

SDX Energy

Quarterly results

Aggressive drilling programme in second half

SDX Energy has released its first quarter 2017 results, the first period incorporating its recent acquisition of Egyptian and Moroccan assets. As expected, hydrocarbon sales rose significantly, totalling 2.991mboe/d and more than doubling year-on-year, while oil netbacks also increased markedly to \$44.4/boe. During the period, the company successfully drilled the South Disouq well, proving a gas resource that could start production within 12 months. We leave our NAV unchanged at 76p/share, and await the results of testing the well in the coming weeks.

Year end	Revenue (US\$m)	PBT (US\$m)	Cash from operations (US\$m)	Net (debt)/cash (US\$m)	Capex (US\$m)
12/15	11.4	11.1	(5.2)	8.2	(5.1)
12/16	12.9	(26.7)	(1.9)	4.7	(11.9)
12/17e	45.5	9.9	29.9	20.9	(22.9)
12/18e	80.9	35.9	56.4	35.1	(44.6)

Note: The financials above include the (unrisks) impact of South Disouq, which we estimate will require substantial capex in 2017 and 2018.

South Disouq discovery progresses

The South Disouq well intercepted 82ft of net pay with an average of 25% porosity and permeability above one Darcy. Condensate to gas ratios are estimated to be up to 70bbls/mmscf, above pre-drill estimates. The well will be tested in the coming month after the rig is moved off location. Furthermore, SDX Energy is already working on development planning and gas marketing to enable early gas production, which it hopes to commence in Q118. The company is preparing for a second exploration well, targeting deeper oil potential.

Production should increase during 2017

Production in Egypt was below end-year 2016 levels due to a delays to the start of the planned 12 well workover programme at NW Gemsa (we leave our full year estimates unchanged, but are watchful of NW Gemsa where production has declined to 5.3mb/d in the period vs 7.8mb/d in Q116). A work programme at Meseda is targeting a notable increase in oil production by the end of the year. Gross production at Sebou in Morocco was 646mboe/d, but SDX is drilling three development wells to increase this and two low-risk appraisal/exploration wells (one targeting a deviated step-out, one targeting an accumulation adjacent to existing production), as well as two exploration wells at Lalla Mimouna. We note well costs are low (<US\$1m each), historical success rates are above 75% and that all targets are supported by bright spots calibrated over 3D seismic.

Valuation: Keeping NAV unchanged

We leave our estimates and valuation unchanged at 76p/share. The results of the testing at the significant discovery at South Disouq will give us a better idea of the extent and commercial value of the field. The aggressive drilling campaign in Egypt and Morocco means that SDX is well placed to use its position to materially increase production by year end and grow value over time. In total, the company plans to drill up to 11 wells in Egypt and Morocco.

Oil & gas

22 May 2017

Price **58.00p**

Market cap **£108m**

US\$/£0.8

Net cash (\$m) at end March 2017 21.1

Shares in issue 186.9m

Free float 59%

Code SDX

Primary exchange AIM

Secondary exchange TSX Venture

Share price performance



% 1m 3m 12m

Abs (5.7) 33.0 222.2

Rel (local) (9.7) 29.1 162.9

52-week high/low 67.4p 20.0p

Business description

SDX Energy is a North African onshore player listed in Toronto and London. It has oil and gas production in Egypt, and Moroccan gas production. A large gas discovery was recently made at South Disouq.

Next events

South Disouq testing Q217

Development and exploration well programme in Egypt H217

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Exhibit 1: Financial summary

Accounts: IFRS, Year-end: 31 December, US\$000s	2014	2015	2016	2017e	2018e
Total revenues	24,533	11,372	12,914	45,513	80,874
Cost of sales	(3,639)	(4,973)	(5,282)	(13,746)	(21,354)
Gross profit	20,894	6,399	7,632	31,766	59,520
SG&A (expenses)	(1,768)	(3,746)	(2,457)	(2,809)	(1,665)
Other income/(expense)	0	(3)	479	0	0
Exceptionals and adjustments	(3,831)	(7,676)	(29,089)	(1,000)	(1,000)
Depreciation and amortisation	(1,602)	(2,057)	(3,266)	(18,068)	(20,929)
Reported EBIT	13,693	(7,083)	(26,701)	9,890	35,925
Finance income/(expense)	(1,009)	(96)	4	0	0
Other income/(expense)	0	18,289	0	0	0
Exceptionals and adjustments	0	0	0	0	0
Reported PBT	12,684	11,110	(26,697)	9,890	35,925
Income tax expense (includes exceptionals)	(4,328)	(1,063)	(1,503)	(823)	(2,085)
Reported net income	8,356	10,047	(28,200)	9,066	33,840
Basic average number of shares, m	376	52	72	178	187
Basic EPS	0.1	0.2	(0.4)	0.1	0.2
Balance sheet	2014A	2015A	2016A	2017E	2018E
Property, plant and equipment	9,392	18,401	12,605	31,339	50,590
Goodwill	0	0	0	0	0
Intangible assets	16,460	23,473	10,623	8,712	13,177
Other non-current assets	1,999	2,106	2,503	3,077	3,077
Total non-current assets	27,851	43,980	25,731	43,128	66,844
Cash and equivalents	17,935	8,170	4,725	20,895	35,137
Inventories	0	1,188	1,698	1,698	2,638
Trade and other receivables	3,306	6,678	9,463	38,463	30,770
Other current assets	0	0	0	0	0
Total current assets	21,241	16,036	15,886	61,056	68,546
Non-current loans and borrowings	0	0	0	0	0
Other non-current liabilities	608	286	290	290	290
Total non-current liabilities	608	286	290	290	290
Trade and other payables	1,686	3,556	3,674	18,174	14,539
Current loans and borrowings	2,207	0	0	0	0
Other current liabilities	5,142	928	389	389	389
Total current liabilities	9,035	4,484	4,063	18,563	14,928
Equity attributable to company	39,449	55,246	37,264	85,330	120,171
Cash flow statement					
Profit before tax	12,684	11,110	(26,697)	9,890	35,925
Depreciation and amortisation	1,602	2,057	3,266	18,068	20,929
Share based payments	1,064	761	(47)	1,000	1,000
Other adjustments	1,670	(12,281)	25,742	(1,766)	(2,535)
Movements in working capital	12,941	(2,183)	(3,440)	3,500	3,118
Income taxes paid	(4,430)	(4,678)	(766)	(823)	(2,085)
Cash from operations (CFO)	25,531	(5,214)	(1,942)	29,868	56,353
Capex	(13,634)	(5,120)	(11,890)	(22,891)	(44,645)
Acquisitions & disposals net	0	0	0	(30,000)	0
Other investing activities	1,110	4,836	825	1,192	2,535
Cash used in investing activities (CFIA)	(12,524)	(284)	(11,065)	(51,699)	(42,111)
Net proceeds from issue of shares	0	0	10,127	38,000	0
Movements in debt	0	(3,702)	(96)	0	0
Other financing activities	0	0	0	0	0
Cash from financing activities (CFF)	0	(3,702)	10,031	38,000	0
Currency translation differences and other	0	0	0	0	0
Increase/(decrease) in cash and equivalents	13,007	(9,200)	(2,976)	16,170	14,243
Currency translation differences and other	(615)	(565)	(469)	0	0
Cash and equivalents at end of period	17,935	8,170	4,725	20,895	35,137
Net (debt) cash	15,728	8,170	4,725	20,895	35,137
Movement in net (debt) cash over period	12,392	(7,558)	(3,445)	16,170	14,243

Source: Edison Investment Research, company accounts. Note: Forecasts currently reflect development of 585bcf of gas at South Disouq – forecasts will be updated post testing once volumes that can be developed from the SD-1X well have been confirmed.

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