

LONGBOAT ENERGY PLC (AIM: LBE)

May 09, 2022

Share price: £0.67

Target: £1.90

Adding material drilling news flow

- Longboat is acquiring 20% WI in the Oswig and Velocette gas prospects from OMV in return for a US\$3.4 mm post tax carry. This boosts the total net volumes targeted by Longboat's near-term drilling programme from ~65 mmboe (across Copernicus and Cambozola) to 110 mmboe (total of four wells), representing a very material addition. There is also on-block follow-on potential of 55 mmboe on the two new assets.
- OMV will retain a 40% interest in both assets, suggesting that the initial 60% position was too high for a company that recently announced its strategy to pivot away from hydrocarbons. In any case, keeping a high interest suggests that OMV continues to see value in the assets.
- With the cost of Longboat's drilling programme so far being at the low end of expectations and current cash being higher than we expected a few months ago, the after-tax drilling costs of the two new wells (US\$9.5 mm including carry) can be funded within the initial budget.
- We have increased our target price from £1.30 per share to £1.90 per share as we incorporate the value of the two new wells. Our unrisks NAV for Cambozola (drilling ongoing) is £1.95 per share. Oswig will be spudded in July (unrisks NAV of £0.93 per share) to be followed by Copernicus in August (unrisks NAV of £1.25 per share).

Oswig and Velocette

- The Oswig prospect consists of an HP/HT Jurassic rotated fault block near the producing Tune and Oseberg fields in the Norwegian North Sea, operated by Equinor. The well is targeting the Tarbert and Ness formations, which are estimated to contain combined gross unrisks mean resources of 93 mmboe (19 mmboe net). The geological chance of success is estimated to be 36% and the key risks are reservoir quality and fault seal.
- Velocette is a gas-condensate prospect targeting Cretaceous Nise turbidite sands on the eastern flank of the Utgard High in the Norwegian Sea which have been identified following recent seismic reprocessing. Velocette is located within tieback distance from the Equinor operated producing Aasta Hansteen field (~45 km). Velocette is estimated to contain gross unrisks mean resources of 130 mmboe (26 mmboe net) with a 35% chance of success. The key risks are reservoir presence and quality.

Valuation

We have increased our ReNAV from ~£1.30/sh to £1.90/sh as we add the risked value of the two new wells. We continue to assume the historical unrisks value of US\$4.3/boe, which has probably increased in the context of very high gas prices. The unrisks value of Longboat's four upcoming wells is £5.40 per share.

Rating & target	Old	New	
Target	£1.30	£1.90	
Yield		0%	
Implied total return		175%	
Share data	2020	2021	2022e
Shares dil., mm	24	64	64
Mkt cap, US\$m	\$21	\$61	\$60
EV, US\$m	\$12	\$25	\$85
Financial data	2020	2021	2022e
Gas, mmcf/d	0.0	0.0	0.0
Liquids, bbl/d	0	0	0
Total boe/d (6:1)	0	0	0
CFO, US\$m	(\$3)	(\$4)	(\$8)
Net capex, US\$m	\$0	\$21	\$49
Net debt, US\$m	(\$9)	(\$36)	\$25
CFPS dil., US\$/s	(\$0.01)	(\$0.07)	(\$0.13)
EPS dil., US\$/sh	(\$0.02)	(\$0.09)	(\$0.82)
Valuation	2020	2021	2022e
Share price, £/s	£0.69	£0.69	£0.69
EV/DACF	n.a.	n.a.	n.a.
EV per boe/d	n.a.	n.a.	n.a.
Net asset value			
CNAV, £/shr			£0.32
RENAV, £/shr			£1.90
Unrisks NAV, £/shr			£6.91
P/CNAV			2.2x
P/RENAV			0.4x
P/Unrisks NAV			0.1x

All figures in US\$ unless otherwise noted

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Figure 1. Financial & operating information

Longboat Energy plc (LBE)		Historical & Auctus Advisors Outlook					
Financial & Operating Information		2020	2021	2022e	2023e	2024e	2025e
Commodity Prices							
Brent	US\$/bbl	\$41.26	\$71.13	\$102.62	\$100.00	\$92.45	\$73.71
UK NBP	US\$/mcf	\$5.41	\$14.01	\$18.48	\$14.00	\$8.00	\$8.00
USD/CAD	US\$/C\$	\$0.75	\$0.75	\$0.75	\$0.75	\$0.75	\$0.75
USD / GBP	US\$/£	1.282	1.368	1.358	1.400	1.400	1.400
Production							
Oil and Liquids	bbl/d	0	0	0	0	0	0
Natural Gas	mmcf/d	0	0	0	0	0	0
Total (6 mcf = 1 boe)	boe/d	0	0	0	0	0	0
% Oil and Liquids	%	0%	0%	0%	0%	0%	0%
Netbacks							
Realized Price	US\$/boe	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Royalties	US\$/boe	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Production Costs	US\$/boe	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Operating Netback	US\$/boe	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Taxes	US\$/boe	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Cash Flow Netback	US\$/boe	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Government Take	%	0%	0%	0%	0%	0%	0%
Financials							
Cash Flow (CFO)	US\$mm	(\$3)	(\$4)	(\$8)	(\$8)	(\$8)	(\$8)
CFPS - diluted	US\$/shr	(\$0.01)	(\$0.07)	(\$0.13)	(\$0.13)	(\$0.13)	(\$0.13)
EBITDAX	US\$mm	(\$3)	(\$15)	(\$8)	(\$8)	(\$8)	(\$8)
E&D Capex	US\$mm	\$0	\$21	\$49	\$8	\$0	\$0
A&D Capex, Net	US\$mm	\$0	\$0	\$0	\$0	\$0	\$0
Cash exploration tax rebate	US\$mm	\$0	\$0	\$0	\$48	\$6	\$0
Total Net Capex	US\$mm	\$0	\$21	\$49	\$8	\$0	\$0
Total Net Capex/CFO	x	0.0x	-5.5x	-6.0x	-1.0x	0.0x	0.0x
Leverage							
Net Debt	US\$mm	(\$9)	(\$36)	\$25	(\$5)	(\$2)	\$0
Net debt/CFO (Trailing)	x	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Entry Net Debt/CFO	x	n.a.	n.a.	n.a.	(\$3)	n.a.	n.a.
Capital Structure							
Basic Shares o/s @ YE	mm	10	57	57	57	57	57
Diluted Shares o/s @ YE	mm	24	64	64	64	64	64
Market Capitalization	US\$mm	\$21	\$61	\$60	\$62	\$62	\$62
Enterprise Value	US\$mm	\$12	\$25	\$85	\$57	\$60	\$62
Dividends & Sustainability							
Dividends	US\$mm	0	0	0	0	0	0
Dividends	£/shr	£0.00	£0.00	£0.00	£0.00	£0.00	£0.00
Dividend Yield	%	0%	0%	0%	0%	0%	0%
Free Cash Flow	US\$mm	(\$3)	(\$25)	(\$57)	(\$17)	(\$8)	(\$8)
Cash Use/CFO	%	0%	-554%	-604%	-100%	0%	0%
Performance							
Prod. Per Shr Growth (Y/Y) - dil	%	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
PPS Growth (Y/Y) DDA - dil.	%	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
CFPS Growth (Y/Y) - dil.	%	n.a.	n.a.	n.a.	0%	0%	0%
CFPS Growth (Y/Y) DDA - dil.	%	n.a.	n.a.	-78%	-17%	-8%	-7%
ROCE	%	0%	n.a.	n.a.	n.a.	n.a.	n.a.
Net Asset Value							
CNAV (Atax) - diluted	£/shr	£0.32					
RENAV (Atax) - diluted	£/shr	£1.90					
Unrisked NAV (Atax) - diluted	£/shr	£6.91					
P/CNAV	x	2.2x					
P/RENAV	x	0.4x					
P/Unrisked NAV	x	0.1x					
Valuation		2020	2021.0x	2022e	2023e	2024e	2025e
Share Price, YE/Current	£/shr	£0.69	£0.69	£0.69	£0.69	£0.69	£0.69
P/CF	x	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
EV/DACF	x	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Target EV/DACF	x	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
EV per boe/d	\$/boepd	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
EV per 2P boe	US\$/boe	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
EV per 2P boe, with FDC	US\$/boe	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

a) EBITDAX = Pre-Int. & Pre-Tax Cash Flow; b) DDA = Debt-and-Dividend-Adjusted

c) CNAV incl. 2P reserves, RENAV incl. 2P reserves + Risked LT inventory upside, ENAV incl. 2P reserves + Unrisked LT inventory upside

Source: Auctus advisors, Company Disclosures

**Futures strip as of 8-May-22

Figure 2. NAV Table

Asset Valuation	WI Reserves and Resources (mmboe)	CoS (%)	Unrisked (US\$mm)	EMV (US\$mm)	£/Share (Risky)	£/Share (Unrisked)	% Total
Net Cash/Debt end of 2Q23			9	9	0.10	0.10	5%
Residual Exploration Tax rebate end of 2Q23			6	6	0.07	0.07	4%
G&A (3 y)			-16	-16	-0.18	-0.18	-10%
Egyptian Vulture	6.2	60%	26	16	0.18	0.30	10%
Kveikje Main target	3.6	85%	15	13	0.15	0.18	8%
Total Core NAV			41	28	0.32	0.46	17%
Egyptian Vulture Upside	6.2	25%	27	7	0.08	0.31	4%
Rodhette	2.0	40%	9	3	0.04	0.10	2%
Mugnetind	1.6	0%	0	0	0.00	0.00	0%
Ginny/Hermine	0.0	0%	0	0	0.00	0.00	0%
Kveikje Deep	12.7	10%	55	5	0.06	0.62	3%
Cambozola	39.8	15%	171	26	0.29	1.95	15%
Oswig	19.0	36%	82	29	0.34	0.93	18%
Copernicus	25.4	26%	109	28	0.32	1.25	17%
Velocette	26.0	35%	112	39	0.45	1.28	24%
Total Risked Exploration			564	138	1.58	5.17	83%
Total			604	166	1.90	6.91	100%
Unrisked NAV					6.91		
P/Core NAV				218%			
P/NAV				36%			
P/Unrisked NAV				10%			

Source: Auctus Advisors, Company Reports

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