Diversified Energy PLC

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

Update

RATING	**BUY**
PRICE TARGET	**GBp180.00**
Return Potential	116.7%
Risk Rating	Medium

SHARE PRICE WEAKNESS PRESENTS BUYING OPPORTUNITY

H1/23 results once again demonstrated the effectiveness of DEC's business model in delivering high profits irrespective of the level of commodity prices. Thanks mainly to its hedging portfolio, DEC succeeded in raising hedged adjusted EBITDA by 26.4% to USD283m (H1/22: USD224m), despite the average H1/23 Henry Hub gas price of USD2.40/MMBtu, which was 60% below the prior year period level of USD6.05/MMBtu.The margin was 52.2% which suggests that the company is well on track to report a full-year hedged adjusted EBITDA margin of ≥50% for the sixth year in a row. The DEC share fell below GBp85 on 18 September on news of the departure of CFO Eric Williams, who has been with the company since 2017. His successor, Brad Gray, joined DEC in 2016 as Finance Director and COO before concentrating on the latter role following the arrival of Mr Williams. Mr Gray is a Certified Public Accountant who held CFO positions (at Royal Cup Inc. and The McPherson Companies) for over 10 years before working for DEC. We therefore expect a seamless handover of the CFO role and believe that the decline in the share price is unwarranted and presents a buying opportunity. As we pointed out in our update of 17 July, DEC looks set to be a prime beneficiary of multi-year growth in US LNG exports. LNG export growth is the main reason for the current upward slope in the gas futures curve to an average of USD3.78/MMBtu over the five year period January 2024 to December 2028. The stock's current yield of 17.0% is very attractive, as is the upside potential to our unchanged price target of GBp180. We maintain our Buy recommendation.

Adjusted hedged EBITDA margin widened to 52.2% (H1/22: 48.1%) DEC's H1/23 results were close to our expectations. Hedged revenue climbed 17% to USD542m (FBe: USD538m; H1/22: USD465m), while hedged adjusted EBITDA jumped 26.4% to USD283m (FBe: USD282m; H1/22: USD224m).

(p.t.o.)

FINANCIAL HISTORY & PROJECTIONS

	2018	2019	2020	2021	2022	2023E
Revenue ($ m)	289.77	462.26	408.69	1007.56	1910.14	884.59
Y-o-y growth	593.6%	59.5%	-11.6%	146.5%	89.6%	-53.7%
Adj. EBITDA (hedged) ($ m)	146.22	273.27	300.59	343.15	503.42	540.22
Adj. EBITDA margin (hedged)	53.3%	53.4%	54.3%	50.0%	49.6%	51.4%
Net income ($ m)	201.12	99.40	-23.47	-325.21	-629.81	642.05
EPS (diluted) ($)	0.52	0.15	-0.03	-0.41	-0.74	0.67
DPS ($)	11.23	13.92	15.25	16.50	17.25	17.50
FCF ($m)	68.05	246.84	219.76	270.01	301.69	380.80
Net gearing	66.0%	67.7%	81.7%	152.1%	n.a.	295.8%
Liquid assets ($ m)	1.37	1.66	1.38	12.56	7.33	4.69

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. 85% of total production. Ca. 60% of total production derive from the Appalachian Basin and the balance from the "Central Region" (Arkansas, Louisiana, Oklahoma, Texas) which DEC entered in 2021.

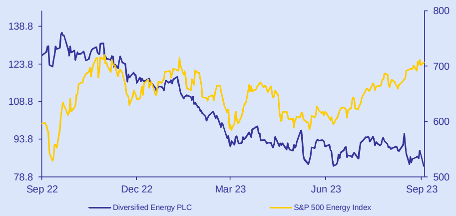
MARKET DATA

As of 18 Sep 2023

Closing Price	GBp 83.05
Shares Outstanding	970.57m
Market Capitalisation	GBP806m
52-week Range	GBp 83.05 / 136.30
Avg. Volume (12 Months)	2,213,422

Multiples	2021	2022	2023E
P/E	n.a.	n.a.	1.5
EV/Sales	2.5	1.3	2.8
EV/EBITDA	7.3	5.0	4.6
Div. Yield	16.0%	16.8%	17.0%

STOCK OVERVIEW



COMPANY DATA

As of 30 Jun 2023

Liquid Assets	$ 4.21m
Current Assets	$ 338.71m
Intangible Assets	$ 20.80m
Total Assets	$ 3,763.01m
Current Liabilities	$ 713.08m
Shareholders' Equity	$ 547.95m

SHAREHOLDERS

Pendal Group Ltd.	5.0%
Hargreaves Lansdown	4.8%
Blackrock Inc.	4.5%
Vanguard Group Inc	4.4%
Free float and other	81.3%

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

Figure 1: H1/23 results versus our forecasts

USD 000s	H1 23A	H1 23 FBe	% Δ	H1 22A	% Δ
mBOE	**25,697**	**25,632**	**0.3%**	**24,620**	**4.4%**
BOE/day	141,972	141,613	0.3%	136,022	4.4%
Total commodity revenue (unhedged)	**456,041**	**443,655**	**2.8%**	**913,815**	**-50.1%**
of which:					
Natural gas	334,588	289,123	15.7%	727,152	-54.0%
NGLs	67,159	86,001	-21.9%	107,846	-37.7%
Oil	54,294	68,531	-20.8%	78,817	-31.1%
Midstream revenue	16,662	13,000	28.2%	16,602	0.4%
Other revenue	14,602	6,750	116.3%	3,111	369.4%
Unhedged revenue	**487,305**	**463,405**	**5.2%**	**933,528**	**-47.8%**
Settled hedges	**54,525**	**74,793**	**-27.1%**	**-468,731**	**-111.6%**
Hedged revenue	**541,830**	**538,198**	**0.7%**	**464,797**	**16.6%**
Total recurring expenses	**258,966**	**256,130**	**1.1%**	**241,037**	**7.4%**
of which:					
Base lease operating expense	111,637	101,639	9.8%	81,776	36.5%
Gathering and compression, owned	34,391	36,542	-5.9%	33,156	3.7%
Gathering and transportation, 3rd party	49,964	48,979	2.0%	57,547	-13.2%
Total commodity transportation expense	84,355	85,521	-1.4%	90,703	-7.0%
Production taxes	31,307	31,994	-2.1%	33,878	-7.6%
Proceeds from leasehold sales	-6,830	n.a.	n.a.	-1,565	n.a.
Recurring G&A	38,497	36,977	4.1%	36,245	6.2%
Adjusted EBITDA (unhedged)	**228,339**	**207,275**	**10.2%**	**692,491**	**-67.0%**
Settled hedges	**54,525**	**74,793**	**-27.1%**	**-468,731**	**-111.6%**
Adjusted EBITDA (hedged)	**282,864**	**282,068**	**0.3%**	**223,760**	**26.4%**
margin (%)	52.2%	52.4%	-0.4%	48.1%	8.4%
Unit revenue/expense (USD)					
Total commodity revenue (unhedged)	17.75	17.31	2.5%	37.12	-52.2%
Other/midstream revenue	1.22	0.77	57.9%	0.80	51.9%
Unhedged revenue	**18.96**	**18.08**	**4.9%**	**37.98**	**-50.1%**
Hedged revenue	**21.09**	**21.00**	**0.4%**	**18.88**	**11.7%**
Total recurring expenses	**10.08**	**9.99**	**0.9%**	**9.79**	**2.9%**
of which:					
Base lease operating expense	4.34	3.97	9.4%	3.32	30.7%
Gathering and compression, owned	1.34	1.43	-6.0%	1.35	-0.7%
Gathering and transportation, 3rd party	1.94	1.91	1.5%	2.34	-17.1%
Total commodity transportation expense	3.28	3.34	-1.7%	3.69	-11.1%
Production taxes	1.22	1.25	-2.3%	1.37	-10.9%
Proceeds from leasehold sales	-0.27	n.a.	n.a.	-0.06	n.a.
Recurring G&A	1.50	1.44	4.0%	1.47	2.0%
Adjusted EBITDA (unhedged)	**8.90**	**8.09**	**10.0%**	**28.13**	**-68.4%**
Settled hedges	**2.12**	**2.92**	**-27.3%**	**-19.04**	**n.a.**
Adjusted EBITDA (hedged)	**11.02**	**11.00**	**0.1%**	**9.09**	**21.2%**

Source: DEC, First Berlin Equity Research estimates

As we expected, the Q2/23 dividend of USD0.04375 is unchanged on the Q1/23 payout but is 2.9% above Q2/22's USD0.0425. DEC raised the dividend to the current level for Q3/22. The improvement in hedged adjusted EBITDA was driven by a 4% increase in volume and a 10% increase in the average realised commodity price after hedging, while total recurring expenses increased by only 7.4%.

H1/23 volume helped by acquisitions Output from DEC's wells declines over time and so the company is reliant on making acquisitions to keep production moving ahead. Volume rose in H1/23 due to the acquisitions of the East Texas assets (April 2022), the Conoco Phillips assets (September 2022) and the Tanos II assets (March 2023).

Averaged realised sales price after hedging rose 10% y-o-y in H1/23 Uncertainty about the availability of natural gas pipeline imports from Russia following the invasion of the Ukraine prompted Europe to import record amounts of LNG to refill inventory ahead of winter 2022/23. U.S. LNG exports to Europe (the EU 27 plus the UK) jumped by 4 bcf/d or 141% to 6.8 bcf/d and accounted for 64% of the country's overall exports of the commodity. The jump in export volume pushed U.S. domestic gas pricing to over USD8/MMBtu during the spring and summer of 2022. Warm winter weather swelled spring 2023 gas inventory on both sides of the Atlantic and in consequence U.S. gas traded in the range USD2-3/MMBtu for most of H1/23. DEC was able to layer on favourably priced hedges during 2022 and so in H1/23 the company was able to turn a 52% y-o-y decline in the average realised sales price before hedging (from USD37.12/BOE to USD17.75/BOE) into a 10% y-o-y rise after hedging (from USD18.08/BOE to USD19.87/BOE).

Hedged revenue growth outpaced costs in H1/23 As figure 1 above shows, hedged revenue growth outpaced all recurring cost items with the exception of base lease operating expense. Base lease operating expense grew more strongly than revenue because of the increasing proportion of volume generated in the Central Region (Oklahoma, Texas, Louisiana) where operating costs are higher than in Appalachia. While operating costs are higher in the Central Region than in Appalachia, so too are realised prices. This means that margins in both regions are approximately equal. The cost of gathering and compression carried out by DEC climbed in line with volume, but both third party gathering and transportation cost and production taxes fell because these items are linked to commodity prices.

Figure 2: Cashflow summary (USD 000s)

	H1/22	H1/23	H2/23E	FY/23E
Op. c/flow before changes in working capital	**142,376**	**276,143**	**216,405**	**492,548**
Change in working capital	92,466	-101,660	64,241	-37,419
Taxes	-29,855	-1,917	1,917	0
Operating cashflow	**204,987**	**172,566**	**282,563**	**455,129**
Consideration for acquisitions	-63,824	-262,329	0	-262,329
Other net cash used in investing	-58,294	12,312	21,270	33,582
Net cash used in investing	**-122,118**	**-250,017**	**21,270**	**-228,747**
Dividend	-72,275	-84,029	-85,968	-169,997
New Equity	0	156,788	0	156,788
Interest	-32,605	-59,415	-77,593	-137,008
Debt issuance costs	-24,759	-1,730	0	-1,730
Hedge modifications	-73,075	0	0	0
Other	-20,019	-8,526	-7,922	-16,448
Change in net debt	**139,864**	**74,363**	**-132,350**	**-57,987**
Opening net debt	**1,010,005**	**1,435,449**	**1,509,812**	**1,435,449**
Closing net debt	**1,149,869**	**1,509,812**	**1,377,462**	**1,377,462**

Source: DEC

Net debt would have fallen in H1/23 had working capital cash consumption been neutral Net debt climbed during the first half of the year to USD1,509m (FY/22: USD1,435m) but net debt/EBITDA fell from 2.5x to 2.4x. Management targets an upper limit for this metric of 2.5x. As figure 2 shows, operating cashflow before changes in working capital almost doubled y-o-y to USD276m (H2/22: USD142m) but a negative USD193m swing in cash consumed by working capital was the main contributor to a 15% decline in cashflow after changes in working capital.

Working capital assets and liabilities are linked to commodity prices. DEC's working capital liabilities are typically substantially higher than its working capital current assets. This means that working capital consumes cash when commodity prices fall and generates cash when they rise. The Henry Hub gas price fell from USD3.74/MMBtu in early January to USD2.348 at the end of June. The December NYMEX future is currently USD3.41 and so we expect working capital to make a positive contribution to cashflow in H2/22. If working capital cash consumption had been neutral in H1/23, net debt would have fallen by USD27m.

Net 10% of new capacity added so far in 2023 matches portfolio decline rate Up until early 2019 DEC's portfolio consisted almost entirely of conventional wells in Appalachia. These wells had a natural annual output decline rate of ca. 5% but DEC was able to keep their output steady in 2019 by minimising production decline rates at active wells and returning inactive wells to production. Since early 2019 acquisitions made by DEC in Appalachia and later in the Central Region have been concentrated on unconventional wells which have higher natural decline rates. DEC is guiding that the natural decline rate of its current portfolio is 10%. The Tanos II acquisition which completed in March boosted production by ca. 12%. Adjusting for the disposal of non-operated assets in June, DEC has added ca. 10% of net new capacity so far this year.

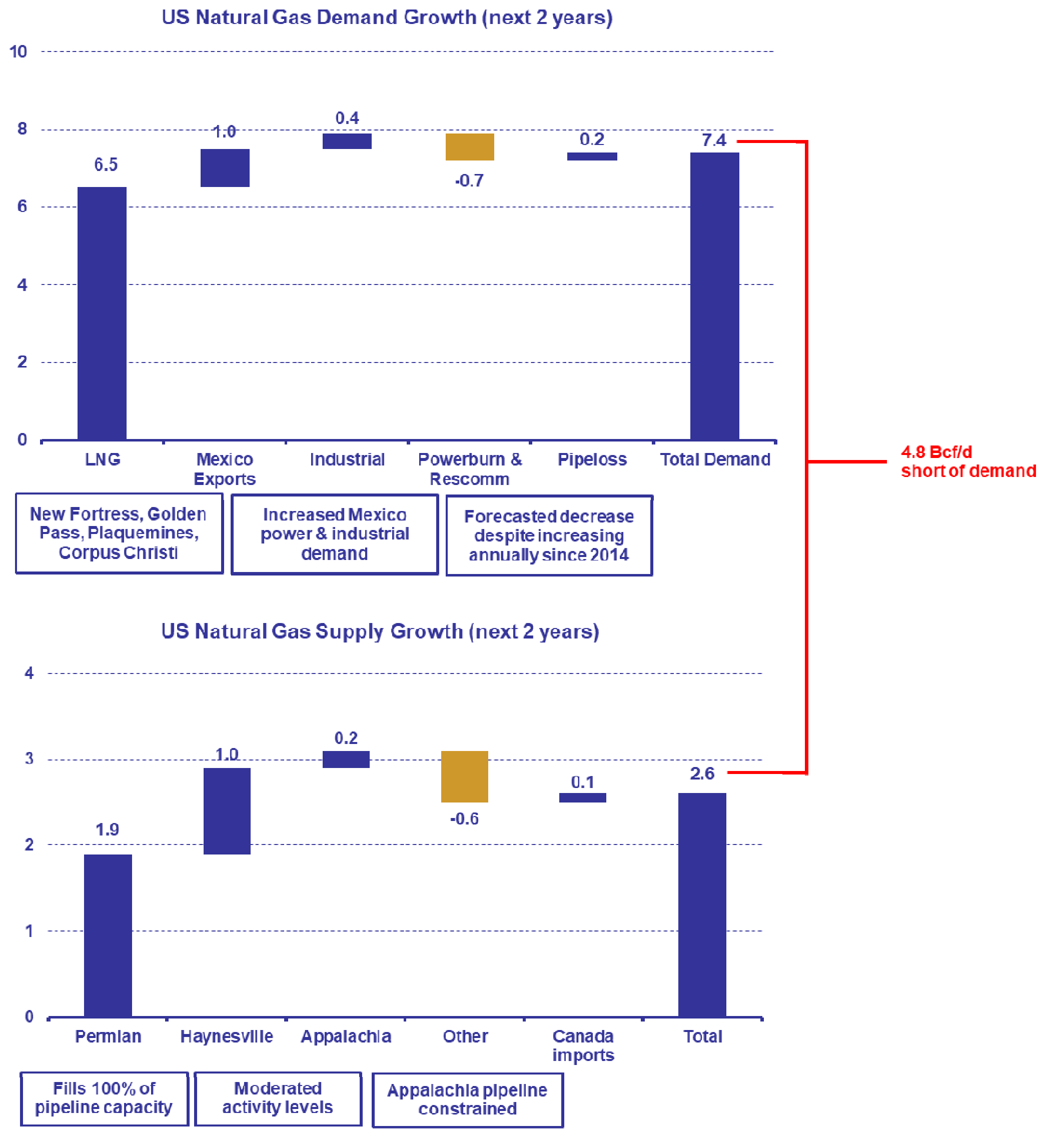
DEC has made little use of share buyback programme so far On 27 June DEC announced a share buyback programme to be executed by the earlier date of 30 June 2024 or the 2024 AGM (the 2023 AGM was held on 2 May). The buyback programme encompasses up to 10% of the company's end-June share capital i.e. 97.4m shares. DEC has bought back only 643,000 shares since the programme was announced. Executing the programme in full would raise production per share by ca. 11% at a cost, based on the current share price, of USD100m.

Acquisitions are strategic preference Management has indicated to us that the company's clear strategic preference is to grow production through acquisitions. This suggests that DEC will want to make one or more further acquisitions over the next six months to keep production moving ahead.

DEC has signalled near-term acquisitions despite current divergence between buyers and sellers on price Management's statements during the analysts' call on the subject of acquisitions suggest there is currently something of a stand-off between buyers and potential sellers of assets. Given the recent volatility of commodity prices and interest rates, as well as the prospect of a near-term rally in the gas price and falling interest rates at some stage in 2024, this is not surprising in our view. Over the past year, Henry Hub gas has fluctuated between a peak of USD8.63/MMBtu (September 2022) and a low of USD1.77/MMBtu (June 2023). The current price is USD2.54/MMBtu. The futures strip shows averages of USD3.42/MMBtu and USD3.93/MMBtu for 2024 and 2025 respectively compared with USD2.76/MMBtu for 2023. Meanwhile, the yield on the 10-year US government bond has climbed from 1.5% at the end of 2021 to 4.25% currently. Given the prospect of higher commodity prices in 2024 and 2025 as well as lower yields, it is not surprising in our view that potential sellers are holding out for higher prices. DEC made four upstream acquisitions in 2021, two in 2022, but so far this year has only made one (the Tanos II assets). Management indicated during the analysts' conference call that "one or two acquisitions" are likely in the near term, but we think that a return to the more vigorous activity of previous years will have to wait for more stable commodity prices and interest rates.

U.S. natural gas demand forecast to exceed supply by 4.8bcf/d during next two years
As figure 3 below shows, the consultancy S&P Global Platts forecasts that growing LNG exports will push demand 4.8bcf/d ahead of supply over the next two years. The expectation of brisk LNG-driven demand growth is the main reason for the current upward slope in the gas futures curve to an average of USD3.78/MMBtu over the five year period January 2024 to December 2028. 85% of DEC's gas production was hedged at USD3.56/MMBtu during H1/23.

Figure 3: Next 2 years U.S. natural gas supply/demand growth*



* Demand change assumes LNG utilisation rate of 90% through 2025

Source: S&P Global Platts

17 July disposal generated USD16m of EBITDA We published our most recent update on DEC on 12 July. On 17 July the company announced the sale of 22,000 net undeveloped acres for USD16m. DEC ascribed no value to this land when it was acquired along with developed acreage. The USD16m proceeds therefore flow through to EBITDA and account for most of the USD25m increase in our FY/23 hedged adjusted EBITDA forecast (see figure 4 overleaf).

Figure 4: Changes to our forecasts

USD 000s	2022A Actual	FBe Old	2023E FBe New	New vs. Old % ∆	2023 New vs. 2022 % ∆
Mboe	**49,355**	**51,013**	**51,013**	**0.0%**	**3.4%**
Total revenue (unhedged)	**1,910,140**	**862,523**	**884,586**	**2.6%**	**-53.7%**
Natural gas	1,544,658	554,712	562,040	1.3%	-63.6%
NGLs	188,733	136,833	129,819	-5.1%	-31.2%
Oil	139,620	137,478	134,218	-2.4%	-3.9%
Total commodity revenue	1,873,011	829,023	826,078	-0.4%	-55.9%
Midstream revenue	32,798	26,000	31,906	22.7%	-2.7%
Other	4,331	7,500	26,602	254.7%	514.2%
Base lease operating expenses	173,140	201,667	221,732	9.9%	28.1%
Gathering & compression, owned	71,154	74,911	70,244	-6.2%	-1.3%
Gathering & transportation, 3rd party	118,073	99,275	100,260	1.0%	-15.1%
Production taxes	73,849	64,072	64,625	0.9%	-12.5%
Recurring admin. expenses	77,172	70,952	77,120	8.7%	-0.1%
Total recurring expenses	513,388	510,878	533,980	4.5%	4.0%
Gain on disposals	2,472	0	22,830	n.a	823.5%
Adjusted EBITDA (unhedged)	**1,399,224**	**351,646**	**373,435**	**6.2%**	**-73.3%**
Settled hedges	**-895,802**	**175,980**	**166,781**	**-5.2%**	**-118.6%**
Natural gas	-782,525	161,536	167,452	3.7%	-121.4%
NGLs	-85,549	14,233	7,466	-47.5%	-108.7%
Oil	-27,728	211	-8,137	-3949.2%	-70.7%
Total revenue (hedged)	**1,014,338**	**1,038,504**	**1,051,367**	**1.2%**	**3.7%**
Adjusted EBITDA (hedged)	**503,422**	**527,626**	**540,217**	**2.4%**	**7.3%**
margin (%)	49.6%	50.8%	51.4%	1.1%	3.5%
per BOE (USD)					
Total revenue (unhedged)	38.70	16.91	17.34	2.6%	-15.98
Settled hedges	-18.15	3.45	3.27	-5.2%	n.a.
Total revenue (hedged)	**20.55**	**20.36**	**20.61**	**1.2%**	**0.3%**
Total recurring expenses	**10.40**	**10.01**	**10.47**	**4.5%**	**0.6%**
of which:					
Base LOE	3.51	3.95	4.35	9.9%	23.9%
Gathering & compression, owned	1.44	1.47	1.38	-6.2%	-4.5%
Gathering & transportation, 3rd party	2.39	1.95	1.97	1.0%	-17.8%
Production taxes	1.50	1.26	1.27	0.9%	-15.3%
Recurring admin. expenses	1.56	1.39	1.51	8.7%	-3.3%
Adjusted EBITDA (hedged)	**10.20**	**10.34**	**10.14**	**-1.9%**	**-0.6%**
margin (%)	**49.6%**	**50.8%**	**49.2%**	-	-
Av. no shares (000s)	**849,145**	**953,342**	**953,141**	**0.0%**	**12.2%**
Adj EBITDA (hedged) per share (USD)	**0.59**	**0.55**	**0.57**	**2.4%**	**-4.4%**

Source: First Berlin Equity Research forecasts

VALUATION MODEL

Figure 5: Dividend payout and return on capital employed

USD 000s	2019A	2020A	2021A	2022A	2023E
Adjusted EBITDA (hedged)	273,266	300,590	343,145	503,422	540,217
Recurring capital expenditures	-17,255	-15,981	-35,490	-60,000	-64,332
Cash interest expenses	-32,715	-34,335	-41,623	-82,936	-137,008
Asset retirement (plugging)	-2,541	-2,442	-2,879	-4,889	-5,476
Cash paid for income taxes	-1,989	-5,850	-10,880	-26,314	-15,000
Free cashflow (adjusted)	218,766	241,982	252,273	329,283	318,401
Net fixed assets	1,816,982	2,137,188	2,944,058	3,018,668	3,048,600
Net working capital	-18,573	-42,499	-135,110	-247,162	-209,743
Total capital employed	1,798,409	2,094,689	2,808,948	2,771,506	2,838,857
Average capital employed	1,614,279	1,946,549	2,451,819	2,790,227	2,805,182
Free cashflow (adjusted) ROCE	13.6%	12.4%	10.3%	11.8%	11.4%
Dividends paid and declared	86,605	104,305	132,333	150,541	169,997
as % free cashflow (adjusted)	39.6%	43.1%	52.5%	45.7%	53.4%
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:
$p^0 = d^1/(r-g)$ 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. Adjusting our average return on capital employed forecast for 2022-23 of 11.6% by our assumed medium-term 8.0% production decline rate gives a return of 2.6%. 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 1.9%. Our valuation also takes into account the ca. 50 undeveloped locations with a PV10 of USD280m acquired through the Tanos II acquisition. We value these assets on a PV11 basis (in keeping with our estimated return requirement) at USD269m or USD0.28/GBP0.22 per share. Plugging our estimates for d^1 (USD0.175), r (11.0%) and g (1.9%) into the formula above produces an unchanged valuation (see figures 6 and 7 below) for the DEC share of GBp177. We maintain our Buy recommendation and price target of GBp180.

Figure 6: 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%
-0.1%	196	177	162	149	139	130	122
0.9%	220	196	177	162	149	139	130
1.9%	252	220	196	**177**	162	149	139
2.9%	297	252	220	196	177	162	149
3.9%	363	297	252	220	196	177	162
4.9%	472	363	297	252	220	196	177

Source: First Berlin Equity Research

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

growth rate \ return requirement	8.0%	9.0%	10.0%	11.0%	12.0%	13.0%	14.0%
-0.1%	242	219	200	185	172	161	151
0.9%	273	242	219	200	185	172	161
1.9%	312	273	242	**219**	200	185	172
2.9%	368	312	273	242	219	200	185
3.9%	450	368	312	273	242	219	200
4.9%	584	450	368	312	273	242	219

Source: First Berlin Equity Research

INCOME STATEMENT

All figures in USD '000	2018A	2019A	2020A	2021A	2022A	2023E
Revenues	**289,769**	**462,256**	**408,693**	**1,007,561**	**1,910,140**	**884,586**
Operating expense	-107,793	-202,385	-203,963	-291,213	-445,893	-456,861
Depreciation and depletion	-41,988	-98,139	-117,290	-167,644	-222,257	-240,607
Gross profit	**139,988**	**161,732**	**87,440**	**548,704**	**1,241,990**	**187,118**
Administrative expenses	-40,524	-55,889	-77,234	-102,326	-170,735	-99,158
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	2,379	0
Gain (loss) on derivative financial instruments	17,981	73,854	-94,397	-974,878	-1,758,693	972,249
Gain on bargain purchase	173,473	1,540	17,172	58,072	4,447	0
Operating income (EBIT)	**294,997**	**180,507**	**-77,568**	**-467,064**	**-680,612**	**1,060,209**
Finance costs	-17,743	-36,667	-43,327	-50,628	-100,799	-137,008
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	-27,569	-27,153
Other income (expense)	0	0	-421	-8,812	269	0
Income before taxation	**261,795**	**131,491**	**-136,740**	**-550,900**	**-808,711**	**896,048**
Taxation on income	-60,676	-32,091	113,266	225,694	178,904	-254,000
Net income / loss	**201,119**	**99,400**	**-23,474**	**-325,206**	**-629,807**	**642,048**
Diluted EPS (in USD)	**0.52**	**0.15**	**-0.03**	**-0.41**	**-0.74**	**0.67**
Adusted EBITDA (hedged)*	**146,217**	**273,266**	**300,590**	**343,145**	**503,422**	**540,217**
Ratios						
Gross margin	48.3%	35.0%	21.4%	54.5%	65.0%	21.2%
Adjusted EBITDA margin (hedged)	53.3%	53.4%	54.3%	50.0%	49.6%	51.4%
Net margin	69.4%	21.5%	-5.7%	-32.3%	-33.0%	72.6%
Tax rate	23.2%	24.4%	82.8%	41.0%	22.1%	28.3%
Expenses as % of revenues						
Y-Y Growth						
Revenues	593.6%	59.5%	-11.6%	146.5%	89.6%	-53.7%
Adjusted EBITDA (hedged)	734.9%	86.9%	10.0%	14.2%	46.7%	7.3%
Net income/ loss	632.6%	-50.6%	n.m.	n.m.	n.m.	n.m.

** 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	2022A	2023E
Assets						
Current assets, total	**111,596**	**160,360**	**94,474**	**337,139**	**354,222**	**287,807**
Cash and cash equivalents	1,372	1,661	1,379	12,558	7,329	4,686
Restricted cash	1,730	1,207	250	1,033	7,891	5,045
Receivables	78,451	73,924	66,991	282,922	296,781	238,838
Derivative financial instruments	17,573	73,705	17,858	1,052	27,739	27,739
Other current assets	12,470	9,863	7,996	39,574	14,482	11,500
Non-current assets, total	**1,445,376**	**1,845,580**	**2,196,208**	**3,157,070**	**3,476,706**	**3,221,058**
Oil and gas properties, net	1,092,951	1,496,029	1,755,085	2,530,078	2,555,808	2,547,381
Property, plant & equipment, net	327,749	320,953	382,103	413,980	462,860	501,219
Intangible assets		15,981	19,213	14,134	21,098	22,252
Restricted cash	0	6,505	20,100	18,069	47,497	15,923
Indemnification receivable	2,133	2,133	1,837	0	0	0
Derivative financial instruments	21,745	3,803	717	219	13,936	13,936
Deferred tax asset		0	14,777	176,955	371,156	117,156
Other non-current assets	798	176	2,376	3,635	4,351	3,191
Total assets	**1,556,972**	**2,005,940**	**2,290,682**	**3,494,209**	**3,830,928**	**3,508,866**
Shareholders' equity & debt						
Current liabilities, total	**84,471**	**126,855**	**196,506**	**773,600**	**1,131,630**	**856,776**
Short-term debt	286	23,723	64,959	58,820	271,096	256,466
Accounts payable	9,383	17,053	19,366	62,418	93,764	76,074
Capital lease	842	798	5,013	9,627	9,293	10,850
Derivative financial instruments	0	0	15,858	251,687	293,840	133,014
Other current liabilities	73,960	85,281	91,310	391,048	463,637	380,372
Long-term liabilities, total	**723,638**	**940,950**	**1,207,518**	**2,056,659**	**2,837,022**	**2,186,362**
Long-term debt	482,528	598,778	652,281	951,535	1,169,233	1,106,133
Capital lease	2,694	1,015	13,865	18,177	19,569	26,538
Asset retirement obligation	140,190	196,871	344,242	522,190	452,554	513,706
Deferred tax liability	95,033	124,112	15,746	0	12,490	0
Uncertain tax position	2,133	2,133	1,837	0	0	0
Derivative financial instruments	0	15,706	168,524	556,982	1,177,801	533,159
Other non-current liabilities	1,060	2,335	11,023	7,775	5,375	6,826
Shareholders' equity	**748,863**	**938,135**	**886,658**	**663,950**	**-137,724**	**465,728**
Total consolidated equity and debt	**1,556,972**	**2,005,940**	**2,290,682**	**3,494,209**	**3,830,928**	**3,508,866**
Ratios						
Current ratio (x)	1.32	1.26	0.48	0.44	0.31	0.34
Quick ratio (x)	1.32	1.26	0.48	0.44	0.31	0.34
Net debt	493,998	635,039	724,757	1,010,005	1,435,449	1,377,462
Net gearing	66.0%	67.7%	81.7%	152.1%	n.a.	295.8%
Book value per share (in GBP)	1.08	1.09	1.04	0.63	-0.13	0.39
Return on equity (ROE)	46.9%	11.8%	-2.6%	-41.9%	n.a.	391.5%

CASH FLOW STATEMENT

All figures in USD '000	2018A	2019A	2020A	2021A	2022A	2023E
Net profit	**201,119**	**99,400**	**-23,474**	**-325,206**	**-629,807**	**642,048**
Depreciation and depletion	41,988	98,139	117,290	167,644	222,257	240,607
Accretion of asset retirement obligation	7,101	12,349	15,424	24,396	27,569	27,153
Deferred income taxes	60,676	32,091	-113,266	-225,694	-178,904	254,000
(Gain)/loss on derivative financial instruments	-32,768	-20,270	238,795	652,465	861,457	-805,468
Asset retirement, plugging	-1,171	-2,541	-2,442	-2,879	-4,889	-2,800
Gain on oil/gas properities and equipment	-4,079	0	1,356	901	-2,379	0
Gain on bargain purchase	-173,473	-1,540	-17,172	-58,072	-4,447	0
Finance costs	17,743	36,677	43,327	50,628	100,799	137,008
Revaluation of contingent consideration	0	0	0	8,963	0	0
Hedge modifications	0	0	0	-10,164	-133,573	0
Cancellation/retirement of debt	8,358	0	0	0	0	0
Changes in w orking capital	-39,713	21,786	-10,129	40,680	138,735	-37,419
Non cash equity compensation	783	3,065	5,007	7,400	8,051	0
Cash paid for income taxes	0	-1,989	-5,850	-10,880	-26,314	0
Other adjustments	0	1,989	-7,156	0	9,209	0
Operating cash flow	**86,564**	**279,156**	**241,710**	**320,182**	**387,764**	**455,129**
Oil and gas properties and equipment	-18,515	-32,313	-21,947	-50,175	-86,079	-74,332
Free cash flow	**68,049**	**246,843**	**219,763**	**270,007**	**301,685**	**380,797**
Acquisitions	-750,256	-439,272	-223,091	-574,134	-276,571	-251,000
Increase in restricted cash	-986	-5,302	-12,637	1,838	0	34,421
Proceeds from disposal of assets	4,079	10,000	3,712	88,887	0	62,164
Other acquired intangibles	0	0	-2,900	0	0	0
Contingent consideration payments	0	0	-893	-10,822	-23,807	0
Payments associated w ith potential acquisitions	0	0	0	-25,002	0	0
Acquisition-related debt and hedge extinguishme	0	0	0	-56,466	0	0
Investment cash flow	**-765,678**	**-466,887**	**-257,756**	**-627,712**	**-386,457**	**-228,747**
Repayment of borrow ings	-280,890	-618,010	-705,314	-1,432,566	-2,139,686	-77,730
Proceeds of borrow ings	581,221	765,236	799,650	1,727,745	2,587,554	0
Financing expense	-15,433	-32,715	-34,335	-41,623	-82,936	-137,008
Cost incurred to secure financing	-17,176	-11,574	-7,799	-10,255	-34,234	0
(Increase) decrease in restricted cash	0	0	0	1,838	-36,287	0
ABS note hedge modifications	0	0	0	0	-105,316	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	-11,233	0
Proceeds from equity issuance, net	425,601	221,860	81,407	213,844	0	156,400
Cancellation of w arrants	0	0	0	-1,429	137	0
Dividends to shareholders	-31,313	-82,151	-98,527	-130,239	-143,455	-169,997
Distributions to non-controlling interest ow ners	0	0	0	0	-6,389	0
Repurchase of shares	0	-52,902	-15,634	0	-34,691	-690
Financing cash flow	**665,318**	**188,020**	**15,764**	**318,709**	**-6,536**	**-229,025**
Other	**0**	**0**	**0**	**0**	**0**	**0**
Net cash flows	**-13,796**	**289**	**-282**	**11,179**	**-5,229**	**-2,643**
Cash, start of the year	15,168	1,372	1,661	1,379	12,558	7,329
Cash, end of the year	**1,372**	**1,661**	**1,379**	**12,558**	**7,329**	**4,686**

Y-Y Growth						
Operating cash flow	1164.8%	222.5%	-13.4%	32.5%	21.1%	17.4%
Free cash flow	1776.3%	362.7%	89.0%	122.9%	111.7%	126.2%
EBITDA/share	159.5%	12.6%	3.0%	-1.4%	37.1%	-4.4%

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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.

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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...8	↓	↓	↓	↓
9	24 November 2021	GBp108.20	Buy	GBp150.00
10	15 February 2022	GBp113.80	Buy	GBp150.00
11	1 April 2022	GBp118.60	Buy	GBp150.00
12	5 May 2022	GBp125.00	Buy	GBp150.00
13	25 May 2022	GBp122.30	Buy	GBp160.00
14	11 October 2022	GBp131.10	Buy	GBp180.00
15	20 February 2023	GBp104.10	Buy	GBp180.00
16	12 July 2023	GBp86.65	Buy	GBp180.00
17	Today	GBp83.05	Buy	GBp180.00

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

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