Diversified Energy PLC

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

Capital Markets Day update

RATING	BUY
PRICE TARGET	GBp150.00
Return Potential	38.6%
Risk Rating	Medium

GETTING AHEAD OF THE ENVIRONMENTAL REGULATION CURVE

At its Capital Markets Day on 17 November, DEC announced additional investments in methane reduction initiatives and equipment. By 2026, DEC aims to reduce scope 1 methane emissions (direct emissions from company-owned and controlled resources) by 30% versus 2020 levels and aims for a 50% reduction by 2030. The Global Methane Pledge launched by the US and EU at COP26, which targets a 30% reduction between 2020 and 2030, is less ambitious than this. The company is also developing longer term plans to accelerate its commitment to achieve scope 1 carbon neutrality by 2040 - a decade earlier than its previously stated 2050 commitment. The Financial Stability Board's Task Force on Climate-Related Financial Disclosures (TCFD) was set up in 2015 "to make recommendations for consistent company disclosures that will help financial market participants understand their climate-related risks." Among a group of nine peers, DEC ranked seventh in terms of alignment with TCFD-related disclosures at the end of 2020, but has improved this position to fourth currently. We expect DEC to be among the top three by the end of 2022. With a view to improving the transparency of its emissions data, DEC will appoint an independent expert to verify its 2021 and future years' reported greenhouse gas emissions (GHG). The additional investments announced at the Capital Markets Day are expected to amount to USD15m in 2022, equivalent to 3% of our hedged adjusted EBITDA forecast for that year. Management plans to raise the number of wells plugged annually from ca. 140 this year to over 200 in 2023 - equivalent to 250% of the number required under current state asset retirement agreements. The announced measures should move DEC ahead of the environmental regulation curve and suggest that the company's intent is to stay there. We note that executive compensation at DEC is already linked to the achievement of ESG targets. In the future we expect the share price to be less vulnerable to periods of volatility such as those recently triggered by the Bloomberg articles and COP26. We maintain our Buy recommendation and GBp150 price target. **(p.t.o.)**

FINANCIAL HISTORY & PROJECTIONS

	2018	2019	2020	2021E	2022E	2023E
Revenue (unhedged) ($ m)	289.77	462.26	408.69	1023.79	1321.10	967.90
Y-o-y growth	593.6%	59.5%	-11.6%	150.5%	29.0%	-26.7%
Adj. EBITDA (hedged) ($ m)	146.22	273.27	300.59	357.97	471.79	399.91
Adj. EBITDA margin(hedged)	53.3%	53.4%	54.3%	50.9%	50.7%	47.9%
Net income ($ m)	201.12	99.40	-23.47	200.37	288.20	129.60
EPS (diluted) ($)	0.52	0.15	-0.03	0.25	0.34	0.15
DPS ($)	11.23	13.92	15.25	16.50	17.00	17.00
FCF ($m)	66.88	244.30	217.32	222.85	375.94	340.31
Net gearing	66.0%	67.7%	81.7%	82.7%	60.4%	32.2%
Liquid assets ($ m)	1.37	1.66	1.38	3.47	4.47	9.01

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. Following 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).

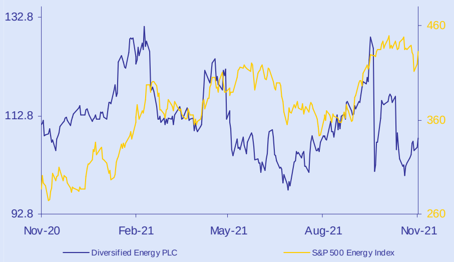
MARKET DATA

As of 23 Nov 2021

Closing Price	GBp 108.20
Shares outstanding	849.60m
Market Capitalisation	GBP 919.3m
52-week Range	GBp 97.70 / 131.00
Avg. Vol. (12 Mths)	2,417,621

Multiples	2020	2021E	2022E
P/E	n.a.	5.7	4.3
EV/Sales	5.1	2.0	1.6
EV/EBITDA	6.9	5.8	4.4
Div. Yield	14.1%	11.4%	11.7%

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

Figure 1: Sources of 2020 Scope 1 GHG Emissions by tonnage

2020 Scope 1 GHG Emissions	Thousand MT CO_2 Equivalent
Flared hydrocarbons	0
Other combustion	813
Other vented emissions	703
Fugitive and process emissions	366
Total	1,883

Source: DEC's 2020 Sustainability Report

Figure 2: Sources of 2020 Scope 1 GHG Emissions (percentage share)

CO_2 43%	Methane 57%	
Other combustion 43%	Other vented 37%	Fugitive 20%
Compressors Vehicle fuel	Pneumatics Venting Blowdowns	Leaks Pipelines Process/Other
< 1% methane	99% Methane	

Source: DEC's 2020 Sustainability Report

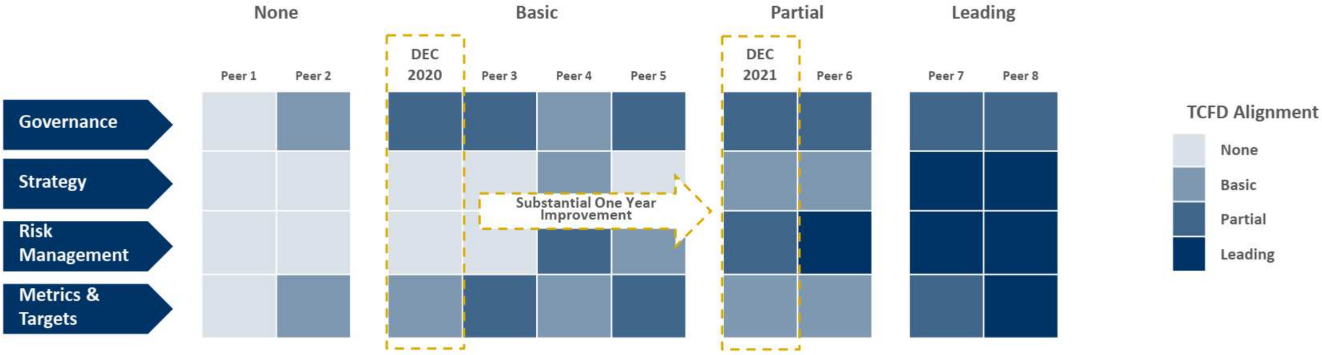
Emission reduction efforts currently focussed on pneumatics and fugitives As figures 1 and 2 above indicate, DEC's scope 1 GHG emissions amounted to 1.88m tonnes CO_2 equivalent in 2020, of which methane accounted for 57%. The company's efforts are currently focussed on the reduction of emissions from pneumatic controllers and the reduction of fugitive emissions. Pneumatic controllers are widely used in the natural gas industry to control liquid level, pressure, pressure difference and temperature. Some pneumatic controllers are powered by pressurised natural gas, while others are actuated using solar power, electric power or compressed air. By 2026, DEC plans to install air compression at 150 well pads or compression facilities to eliminate methane utilisation by pneumatic devices. Sources of fugitive emissions in the natural gas industry include pipeline leaks, gas migration to the surface around the outside of wells, as well as leaks from other equipment/processes.

Steps to improve monitoring and disclosure of emissions DEC announced earlier this month that it will deploy an additional 500 methane emissions detection devices to its Appalachian upstream field operations. This investment follows the positive results of a pilot project with 100 devices in Appalachia. The project showed that the devices enable the company's trained personnel to identify and remediate emissions otherwise undetectable using traditional audio, visual and olfactory techniques. DEC also plans to implement a multi-year aerial LiDAR (laser imaging, detection, and ranging) programme to detect fugitive emissions. The emissions reporting guidelines of the US EPA (Environmental Protection Agency) allow a blended use of measured and default (theoretical) data. DEC has undertaken to maximise direct measurements and reduce theoretical factors. The company has also committed to independent third party verification of reported GHG emissions beginning with calendar year 2021 data.

Moving towards a leading position with respect to alignment with TCFD guidelines The Task Force on Climate-Related Financial Disclosures (TCFD) was set up in 2015 by the Financial Stability Board with support from G20 members to promote international financial stability. The purpose of the TCFD is "to make recommendations for consistent company disclosures that will help financial market participants understand their climate-related risks."

Among a group of nine peers, DEC ranked seventh in terms of alignment with TCFD-related disclosures at the end of 2020, but has improved this position to fourth currently. We expect DEC to be among the top three by the end of 2022.

Figure 3: Increasing alignment with TCFD guidelines



Source: DEC

Moderation of dividend growth means higher degree of reinvestment in the business

In recent years DEC has targeted a dividend payout equivalent to 40% of its adjusted free cashflow. The announced emissions reduction investment of USD15m equates to about 5% of our forecasts for adjusted free cashflow over the period 2021-2023. During the Capital Markets Day, management indicated that in future dividend growth will be moderated. This does not mean that the dividend will be cut, but that the payout ratio is likely to fall. We surmise from management's answers to our question on this topic at the Capital Markets Day, that increased ESG spending played a role in this decision, but more important was feedback from investors who would like to see a higher portion of cashflow reinvested in expansion of the business.

Figure 4: Initially investing USD15m from 2022 for emissions reduction

Planned Incremental Activity[a]	Est. Cost USDm
Air compression for pneumatic devices	3.0
Aerial LiDAR	3.0
Additional asset retirement	3.0
Compression conversion	3.0
Fugitive emission detection	1.5
Environmental consulting	1.0
Tree planting	0.5
TOTAL	**15.0**

a: Inclusive of expanded environmental health and safety payroll, existing plugging initiatives and Smart Asset Management Programme, total investments exceed USD20m

Source: DEC

DEC plans to invest an incremental USD15m in emissions reduction in 2022. As figure 4 shows, this is in addition to the USD5m it is already spending on this initiative. We expect USD6m of the USD15m will be expensed through the P&L and the remainder capitalised. Management has indicated that the USD3m of spending on additional asset retirement will rise by USD3m per year (enough to plug 100 wells) over the next few years until the annual well-plugging run rate is 1,000 wells. In our most recent update of 15 November, we already raised our lease operating expense forecast for 2022 and 2023 by USD5m in anticipation of the Capital Markets Day announcement of additional emissions reduction measures. Changes to our forecasts in figure 5 mainly reflect a slight dip in the near-term gas futures curve as well as increases of USD1m in our 2022 and 2023 lease operating expense forecasts.

Figure 5: Changes to our forecasts

USD 000s	2021E			2022E			2023E		
	FBe Old	FBe New	% Δ	FBe Old	FBe New	% Δ	FBe Old	FBe New	% Δ
MBOE	**42,469**	**42,469**	**0.0%**	**49,575**	**49,575**	**0.0%**	**45,362**	**45,362**	**0.0%**
Total revenue (unhedged)	**1,030,363**	**1,023,794**	**-0.6%**	**1,327,044**	**1,321,097**	**-0.4%**	**973,930**	**967,899**	**-0.6%**
of which:									
Natural gas	835,394	834,453	-0.1%	1,048,648	1,051,196	0.2%	761,326	762,758	0.2%
NGLs	128,676	123,142	-4.3%	173,847	165,422	-4.8%	121,692	114,303	-6.1%
Oil	35,703	35,609	-0.3%	75,950	75,879	-0.1%	63,412	63,337	-0.1%
Total commodity revenue	999,773	993,204	-0.7%	1,298,444	1,292,497	-0.5%	946,430	940,399	-0.6%
Midstream revenue	28,589	28,589	0.0%	27,000	27,000	0.0%	26,000	26,000	0.0%
Other	2,001	2,001	0.0%	1,600	1,600	0.0%	1,500	1,500	0.0%
Base lease operating expenses	126,274	126,274	0.0%	169,725	170,725	0.6%	159,030	160,030	0.6%
Gathering & compression, owned	66,546	66,546	0.0%	84,713	84,713	0.0%	79,358	79,358	0.0%
Gathering & transportation, 3rd party	67,294	67,294	0.0%	88,313	88,313	0.0%	82,731	82,731	0.0%
Production taxes	21,706	21,706	0.0%	43,372	43,372	0.0%	39,249	39,249	0.0%
Recurring admin. expenses	63,648	63,648	0.0%	72,000	72,000	0.0%	74,000	74,000	0.0%
Total recurring expenses	**345,468**	**345,468**	**0.0%**	**458,124**	**459,124**	**0.2%**	**434,368**	**435,368**	**0.2%**
Adjusted EBITDA (unhedged)	**684,895**	**678,326**	**-1.0%**	**868,921**	**861,973**	**-0.8%**	**539,805**	**532,774**	**-1.3%**
Settled hedges	**-325,070**	**-320,354**	**n.a.**	**-393,332**	**-390,178**	**n.a.**	**-133,299**	**-132,862**	**n.a.**
of which:									
Natural gas	-253,353	-252,447	n.a.	-329,934	-331,780	n.a.	-127,418	-128,203	n.a.
NGLs	-74,670	-70,872	n.a.	-61,693	-56,744	n.a.	-3,779	-2,559	n.a.
Oil	2,953	2,966	n.a.	-1,705	-1,654	n.a.	-2,101	-2,101	n.a.
Total revenue (hedged)	**705,293**	**703,440**	**-0.3%**	**933,712**	**930,918**	**-0.3%**	**840,631**	**835,036**	**-0.7%**
Adjusted EBITDA (hedged)	**359,825**	**357,972**	**-0.5%**	**475,589**	**471,795**	**-0.8%**	**406,506**	**399,911**	**-1.6%**
margin (%)	**51.0%**	**50.9%**	**-**	**50.9%**	**50.7%**	**-**	**48.4%**	**47.9%**	**-**
per BOE (USD)									
Total revenue (hedged)	**16.61**	**16.56**	**-0.3%**	**18.83**	**18.78**	**-0.3%**	**18.53**	**18.41**	**-0.7%**
Total recurring expenses	**8.13**	**8.13**	**0.0%**	**9.24**	**9.26**	**0.2%**	**9.58**	**9.60**	**0.2%**
of which:									
Base LOE	2.97	2.97	0.0%	3.42	3.44	0.6%	3.51	3.53	0.6%
Gathering & compression, owned	1.57	1.57	0.0%	1.71	1.71	0.0%	1.75	1.75	0.0%
Gathering & transportation, 3rd party	1.58	1.58	0.0%	1.78	1.78	0.0%	1.82	1.82	0.0%
Production taxes	0.51	0.51	0.0%	0.87	0.87	0.0%	0.87	0.87	0.0%
Recurring admin. expenses	1.50	1.50	0.0%	1.45	1.45	0.0%	1.63	1.63	0.0%
Adjusted EBITDA (hedged)	**8.47**	**8.43**	**-0.5%**	**9.59**	**9.52**	**-0.8%**	**8.96**	**8.82**	**-1.6%**
margin (%)	**51.0%**	**50.9%**	**-**	**50.9%**	**50.7%**	**-**	**48.4%**	**47.9%**	**-**
Av no shares (000s)	**797,175**	**797,175**	**0.0%**	**853,726**	**853,726**	**0.0%**	**853,726**	**853,726**	**0.0%**
Adj EBITDA hedged per share	**0.45**	**0.45**	**-0.5%**	**0.56**	**0.55**	**-0.8%**	**0.48**	**0.47**	**-1.6%**

Source: First Berlin Equity Research estimates

VALUATION MODEL

As mentioned above, management stated at the Capital Markets Day that future dividend growth will be moderated. In the medium term, we assume that the payout ratio will move in the direction of 30% of adjusted free cashflow (defined as hedged adjusted EBITDA less maintenance capex, interest expense, well retirement costs and cash taxes). Management's target up to now has been 40%. For 2022 however, maintenance of the current dividend implies a payout ratio of 38.7% on the basis of our forecasts.

Figure 6: Dividend payout and return on capital employed

USD 000s	2019A	2020A	2021E	2022E	2023E
Adjusted EBITDA (hedged)	273,266	300,590	357,972	471,795	399,911
Recurring capital expenditures	-17,255	-15,981	-23,000	-23,000	-23,000
Cash interest expenses	-32,715	-34,335	-37,004	-35,016	-28,895
Asset retirement (plugging)	-2,541	-2,442	-25,000	-25,000	-25,000
Cash paid for income taxes	-1,989	-5,850	-15,200	-15,200	-15,200
Free cashflow (adjusted)	218,766	241,982	257,768	373,579	307,816
Net fixed assets	1,816,982	2,137,188	2,547,927	2,440,604	2,298,357
Net working capital	-18,573	-42,499	21,282	40,140	29,900
Total capital employed	1,798,409	2,094,689	2,569,209	2,480,743	2,328,257
Average capital employed	1,614,279	1,946,549	2,331,949	2,524,976	2,404,500
Free cashflow (adjusted) ROCE	13.6%	12.4%	11.1%	14.8%	12.8%
Dividends paid and declared	86,605	104,305	132,333	144,433	144,433
as % free cashflow (adjusted)	39.6%	43.1%	51.3%	38.7%	46.9%
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 to reflect the additional investments discussed above. Our valuation 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 of GBp150 and Buy recommendation maintained We derive g from ROCE adjusted for the production decline rate and payout ratio. We have incorporated the investments discussed above in our model, but in order to ensure a representative basis for valuation have assumed an annual 1,000 well plugging run-rate from 2021. This results in annual plugging expense of USD25m (1,000 x USD 25,000 per well). We have also assumed that the additional USD6m in non-well plugging-related recurring capex starts in 2021 rather than 2022. Based on these adjustments and the slight dip in the near-term gas futures curve since our last update of 15 November, we now estimate 2021, 2022 and 2023 ROCE at 11.1%, 14.8% and 12.8% respectively (previously: 12.4%, 16.1% and 14.3% respectively). Our estimates for r and the rate of production decline are unchanged at 11.0% and 8.5% respectively. Adjusting the 12.9% average return on capital employed figure for 2021-2023 by 8.5% to reflect declining production produces a return of 3.3%. If we then reduce this number by 30% to reflect the dividend payout, we arrive at a sustainable growth rate in free cashflow (adjusted) of 2.3% (previously: 2.7%) Plugging our estimates for d1 (USD0.17), r (11.0%) and g (2.3%) into the formula above produces a valuation (see figures 7 and 8 below) for the DEC share of GBp146 (previously: GBp153). We maintain our Buy recommendation and the price target of GBp150.

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

growth rate \ return requirement	8.0%	9.0%	10.0%	11.0%	12.0%	13.0%	14.0%
0.3%	166	146	131	119	109	100	93
1.3%	190	166	146	131	119	109	100
2.3%	224	190	166	**146**	131	119	109
3.3%	272	224	190	166	146	131	119
4.3%	346	272	224	190	166	146	131
5.3%	476	346	272	224	190	166	146

Source: First Berlin Equity Research

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

growth rate \ return requirement	8.0%	9.0%	10.0%	11.0%	12.0%	13.0%	14.0%
0.3%	222	196	176	159	146	134	124
1.3%	255	222	196	176	159	146	134
2.3%	300	255	222	**196**	176	159	146
3.3%	364	300	255	222	196	176	159
4.3%	463	364	300	255	222	196	176
5.3%	637	463	364	300	255	222	196

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**	**1,023,794**	**1,321,097**	**967,899**
Operating expense	-107,793	-202,385	-203,963	-281,820	-387,124	-361,368
Depreciation and depletion	-41,988	-98,139	-117,290	-138,212	-163,816	-180,997
Gross profit	**139,988**	**161,732**	**87,440**	**603,762**	**770,157**	**425,533**
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	-320,354	-390,178	-132,862
Gain on bargain purchase	173,473	1,540	17,172	0	0	0
Operating income (EBIT)	**294,997**	**180,507**	**-77,568**	**197,323**	**287,979**	**198,671**
Finance costs	-17,743	-36,667	-43,327	-37,004	-35,016	-28,895
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**	**130,370**	**218,200**	**129,604**
Taxation on income	-60,676	-32,091	113,266	70,000	70,000	0
Net income / loss	**201,119**	**99,400**	**-23,474**	**200,370**	**288,200**	**129,604**
Diluted EPS (in USD)	**0.52**	**0.15**	**-0.03**	**0.25**	**0.34**	**0.15**
Adusted EBITDA (hedged)*	**146,217**	**273,266**	**300,590**	**357,972**	**471,795**	**399,911**
Ratios						
Gross margin	48.3%	35.0%	21.4%	59.0%	58.3%	44.0%
Adjusted EBITDA margin (hedged)	53.3%	53.4%	54.3%	50.9%	50.7%	47.9%
Net margin	69.4%	21.5%	-5.7%	19.6%	21.8%	13.4%
Tax rate	23.2%	24.4%	82.8%	-53.7%	-32.1%	0.0%
Expenses as % of revenues						
Y-Y Growth						
Revenues	593.6%	59.5%	-11.6%	150.5%	29.0%	-26.7%
Adjusted EBITDA (hedged)	734.9%	86.9%	10.0%	19.1%	31.8%	-15.2%
Net income/ loss	632.6%	-50.6%	n.m.	n.m.	43.8%	-55.0%

** 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**	**209,886**	**265,649**	**206,177**
Cash and cash equivalents	1,372	1,661	1,379	3,467	4,473	9,013
Restricted cash	1,730	1,207	250	628	811	1,634
Receivables	78,451	73,924	66,991	167,902	216,660	158,735
Derivative financial instruments	17,573	73,705	17,858	17,858	17,858	17,858
Other current assets	12,470	9,863	7,996	20,030	25,847	18,937
Non-current assets, total	**1,445,376**	**1,845,580**	**2,196,208**	**2,678,614**	**2,651,896**	**2,494,202**
Oil and gas properties, net	1,092,951	1,496,029	1,755,085	2,140,049	2,019,829	1,886,259
Property, plant & equipment, net	327,749	320,953	382,103	407,878	420,774	412,098
Intangible assets		15,981	19,213	23,070	25,144	15,465
Restricted cash	0	6,505	20,100	14,333	21,138	17,422
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	5,952	7,680	5,627
Total assets	**1,556,972**	**2,005,940**	**2,290,682**	**2,888,499**	**2,917,545**	**2,700,379**
Shareholders' equity & debt						
Current liabilities, total	**84,471**	**126,855**	**196,506**	**263,135**	**280,090**	**198,925**
Short-term debt	286	23,723	64,959	83,827	66,529	38,220
Accounts payable	9,383	17,053	19,366	48,513	62,600	45,864
Capital lease	842	798	5,013	12,558	16,204	11,872
Derivative financial instruments	0	0	15,858	15,858	15,858	15,858
Other current liabilities	73,960	85,281	91,310	102,379	118,899	87,111
Long-term liabilities, total	**723,638**	**940,950**	**1,207,518**	**1,496,647**	**1,409,800**	**1,166,001**
Long-term debt	482,528	598,778	652,281	841,741	668,044	383,786
Capital lease	2,694	1,015	13,865	30,714	39,633	29,037
Asset retirement obligation	140,190	196,871	344,242	399,571	461,744	531,518
Deferred tax liability	95,033	124,112	15,746	30,714	39,633	29,037
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	23,547	30,385	22,262
Shareholders' equity	**748,863**	**938,135**	**886,658**	**1,128,717**	**1,227,655**	**1,335,452**
Total consolidated equity and debt	**1,556,972**	**2,005,940**	**2,290,682**	**2,888,499**	**2,917,545**	**2,700,379**

Ratios						
Current ratio (x)	1.32	1.26	0.48	0.80	0.95	1.04
Quick ratio (x)	1.32	1.26	0.48	0.80	0.95	1.04
Net debt	493,998	635,039	724,757	933,085	742,090	429,524
Net gearing	66.0%	67.7%	81.7%	82.7%	60.4%	32.2%
Book value per share (in GBP)	1.08	1.09	1.04	1.07	1.16	1.26
Return on equity (ROE)	46.9%	11.8%	-2.6%	19.9%	24.5%	10.1%

CASH FLOW STATEMENT

All figures in USD '000	2018A	2019A	2020A	2021E	2022E	2022E
Net profit	**201,119**	**99,400**	**-23,474**	**200,370**	**288,200**	**129,604**
Depreciation and depletion	41,988	98,139	117,290	138,212	163,816	180,997
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	28,895
Cancellation/retirement of debt	8,358	0	0	0	0	0
Changes in working capital	-39,713	21,786	-10,129	-63,781	-18,858	10,240
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**	**263,304**	**424,437**	**387,108**
Oil and gas properties and equipment	-18,515	-32,313	-21,947	-38,000	-46,000	-44,000
Free cash flow	**66,878**	**244,302**	**217,321**	**222,854**	**375,937**	**340,308**
Acquisitions	-750,256	-439,272	-223,091	-490,415	0	0
Increase in restricted cash	-986	-5,302	-12,637	5,388	-6,987	2,892
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**	**-523,027**	**-52,987**	**-41,108**
Repayment of borrowings	-280,890	-618,010	-705,314	208,328	-190,995	-312,566
Proceeds of borrowings	581,221	765,236	799,650	0	0	0
Financing expense	-15,433	-32,715	-34,335	-37,004	-35,016	-28,895
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**	**261,810**	**-370,443**	**-341,461**
Other	**0**	**0**	**0**	**0**	**0**	**0**
Net cash flows	**-13,796**	**289**	**-282**	**2,088**	**1,007**	**4,540**
Cash, start of the year	15,168	1,372	1,661	1,379	3,467	4,473
Cash, end of the year	**1,372**	**1,661**	**1,379**	**3,467**	**4,473**	**9,013**

Y-Y Growth						
Operating cash flow	1164.8%	222.5%	-13.4%	8.9%	61.2%	-8.8%
Free cash flow	1745.7%	365.3%	89.0%	102.5%	168.7%	90.5%
EBITDA/share	159.5%	12.6%	3.0%	2.9%	23.0%	-15.2%

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

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

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Report No.:	Date of publication	Previous day closing price	Recommendation	Price target
Initial Report	30 June 2020	GBp94.40	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	15 November 2021	GBp103.20	Buy	GBp150.00
10	Today	GBp108.20	Buy	GBp150.00

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