Diversified Energy PLC

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

Update

RATING	**BUY**
PRICE TARGET	**GBp 3600.00**
Return Potential	174.7%
Risk Rating	Medium

WHY WE EXPECT DEC TO HOLD ITS DIVIDEND

Production from DEC's existing wells declines at 10% annually. DEC makes acquisitions to replace declining production as drilling wells is not part of its business model. Interest rate volatility has hampered acquisition activity since February this year. The hiatus in acquisitions, coupled with the 13% lower average hedge price for DEC's natural gas in 2024 vs 2023 has prompted concerns that the company's dividend (currently equating to a 21% yield) is under threat. We think these worries are exaggerated. As acquisitions are an indispensable part of DEC's business model, we expect one or more transactions over the next twelve months, especially as the interest rate environment appears to be becoming more benign. However, our 2024 forecast does not include acquisitions. We forecast 2024 hedged adjusted EBITDA of USD365m (in line with consensus) before asset disposals, which becomes free cashflow of ca. USD320m after interest, tax and CAPEX. In every reporting period to date, acquisition-related debt financing has meant that new debt has exceeded debt repayments. This will not be the case in 2024 under a no-acquisition scenario. Scheduled 2024 debt repayments are USD200m, we expect interest costs of USD120m, and holding the current dividend will cost USD168m. These numbers imply a financing requirement of ca. USD170m if the dividend is held. We do not expect an equity raise at the current low share price. DEC could raise the USD170m from existing liquidity (USD135m as of mid-November), the disposal of undeveloped/partially developed acreage worth >USD200m, and liquidity release through further refinancing of the reserve-based credit facility with asset-backed securitised lending. Furthermore, following the U.S. Environmental Protection Agency's recently announced final rule on methane emissions reduction, we note that with its commitment to Scope 1 and 2 net zero greenhouse gas emissions by 2040, DEC is still ahead of the regulatory curve. We think DEC will hold its dividend and that the share price will appreciate once concerns in this regard subside. We maintain our Buy recommendation and price target of GBp3,600. **(p.t.o.)**

FINANCIAL HISTORY & PROJECTIONS

	2019	2020	2021	2022	2023E	2024E
Revenue ($ m)	462.26	408.69	1007.56	1919.35	892.58	786.37
Y-o-y growth	60.0%	160.0%	260.0%	360.0%	460.0%	560.0%
Adj. EBITDA (hedged) ($ m)*	273.27	300.59	343.15	503.42	564.40	475.45
Adj. EBITDA margin (hedged)	53.4%	65.5%	32.4%	25.5%	59.7%	56.5%
Net income ($ m)	99.40	-23.47	-325.21	-620.60	950.46	67.01
EPS (diluted) ($)	3.08	-0.68	-8.20	-0.74	19.93	1.38
DPS ($c)	278.40	305.00	330.00	345.00	350.00	350.00
FCF ($m)	246.84	219.76	270.01	301.69	342.20	319.58
Net gearing	67.7%	81.7%	152.1%	n.a.	186.4%	206.4%
Liquid assets ($ m)	1.66	1.38	12.56	7.33	4.87	4.87

* including USD23.7m and USD110m of gains on disposals in 2023 and 2024 respectively

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.

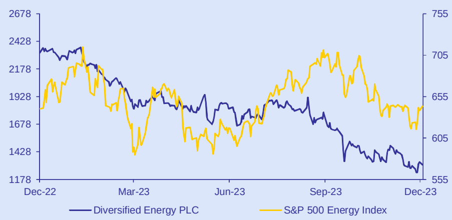
MARKET DATA

As of 18 Dec 2023

Closing Price	GBp 1310.50
Shares outstanding	48.15m
Market Capitalisation	GBP 626m
52-week Range	GBp 1240.00 / 2372.00
Avg. Volume (12 Months)	130,803

Multiples	2022	2023E	2024E
P/E	n.a.	0.8	12.0
EV/Sales	0.8	1.7	1.9
EV/EBITDA	3.0	2.7	3.2
Div. Yield	20.8%	21.1%	21.1%

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

Hargreaves Lansdown	5.0%
M&G PLC	4.9%
BlackRock Inc.	4.7%
Vanguard Group Inc	4.6%
Free float and other	80.8%

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

Figure 1: Forecast natural gas pricing realised by DEC

	2023E	2024E	% change
Natural gas hedge price (USD/mcf)	3.79	3.31	-12.7%
Natural gas hedge price (USD/MMBtu)	3.54	3.09	-12.7%
% natural gas priodiction hedged	85%	80%	-5.9%
Average natural gas futures strip price (USD/MMBtu)	2.74	2.71	-0.9%
Realised natural gas price before basis differentials (USD/MMBtu)	3.42	3.02	-11.8%

Source: First Berlin Equity Research estimates

We expect realised 2024 natural gas price to be 12% below the 2023 level As of 30 September, 85% of DEC's natural gas production was hedged at USD3.54/MMBtu and 80% of 2024 production at USD3.09/MMBtu. Natural gas accounted for 86% of 9M/23 commodity production by volume. The current futures strip shows that in 2024 the average natural gas price will be close to the 2023 level. On a blended hedged/unhedged basis, these numbers indicate that in 2024, the natural gas price realised by DEC will be around 12% below the 2023 level (before basis differentials).

Interest rate volatility has hampered acquisition activity for most of 2023 DEC has made acquisitions every year since its 2017 IPO. Acquisition-related debt financing is the main factor behind the company's unbroken record of net proceeds from debt financing between 2017 and H1/23. DEC's most recent acquisition was of the Tanos II assets in February 2023, which boosted production by ca. 10%. The USD250m consideration for the Tanos II acquisition was financed by net proceeds of USD156m from an equity issue and USD94m from DEC's revolving credit facility. Interest rate volatility has hampered price discovery with respect to acquisitions for most of 2023. We gather that the company has carried out due diligence on several transactions, but could not agree with the sellers on price.

Annual production decline is 10% without acquisitions Without acquisitions, DEC's volume falls by 10% annually and scope for additional debt financing is reduced. The prolonged hiatus in acquisition activity and the prospect of reduced realised commodity pricing in 2024 has given rise to concerns that the company's annualised USD3.50 dividend (equivalent to a 21% yield at the current share price) is under threat.

Figure 2: Forecast development of DEC's debt position

	2019	2021	FY 22	H1 23	H2 23E	FY 23E	FY 24E
Credit Facility	436,700	570,600	56,000	265,000	300,000	300,000	370,000
Total ABS notes		324,586	1,314,564	1,169,456	1,056,735	1,056,735	876,430
Term loan	0	137,099	120,518	112,433	106,153	106,153	88,040
Other	8,219	9,380	7,084	8,319	9,278	9,278	7,695
Total	**644,919**	**1,041,665**	**1,498,166**	**1,555,208**	**1,472,166**	**1,472,166**	**1,342,166**

Source: DEC, First Berlin Equity Research estimates

Figure 3: Abridged cashflow forecast

	2019	2021	FY 22	H1 23	H2 23E	FY 23E	FY 24E
Hedged adjusted EBITDA	273,266	343,145	502,954	282,864	281,537	564,401	475,448
Operating cashflow	279,156	320,182	387,764	172,566	243,965	416,531	383,577
Net investing cashflow	-466,887	-625,874	-386,457	-250,017	-3,238	-253,255	46,000
Free cashflow	**-187,731**	**-305,692**	**1,307**	**-77,451**	**240,727**	**163,276**	**429,577**
Equity	221,860	213,844	0	156,788	0	156,788	0
Net proceeds from debt financing	147,226	295,179	447,868	57,240	-83,240	-26,000	-130,000
Interest	-32,715	-41,623	-82,936	-59,415	-60,585	-120,000	-120,000
Dividends	-82,151	-130,239	-143,455	-84,029	-84,862	-168,891	-168,486
Other	-66,489	-31,469	-222,784	6,867	-12,040	-5,173	-11,091
Total financing cashflow	**187,731**	**305,692**	**-1,307**	**77,451**	**-240,727**	**-163,276**	**-429,577**

Source: DEC, First Berlin Equity Research estimates

Calls on cash totalling ca. USD490m in 2024 assuming no acquisitions Assuming no acquisitions, and that the dividend is held, DEC faces three major calls on its cash in 2024 totalling ca. USD490m: 1. debt repayment of USD200m; 2. interest payments of ca. USD120m; 3. USD168m in dividend payments.

The USD200m debt repayment relates primarily to DEC's ABS loans. DEC had total debt of USD1.6bn outstanding at the end of H1/23 split ca. 76:17:7 between ABS loans, the revolving credit facility, and the term loan taken out to finance the Carbon and EQT acquisitions in 2020. The ABS loans and the term loans are fixed interest. We expect annual interest payments on debt to amount to USD120m in both 2023 and 2024. Based on the current 48.1m shares outstanding, the annualised USD3.50 dividend equates to a payout of USD168m.

Financing requirement of ca. USD170m if the dividend is held… We forecast 2024 hedged adjusted EBITDA of USD365m (in line with consensus) before asset disposals, which becomes free cashflow of ca. USD320m after interest, tax and CAPEX. The latter number implies a financing requirement of ca. USD170m if the dividend is held.

…which we expect DEC to meet from existing liquidity, disposals, and liquidity release through refinancing DEC could raise the USD170m from a mixture of existing liquidity, disposal of undeveloped/partially developed acreage, and liquidity release through refinancing of the reserve-based credit facility with asset-backed securitised (ABS) lending. We do not expect an equity raise at the current low share price.

We assume USD70m from existing credit line… As of the mid-November trading update, the borrowing base on DRAG's revolving credit line was USD425m and available liquidity was USD135m. We assume that DEC will draw down USD70m of this figure in 2024, thereby reducing the net debt repayment to USD130m.

…and the balance from asset sales… The Tanos II acquisition included ca. 50 undeveloped locations with a management-estimated PV10 of ca. USD280m as well as four partially developed wells requiring estimated aggregate capital expenditure of USD25m for completion. We assume that monetisation of these assets will result in gains/proceeds of USD110m in 2024 and that this figure will be booked as part of EBITDA in keeping with DEC's recent practice. Two transactions entailing the disposal of non-core assets resulted in gains of USD24m during the first nine months of 2023. In the press release for the second of these transactions, management pointed out that the 22,000 acres sold represented only a small proportion of the company's undeveloped Central Region (Arkansas, Louisiana, Oklahoma, Texas) acreage.

…and debt refinancing Recent Central Region acquisitions, for which DEC paid ca. USD740m, are candidates for refinancing, whereby reserve-based lending (RBL) is replaced by ABS lending. The criteria for ABS lending are more stringent than for reserve-based lending. Assets need well-established production histories to qualify. However, as DEC has demonstrated with its Appalachian assets, all of which are now ABS-financed, advances are higher under ABS than RBL, and so this form of refinancing releases significant liquidity.

End September leverage ratio in line with targeted range The 3.0% upward revision to our FY/23 hedged adjusted EBITDA forecast (see figure 4 overleaf) mainly reflects lower Q3/23 unit lease operating expenses and third party transportation costs than we had previously modelled. As indicated above, the hedged adjusted EBITDA number in our 2024 forecast (included for the first time) includes USD110m of gains on disposals. The end September net debt:proforma hedged adjusted EBITDA ratio of 2.4x was in line with the company's targeted range of 2.0x-2.5x.

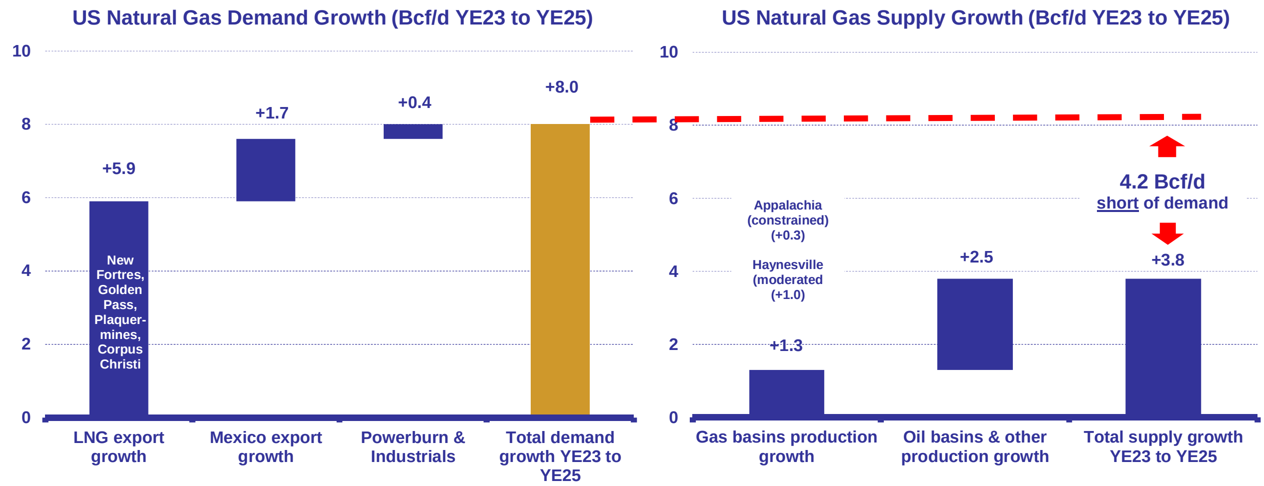
Figure 4: Changes to our forecasts

USD 000s	2022A Actual	2023E FBe Old	2023E FBe New	New vs. Old %Δ	2023 New vs. 2022 %Δ	2024E FBe New	2024 New vs. 2023 %Δ
Mboe	**49,355**	**51,013**	**50,147**	**-1.7%**	**1.6%**	**45,731**	**-8.8%**
Total revenue (unhedged)	**1,910,140**	**892,743**	**892,575**	**0.0%**	**-53.3%**	**786,367**	**-11.9%**
Natural gas	1,544,658	579,935	589,412	1.6%	-61.8%	518,602	**-12.0%**
NGLs	188,733	121,593	123,965	2.0%	-34.3%	105,889	**-14.6%**
Oil	139,620	132,706	109,190	-17.7%	-21.8%	89,876	**-17.7%**
Total commodity revenue	1,873,011	834,235	822,567	-1.4%	-56.1%	714,367	**-13.2%**
Midstream revenue	32,798	31,906	31,906	0.0%	-2.7%	30,000	**-6.0%**
Other	4,331	26,602	38,102	43.2%	779.8%	42,000	**10.2%**
Base lease operating expenses	173,140	221,732	207,947	-6.2%	20.1%	193,669	**-6.9%**
Gathering & compression, owned	71,154	70,244	70,424	0.3%	-1.0%	68,597	**-2.6%**
Gathering & transportation, 3rd party	118,073	100,260	103,883	3.6%	-12.0%	95,121	**-8.4%**
Production taxes	73,849	64,625	64,765	0.2%	-12.3%	53,505	**-17.4%**
Recurring admin. expenses	77,172	77,120	77,228	0.1%	0.1%	73,170	**-5.3%**
Total recurring expenses	513,388	533,980	524,246	-1.8%	2.1%	484,061	**-7.7%**
Gain on disposals	2,472	22,830	23,729	n.a	859.9%	110,000	**363.6%**
Adjusted EBITDA (unhedged)	**1,399,224**	**381,592**	**392,058**	**2.7%**	**-72.0%**	**412,306**	**5.2%**
Settled hedges	**-895,802**	**166,285**	**172,343**	**3.6%**	**-119.2%**	**63,142**	**-63.4%**
Natural gas	-782,525	159,319	165,590	3.9%	-121.2%	58,381	**-64.7%**
NGLs	-85,549	14,434	12,732	-11.8%	-114.9%	5,912	**-53.6%**
Oil	-27,728	-7,469	-5,080	-32.0%	-81.7%	-1,151	**-77.3%**
Total revenue (hedged)	**1,014,338**	**1,059,027**	**1,064,918**	**0.6%**	**5.0%**	**849,509**	**-20.2%**
Adjusted EBITDA (hedged)	**503,422**	**547,877**	**564,401**	**3.0%**	**12.1%**	**475,448**	**-15.8%**
margin (%)	49.6%	51.7%	53.0%	2.4%	6.8%	56.0%	**5.6%**
per BOE (USD)							
Total revenue (unhedged)	38.70	17.50	17.80	1.7%	-33.18	17.20	**-3.4%**
Settled hedges	-18.15	3.26	3.44	5.4%	n.a.	1.38	**-59.8%**
Total revenue (hedged)	**20.55**	**20.76**	**21.24**	**2.3%**	**3.3%**	**18.58**	**-12.5%**
Total recurring expenses	**10.40**	**10.47**	**10.45**	**-0.1%**	**0.5%**	**10.58**	**1.3%**
of which:							
Base LOE	3.51	4.35	4.15	-4.6%	18.2%	4.23	**2.1%**
Gathering & compression, owned	1.44	1.38	1.40	2.0%	-2.6%	1.50	**6.8%**
Gathering & transportation, 3rd party	2.39	1.97	2.07	5.4%	-13.4%	2.08	**0.4%**
Production taxes	1.50	1.27	1.29	1.9%	-13.7%	1.17	**-9.4%**
Recurring admin. expenses	1.56	1.51	1.54	1.9%	-1.5%	1.60	**3.9%**
Adjusted EBITDA (hedged)	**10.20**	**10.29**	**10.78**	**4.8%**	**5.7%**	**7.99**	**-25.9%**
margin (%)	**49.6%**	**49.6%**	**50.8%**	-	**-**	**43.0%**	**-15.3%**
Av. no shares (000s)	**42,457**	**47,657**	**47,657**	**0.0%**	**0.6%**	**48,528**	**0.1%**
Adj EBITDA (hedged) per share (USD)	**11.86**	**0.57**	**11.84**	**n.a.**	**-0.1%**	**9.80**	**-17.3%**

Source: First Berlin Equity Research forecasts

Long term outlook remains good As figure 5 below shows, the consultancy S&P Global Platts forecasts that growing LNG exports will push demand 4.2bcf/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 USD3.47/MMBtu over the five year period January 2024 to December 2028. This compares with the average 2023 price level of USD2.74/MMBtu.

Figure 5: 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

DEC remains ahead of the regulatory curve on methane emissions reduction On 2 December, the U.S. Environmental Protection Agency (EPA) announced a final rule aimed at reducing methane and other harmful air pollutants from the oil and natural gas industry. The final rule builds on proposed rules published in November 2021 and December 2022, and aims to prevent an estimated 58 million tons of methane emissions from 2024 to 2038. The EPA expects adherence to the rule to result in a nearly 80% reduction in future methane emissions expected without the rule.

DEC committed to Scope 1 and 2 net zero GHG emissions by 2040 In 2022 DEC succeeded in reducing its scope 1 methane intensity by 25% compared to a 2020 baseline. The company is thus well on track to achieve its target of a 30% reduction by 2026. DEC plans to reduce this figure to 50% by 2030. In its 2022 Sustainability Report, published in 2023, the company for the first time committed to the achievement of Scope 1 and 2 net zero greenhouse gas emissions by 2040.

VALUATION MODEL

Figure 6: Dividend payout and return on capital employed

USD 000s	2019A	2020A	2021A	2022A	2023E	2024E
Adjusted EBITDA (hedged)	273,266	300,590	343,145	503,422	564,401	475,448
Recurring capital expenditures	-17,255	-15,981	-35,490	-60,000	-64,332	-64,000
Cash interest expenses	-32,715	-34,335	-41,623	-82,936	-120,000	-120,000
Asset retirement (plugging)	-2,541	-2,442	-2,879	-4,889	-5,476	-6,133
Cash paid for income taxes	-1,989	-5,850	-10,880	-26,314	0	0
Free cashflow (adjusted)	218,766	241,982	252,273	329,283	374,593	285,315
Net fixed assets	1,816,982	2,137,188	2,944,058	3,018,668	3,091,943	2,950,859
Net working capital	-18,573	-42,499	-135,110	315,614	-157,830	-208,317
Total capital employed	1,798,409	2,094,689	2,808,948	3,334,282	2,934,113	2,742,542
Average capital employed	1,614,279	1,946,549	2,451,819	3,071,615	3,134,198	2,838,328
Free cashflow (adjusted) ROCE	13.6%	12.4%	10.3%	10.7%	12.0%	10.1%
Dividends paid and declared	86,605	104,305	132,333	150,541	169,303	168,486
as % free cashflow (adjusted)	39.6%	43.1%	52.5%	45.7%	45.2%	59.1%
Dividends paid and declared per share (USD)	2.76	2.95	3.12	3.54	3.49	3.50
Dividends declared per share (USD)	2.78	3.05	3.30	3.45	3.50	3.50

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

GBp3,000 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 2019-23 of 11.8% by our assumed medium-term 8.0% production decline rate gives a return of 2.8%. 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 2.0%. 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 USD268m. Plugging our estimates for d^1 (USD3.50), r (11.0%) and g (2.0%) into the formula above produces a valuation (see figures 7 and 8 below) for the DEC share of GBp3,563 (previously: GBp3,560). We maintain our Buy recommendation and price target of GBp3,600.

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%
0.0%	3,945	3,563	3,257	3,006	2,798	2,621	2,470
1.0%	4,437	3,945	3,563	3,257	3,006	2,798	2,621
2.0%	5,093	4,437	3,945	3,563	3,257	3,006	2,798
3.0%	6,010	5,093	4,437	3,945	3,563	3,257	3,006
4.0%	7,384	6,010	5,093	4,437	3,945	3,563	3,257
5.0%	9,673	7,384	6,010	5,093	4,437	3,945	3,563

Source: First Berlin Equity Research

Figure 8: 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%
0.0%	**5,004**	**4,519**	**4,131**	**3,813**	**3,548**	**3,324**	**3,132**
1.0%	**5,628**	**5,004**	4,519	4,131	3,813	**3,548**	**3,324**
2.0%	**6,459**	**5,628**	5,004	**4,519**	4,131	**3,813**	**3,548**
3.0%	**7,623**	**6,459**	5,628	5,004	4,519	**4,131**	**3,813**
4.0%	**9,366**	**7,623**	**6,459**	**5,628**	**5,004**	**4,519**	**4,131**
5.0%	**12,270**	**9,366**	**7,623**	**6,459**	**5,628**	**5,004**	**4,519**

Source: First Berlin Equity Research

INCOME STATEMENT

All figures in USD '000	2019A	2020A	2021A	2022A	2023E	2024E
Revenues	**462,256**	**408,693**	**1,007,561**	**1,919,349**	**892,575**	**786,367**
Operating expense	-202,385	-203,963	-291,213	-445,893	-423,290	-300,892
Depreciation and depletion	-98,139	-117,290	-167,644	-222,257	-230,072	-208,459
Gross profit	**161,732**	**87,440**	**548,704**	**1,251,199**	**239,214**	**277,016**
Administrative expenses	-55,889	-77,234	-102,326	-170,735	-107,887	-101,170
Allowance for expected credit losses	-730	-8,490	4,265	0	0	0
Gain on oil/gas programme and equipment	0	-2,059	-901	2,379	0	0
Gain (loss) on derivative financial instruments	73,854	-94,397	-974,878	-1,758,693	1,266,434	63,142
Gain on bargain purchase	1,540	17,172	58,072	4,447	0	0
Operating income (EBIT)	**180,507**	**-77,568**	**-467,064**	**-671,403**	**1,397,761**	**238,989**
Finance costs	-36,667	-43,327	-50,628	-100,799	-120,000	-120,000
Loss on early retirement of debt	0	0	0	0	0	0
Accretion of asset retirement obligation	-12,349	-15,424	-24,396	-27,569	-27,153	-30,822
Other income (expense)	0	-421	-8,812	269	0	0
Income before taxation	**131,491**	**-136,740**	**-550,900**	**-799,502**	**1,250,607**	**88,166**
Taxation on income	-32,091	113,266	225,694	178,904	-300,146	-21,160
Net income / loss	**99,400**	**-23,474**	**-325,206**	**-620,598**	**950,462**	**67,006**
Diluted EPS (in USD)	**3.08**	**-0.68**	**-0.41**	**-0.74**	**19.93**	**1.38**
Adusted EBITDA (hedged)*	**273,266**	**300,590**	**343,145**	**503,422**	**564,401**	**475,448**
Ratios						
Gross margin	35.0%	21.4%	54.5%	65.2%	26.8%	35.2%
Adjusted EBITDA margin (hedged)	53.4%	54.3%	50.0%	49.2%	53.0%	56.0%
Net margin	21.5%	-5.7%	-32.3%	-32.3%	106.5%	8.5%
Tax rate	24.4%	82.8%	41.0%	22.4%	24.0%	24.0%
Expenses as % of revenues						
Y-Y Growth						
Revenues	59.5%	-11.6%	146.5%	90.5%	-53.5%	-11.9%
Adjusted EBITDA (hedged)	86.9%	10.0%	14.2%	46.7%	12.1%	-15.8%
Net income/ loss	-50.6%	n.m.	n.m.	n.m.	n.m.	-93.0%

** 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	2019A	2020A	2021A	2022A	2023E	2024E
Assets						
Current assets, total	**160,360**	**94,474**	**337,139**	**354,222**	**290,454**	**260,397**
Cash and cash equivalents	1,661	1,379	12,558	7,329	4,871	4,871
Restricted cash	1,207	250	1,033	7,891	5,245	5,245
Receivables	73,924	66,991	282,922	296,781	240,995	212,319
Derivative financial instruments	73,705	17,858	1,052	27,739	27,739	27,739
Other current assets	9,863	7,996	39,574	14,482	11,603	10,223
Non-current assets, total	**1,845,580**	**2,196,208**	**3,157,070**	**3,476,706**	**3,233,851**	**3,063,360**
Oil and gas properties, net	1,496,029	1,755,085	2,530,078	2,555,808	2,590,698	2,420,771
Property, plant & equipment, net	320,953	382,103	413,980	462,860	501,245	530,088
Intangible assets	15,981	19,213	14,134	21,098	22,172	14,309
Restricted cash	6,505	20,100	18,069	47,497	31,569	31,569
Indemnification receivable	2,133	1,837	0	0	0	0
Derivative financial instruments	3,803	717	219	13,936	13,936	13,936
Deferred tax asset	0	14,777	176,955	371,156	71,010	49,850
Other non-current assets	176	2,376	3,635	4,351	3,220	2,837
Total assets	**2,005,940**	**2,290,682**	**3,494,209**	**3,830,928**	**3,524,305**	**3,323,757**
Shareholders' equity & debt						
Current liabilities, total	**126,855**	**196,506**	**773,600**	**1,131,630**	**759,297**	**752,304**
Short-term debt	23,723	64,959	58,820	271,096	266,202	239,646
Accounts payable	17,053	19,366	62,418	93,764	76,761	67,628
Capital lease	798	5,013	9,627	9,293	10,948	9,646
Derivative financial instruments	0	15,858	251,687	293,840	75,385	75,385
Other current liabilities	85,281	91,310	391,048	463,637	330,000	360,000
Long-term liabilities, total	**940,950**	**1,207,518**	**2,056,659**	**2,837,022**	**1,997,663**	**1,946,663**
Long-term debt	598,778	652,281	951,535	1,169,233	1,148,127	1,033,592
Capital lease	1,015	13,865	18,177	19,569	26,777	23,591
Asset retirement obligation	196,871	344,242	522,190	452,554	513,706	581,247
Deferred tax liability	124,112	15,746	0	12,490	0	0
Uncertain tax position	2,133	1,837	0	0	0	0
Derivative financial instruments	15,706	168,524	556,982	1,177,801	302,165	302,165
Other non-current liabilities	2,335	11,023	7,775	5,375	6,888	6,068
Shareholders' equity	**938,135**	**886,658**	**663,950**	**-137,724**	**767,345**	**624,789**
Total consolidated equity and debt	**2,005,940**	**2,290,682**	**3,494,209**	**3,830,928**	**3,524,305**	**3,323,757**

Ratios						
Current ratio (x)	1.26	0.48	0.44	0.31	0.38	0.35
Quick ratio (x)	1.26	0.48	0.44	0.31	0.38	0.35
Net debt	635,039	724,757	1,010,005	1,435,449	1,430,481	1,289,390
Net gearing	67.7%	81.7%	152.1%	n.a.	186.4%	206.4%
Book value per share (in GBP)	21.87	18.93	11.55	-2.70	12.57	10.23
Return on equity (ROE)	11.8%	-2.6%	-41.9%	n.a.	301.9%	9.6%

CASH FLOW STATEMENT

All figures in USD '000	2019A	2020A	2021A	2022A	2023E	2024E
Net profit	**99,400**	**-23,474**	**-325,206**	**-620,598**	**950,462**	**67,006**
Depreciation and depletion	98,139	117,290	167,644	222,257	230,072	208,459
Accretion of asset retirement obligation	12,349	15,424	24,396	27,569	27,153	30,822
Deferred income taxes	32,091	-113,266	-225,694	-178,904	300,146	21,160
(Gain)/loss on derivative financial instruments	-20,270	238,795	652,465	861,457	-1,094,091	0
Asset retirement obligations	-2,541	-2,442	-2,879	-4,889	-4,150	-4,358
Gain on oil/gas properities and equipment	0	1,356	901	-2,379	-23,729	-110,000
Gain on bargain purchase	-1,540	-17,172	-58,072	-4,447	0	0
Finance costs	36,677	43,327	50,628	100,799	120,000	120,000
Revaluation of contingent consideration	0	0	8,963	0	0	0
Hedge modifications	0	0	-10,164	-133,573	0	0
Cancellation/retirement of debt	0	0	0	0	0	0
Changes in w orking capital	21,786	-10,129	40,680	138,735	-89,332	50,487
Non cash equity compensation	3,065	5,007	7,400	8,051	0	0
Cash paid for income taxes	-1,989	-5,850	-10,880	-26,314	0	0
Other adjustments	1,989	-7,156	0	0	0	0
Operating cash flow	**279,156**	**241,710**	**320,182**	**387,764**	**416,531**	**383,577**
Oil and gas properties and equipment	-32,313	-21,947	-50,175	-86,079	-74,332	-64,000
Free cash flow	**246,843**	**219,763**	**270,007**	**301,685**	**342,199**	**319,577**
Acquisitions	-439,272	-223,091	-574,134	-276,571	-251,000	0
(Increase)/decrease in restricted cash	-5,302	-12,637	1,838	0	18,574	0
Proceeds from disposal of assets	10,000	3,712	88,887	0	53,503	110,000
Other acquired intangibles	0	-2,900	0	0	0	0
Contingent consideration payments	0	-893	-10,822	-23,807	0	0
Payments associated w ith potential acquisitions	0	0	-25,002	0	0	0
Acquisition-related debt and hedge extinguishme	0	0	-56,466	0	0	0
Investment cash flow	**-466,887**	**-257,756**	**-627,712**	**-386,457**	**-253,255**	**46,000**
Repayment of borrow ings	-618,010	-705,314	-1,432,566	-2,139,686	-270,000	-200,000
Proceeds of borrow ings	765,236	799,650	1,727,745	2,587,554	244,000	70,000
Net proceeds/(repayment) of borrow ings	147,226	94,336	295,179	447,868	-26,000	-130,000
Financing expense	-32,715	-34,335	-41,623	-82,936	-120,000	-120,000
Cost incurred to secure financing	-11,574	-7,799	-10,255	-34,234	0	0
(Increase) decrease in restricted cash	0	0	1,838	-36,287	0	0
ABS note hedge modifications	0	0	0	-105,316	0	0
Proceeds from capital lease	0	0	0	0	0	0
Principal element of lease payments	-1,724	-3,684	-8,606	-11,233	0	0
Proceeds from equity issuance, net	221,860	81,407	213,844	0	156,400	0
Cancellation of w arrants	0	0	-1,429	137	0	0
Dividends to shareholders	-82,151	-98,527	-130,239	-143,455	-168,891	-168,486
Distributions to non-controlling interest ow ners	0	0	0	-6,389	0	0
Repurchase of shares	-52,902	-15,634	0	-34,691	-7,243	0
Financing cash flow	**188,020**	**15,764**	**318,709**	**-6,536**	**-165,734**	**-418,486**
Other	**0**	**0**	**0**	**0**	**0**	**-11,091**
Net cash flows	**289**	**-282**	**11,179**	**-5,229**	**-2,458**	**0**
Cash, start of the year	1,372	1,661	1,379	12,558	7,329	4,871
Cash, end of the year	**1,661**	**1,379**	**12,558**	**7,329**	**4,871**	**4,871**
Adjusted EBITDA (hedged)/share (in GBP)	**6.67**	**6.83**	**6.29**	**9.59**	**9.52**	**7.87**
Y-Y Growth						
Operating cash flow	222.5%	-13.4%	32.5%	21.1%	7.4%	-7.9%
Free cash flow	362.7%	89.0%	122.9%	111.7%	113.4%	93.4%
EBITDA/share	-82.4%	2.4%	-8.0%	52.5%	-0.7%	-17.3%

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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	GBp1888.00	Buy	GBp2600.00
2...10	↓	↓	↓	↓
11	1 April 2022	GBp2372.00	Buy	GBp3000.00
12	5 May 2022	GBp2500.00	Buy	GBp3000.00
13	25 May 2022	GBp2466.00	Buy	GBp3200.00
14	11 October 2022	GBp2622.00	Buy	GBp3600.00
15	20 February 2023	GBp2082.00	Buy	GBp3600.00
16	12 July 2023	GBp1713.00	Buy	GBp3600.00
17	19 September 2023	GBp1661.00	Buy	GBp3600.00
18	6 October 2023	GBp1433.00	Buy	GBp3600.00
19	Today	GBp1310.50	Buy	GBp3600.00

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