing	66.0%	67.7%	81.7%	82.5%	58.8%	29.5%
Book value per share (in GBP)	1.08	1.09	1.04	1.07	1.17	1.28
Return on equity (ROE)	46.9%	11.8%	-2.6%	20.0%	25.1%	10.7%

CASH FLOW STATEMENT

All figures in USD '000	2018A	2019A	2020A	2021E	2022E	2022E
Net profit	**201,119**	**99,400**	**-23,474**	**201,336**	**296,565**	**139,182**
Depreciation and depletion	41,988	98,139	117,290	139,099	159,245	178,229
Accretion of asset retirement obligation	7,101	12,349	15,424	29,949	34,763	40,172
Deferred income taxes	60,676	32,091	-113,266	-70,000	-70,000	0
(Gain)/loss on derivative financial instruments	-32,768	-20,270	238,795	0	0	0
Asset retirement, plugging	-1,171	-2,541	-2,442	-2,450	-2,500	-2,800
Gain on oil/gas programme and equipment	-4,079	0	0	0	0	0
Gain on bargain purchase	-173,473	-1,540	-17,172	0	0	0
Finance costs	17,743	36,677	43,327	37,004	35,016	28,680
Cancellation/retirement of debt	8,358	0	0	0	0	0
Changes in working capital	-39,713	21,786	-10,129	-63,906	-18,905	10,238
Non cash equity compensation	783	3,065	5,007	0	0	0
Cash paid for income taxes		-1,989	-5,850	-6,000	-6,000	0
Other adjustments	0	1,989	-5,800	0	0	0
Operating cash flow	**86,564**	**279,156**	**241,710**	**265,032**	**428,183**	**393,700**
Oil and gas properties and equipment	-18,515	-32,313	-21,947	-38,000	-37,000	-35,000
Free cash flow	**66,878**	**244,302**	**217,321**	**224,582**	**388,683**	**355,900**
Acquisitions	-750,256	-439,272	-223,091	-490,415	0	0
Increase in restricted cash	-986	-5,302	-12,637	5,292	-6,990	2,872
Proceeds on disposal of oil/gas properties	4,079	10,000	3,712	0	0	0
Other acquired intangibles		0	-2,900	0	0	0
Investment cash flow	**-765,678**	**-466,887**	**-256,863**	**-523,123**	**-43,990**	**-32,128**
Repayment of borrowings	-280,890	-618,010	-705,314	206,718	-203,740	-328,318
Proceeds of borrowings	581,221	765,236	799,650	0	0	0
Financing expense	-15,433	-32,715	-34,335	-37,004	-35,016	-28,680
Cost incurred to secure financing	-17,176	-11,574	-7,799	0	0	0
Proceeds from capital lease	4,401	0	0	0	0	0
Repayment of capital lease	-1,093	-1,724	-3,684	0	0	0
Proceeds from equity issuance, net	425,601	221,860	81,407	215,000	0	0
Contingent consideration payments	0	0	-893	0	0	0
Dividends to shareholders	-31,313	-82,151	-98,527	-124,513	-144,433	0
Repurchase of shares	0	-52,902	-15,634	0	0	0
Financing cash flow	**665,318**	**188,020**	**14,871**	**260,200**	**-383,189**	**-356,997**
Other	**0**	**0**	**0**	**0**	**0**	**0**
Net cash flows	**-13,796**	**289**	**-282**	**2,110**	**1,005**	**4,576**
Cash, start of the year	15,168	1,372	1,661	1,379	3,489	4,494
Cash, end of the year	**1,372**	**1,661**	**1,379**	**3,489**	**4,494**	**9,069**

Y-Y Growth						
Operating cash flow	1164.8%	222.5%	-13.4%	9.6%	61.6%	-8.1%
Free cash flow	1745.7%	365.3%	89.0%	103.3%	173.1%	91.6%
EBITDA/share	159.5%	12.6%	3.0%	3.4%	23.4%	-14.5%

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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.

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.

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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	↓	↓	↓	↓
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	1 February 2021	GBp115.20	Buy	GBp150.00
6	18 March 2021	GBp112.00	Buy	GBp140.00
7	14 June 2021	GBp100.80	Buy	GBp140.00
8	23 July 2021	GBp98.50	Buy	GBp140.00
9	Today	GBp103.20	Buy	GBp150.00

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