Diversified Energy PLC

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

Update

RATING	**BUY**
PRICE TARGET	**GBp2800.00**
Return Potential	125.8%
Risk Rating	Medium

EV/EBITDA 44% BELOW PEERS. VOLUME AND PRICING RECOVERING

DEC is trading at a 44% discount to its peer group based on 2024E EV/adjusted EBITDA, but has a superior growth track record. We expect DEC's adjusted EBITDA to have grown at a five-year CAGR of 10.5% by the end of this year compared with 8.3% for its peers. Recovering commodity prices and a pick-up in acquisition activity by DEC (three transactions completed since June) suggest the company will be able to sustain its historic growth rate going forward. We think DEC should trade on a 2024E EV/adjusted EBITDA multiple closer to the peer group figure of 9.7x. Applying a multiple of 7.7x to our 2024 forecast (a 20% discount to the peers to take into account their higher market caps.) produces a per share valuation for DEC of GBp2,817. We set a new price target of GBp2,800 (previously: GBp3,600) and maintain our Buy recommendation. The price target of GBp3,600 in our most recent note of 19 December 2023 was based on a discounted dividend valuation. However, following the 2/3 cut in the Q4/23 dividend this methodology is no longer viable, and so we now use peer group valuation. Peer group valuation performed using data as of 19 December 2023 produces a valuation for the DEC share of GBp3,789. At a 20% discount to the peers, this figure becomes GBp2,560.

Republican election win could accelerate disposals of undeveloped acreage DEC has 700,000 undeveloped acres in north-west Oklahoma. Similar acreage has recently sold at USD1,100 per acre implying a valuation of USD800m for DEC's land. Land sales by DEC have totalled USD88m since 2021 (of which USD23m year-to-date). The recent Republican Party election win will likely usher in a more benign regulatory environment for US oil and gas and could lead to an acceleration in disposals which would add substantial value over and above our price target. On the realistic assumption that such disposals will be tax-free, each USD100m of proceeds would be worth GBp154 per share.

(p.t.o.)

FINANCIAL HISTORY & PROJECTIONS

	2020	2021	2022	2023	2024E	2025E
Revenue ($ m)	408.7	1007.6	1919.3	868.3	788.5	1011.0
Y-o-y growth	-11.6%	146.5%	90.5%	-54.8%	-9.2%	28.2%
Adj. EBITDA (hedged) ($m)	300.6	343.1	503.4	542.8	450.1	473.6
Adj. EBITDA margin (hedged)	54.3%	50.0%	49.3%	51.9%	48.0%	48.8%
Net income ($ m)	-23.5	-325.5	-625.4	758.0	48.0	73.4
EPS (diluted) ($)	-0.69	-8.20	-14.82	15.95	0.98	1.42
DPS ($)	3.05	3.30	3.45	2.92	1.16	1.16
FCF ($m)	219.8	270.0	301.7	335.9	319.8	432.2
Net gearing	78.4%	147.4%	n.a.	206.7%	265.5%	213.9%
Liquid assets ($ m)	1.4	12.6	7.3	3.8	3.4	3.5

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. Over 50% of total production derive from the the "Central Region" (Arkansas, Louisiana, Oklahoma, Texas) which DEC entered in 2021 and the balance from the Appalachian Basin.

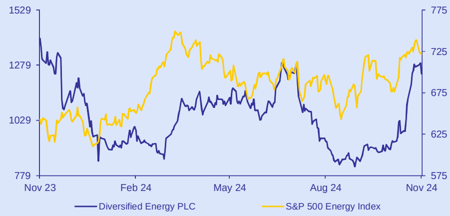
MARKET DATA

As of 28 Nov 2024

Closing Price	GBp 1240.00
Shares outstanding	51.30m
Market Capitalisation	GBP636m
52-week Range	GBp 820.00 / 1400.00
Avg. Volume (12 Months)	285,599

Multiples	2023	2024E	2025E
P/E	1.0	16.0	11.0
EV/Sales	2.8	3.1	2.4
EV/EBITDA	4.5	5.4	5.2
Div. Yield	18.6%	7.4%	7.4%

STOCK OVERVIEW



COMPANY DATA

As of 30 Jun 2024

Liquid Assets	$ 3.48m
Current Assets	$ 288.96m
Intangible Assets	$ 15.66m
Total Assets	$ 3,816.46m
Current Liabilities	$ 657.99m
Shareholders' Equity	$ 535.93m

SHAREHOLDERS

Jupiter Fund Management PLC	5.7%
Blackrock Inc.	5.5%
Hargreaves Lansdown PLC	5.1%
Maverick Natural Resources LLC	4.6%
Free float and other	79.1%

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

Acquisition activity, volume growth and commodity pricing all picking up MMcfe volume grew at a CAGR of 16% during the three-year period end 2019 to end 2022 helped by a steady flow of acquisitions. However, from 2023 higher interest rates made it more difficult for DEC to find the acquisitions necessary to replace its ca. 10% annual production decline. Volume growth slowed to 1.2% in 2023 and fell 11.9% in H1/24 (FBe: 7% adjusted for the December 2023 disposal of producing assets in Appalachia). However as figure 1 below shows, recent acquisitions boosted volume by 3.1% y-o-y in Q3/24 and we expect a further acceleration to 8.3% y-o-y in Q4/24.

Figure 1: Production history and forecasts 2019-2025E

Period	Production (MMcfe)	% Δ
2019	185,658	n.a.
2020	219,227	18.1%
2021	259,543	18.4%
2022	296,127	14.1%
H1/23	154,182	4.4%
Q3/23	73,992	-0.4%
9M/23	228,174	2.8%
Q4/23	71,458	-3.6%
2023	299,632	1.2%
H1/24*	135,763	-11.9%
Q3/24	76,251	3.1%
9M/24	212,014	-7.1%
Q4/24E	77,405	8.3%
2024E	289,419	-3.4%
2025E	291,837	0.8%

* FBe production decline 7% adjusted for the December 2023 disposal of producing assets in Appalachia

Source: DEC, First Berlin Equity Research estimates

Figure 2: Acquisition history 2020-24

	Net purchase price (USDm)	Next 12 mths. EBITDA multiple (x)	Capacity (mboepd)	Production decline rate year 1 / year 3	Completion date	Announcement date
2020						
EQT	112	3.4	9.0	n.a./ n.a.	26/05/2020	11/05/2020
Carbon	98	3.3	9.1	4% / n.a.	27/05/2020	11/05/2020
Total			**18.1**			
2021						
Indigo	115	2.9	16.0	14% / n.a.	19/05/2021	30/04/2021
Blackbeard	166	3.5	16.0	8% / n.a.	05/07/2021	20/05/2021
Tanos I	118	2.3	14.0	n.a. / n.a.	18/08/2021	05/07/2021
Tapstone	174	1.8	12.0	17% / 13%	08/12/2021	07/10/2021
Total	**573**	**2.4**	**58.0**	**n.a. / n.a.**		
2022						
East Texas	50	1.4	3.7	7% / n.a.	26/04/2022	26/04/2022
Conoco Phillips	210	2.5	9.0	8% / 8%	28/09/2022	28/07/2022
Total	**260**	**2.2**	**12.7**	**8% / n.a.**		
2023						
Tanos II	**250**	**2.3**	**17.0**	**32% / 23%**	**01/03/2023**	**08/02/2023**
2024						
Oaktree assets	377	3.0	20.0	10% / n.a.	07/06/2024	19/03/2024
Crescent Pass assets	101	3.9	6.0	9% / n.a.	16/08/2024	10/07/2024
East Texas assets	49	2.6	4.0	15% / n.a.	30/10/2024	20/08/2024
Total	**527**		**30.0**			

Source: DEC

Recent acquisitions added capacity equivalent to 25% of Q1 production Figure 1 shows DEC's acquisition history since the beginning of the current decade. Interest rate volatility began to hamper acquisition price discovery from 2022 onwards. For DEC the consequence of this was that the period between the completion of the Tanos II acquisition in March 2023 and the completion of the Oaktree deal in June this year was the longest such interval in nearly 5 years. The hiatus in M&A activity caused volume to slow from 2023 onwards. However, as figure 2 shows, the acquisitions completed between early June and late October 2024 added 30mboepd of capacity. This is equivalent to 25% of Q1/24 output of 120.5mboepd. Based on no further transactions, which given the recent momentum behind acquisitions is a conservative assumption, we expect 2025 volume to rise 0.8%.

Figure 3: Realised natural gas pricing before basis differentials 2023-2026E*

	2023	2024E	2025E	2026E	2027E
Natural gas hedge price (USD/mcf)	3.79	3.35	3.30	3.24	3.26
Natural gas hedge price (USD/MMBtu)	3.55	3.27	3.22	3.16	3.18
% natural gas production hedged	85%	85%	80.0%	70.0%	65.0%
Average natural gas futures strip price (USD/MMBtu)	2.74	2.25	3.30	3.72	3.71
Realised natural gas price before basis differentials (USD/MMBtu)	3.43	3.12	3.24	3.33	3.37
% Δ y-o-y	n.a.	-9.0%	3.8%	2.9%	1.2%

* based on commodity derivatives portfolio as of 30/09/2024

Source: DEC, First Berlin Equity Research estimates

Additional 2025-2027 hedges added at 11% above the end June 2024 level On 23 October DEC announced that it had added hedges to its 2025-2027 commodity derivatives portfolio at an average price of USD3.45/MMBtu. This is about 11% above the average level of hedges for this period at end June 2024. At current futures strip pricing, we calculate that the new hedges will improve the 2025 hedging result by USD22m.

Natural gas futures sloping upward on LNG- and data centre-driven demand DEC's hedgebook and the current futures strip indicate that realised natural gas pricing before basis differentials will climb 8.0% between 2024 and 2027. Beyond 2025, expected brisk demand growth from LNG exports and electricity generation (with much of the incremental demand stemming from data centres) are the main reasons for the current upward slope in the gas futures curve to an average of USD3.62/MMBtu over the four-year period January 2026 to December 2029. This compares with USD2.25/MMBtu expected by the market for 2024.

Figure 4: Historic abridged cashflow statement and forecast

	FY 22	H1 23	H2 23	FY 23	H1 24	H2 24E	FY 24E	FY 25E
Hedged adjusted EBITDA	502,954	282,864	259,930	542,794	217,787	232,299	450,086	473,603
Op. c/flow before working cap. change	249,029	274,226	219,440	493,666	189,810	204,105	393,915	424,271
Change in working cap.	138,735	-101,660	18,126	-83,534	-28,991	6,571	-22,420	66,999
Op. c/flow after working cap. change	387,764	172,566	237,566	410,132	160,819	210,676	371,495	491,270
Net investing cashflow	-386,457	-250,017	10,648	-239,369	-402,933	-175,759	-578,692	-59,024
Cashflow after investments	**1,307**	**-77,451**	**248,214**	**170,763**	**-242,114**	**34,917**	**-207,197**	**432,246**
New equity	0	156,788	0	156,788	0	65,000	65,000	0
Net proceeds from debt financing	447,868	57,240	-67,922	-10,682	359,479	-1,778	357,701	-278,292
Interest	-82,936	-59,415	-57,369	-116,784	-47,632	-59,605	-107,237	-96,250
Dividends	-143,455	-84,029	-84,012	-168,041	-54,967	-28,183	-83,150	-56,786
Other	-222,784	6,867	-38,911	-32,044	-14,766	-10,351	-25,117	-919
Total financing cashflow	**-1,307**	**77,451**	**-248,214**	**-170,763**	**242,114**	**-34,917**	**207,197**	**-432,246**

Source: DEC, First Berlin Equity Research forecasts

DEC did not publish a cashflow statement for Q3/24 and so we break our FY/24E cashflow forecast (see figure 4 above) into H1/24 and H2/24E. The largest elements of H1/24 and H2/24E net investing cashflow are respectively the USD377m net consideration for the acquisition of the Oaktree assets and the combined USD150m outlay for the acquisition of the Crescent Pass and East Texas assets. For 2025E, as we assume no further acquisitions, we model only maintenance CAPEX under net investing cashflow. The direction in changes in working capital at DEC largely correlates with movements in commodity prices. When commodity prices fall, hedging-related receivables increase. When commodity prices rise, hedging-related liabilities increase. We model cash inflows from working capital for H2/24E and FY/25E because we expect commodity prices to rise during these periods.

Figure 5: Annual production history and forecasts 2022-2025E

Debt instrument	FY 22	H1 23	9M 23	FY 23	H1 24	9M 24	FY 24E	FY 25E
Debt as reported	**1,440,329**	**1,504,609**	**1,476,210**	**1,276,627**	**1,654,560**	**1,697,210**	**1,634,328**	**1,356,036**
Cash and cash equivalents	7,329	4,208	3,553	3,753	3,483	9,013	3,428	3,514
Restricted cash	55,388	41,188	39,126	36,252	54,976	49,678	33,112	33,945
Net debt	**1,377,612**	**1,459,213**	**1,433,531**	**1,236,622**	**1,596,101**	**1,638,519**	**1,597,788**	**1,318,577**
Proforma TTM adjusted EBITDA	**574,414**	**633,875**	**602,976**	**549,258**	**584,261**	**555,456**	**531,451**	**473,603**
Net debt/ proforma TTM adj. EBITDA	**2.4**	**2.3**	**2.4**	**2.3**	**2.7**	**2.9**	**3.0**	**2.8**

Source: DEC, First Berlin Equity Research estimates

We model falling net debt from Q4/24E Assuming no further acquisitions, we expect the positive cashflow from investments which we model for H2/24 and FY/25E to result in falling net debt during these periods (see figure 5 above).

Q3/24 volume back on the growth track As figure 7 shows, volume climbed 3.1% in Q3/24 due to the impact of the acquisition of the Oaktree and Crescent Pass assets. Reported unhedged revenue (+2.9%) nearly kept pace with volume. The reported adjusted EBITDA margin (hedged) narrowed to 48.1% (Q3/23: 55.7%) because of lower gains on settled hedges. Margins also narrowed because of losses at DEC's well-plugging subsidiary, Next Level. As figure 6 shows, Next Level plugged 214 and 222 DEC wells in 2022 and 2023 respectively and is on track to plug 200 wells in 2024. The number of third party wells plugged jumped by over 150% in 2023 but bureaucratic roadblocks meant that this number more than halved in the first nine months of 2024. However, third party well plugging is now gathering pace and we assume growth of over 20% in the number of wells plugged next year. We expect this improvement to return Next Level's EBITDA result to at least breakeven in 2025. 9M results also benefitted for the first time from revenues from coal mine methane capture. This business is expected to generate EBITDA of USD8-10m for FY/24 of which ca. three quarters had already been booked at the 9M/24 stage. We assume a roughly equivalent result for 2025.

Figure 6: Well plugging activity by DEC FY/22 to FY/25E

	FY 22	9M 23	Q4 23	FY 23	9M 24	Q4 24E	FY 24E	FY 25E
DEC wells	214	147	75	222	165	35	200	200
% Δ	n.a.	n.a.	n.a.	3.7%	12.2%	-53.3%	-9.9%	0.0%
Third party wells	72	169	13	182	68	30	98	120
% Δ	n.a.	n.a.	n.a.	152.8%	-59.8%	130.8%	-46.2%	22.4%
Total	**286**	**316**	**88**	**404**	**233**	**65**	**298**	**320**
% Δ	**n.a.**	**n.a.**	**n.a.**	**41.3%**	**73.7%**	**-26.1%**	**-26.2%**	**7.4%**

Source: DEC; First Berlin Equity Research estimates

Figure 7: Recent results and P&L forecast to 2025E

USD 000	H1 23	Q3 23	9M 23	Q4 23	FY 23	H1 24	Q3 24	9M 24	Q4 24E	FY 24E	FY 25E
Volume (Mmcfe)	**154,182**	**73,992**	**228,174**	**71,458**	**299,632**	**135,763**	**76,251**	**212,014**	**77,405**	**289,419**	**291,837**
% Δ	4.4%	-0.4%	2.8%	-3.6%	1.2%	-11.9%	3.1%	-7.1%	8.3%	-3.4%	0.8%
Reported unhedged revenue	487,305	181,051	668,356	199,907	868,263	368,674	186,297	554,971	233,511	788,482	1,010,988
Next Level revenue	11,528	10,941	22,469	5,838	28,310	7,258	3,727	10,985	3,500	14,485	17,500
Unhedged revenue ex Next Level	475,777	170,110	645,887	194,069	839,953	361,416	182,570	543,986	230,011	773,997	993,488
Settled hedges	54,527	70,162	124,689	53,378	178,065	77,749	52,749	130,498	18,085	148,583	-40,260
Realised commodity price ($/mcfe)	**3.44**	**3.25**	**3.38**	**3.46**	**3.40**	**3.23**	**3.09**	**3.18**	**3.21**	**3.19**	**3.27**
% Δ	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**-6.1%**	**-4.9%**	**-5.8%**	**-7.4%**	**-6.2%**	**1.9%**
Reported hedged revenue	**541,832**	**251,213**	**793,045**	**253,285**	**1,046,328**	**446,423**	**239,046**	**685,469**	**251,596**	**937,065**	**970,727**
% Δ	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**-17.6%**	**-4.8%**	**-13.6%**	**-0.7%**	**-10.4%**	**3.6%**
Hedged revenue ex Next Level	530,304	240,272	770,576	247,447	1,018,018	439,165	235,319	674,484	248,096	922,580	953,227
Expenses ex Next Level	**256,033**	**120,915**	**376,947**	**129,337**	**506,284**	**227,525**	**130,066**	**357,593**	**134,628**	**492,220**	**507,806**
of which:											
Base LOE	101929	45,869	147,797	43,975	191,772	89,505	58,541	148,046	60,320	208,365	215,969
Midstream expense	34,379	17,797	52,176	17,626	69,802	35,563	17,850	53,413	19,351	72,764	75,878
Gathering and transportation	49,964	21,587	71,551	24,667	96,218	42,045	24,315	66,361	23,995	90,356	90,469
Production taxes	31,307	16,402	47,709	13,766	61,475	19,993	7,725	27,718	9,289	37,007	40,857
Recurring admin. expenses	38,454	19,260	57,714	29,303	87,017	40,419	21,635	62,055	21,673	83,728	84,633
Next Level expenses	**9,766**	**5,965**	**15,731**	**5,686**	**21,413**	**8,570**	**4,975**	**13,545**	**4,700**	**18,245**	**17,500**
Gain on land sales	**6,830**	**15,579**	**22,409**	**1,757**	**24,166**	**7,459**	**11,026**	**18,485**	**5,000**	**23,485**	**28,182**
Reported adjusted EBITDA	**282,864**	**139,912**	**422,776**	**120,018**	**542,794**	**217,787**	**115,029**	**332,816**	**117,269**	**450,085**	**473,603**
% Δ	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**-23.0%**	**-17.8%**	**-21.3%**	**-2.3%**	**-17.1%**	**5.2%**
margin	52.2%	55.7%	53.3%	47.4%	51.9%	48.8%	48.1%	48.6%	46.6%	48.0%	48.8%
Next Level EBITDA	1,765	4,976	6,738	152	6,897	-1,312	-1,248	-2,560	-1,200	-3,760	0
Adjusted EBITDA ex Next Level	281,099	134,936	416,038	119,866	535,897	219,099	116,277	335,376	118,469	453,845	473,603
margin	53.0%	56.2%	54.0%	48.4%	52.6%	49.9%	49.4%	49.7%	47.8%	49.2%	49.7%
Per unit (USD/mcfe)											
Reported unhedged revenue	3.16	2.45	2.93	2.80	2.90	2.72	2.44	2.62	3.02	2.72	3.46
Next Level revenue	0.07	0.15	0.10	0.08	0.09	0.05	0.05	0.05	0.05	0.05	0.06
Hedged revenue ex Next Level	3.09	2.30	2.83	2.72	2.80	2.66	2.39	2.57	2.97	2.67	3.40
Settled hedges	0.35	0.95	0.55	0.75	0.59	0.57	0.69	0.62	0.23	0.51	-0.14
Reported hedged revenue	**3.51**	**3.40**	**3.48**	**3.54**	**3.49**	**3.29**	**3.13**	**3.23**	**3.25**	**3.24**	**3.33**
Hedged revenue ex Next Level	3.44	3.25	3.38	3.46	3.40	3.23	3.09	3.18	3.21	3.19	3.27
Expenses ex Next Level	**1.66**	**1.63**	**1.65**	**1.81**	**1.69**	**1.68**	**1.71**	**1.69**	**1.74**	**1.70**	**1.74**
of which:											
Base LOE	0.66	0.62	0.65	0.62	0.64	0.66	0.77	0.70	0.78	0.72	0.74
Midstream expense	0.22	0.24	0.23	0.25	0.23	0.26	0.23	0.25	0.25	0.25	0.26
Gathering and transportation	0.32	0.29	0.31	0.35	0.32	0.31	0.32	0.31	0.31	0.31	0.31
Production taxes	0.20	0.22	0.21	0.19	0.21	0.15	0.10	0.13	0.12	0.13	0.14
Recurring admin. expenses	0.25	0.26	0.25	0.41	0.29	0.30	0.28	0.29	0.28	0.29	0.29
Next Level expenses	**0.06**	**0.08**	**0.07**	**0.08**	**0.07**	**0.06**	**0.07**	**0.06**	**0.06**	**0.06**	**0.06**
Gain on land sales	**0.04**	**0.21**	**0.10**	**0.02**	**0.08**	**0.05**	**0.14**	**0.09**	**0.06**	**0.08**	**0.10**
Reported adjusted EBITDA	**1.83**	**1.89**	**1.85**	**1.68**	**1.81**	**1.60**	**1.51**	**1.57**	**1.52**	**1.56**	**1.62**
Adjusted EBITDA ex Next Level	1.82	1.82	1.82	1.68	1.79	1.61	1.52	1.58	1.53	1.57	1.62

Source: DEC; First Berlin Equity Research forecasts

VALUATION

Figure 8: DEC and peer group EV/EBITDA multiple comparison

	EV/EBITDA (x) 29.11.24	EV/EBITDA (x) 19.12.23	EBITDA CAGR 2019-24E	2024 production decline rate (%)	Market cap. (USDm) 29.11.24
Antero	14.1	10.5	28.6%	26.0%	10,101
CNX	8.8	5.6	1.0%	25.0%	6,023
Comstock	9.0	6.5	8.9%	44.0%	4,507
EQT	11.8	7.0	9.5%	22.0%	27,019
Gulfport	5.4	4.3	-2.4%	35.0%	3,137
Range	8.9	7.3	4.5%	24.0%	8,588
Peer group average	**9.7**	**6.9**	**8.3%**	**29.3%**	**9,896**
DEC	**5.4**	**4.1**	**10.5%**	**10.0%**	**866**
(Discount)/premium to peer group average	**-43.7%**	**-40.2%**	**26.0%**	**-65.9%**	**-91.2%**

Source: First Berlin Equity Research estimates

Figure 9: DEC valuation based on average peer group multiples

	DEC fair value at peer group average 2024 EV/EBITDA multiple 29.11.24	DEC fair value at peer group average EV/EBITDA multiple 19.12.23
EV/EBITDA (x)	**9.7**	**6.9**
EBITDA	450	543
EV	4,348	3,737
Net debt	1,639	1,434
Market capitalisation	**2,709**	**2,303**
No. shares outstanding (m)	51.30	47.92
Valuation per share (GBp)	**4,148**	**3,789**

Source: First Berlin Equity Research estimates

Buy recommendation maintained at a price target of GBp2,800 (previously: GBp 3,600)
DEC is trading at a 44% discount to its peer group based on 2024E EV/adjusted EBITDA, but has a superior growth track record. We expect DEC's adjusted EBITDA to have grown at a five-year CAGR of 10.5% by the end of this year compared with 8.3% for its peers. Recovering commodity prices and a pick-up in acquisition activity by DEC (three transactions completed since June) suggest the company will be able to sustain its historic growth rate going forward. We think DEC should trade on a 2024E EV/adjusted EBITDA multiple closer to the peer group figure of 9.7x. Applying a multiple of 7.7x to our 2024 forecast (a 20% discount to the peers to take into account their higher market caps). produces a per share valuation for DEC of GBp2,817. We set a new price target of GBp2,800 (previously: GBp3,600) and maintain our Buy recommendation. The price target of GBp3,600 in our most recent note of 19 December 2023 was based on a discounted dividend valuation. However, following the 2/3 cut in the Q4/23 dividend this methodology is no longer viable, and so we now use peer group valuation. As figure 9 above indicates, peer group valuation performed using data as of 19 December 2023 produces a valuation for the DEC share of GBp3,789. At a 20% discount to the peers, this figure becomes GBp2,560. Figures 10 and 11 overleaf show the sensitivity of our valuations to varying discounts to the peer group.

Disposal of undeveloped acreage could create substantial additional value for DEC
DEC has 8.6 million acres within its operating footprint of which 65% or 5.6 million acres is undeveloped. Among the most valuable portions of the undeveloped acreage is 700,000 acres in and around the Cherokee natural gas play in the Anadarko basin of Oklahoma. Year-to-date land transactions in this area have been made at an average USD1,100 acre. This suggests a value for DEC's 700,000 acres of ca. USD800m. The undeveloped acreage was acquired together with proven, developed, producing (PDP) assets.

DEC only paid for the PDP assets and so the book value of the undeveloped acreage is zero. However, DEC had deferred tax assets of USD458m at YE2023. This suggests that no tax would be payable on any asset disposals. The recent Republican Party election win will likely usher in a more benign regulatory environment for US oil and gas and could lead to an acceleration in disposals which would add substantial value over and above our price target. On the realistic assumption that such disposals will be tax-free, each USD100m of proceeds would be worth GBp154 per share.

Figure 10: Sensitivity of DEC valuation to discount to peer group multiple (29.11.2024)

Discount to peer group multiple	0%	10%	20%	30%	40%
EV/EBITDA (x)	9.7	8.7	7.7	6.8	5.8
Fair value per share (GBp)	4,148	3,482	2,817	2,151	1,485

Source: First Berlin Equity Research estimates

Figure 11: Sensitivity of DEC valuation to discount to peer group multiple (19.12.2023)

Discount to peer group multiple	0%	10%	20%	30%	40%
EV/EBITDA (x)	6.9	6.2	5.5	4.8	4.1
Fair value per share (GBp)	3,789	3,175	2,560	1,945	1,330

Source: First Berlin Equity Research estimates

INCOME STATEMENT

All figures in USD '000	2020A	2021A	2022A	2023A	2024E	2025E
Revenues	**408,693**	**1,007,561**	**1,919,349**	**868,263**	**788,482**	**1,010,988**
Operating expense	-203,963	-291,213	-445,893	-440,562	-419,278	-440,674
Depreciation and depletion	-117,290	-167,644	-222,257	-224,546	-220,988	-225,233
Gross profit	**87,440**	**548,704**	**1,251,199**	**203,155**	**148,216**	**345,081**
Administrative expenses	-77,234	-102,326	-170,735	-119,722	-115,572	-96,633
Allowance for expected credit losses	-8,490	4,265	0	-8,478	0	0
Gain on oil/gas programme and equipment	-2,059	-901	2,379	24,146	0	0
Gain/loss on sale of equity interest	0	0	0	18,440	0	0
Unrealised gain/loss on investment	0	0	0	4,610	0	0
Gain (loss) on derivative financial instruments	-94,397	-974,878	-1,758,693	1,080,516	68,466	-40,260
Gain on bargain purchase	17,172	58,072	4,447	0	0	0
Impairment of proved properties	0	0	0	-41,616	0	0
Operating income (EBIT)	**-77,568**	**-467,064**	**-671,403**	**1,161,051**	**101,110**	**208,188**
Finance costs	-43,327	-50,628	-100,799	-134,166	-120,000	-96,250
Accretion of asset retirement obligation	-15,424	-24,396	-27,569	-26,926	-30,075	-31,489
Other income (expense)	-421	-8,812	269	385	0	0
Income before taxation	**-136,740**	**-550,900**	**-799,502**	**1,000,344**	**-48,965**	**80,449**
Taxation on income	113,266	225,694	178,904	-240,643	97,997	-6,000
Non-controlling interest	0	-303	-4,812	-1,683	-1,000	-1,050
Net income / loss	**-23,474**	**-325,509**	**-625,410**	**758,018**	**48,032**	**73,399**
Diluted EPS (in USD)	**-0.69**	**-8.20**	**-14.82**	**15.95**	**0.98**	**1.42**
Adusted EBITDA (hedged)*	**300,590**	**343,145**	**503,422**	**542,794**	**450,086**	**473,603**
Ratios						
Gross margin	21.4%	54.5%	65.2%	23.4%	18.8%	34.1%
Adjusted EBITDA margin (hedged)	54.3%	50.0%	49.2%	51.9%	48.0%	46.8%
Net margin	-5.7%	-32.3%	-32.6%	87.3%	6.1%	7.3%
Tax rate	82.8%	41.0%	22.4%	24.1%	200.1%	7.5%
Expenses as % of revenues						
Y-Y Growth						
Revenues	-11.6%	146.5%	90.5%	-54.8%	-9.2%	28.2%
Adjusted EBITDA (hedged)	10.0%	14.2%	46.7%	7.8%	-17.1%	5.2%
Net income/ loss	n.m.	n.m.	n.m.	n.m.	-93.7%	52.8%

** 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	2020A	2021A	2022A	2023A	2024E	2025E
Assets						
Current assets, total	**94,474**	**337,139**	**354,222**	**304,598**	**221,022**	**288,892**
Cash and cash equivalents	1,379	12,558	7,329	3,753	3,428	3,514
Restricted cash	250	1,033	7,891	11,195	10,225	10,482
Receivables	66,991	282,922	296,781	190,207	189,064	256,320
Derivative financial instruments	17,858	1,052	27,739	87,659	7,542	7,542
Other current assets	7,996	39,574	14,482	11,784	10,763	11,034
Non-current assets, total	**2,196,208**	**3,157,070**	**3,476,706**	**3,169,424**	**3,622,964**	**3,465,796**
Oil and gas properties, net	1,755,085	2,530,078	2,555,808	2,490,375	2,860,546	2,701,086
Property, plant & equipment, net	382,103	413,980	462,860	456,208	439,721	434,899
Intangible assets	19,213	14,134	21,098	19,351	17,675	18,119
Restricted cash	20,100	18,069	47,497	25,057	22,887	23,462
Indemnification receivable	1,837	0	0	0	0	0
Derivative financial instruments	717	219	13,936	24,401	24,401	24,401
Deferred tax asset	14,777	176,955	371,156	144,860	242,857	242,857
Other non-current assets	2,376	3,635	4,351	9,172	14,877	20,971
Total assets	**2,290,682**	**3,494,209**	**3,830,928**	**3,474,022**	**3,843,987**	**3,754,688**
Shareholders' equity & debt						
Current liabilities, total	**196,506**	**773,600**	**1,131,630**	**638,440**	**686,396**	**787,017**
Short-term debt	64,959	58,820	271,096	200,822	257,091	213,314
Accounts payable	19,366	62,418	93,764	53,490	64,159	93,416
Capital lease	5,013	9,627	9,293	10,563	9,648	9,891
Derivative financial instruments	15,858	251,687	293,840	45,836	45,836	45,836
Other current liabilities	91,310	391,048	463,637	327,729	309,662	424,560
Long-term liabilities, total	**1,207,518**	**2,056,659**	**2,837,022**	**2,237,172**	**2,555,862**	**2,351,126**
Long-term debt	652,281	951,535	1,169,233	1,075,805	1,377,237	1,142,723
Capital lease	13,865	18,177	19,569	20,559	17,935	20,064
Asset retirement obligation	344,242	522,190	452,554	501,246	524,821	549,160
Deferred tax liability	15,746	0	12,490	13,654	10,478	13,325
Uncertain tax position	1,837	0	0	0	0	0
Derivative financial instruments	168,524	556,982	1,177,801	623,684	623,684	623,684
Other non-current liabilities	11,023	7,775	5,375	2,224	1,707	2,170
Shareholders' equity	**886,658**	**663,950**	**-137,724**	**598,410**	**601,729**	**616,545**
Total consolidated equity and debt	**2,290,682**	**3,494,209**	**3,830,928**	**3,474,022**	**3,843,987**	**3,754,688**
Ratios						
Current ratio (x)	0.48	0.44	0.31	0.48	0.32	0.37
Quick ratio (x)	0.48	0.44	0.31	0.48	0.32	0.37
Net debt	695,511	978,695	1,377,612	1,236,622	1,597,788	1,318,577
Net gearing	78.4%	147.4%	n.a.	206.7%	265.5%	213.9%
Book value per share (in GBP)	18.93	11.55	-2.70	9.69	9.74	9.98
Return on equity (ROE)	-2.6%	-42.0%	n.a.	329.1%	8.0%	12.0%

CASH FLOW STATEMENT

All figures in USD '000	2020A	2021A	2022A	2023A	2024E	2025E
Net profit	**-23,474**	**-325,509**	**-625,410**	**759,701**	**49,032**	**74,449**
Depreciation and depletion	117,290	167,644	222,257	224,546	220,988	225,233
Accretion of asset retirement obligation	15,424	24,396	27,569	26,926	30,075	31,489
Impairment of proved properties	0	0	0	41,616	0	0
Income tax (benefit) expense	-113,266	-225,694	-178,904	240,643	-97,997	6,000
(Gain)/loss on derivative financial instruments	238,795	652,465	861,457	-905,695	80,117	0
Asset retirement obligations	-2,442	-2,879	-4,889	-5,961	-6,500	-7,150
Gain on oil/gas properities and equipment	1,356	901	-2,379	-24,146	0	0
(Gain)/loss on sale of equity interest	0	0	0	-18,440	0	0
Unrealised (gain) loss on investment	0	0	0	-4,610	0	0
Gain on bargain purchase	-17,172	-58,072	-4,447	0	0	0
Finance costs	43,327	50,628	100,799	134,166	120,000	96,250
Revaluation of contingent consideration	0	8,963	0	0	0	0
Hedge modifications	0	-10,164	-133,573	26,686	0	0
Cancellation/retirement of debt	0	0	0	6,494	0	0
Changes in w orking capital	-10,129	40,680	138,735	-83,534	-22,420	66,999
Non cash equity compensation	5,007	7,400	8,051	0	4,000	4,000
Cash paid for income taxes	-5,850	-10,880	-26,314	-8,260	-5,800	-6,000
Other adjustments	-7,156	303	4,812	0	0	0
Operating cash flow	**241,710**	**320,182**	**387,764**	**410,132**	**371,495**	**491,270**
Oil and gas properties and equipment	-21,947	-50,175	-86,079	-74,252	-51,692	-59,024
Free cash flow	**219,763**	**270,007**	**301,685**	**335,880**	**319,803**	**432,246**
Acquisitions	-223,091	-574,134	-276,571	-262,329	-527,000	0
(Increase)/decrease in restricted cash	-12,637	0	0	0	3,140	-833
Proceeds from disposal of assets	3,712	88,887	0	99,832	0	0
Other acquired intangibles	-2,900	0	0	0	0	0
Deferred consideration payments	0	0	0	-2,620	0	0
Contingent consideration payments	-893	-10,822	-23,807	0	0	0
Payments associated w ith potential acquisitions	0	-25,002	0	0	0	0
Acquisition-related debt and hedge extinguishme	0	-56,466	0	0	0	0
Investment cash flow	**-257,756**	**-627,712**	**-386,457**	**-239,369**	**-575,552**	**-59,857**
Repayment of borrow ings	-705,314	-1,432,566	-2,139,686	-1,547,912	-1,076,897	-378,292
Proceeds of borrow ings	799,650	1,727,745	2,587,554	1,537,230	1,434,598	100,000
Net proceeds/(repayment) of borrow ings	94,336	295,179	447,868	-10,682	357,701	-278,292
Penalty on early retirement of debt	0	0	0	0	-1,751	0
Cash paid for interest	-34,335	-41,623	-82,936	-116,784	-107,237	-96,250
Debt issuance cost	-7,799	-10,255	-34,234	-13,776	-13,988	0
(Increase) decrease in restricted cash	0	1,838	-36,287	11,792	0	0
ABS note hedge modifications	0	0	-105,316	-6,376	0	0
Net proceeds from leasing	-3,684	-8,606	-11,233	-12,169	2,157	0
Proceeds from equity issuance, net	81,407	213,844	0	156,788	65,000	0
Cancellation of w arrants	0	-1,429	137	0	0	0
Dividends to shareholders	-98,527	-130,239	-143,455	-168,041	-83,150	-56,786
Distributions to non-controlling interest ow ners	0	0	-6,389	-4,043	0	0
Repurchase of shares	-15,634	0	-34,691	-11,048	-15,000	0
Financing cash flow	**15,764**	**318,709**	**-6,536**	**-174,339**	**203,732**	**-431,327**
Other	**0**	**0**	**0**	**0**	**0**	**0**
Net cash flows	**-282**	**11,179**	**-5,229**	**-3,576**	**-325**	**86**
Cash, start of the year	1,661	1,379	12,558	7,329	3,753	3,428
Cash, end of the year	**1,379**	**12,558**	**7,329**	**3,753**	**3,428**	**3,514**
Adjusted EBITDA (hedged)/share (in GBP)	**6.83**	**6.29**	**9.65**	**9.25**	**7.19**	**7.25**

Y-Y Growth						
Operating cash flow	-13.4%	32.5%	21.1%	5.8%	-9.4%	32.2%
Free cash flow	89.0%	122.9%	111.7%	111.3%	95.2%	135.2%
EBITDA/share	2.4%	-8.0%	53.4%	-4.1%	-22.3%	0.9%

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First Berlin Equity Research

First Berlin Equity Research GmbH ist ein von der BaFin betreffend die Einhaltung der Pflichten des §85 Abs. 1 S. 1 WpHG, des Art. 20 Abs. 1 Marktmissbrauchsverordnung (MAR) und der Markets Financial Instruments Directive (MiFID) II, Markets in Financial Instruments Directive (MiFID) II Durchführungsverordnung und der Markets in Financial Instruments Regulations (MiFIR) beaufsichtigtes Unternehmen.

First Berlin Equity Research GmbH is one of the companies monitored by BaFin with regard to its compliance with the requirements of Section 85 (1) sentence 1 of the German Securities Trading Act [WpHG], art. 20 (1) Market Abuse Regulation (MAR) and Markets in Financial Instruments Directive (MiFID) II, Markets in Financial Instruments Directive (MiFID) II Commission Delegated Regulation and Markets in Financial Instruments Regulations (MiFIR).

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INFORMATION PURSUANT TO SECTION 85 (1) SENTENCE 1 OF THE GERMAN SECURITIES TRADING ACT [WPHG], TO ART. 20 (1) OF REGULATION (EU) NO 596/2014 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL OF APRIL 16, 2014, ON MARKET ABUSE (MARKET ABUSE REGULATION) AND TO ART. 37 OF COMMISSION DELEGATED REGULATION (EU) NO 2017/565 (MIFID) II.

First Berlin Equity Research GmbH (hereinafter referred to as: “First Berlin”) prepares financial analyses while taking the relevant regulatory provisions, in particular section 85 (1) sentence 1 of the German Securities Trading Act [WpHG], art. 20 (1) of Regulation (EU) No 596/2014 of the European Parliament and of the Council of April 16, 2014, on market abuse (market abuse regulation) and art. 37 of Commission Delegated Regulation (EU) no. 2017/565 (MiFID II) into consideration. In the following First Berlin provides investors with information about the statutory provisions that are to be observed in the preparation of financial analyses.

CONFLICTS OF INTEREST

In accordance with art. 37 (1) of Commission Delegated Regulation (EU) no. 2017/565 (MiFID) II and art. 20 (1) of Regulation (EU) No 596/2014 of the European Parliament and of the Council of April 16, 2014, on market abuse (market abuse regulation) investment firms which produce, or arrange for the production of, investment research that is intended or likely to be subsequently disseminated to clients of the firm or to the public, under their own responsibility or that of a member of their group, shall ensure the implementation of all the measures set forth in accordance with Article 34 (2) lit. (b) of Regulation (EU) 2017/565 in relation to the financial analysts involved in the production of the investment research and other relevant persons whose responsibilities or business interests may conflict with the interests of the persons to whom the investment research is disseminated. In accordance with art. 34 (3) of Regulation (EU) 2017/565 the procedures and measures referred to in paragraph 2 lit. (b) of such article shall be designed to ensure that relevant persons engaged in different business activities involving a conflict of interests carry on those activities at a level of independence appropriate to the size and activities of the investment firm and of the group to which it belongs, and to the risk of damage to the interests of clients.

In addition, First Berlin shall pursuant to Article 5 of the Commission Delegated Regulation (EU) 2016/958 disclose in their recommendations all relationships and circumstances that may reasonably be expected to impair the objectivity of the financial analyses, including interests or conflicts of interest, on their part or on the part of any natural or legal person working for them under a contract, including a contract of employment, or otherwise, who was involved in producing financial analyses, concerning any financial instrument or the issuer to which the recommendation directly or indirectly relates.

With regard to the financial analyses of Diversified Energy PLC the following relationships and circumstances exist which may reasonably be expected to impair the objectivity of the financial analyses: The author, First Berlin, or a company associated with First Berlin reached an agreement with the Diversified Energy PLC for preparation of a financial analysis for which remuneration is owed.

Furthermore, First Berlin offers a range of services that go beyond the preparation of financial analyses. Although First Berlin strives to avoid conflicts of interest wherever possible, First Berlin may maintain the following relations with the analysed company, which in particular may constitute a potential conflict of interest:

- The author, First Berlin, or a company associated with First Berlin owns a net long or short position exceeding the threshold of 0.5 % of the total issued share capital of the analysed company;
- The author, First Berlin, or a company associated with First Berlin holds an interest of more than five percent in the share capital of the analysed company;

- The author, First Berlin, or a company associated with First Berlin provided investment banking or consulting services for the analysed company within the past twelve months for which remuneration was or was to be paid;
- The author, First Berlin, or a company associated with First Berlin reached an agreement with the analysed company for preparation of a financial analysis for which remuneration is owed;
- The author, First Berlin, or a company associated with First Berlin has other significant financial interests in the analysed company;

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In order to avoid and, if necessary, manage possible conflicts of interest both the author of the financial analysis and First Berlin shall be obliged to neither hold nor in any way trade the securities of the company analyzed. The remuneration of the author of the financial analysis stands in no direct or indirect connection with the recommendations or opinions represented in the financial analysis. Furthermore, the remuneration of the author of the financial analysis is neither coupled directly to financial transactions nor to stock exchange trading volume or asset management fees.

INFORMATION PURSUANT TO SECTION 64 OF THE GERMAN SECURITIES TRADING ACT [WPHG], DIRECTIVE 2014/65/EU OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL OF 15 MAY 2014 ON MARKETS IN FINANCIAL INSTRUMENTS AND AMENDING DIRECTIVE 2002/92/EC AND DIRECTIVE 2011/61/EU, ACCOMPANIED BY THE MARKETS IN FINANCIAL INSTRUMENTS REGULATION (MIFIR, REG. EU NO. 600/2014).

First Berlin notes that is has concluded a contract with the issuer to prepare financial analyses and is paid for that by the issuer. First Berlin makes the financial analysis simultaneously available for all interested security financial services companies. First Berlin thus believes that it fulfils the requirements of section 64 WpHG for minor non-monetary benefits.

PRICE TARGET DATES

Unless otherwise indicated, current prices refer to the closing prices of the previous trading day.

AGREEMENT WITH THE ANALYSED COMPANY AND MAINTENANCE OF OBJECTIVITY

The present financial analysis is based on the author's own knowledge and research. The author prepared this study without any direct or indirect influence exerted on the part of the analysed company. Parts of the financial analysis were possibly provided to the analysed company prior to publication in order to avoid inaccuracies in the representation of facts. However, no substantial changes were made at the request of the analysed company following any such provision.

ASSET VALUATION SYSTEM

First Berlin's system for asset valuation is divided into an asset recommendation and a risk assessment.

ASSET RECOMMENDATION

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.

RISK ASSESSMENT

The First Berlin categories for risk assessment are low, average, high and speculative. They are determined by ten factors: Corporate governance, quality of earnings, management strength, balance sheet and financial risk, competitive position, standard of financial disclosure, regulatory and political uncertainty, strength of brandname, market capitalisation and free float. These risk factors are incorporated into the First Berlin valuation models and are thus included in the target prices. First Berlin customers may request the models.

RECOMMENDATION & PRICE TARGET HISTORY

Report No.:	Date of publication	Previous day closing price	Recommendation	Price target
Initial Report	30 June 2020	GBp1888.00	Buy	GBp2600.00
2...11	↓	↓	↓	↓
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	19 December 2023	GBp1310.50	Buy	GBp3600.00
20	Today	GBp1240.00	Buy	GBp2800.00

INVESTMENT HORIZON

Unless otherwise stated in the financial analysis, the ratings refer to an investment period of twelve months.

UPDATES

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