

# Diversified Energy PLC

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

Update

<b>RATING</b>	<b>BUY</b>
<b>PRICE TARGET</b>	<b>GBp180.00</b>
Return Potential	72.9%
Risk Rating	Medium

## SIXTH STRAIGHT ≥50% EBITDA MARGIN IN PROSPECT FOR 2023

DEC reported a hedged adjusted EBITDA margin of 50% for 2022 (2021: 50%) - the fifth year in a row in which this figure has been at or above the 50% mark. Including the recent acquisition of assets from Tanos Energy Holdings, we calculate that 83% of DEC's 2023 natural gas production (gas accounts for 88% of output) is hedged at USD3.42/MMBtu – USD0.26/MMBtu above the average level of the futures strip. Last year 90% of production was hedged at USD3.24/MMBtu – USD3.40/MMBtu below the futures strip. Operating costs should fall in 2023 due to below average base lease operating expenses at the acquisition, synergies between the acquisition and nearby DEC assets, and because both production taxes and 3rd party gathering and transportation costs are linked to the commodity price. We expect a positive swing in the realised hedging result as well as lower operating costs to push adjusted EBITDA above the 2022 level and the margin again to reach 50%. Meanwhile, for good measure the stock is currently yielding 14.0%. We maintain our Buy recommendation at an unchanged price target of GBp180.

**New Tanos acquisition has low unit operating costs...** On 8 February DEC announced the acquisition of further assets from Tanos Energy Holdings. The newly acquired assets are located in Texas, adjacent to existing Central Region assets acquired through the previous Indigo (2021), Tanos (2021) and East Texas (2022) acquisitions. The acquisition will boost net production by 17m mboepd or 12% to ca. 158 mboepd (2022 exit production: 141 mboepd). 76% of the acquisition's production is natural gas (DEC pre-acquisition: 90% natural gas). Unit cash operating costs are low at USD5.10-USD5.70/boe vs. the USD8.85/boe DEC reported for FY2022.

**...due to dense well footprint and low average well age** The Tanos asset package includes a relatively low well count (~150 net operated wells) over a dense footprint, which makes for lower unit fixed expense (mainly well tender and service costs). (p.t.o.)

### FINANCIAL HISTORY & PROJECTIONS

	2018	2019	2020	2021	2022E	2023E
Revenue (\$ m)	289.77	462.26	408.69	1007.56	1939.68	1085.46
Y-o-y growth	593.6%	59.5%	-11.6%	146.5%	92.5%	-44.0%
Adj. EBITDA (hedged) (\$ m)	146.22	273.27	300.59	343.15	502.78	552.32
Adj. EBITDA margin (hedged)	53.3%	53.4%	54.3%	50.0%	49.6%	50.8%
Net income (\$ m)	201.12	99.40	-23.47	-325.21	93.82	65.22
EPS (diluted) (\$)	0.52	0.15	-0.03	-0.41	0.11	0.07
DPS (\$)	11.23	13.92	15.25	16.50	17.25	17.50
FCF (\$m)	66.88	244.30	217.32	267.13	171.82	346.74
Net gearing	66.0%	67.7%	81.7%	152.1%	149.5%	153.0%
Liquid assets (\$ m)	1.37	1.66	1.38	12.56	155.64	11.03

### 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. 88% of total production. Ca. two thirds of total production derive from the Appalachian Basin and the balance from the "Central Region" (Arkansas, Louisiana, Oklahoma, Texas) which DEC entered in 2021.

### MARKET DATA

As of 17 Feb 2023

Closing Price	GBp 104.10
Shares outstanding	927.18m
Market Capitalisation	GBP965m
52-week Range	GBp 104.10 / 142.00
Avg. Volume (12 Months)	2,200,867

Multiples	2021	2022E	2023E
P/E	n.a.	11.3	18.3
EV/Sales	2.4	1.2	2.2
EV/EBITDA	7.0	4.8	4.4
Div. Yield	13.2%	13.8%	14.0%

### STOCK OVERVIEW



### COMPANY DATA

As of 30 Jun 2022

Liquid Assets	\$ 187.34m
Current Assets	\$ 616.54m
Intangible Assets	\$ 14.75m
Total Assets	\$ 4,033.38m
Current Liabilities	\$ 1,565.02m
Shareholders' Equity	\$ 354.08m

### SHAREHOLDERS

BlackRock Inc	4.7%
Pelham Capital Ltd	4.6%
abrdn plc	4.6%
Pendal Group Ltd	4.1%
Free float and other	82.0%

**Figure 1: February 2023 Tanos acquisition in comparison with previous Central Region acquisitions**

	Net purchase price (\$m)	Next 12 mths. EBITDA multiple (x)	Capacity (mboepd)	Net acres per boepd	Total cash costs (\$/BOE)	Average age* (yrs)	Production decline rate year 1 / year 3	Completion date	Announcement date	Av. gas price during announcem. quarter
<b>2021</b>										
Indigo	115	2.9	16.0	11.3	8.16	6	14% / n.a.	19/05/2021	30/04/2021	\$2.83/MMBtu
Blackbeard	166	3.5	16.0	7.7	9.42	11	8% / n.a.	05/07/2021	20/05/2021	\$2.83/MMBtu
Tanos I	118	2.3	14.0	7.0	6.96	9	n.a. / n.a.	18/08/2021	05/07/2021	\$4.01/MMBtu
Tapstone	174	1.8	12.0	32.5	11.69	12	17% / 13%	08/12/2021	07/10/2021	\$5.83/MMBtu
<b>Total</b>	<b>573</b>	<b>2.4</b>	<b>58.0</b>	<b>13.6</b>	<b>8.95</b>	<b>9</b>	<b>n.a. / n.a.</b>			
<b>2022</b>										
East Texas	50	1.4	3.7	n.a.	n.a.	n.a.	7% / n.a.	26/04/2022	26/04/2022	\$7.17/MMBtu
Conoco Phillips	210	2.5	9.0	27.8	11.40 - 12.00	16	8% / 8%	28/09/2022	28/07/2022	\$8.20/MMBtu
<b>Total</b>	<b>260</b>	<b>2.2</b>	<b>12.7</b>	<b>n.a.</b>	<b>n.a.</b>	<b>n.a.</b>	<b>8% / n.a.</b>			
<b>2023</b>										
Tanos II	250	2.3	17.0	2.0	5.10 - 5.70	3	32% / 23%	01/03/2023	08/02/2023	\$3.47/MMBtu

\* production-weighted average well-age

Source: DEC

Net acreage per boepd produced of 2.0 (see figure 1) is much lower than for any of the other acquisitions DEC has so far made in the Central Region. This low figure is a function of the dense well footprint and also the low production-weighted average age of the wells in comparison with the other acquisitions shown in figure 1. A well's output declines as it ages and so its unit costs are lower earlier in its life. However, younger wells also have higher decline rates than more mature wells. The new wells are estimated to have a one-year production decline rate of ~32%, a third-year decline rate of ~23%, and a terminal decline rate of ~9%. Following the acquisition, management has revised its estimate of the group's next 12 months production decline rate from 8.5% to 11.0%.

**EBITDA multiple is close to average DEC has so far paid for Central Region acquisitions** The acquisition purchase price is USD250m which corresponds to 2.3x next 12 months production. As figure 1 shows, this is close to the average multiple DEC has so far paid for Central Region acquisitions. The acquisition, whose closing date is expected to be 1 March, is being financed through an equity placing/retail offer and the company's existing revolving credit facility.

**Acquisition likely be accretive on an adjusted EBITDA/share basis** The equity placing/retail offer raised net proceeds of USD156.4m through the issue of 128.4m new shares, thereby raising the total shares outstanding by 15.2% to 971.4m. Management calculates that the acquisition would have increased adjusted EBITDA by 19% on a trailing 12 months basis to 30 June 2022. The acquisition should therefore be accretive on an adjusted EBITDA/share basis.

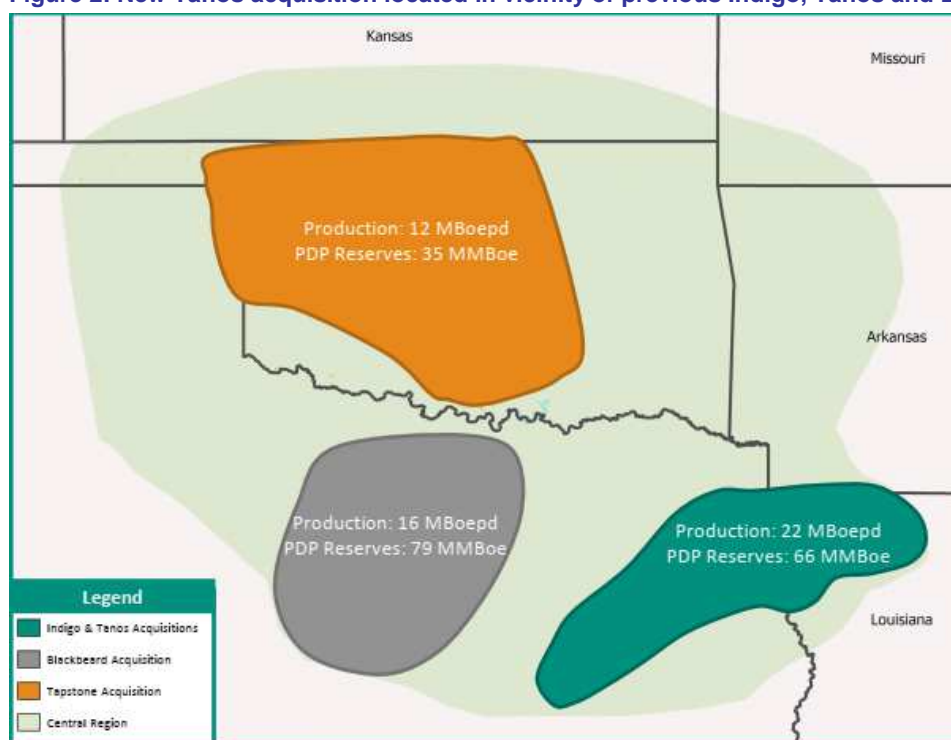
**Post-acquisition gas production 83% hedged at USD3.42/MMBtu** The acquisition's natural gas production is currently 60% hedged for 2023 at USD3.55/MMBtu. For DEC pre-acquisition these figures are 85% and USD3.41/MMBtu. On a blended basis the numbers are 83% and USD3.42/MMBtu. The average level of the natural gas strip for the period March-December 2023 is USD3.16/MMBtu.

**Substantial additional upside from undeveloped/partially developed wells** The acquisition also offers substantial potential upside from ca. 50 undeveloped locations with a management-estimated PV10 of ca. USD280m. The acquisition additionally includes four partially developed wells requiring ca. USD25m of CAPEX to complete their development. The value of these assets could be realised through sale, or development with a partner.

Figure 2 below was included in DEC's presentation of the autumn 2021 Tapstone acquisition. In spring 2022 DEC added further capacity in East Texas close to the Indigo and Tanos acquisitions made in 2021. The location of the new assets in the vicinity of previously made acquisitions offers ample scope to reduce unit costs further. The assets acquired last year from Conoco Phillips are located in Oklahoma and the Texas panhandle.

**Post-acquisition debt:adjusted EBITDA below year-end 2022 level** Following the acquisition, the fundraising and the credit facility drawdown, management estimates that DEC will have a 2022 YE proforma net debt to adjusted EBITDA multiple of 2.1x. This is below the reported figure year-end figure of 2.3x and in line with the targeted range of 2.0-2.5x.

**Figure 2: New Tanos acquisition located in vicinity of previous Indigo, Tanos and East Texas acquisitions**



Source: DEC presentation of Tapstone acquisition, October 2021

**Q4 hedged adj. EBITDA margin was the strongest of the year** FY/2022 production rose 13.6% to 135 Mboepd (000s of barrels of oil equivalent per day) compared with our forecast of 136 Mboepd and the prior year figure of 119 Mboepd. The increase stemmed from two further Central Region acquisitions. DEC has so far published neither revenue nor hedged adjusted EBITDA. However the company did state that the adjusted EBITDA margin (cash margin) was 50% (FBe: 51.4%; 2021: 50.0%) and that total recurring operating expenses per boe were USD10.41 (2021: USD7.95). On the basis of these numbers, last year's commodity prices and hedging information published by the company, we estimate (see figure 1 overleaf) that unhedged revenue jumped 92.5% to USD1,940m (2021: USD1,008m). Hedging losses meant that hedged revenue grew by an estimated 47.7% to USD1,015m (2021: USD687m). The reported adjusted EBITDA margin for Q1/22 and Q2/22 was 48.4% and 47.6% respectively. We estimate this figure at the 9M/22 stage at 48.7%.



The Conoco Phillips acquisition closed at the end of September and boosted production by 7%. This acquisition was made unhedged. We believe that hedging of the Conoco Phillips acquisition during Q3/22 (when the US natural gas price reached its 2022 peak) was the main driver of the widening of the hedged adjusted EBITDA margin to over 50% in Q4/22.

Changes to our 2023 unhedged revenue forecast since our most recent note of 11 October reflect a ca. 40% decline in the average level of the 2023 gas futures strip. However, operating costs should fall in 2023 due to below average base lease operating expenses at the acquisition, synergies between the acquisition and nearby DEC assets, and because both production taxes and 3rd party gathering and transportation costs are linked to the commodity price. We expect a positive swing in the realised hedging result as well as lower operating costs to push adjusted EBITDA above the 2022 level and the margin again to reach 50%.

Figure 3: Changes to our forecasts

USD 000s	2021A	2022E		New vs. Old	2022 vs. 2021	2023E		New vs. Old	2023 vs. 2022
	Actual	FBe Old	FBe New	% Δ	% Δ	FBe Old	FBe New	% Δ	% Δ
<b>Mboe</b>	<b>43,257</b>	<b>49,644</b>	<b>49,153</b>	<b>-1.0%</b>	<b>13.6%</b>	<b>47,814</b>	<b>51,874</b>	<b>8.5%</b>	<b>5.5%</b>
<b>Total revenue (unhedged)</b>	<b>1,007,561</b>	<b>2,038,415</b>	<b>1,939,679</b>	<b>-4.8%</b>	<b>92.5%</b>	<b>1,524,279</b>	<b>1,085,457</b>	<b>-28.8%</b>	<b>-44.0%</b>
Natural gas	818,726	1,689,357	1,588,836	-6.0%	94.1%	1,270,675	730,577	-42.5%	-54.0%
NGLs	115,747	179,748	179,615	-0.1%	55.2%	109,679	164,192	49.7%	-8.6%
Oil	38,634	133,732	135,650	1.4%	251.1%	116,425	163,189	40.2%	20.3%
Total commodity revenue	973,107	2,002,837	1,904,101	-4.9%	95.7%	1,496,779	1,057,957	-29.3%	-44.4%
Midstream revenue	31,988	30,102	30,102	0.0%	-5.9%	26,000	26,000	0.0%	-13.6%
Other	2,466	5,476	5,476	0.0%	122.1%	1,500	1,500	0.0%	-72.6%
Base lease operating expenses	119,594	171,412	172,637	0.7%	44.4%	170,219	191,565	12.5%	11.0%
Gathering & compression, owned	60,481	67,850	70,835	4.4%	17.1%	67,896	76,490	12.7%	8.0%
Gathering & transportation, 3rd party	80,620	119,392	117,911	-1.2%	46.3%	114,754	112,385	-2.1%	-4.7%
Production taxes	30,518	78,011	73,757	-5.5%	141.7%	57,923	66,481	14.8%	-9.9%
Recurring admin. expenses	52,547	71,441	76,775	7.5%	46.1%	72,199	88,161	22.1%	14.8%
Total recurring expenses	343,760	508,106	511,914	0.7%	48.9%	482,991	535,081	10.8%	4.5%
<b>Adjusted EBITDA (unhedged)</b>	<b>663,801</b>	<b>1,530,309</b>	<b>1,427,765</b>	<b>-6.7%</b>	<b>115.1%</b>	<b>1,041,288</b>	<b>550,376</b>	<b>-47.1%</b>	<b>-61.5%</b>
<b>Settled hedges</b>	<b>-320,656</b>	<b>-993,959</b>	<b>-924,983</b>	<b>n.a.</b>	<b>188.5%</b>	<b>-609,955</b>	<b>1,948</b>	<b>n.a.</b>	<b>-100.2%</b>
Natural gas	-263,929	-886,737	-816,191	n.a.	209.2%	-604,711	40,702	n.a.	-105.0%
NGLs	-60,530	-82,848	-84,020	n.a.	38.8%	-2,114	-34,639	n.a.	-58.8%
Oil	3,803	-24,375	-24,772	n.a.	n.a.	-3,130	-4,114	n.a.	-83.4%
<b>Total revenue (hedged)</b>	<b>686,905</b>	<b>1,044,456</b>	<b>1,014,697</b>	<b>-2.8%</b>	<b>47.7%</b>	<b>914,324</b>	<b>1,087,405</b>	<b>18.9%</b>	<b>7.2%</b>
<b>Adjusted EBITDA (hedged)</b>	<b>343,145</b>	<b>536,350</b>	<b>502,782</b>	<b>-6.3%</b>	<b>46.5%</b>	<b>431,334</b>	<b>552,324</b>	<b>28.1%</b>	<b>9.9%</b>
<b>margin (%)</b>	<b>50.0%</b>	<b>51.4%</b>	<b>49.6%</b>	<b>-</b>	<b>-0.8%</b>	<b>47.2%</b>	<b>50.8%</b>	<b>-</b>	<b>2.5%</b>
per BOE (USD)									
<b>Total revenue (unhedged)</b>	<b>23.29</b>	<b>41.06</b>	<b>39.46</b>	<b>-3.9%</b>	<b>678.7%</b>	<b>31.88</b>	<b>20.92</b>	<b>-34.4%</b>	<b>-7.96</b>
Settled hedges	-7.41	-20.02	-18.82	n.a.	n.a.	-12.76	0.04	n.a.	n.a.
<b>Total revenue (hedged)</b>	<b>15.88</b>	<b>21.04</b>	<b>20.64</b>	<b>-1.9%</b>	<b>30.0%</b>	<b>19.12</b>	<b>20.96</b>	<b>9.6%</b>	<b>1.5%</b>
<b>Total recurring expenses</b>	<b>7.95</b>	<b>10.23</b>	<b>10.41</b>	<b>1.8%</b>	<b>31.0%</b>	<b>10.10</b>	<b>10.31</b>	<b>2.1%</b>	<b>-1.0%</b>
of which:									
Base LOE	2.76	3.45	3.51	1.7%	27.3%	3.56	3.69	3.7%	5.1%
Gathering & compression, owned	1.40	1.37	1.44	5.4%	2.9%	1.42	1.47	3.8%	2.3%
Gathering & transportation, 3rd party	1.86	2.40	2.40	-0.3%	29.0%	2.40	2.17	-9.7%	-9.7%
Production taxes	0.71	1.57	1.50	-4.5%	110.2%	1.21	1.28	5.8%	-14.6%
Recurring admin. expenses	1.21	1.44	1.56	8.5%	28.7%	1.51	1.70	12.6%	8.8%
<b>Adjusted EBITDA (hedged)</b>	<b>7.95</b>	<b>10.80</b>	<b>10.23</b>	<b>-5.3%</b>	<b>28.7%</b>	<b>9.02</b>	<b>10.65</b>	<b>18.0%</b>	<b>4.1%</b>
<b>margin (%)</b>	<b>50.1%</b>	<b>51.4%</b>	<b>49.6%</b>	<b>-</b>	<b>-</b>	<b>47.2%</b>	<b>50.8%</b>	<b>-</b>	<b>-</b>
<b>Av. no shares (000s)</b>	<b>793,542</b>	<b>850,340</b>	<b>849,145</b>	<b>0.0%</b>	<b>7.0%</b>	<b>849,650</b>	<b>953,512</b>	<b>0.0%</b>	<b>12.3%</b>
<b>Adj EBITDA (hedged) per share (USD)</b>	<b>0.43</b>	<b>0.63</b>	<b>0.59</b>	<b>-6.1%</b>	<b>36.9%</b>	<b>0.51</b>	<b>0.58</b>	<b>14.1%</b>	<b>-2.2%</b>

Source: First Berlin Equity Research estimates



## VALUATION MODEL

Figure 4: Dividend payout and return on capital employed

USD 000s	2019A	2020A	2021A	2022E	2023E
Adjusted EBITDA (hedged)	273,266	300,590	343,145	502,782	552,324
Recurring capital expenditures	-17,255	-15,981	-35,490	-60,000	-70,000
Cash interest expenses	-32,715	-34,335	-41,623	-68,121	-94,531
Asset retirement (plugging)	-2,541	-2,442	-2,879	-5,045	-5,122
Cash paid for income taxes	-1,989	-5,850	-10,880	-50,000	-60,000
Free cashflow (adjusted)	218,766	241,982	252,273	319,616	322,671
Net fixed assets	1,816,982	2,137,188	2,944,058	3,054,440	3,031,638
Net working capital	-18,573	-42,499	-135,110	-78,186	26,801
Total capital employed	1,798,409	2,094,689	2,808,948	2,976,254	3,058,439
Average capital employed	1,614,279	1,946,549	2,451,819	2,892,601	3,017,346
Free cashflow (adjusted) ROCE	13.6%	12.4%	10.3%	11.0%	10.7%
Dividends paid and declared	86,605	104,305	132,333	150,541	169,997
as % free cashflow (adjusted)	39.6%	43.1%	52.5%	47.1%	52.7%
Dividends paid and declared per share (USD)	0.1382	0.1475	0.1558	0.1772	0.1750
Dividends declared per share (USD)	0.1392	0.1525	0.1650	0.1725	0.1750

Source: First Berlin Equity Research estimates

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

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

$p^0$  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

**GBp180 price target unchanged. Buy rating maintained** We derive  $g$  from ROCE adjusted for the production decline rate and payout ratio. The Tanos acquisition has a higher long term production decline rate (9%) than pre-acquisition DEC, and so we have raised our estimate for the long term rate of production decline for the enlarged group from 7.0% to 8.0%. Our valuation also takes into account the ca. 50 undeveloped locations with a PV10 of USD280m acquired through the recent Tanos acquisition. We value these assets on a PV11 basis (in keeping with our estimated return requirement) at USD268m or USD0.28/GBP0.23 per share. Adjusting our average return on capital employed forecast for 2022-23 of 10.9% by the 8.0% production decline rate gives a return of 2.0%. 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 1.4%. Plugging our estimates for  $d^1$  (USD0.175),  $r$  (11.0%) and  $g$  (1.4%) into the formula above produces a valuation (see figures 5 and 6 below) for the DEC share of GBp175 (previously: GBp180). We maintain our Buy recommendation.

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

		return requirement						
growth rate		8.0%	9.0%	10.0%	11.0%	12.0%	13.0%	14.0%
	-0.6%	193	175	161	149	139	130	123
	0.4%	215	193	175	161	149	139	130
	1.4%	244	215	193	175	161	149	139
	2.4%	284	244	215	193	175	161	149
	3.4%	340	284	244	215	193	175	161
	4.4%	428	340	284	244	215	193	175

Source: First Berlin Equity Research



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

		return requirement						
growth rate		8.0%	9.0%	10.0%	11.0%	12.0%	13.0%	14.0%
	-0.6%	231	210	193	179	167	156	148
	0.4%	258	231	210	193	179	167	156
	1.4%	293	258	231	210	193	179	167
	2.4%	340	293	258	231	210	193	179
	3.4%	408	340	293	258	231	210	193
	4.4%	514	408	340	293	258	231	210

Source: First Berlin Equity Research



## INCOME STATEMENT

All figures in USD '000	2018A	2019A	2020A	2021A	2022E	2023E
<b>Revenues</b>	<b>289,769</b>	<b>462,256</b>	<b>408,693</b>	<b>1,007,561</b>	<b>1,939,679</b>	<b>1,085,457</b>
Operating expense	-107,793	-202,385	-203,963	-291,213	-435,139	-446,920
Depreciation and depletion	-41,988	-98,139	-117,290	-167,644	-277,374	-324,552
<b>Gross profit</b>	<b>139,988</b>	<b>161,732</b>	<b>87,440</b>	<b>548,704</b>	<b>1,227,166</b>	<b>313,985</b>
Administrative expenses	-40,524	-55,889	-77,234	-102,326	-164,812	-88,161
Allowance for expected credit losses	0	-730	-8,490	4,265	0	0
Gain on oil/gas programme and equipment	4,079	0	-2,059	-901	0	0
Gain (loss) on derivative financial instruments	17,981	73,854	-94,397	-974,878	-924,983	1,948
Gain on bargain purchase	173,473	1,540	17,172	58,072	0	0
<b>Operating income (EBIT)</b>	<b>294,997</b>	<b>180,507</b>	<b>-77,568</b>	<b>-467,064</b>	<b>137,371</b>	<b>227,772</b>
Finance costs	-17,743	-36,667	-43,327	-50,628	-68,121	-94,531
Loss on early retirement of debt	-8,358	0	0	0	0	0
Accretion of asset retirement obligation	-7,101	-12,349	-15,424	-24,396	-45,431	-53,017
Other income (expense)	0	0	-421	-8,812	0	0
<b>Income before taxation</b>	<b>261,795</b>	<b>131,491</b>	<b>-136,740</b>	<b>-550,900</b>	<b>23,820</b>	<b>80,224</b>
Taxation on income	-60,676	-32,091	113,266	225,694	70,000	-15,000
<b>Net income / loss</b>	<b>201,119</b>	<b>99,400</b>	<b>-23,474</b>	<b>-325,206</b>	<b>93,820</b>	<b>65,224</b>
<b>Diluted EPS (in USD)</b>	<b>0.52</b>	<b>0.15</b>	<b>-0.03</b>	<b>-0.41</b>	<b>0.11</b>	<b>0.07</b>
<b>Adjusted EBITDA (hedged)*</b>	<b>146,217</b>	<b>273,266</b>	<b>300,590</b>	<b>343,145</b>	<b>502,782</b>	<b>552,324</b>
<b>Ratios</b>						
Gross margin	48.3%	35.0%	21.4%	54.5%	63.3%	28.9%
Adjusted EBITDA margin (hedged)	53.3%	53.4%	54.3%	50.0%	49.6%	50.8%
Net margin	69.4%	21.5%	-5.7%	-32.3%	4.8%	6.0%
Tax rate	23.2%	24.4%	82.8%	41.0%	-293.9%	18.7%
<b>Expenses as % of revenues</b>						
<b>Y-Y Growth</b>						
Revenues	593.6%	59.5%	-11.6%	146.5%	92.5%	-44.0%
Adjusted EBITDA (hedged)	734.9%	86.9%	10.0%	14.2%	46.5%	9.9%
Net income/ loss	632.6%	-50.6%	n.m.	n.m.	n.m.	-30.5%

\* 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	2021A	2022E	2023E
<b>Assets</b>						
<b>Current assets, total</b>	<b>111,596</b>	<b>160,360</b>	<b>94,474</b>	<b>337,139</b>	<b>596,226</b>	<b>322,347</b>
Cash and cash equivalents	1,372	1,661	1,379	12,558	155,641	11,033
Restricted cash	1,730	1,207	250	1,033	12,803	908
Receivables	78,451	73,924	66,991	282,922	407,333	298,501
Derivative financial instruments	17,573	73,705	17,858	1,052	1,052	1,052
Other current assets	12,470	9,863	7,996	39,574	19,397	10,855
<b>Non-current assets, total</b>	<b>1,445,376</b>	<b>1,845,580</b>	<b>2,196,208</b>	<b>3,157,070</b>	<b>3,350,203</b>	<b>3,296,968</b>
Oil and gas properties, net	1,092,951	1,496,029	1,755,085	2,530,078	2,584,472	2,570,108
Property, plant & equipment, net	327,749	320,953	382,103	413,980	469,968	461,531
Intangible assets		15,981	19,213	14,134	10,556	9,702
Restricted cash	0	6,505	20,100	18,069	31,035	19,538
Indemnification receivable	2,133	2,133	1,837	0	0	0
Derivative financial instruments	21,745	3,803	717	219	219	219
Deferred tax asset		0	14,777	176,955	246,955	231,955
Other non-current assets	798	176	2,376	3,635	6,998	3,916
<b>Total assets</b>	<b>1,556,972</b>	<b>2,005,940</b>	<b>2,290,682</b>	<b>3,494,209</b>	<b>3,946,428</b>	<b>3,619,316</b>
<b>Shareholders' equity &amp; debt</b>						
<b>Current liabilities, total</b>	<b>84,471</b>	<b>126,855</b>	<b>196,506</b>	<b>773,600</b>	<b>629,784</b>	<b>391,582</b>
Short-term debt	286	23,723	64,959	58,820	93,188	84,316
Accounts payable	9,383	17,053	19,366	62,418	58,190	32,564
Capital lease	842	798	5,013	9,627	23,792	13,314
Derivative financial instruments	0	0	15,858	251,687	15,858	15,858
Other current liabilities	73,960	85,281	91,310	391,048	438,755	245,530
<b>Long-term liabilities, total</b>	<b>723,638</b>	<b>940,950</b>	<b>1,207,518</b>	<b>2,056,659</b>	<b>2,358,592</b>	<b>2,280,972</b>
Long-term debt	482,528	598,778	652,281	951,535	1,507,514	1,363,978
Capital lease	2,694	1,015	13,865	18,177	58,190	32,564
Asset retirement obligation	140,190	196,871	344,242	522,190	609,396	707,530
Deferred tax liability	95,033	124,112	15,746	0	0	0
Uncertain tax position	2,133	2,133	1,837	0	0	0
Derivative financial instruments	0	15,706	168,524	556,982	168,524	168,524
Other non-current liabilities	1,060	2,335	11,023	7,775	14,968	8,376
<b>Shareholders' equity</b>	<b>748,863</b>	<b>938,135</b>	<b>886,658</b>	<b>663,950</b>	<b>958,052</b>	<b>946,762</b>
<b>Total consolidated equity and debt</b>	<b>1,556,972</b>	<b>2,005,940</b>	<b>2,290,682</b>	<b>3,494,209</b>	<b>3,946,428</b>	<b>3,619,316</b>
<b>Ratios</b>						
Current ratio (x)	1.32	1.26	0.48	0.44	0.95	0.82
Quick ratio (x)	1.32	1.26	0.48	0.44	0.95	0.82
Net debt	493,998	635,039	724,757	1,010,005	1,432,534	1,448,125
Net gearing	66.0%	67.7%	81.7%	152.1%	149.5%	153.0%
Book value per share (in GBP)	1.08	1.09	1.04	0.63	0.91	0.78
Return on equity (ROE)	46.9%	11.8%	-2.6%	-41.9%	11.6%	6.8%





## CASH FLOW STATEMENT

All figures in USD '000	2018A	2019A	2020A	2021A	2022E	2023E
<b>Net profit</b>	<b>201,119</b>	<b>99,400</b>	<b>-23,474</b>	<b>-325,206</b>	<b>93,820</b>	<b>65,224</b>
Depreciation and depletion	41,988	98,139	117,290	167,644	277,374	324,552
Accretion of asset retirement obligation	7,101	12,349	15,424	24,396	45,431	53,017
Deferred income taxes	60,676	32,091	-113,266	-225,694	-70,000	15,000
(Gain)/loss on derivative financial instruments	-32,768	-20,270	238,795	652,465	0	0
Asset retirement, plugging	-1,171	-2,541	-2,442	-2,879	-2,500	-2,800
Gain on oil/gas properties and equipment	-4,079	0	1,356	901	0	0
Gain on bargain purchase	-173,473	-1,540	-17,172	-58,072	0	0
Finance costs	17,743	36,677	43,327	50,628	68,121	94,531
Cancellation/retirement of debt	8,358	0	0	0	0	0
Changes in working capital	-39,713	21,786	-10,129	40,680	-56,924	-104,988
Non cash equity compensation	783	3,065	5,007	7,400	0	0
Cash paid for income taxes	0	-1,989	-5,850	-10,880	-46,000	-15,000
Integration of acquisitions	0	0	0	0	-30,000	0
Adjustment to pipeline contract terms	0	0	0	0	-35,000	0
Other adjustments	0	1,989	-7,156	-1,201	0	0
<b>Operating cash flow</b>	<b>86,564</b>	<b>279,156</b>	<b>241,710</b>	<b>320,182</b>	<b>244,322</b>	<b>429,537</b>
<b>Investment cash flow</b>	<b>-765,678</b>	<b>-466,887</b>	<b>-257,756</b>	<b>-625,874</b>	<b>-354,736</b>	<b>-313,608</b>
Repayment of borrowings	-280,890	-618,010	-705,314	-1,432,566	0	-152,409
Proceeds of borrowings	581,221	765,236	799,650	1,727,745	590,348	0
Financing expense	-15,433	-32,715	-34,335	-41,623	-68,121	-94,531
Cost incurred to secure financing	-17,176	-11,574	-7,799	-10,255	-24,579	0
ABS note hedge modifications	0	0	0	0	-88,000	0
Proceeds from capital lease	4,401	0	0	0	0	0
Principal element of lease payments	-1,093	-1,724	-3,684	-8,606	0	0
Proceeds from equity issuance, net	425,601	221,860	81,407	213,844	0	156,400
Cancellation of warrants	0	0	0	-1,429	0	0
Dividends to shareholders	-31,313	-82,151	-98,527	-130,239	-144,150	-169,997
Repurchase of shares	0	-52,902	-15,634	0	-12,000	0
<b>Financing cash flow</b>	<b>665,318</b>	<b>188,020</b>	<b>15,764</b>	<b>316,871</b>	<b>253,497</b>	<b>-260,537</b>
<b>Other</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Net cash flows</b>	<b>-13,796</b>	<b>289</b>	<b>-282</b>	<b>11,179</b>	<b>143,083</b>	<b>-144,609</b>
Cash, start of the year	15,168	1,372	1,661	1,379	12,558	155,641
<b>Cash, end of the year</b>	<b>1,372</b>	<b>1,661</b>	<b>1,379</b>	<b>12,558</b>	<b>155,641</b>	<b>11,033</b>
<b>Y-Y Growth</b>						
Operating cash flow	1164.8%	222.5%	-13.4%	32.5%	-23.7%	75.8%
Free cash flow	1745.7%	365.3%	89.0%	122.9%	64.3%	201.8%
EBITDA/share	159.5%	12.6%	3.0%	-1.4%	36.9%	-2.2%

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Category		1	2
Current market capitalisation (in €)		0 - 2 billion	> 2 billion
Strong Buy <sup>1</sup>	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%

<sup>1</sup> 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...7	↓	↓	↓	↓
8	23 July 2021	GBp98.50	Buy	GBp140.00
9	15 November 2021	GBp103.20	Buy	GBp150.00
10	24 November 2021	GBp108.20	Buy	GBp150.00
11	15 February 2022	GBp113.80	Buy	GBp150.00
12	1 April 2022	GBp118.60	Buy	GBp150.00
13	5 May 2022	GBp125.00	Add	GBp150.00
14	25 May 2022	GBp122.30	Buy	GBp160.00
15	11 October 2022	GBp131.10	Buy	GBp180.00
16	Today	GBp104.10	Buy	GBp180.00

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