Tennyson

Afentra PLC (AET LN)

MARKET DATA

Bloomberg	ticker	AET LN
Share price	p/shr	24.35
Target	p/shr	60.00
TP upside	%	146%
Shares out	Million	220.1
Fd shares	Million	220.1
Mkt cap	US$m	66.4
EV (proj. YE23)	US$m	99.7

DESCRIPTION

Afentra is an African focused E&P seeking to build a portfolio of production assets through acquisition, taking advantage of divestment strategies by many larger companies seeking to exit the region.

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ANGOLA RESHUFFLE

Shares in Afentra (AET LN) recommence trading this morning, following the publication of a prospectus in relation to its reverse takeover transaction. In July the company announced the acquisition of certain partner interests in Angola and the concurrent restructuring of the Sonangol transaction, increasing ownership of its main asset and improving equity alignment across Blocks 3/05 & 3/05A. Under the revised deal, Afentra will give up 6% of Block 3/05 to Sonangol (by acquiring 14% as opposed to 20%) and gain a further 12% in Block 3/05 and 16% in nearby 3/05A through a separate transaction with Azule Energy. Critically, the (Block 3/05) barrels swapped in are higher value and have been secured on better economic terms. On completion, Afentra will hold 30% (vs. 24%) of Block 3/05 and a much larger 21.33% stake (vs. 5.33%) in Block 3/05A, lifting group net production to 5.7 kbopd (vs. 4.4 kbopd) and net 2P + 2C to 53 mmbbls (vs. 39 mmbbls). We estimate the aggregate cash outflow on closing (in Q4 2023) to be ~US$50m, equating to a transaction multiple of just 0.9x 2024 field-level OpCF (post tax). Having refreshed our numbers for the new deal construct, we reiterate our BUY stance with a raised target price of 60p (vs. 40p).

Figure 1: Summary financial forecasts

		2024E [OLD]	2024E [NEW]	% CHG	2025E [OLD]	2025E [NEW]	% CHG
Production, WI	**kboepd**	**4.4**	**5.4**	**21.6%**	**4.4**	**5.4**	**21.6%**
Av. price	US$/boe	83.9	86.5	3.1%	78.3	80.4	2.6%
Revenue	US$m	79.1	119.7	51.3%	66.4	111.3	67.5%
EBITDA	**US$m**	**28.0**	**60.2**	**115.0%**	**20.1**	**51.8**	**157.4%**
Cash margin	*%*	*35.4%*	*50.3%*	*42.1%*	*30.3%*	*46.5%*	*53.6%*
FCF	**US$m**	**3.9**	**31.1**	**696.8%**	**(1.6)**	**11.1**	**(791.6%)**
EV/EBITDA	x	-	1.7x		-	1.3x	
Net debt/EBITDA	X	-	0.0x		-	-	

Sources: Tennyson Securities.

Azule deal adds higher value bbls for less: The acquisition of 12% of Block 3/05 from Azule (US$45.7m upfront + US$21m contingent) has been struck on similar headline terms to the Sonangol deal (revised to US$56m upfront + US$35m contingent). A summary table of the two transactions is shown in Figure 2, below. The firm consideration equates to a purchase price of US$3.96m per licence % point for Azule, compared to US$4.0m per % point for Sonangol. Importantly, however, the Azule barrels are more valuable, due to a higher inherited cost oil pool (~1.8x larger than Sonangol) resulting from Azule's less frequent crude oil lifting schedule historically. Furthermore, the deferred consideration on the Azule purchase is calculated on a sliding scale at Brent prices above US$75/bbl (vs bullet payments at above US$65/bbl for Sonangol). As such, the full US$21m will only be paid to Azule if oil prices reach US$122/bbl, and on the current forward curve will amount to just US$4m over three years. For details of the contingent consideration terms see 'Transaction Overview' section on page 4, below.

Realigned partnership facilitates future development: Following the equity reshuffle in Blocks 3/05 & 3/05A, ownership across the two licences is now more evenly distributed. The rump of Block 3/05 will be split across three main parties – Sonangol (36% operator), Afentra (30%) and Paris-listed independent M&P (20%). We believe that, whilst Sonangol retains operatorship and the largest share, the combination of Afentra and M&P (entered in 2018) as material participants in the licence (50% combined) should help drive reinvestment and operational efficiencies over time (both on the cost and ESG side). Meanwhile, through the

Azule deal, Afentra secures a much larger 21.33% (vs. 5.33%) position in Block 3/05A, with Sonangol at 33.3% and M&P at 26.7%, which should better align partner decision making.

Figure 2: INA, Sonangol & Azule transaction breakdown – Block 3/05 ONLY

Block 3/05 acquisition metrics (at SPA)		INA		Sonangol		Azule		Comments
		Net WI	Per % WI	Net WI	Per % WI	Net WI	Per % WI	
Working interest acquired		4%	1%	14%	1%	12%	1%	30% combined interest
Effective date		**30-Sep-21**		**20-April-2022**		**31-Oct-22**		-
Completion date		05-May-23		Q4 2023		Q4 2023		-
Firm consideration	US$m	19	4.75	56	4.00	47.5	3.96	Similar price per % WI across 3 deals
Max. contingent consideration	US$m	6[1]	1.5	35[2]	2.5	21[3]	1.75	Azule lower on max contingent payment vs Sonangol
Period of payment	years	3 years		10 years		3 years		Shorter payment period for Azule interests
Trigger price for contingents	US$/bbl	$65/bbl		$65/bbl		$75/bbl at incremental units of Brent price increase		Significantly higher oil price threshold for Azule interests vs Sonangol
Threshold price triggering max contingent payment	US$/bbl	30% revenue share		$65/bbl		$122/bbl		Much more price headroom for Azule to pay max contingent vs Sonangol bullet payment
Cost pool	US$m	-	~1.6x Sonangol[4]	-	-	-	~1.8x Sonangol[4]	Significant cost pool advantage for Azule
Total Consideration	**US$m**	**Up to 25**		**Up to 91**		**Up to 68.5**		

[1] Payable as US$2m per annum, over 3 years, paid as a 30% share of revenue upside above Brent price of $65/bbl
[2] Payable as US$3.5m per annum over 10 years, subject to minimum Brent price of $65/bbl and minimum annual production of 15,000 bbl/d
[3] Payable as US$150k for each unit of Brent price increment above US$75/bbl with an annual cap of US$7m over the years 2023, 2024 & 2025, and requiring a minimum 1 lifting per year
[4] Ratio relative to Sonangol cost pool per % working interest

Source: AET.

Deal closing Q4, fully funded from existing resources: The aggregate upfront consideration due on completion of the two transactions is US$105m (for Block 3/05 & 3/05A) – comprising US$48.5m to Azule and US$56m to Sonangol (see Figure 3, below, for full breakdown). In practice, due to completion adjustments (accrued CF since effective dates – Azule 31 Oct 2022 and Sonangol 20 April 2022), we estimate the actual cash outlay to be ~US$50m – assuming completion at YE23 (Q4 is formal guidance). Importantly, Afentra expects to fund the enlarged transaction entirely through existing credit lines and cash (i.e no equity dilution). We note the group has an existing RBL of up to US$110m with the Commercial Bank of Mauritius and Trafigura, which was partially drawn to complete the INA transaction in May 2023 (US$13m drawn at end H1 2023). In addition, it has a further US$30m WC facility to manage asset cash requirements between crude liftings (US$9m drawn at end H1 2023). Meanwhile, the deferred considerations will be comfortably funded from internal cash flow. The path to completion requires a shareholder vote, to be held in October – and thereafter Government approval. We note that tacit blessing for the broader deal has already been given by the state through the revised Sonangol terms – so much of the heavy lifting is done.

Block 3/05 licence extension & improved fiscal terms: Concurrent with the asset transaction processes, the Block 3/05 partners have negotiated a licence extension to 2040 (from 2025 before) with the Angolan Government. This was approved by Executive Decree in May 2023 satisfying a key CP (condition precedent) for Afentra's Sonagnol transaction. Alongside the extension, the underlying tax terms are expected to be materially improved, providing a notable value kicker for the partners (as discussed in more detail below). This reflects an acknowledgement by the Government of the need for fiscal reform to encourage fresh investment in maturing fields and follows similar changes in country on other licences. Importantly, Afentra ascribed no value in its purchase price allocation for the impending improvement in fiscal terms, which are in the final throes of being approved by Government – at which point they will be made public.

H1 trading update shows promising underlying asset performance: following completion of the INA deal in May, Afentra has been formally added to the Block 3/05 & 3/05A licences providing full insight into field operations. Amongst the key activities in H1 2023, the partners have completed a successful programme of light well interventions on Block 3/05. These have helped to increase gross production to over 20 kbopd (6 kbopd net to AET 30% WI) since July, up from an average of 18 kbopd in H1. Further well interventions are planned, with a total of 30 slated over the coming 18 months. Alongside this, water injection upgrades continue, with injection rates more than doubling year-on-year (averaging 38 kbwpd in H1). This should lead to higher production and recovery rates over the medium term as reservoir pressure builds. Lastly, long term test production at nearby Block 3/05A continues at the Gazela field at rates of 1,450 kbopd as of the end of July (~309 bopd net to 21.3% AET WI), with a view to finalising development options. In terms of near-term capital requirements, we forecast group net capex of US$15-28m in FY24-25 which we expect to be comfortably funded from internal CF. Our modelled 2P profile conservatively envisages oil production remaining flat for >8 years – although clearly there is plenty of scope to improve on this given the size of the asset and depth of opportunity set (3P, 2C and prospective resource).

Strong platform established; on the lookout for fresh acquisitions: Afentra's entry into Angola establishes a strong operating platform and puts the company on the map as an asset consolidator in the West African region. Importantly in our view**,** it demonstrates an ability to source, finance and close transactions, including navigating the (often complex) political landscape and various stakeholder interests. Looking ahead at future potential M&A, the lowest hanging fruit exists in Angola, which possesses a large and maturing hydrocarbon industry (>1 mbopd) controlled by a small number of players, and where the company already has existing relationships. However, asset evaluations continue across the wider West African region with a view to securing the right deal and achieving the next step change in value.

Material NAV upgrade on deal changes, enhanced fiscal terms: we have reworked our valuation and financial projections for Afentra to reflect: 1) the updated transaction structure (Azule + Sonangol), 2) the new CPR on Block 3/05 included in the RTO prospectus (with updated 2P production, capex & opex profiles), and 3) the latest Brent forward curve. The outcome is a revised Core & Total NAV of 33p & 61p, up some 87% & 69% respectively. Notably, this excludes the benefit of fiscal enhancements on Block 3/05 which, when approved (expected imminently), will result in a further meaningful upgrade. Based on changes to other licences in country, we see the potential for our Core & Total NAV to increase by between 5-10p. Meanwhile, forecast group EBITDA in FY24, the first full year of production, increases to US$60m (vs. US$28m) in our base case, with 20%+ upside on the back of the fiscal changes.

In summary, with Afentra shares trading on a P/NAV of 0.4x and an EV/EBITDA of 1.7x (FY24), we see significant upside at present levels – with the promise of further value steps to come.

1 TRANSACTION OVERVIEW

Revised transaction structure

In July 2023, Afentra announced: 1) the acquisition of additional interests from partner Azule Energy as part of a non-core divestment by the ENI-BP joint venture, and 2) concurrent changes to the earlier Sonangol acquisition (stuck in April 2022). The key terms are as follows:

Azule acquisition:

- Afentra has agreed to purchase Azule's entire 12% interest in producing Block 3/05. Afentra will pay an initial sum of US$47.5m and a contingent amount of up to US$21m over the next 3 years (capped at US$7m/yr), depending on oil price and production hurdles. The deferred consideration is calculated on a sliding scale, amounting to US$150k per bbl above a threshold of US$75/bbl. Accordingly, at a Brent price of US$90/bbl, US$2.25m per annum is payable.
- As well as the Block 3/05 interest, Afentra is also buying Azule's 16% stake in adjacent Block 3/05A which contains two undeveloped fields (Gazela & Punja) close to existing infrastructure. The agreed purchase price is US$1m upfront and US$15m in contingent payments – linked to development milestones, oil price (>US$75/bbl) and certain production hurdles.

Figure 3: INA, Sonangol & Azule transaction breakdown – Blocks 3/05 & 3/05A

Detailed acquisition structure (at SPA)		INA		Sonangol[2]		Azule		Aggregate	
		Bl. 3/05	Bl. 3/05A	Bl. 3/05	Bl. 3/05A	Bl. 3/05	Bl. 3/05A	Bl. 3/05	Bl. 3/05A
Working interest acquired		4%	5.33%[1]	14%	0%	12%	16%[1]	**30%**	**21.33%[1]**
Effective date		**30-Sep-21**		**20-Apr-22**		**31-Oct-22**		**-**	
Completion date (expected)		05-May-23		(Q4 2023)		(Q4 2023)		**(Q4 2023)**	
Initial consideration	$m	9	3	56	-	47.5	1	**112.5**	**4**
Licence extension payment	$m	10[3]	-	-	-	-	-	**10**	**-**
Brent price linked contingent payment	$m	Up to 6[4]	-	Up to 35[5]	-	Up to 21[6]	-	**Up to 62**	**-**
Future developments linked contingent payment	$m	-	5[7]	-	-	-	Up to 15[8]	**-**	**Up to 20**
Total Consideration	**$m**	**Up to 25**	**Up to 8**	**Up to 91**	**-**	**Up to 68.5**	**Up to 16**	**Up to 184.5**	**Up to 24**

[1] Assumes that the default China Sonangol interests have been redistributed pro-rata amongst existing Partners, increasing Afentra's interest in Block 3/05A from 4% to 5.33% (post-INA) and from 16% to 21.33% (post-Azule)
[2] The Sonangol Acquisition also includes the acquisition of a 40% WI in exploration Block 23 for a consideration of $0.5m
[3] Block 3/05 licence term was extended to 2040 on 17 May 2023 satisfying a condition precedent for the Sonangol Acquisition and triggering the contingent payment of $10m to INA
[4] Payable as $2m per annum, over 3 years, and paid as a 30% share of revenue upside above Brent price of $65/bbl
[5] Payable as $3.5m per annum over 10 years commencing 1 January 2023, subject to minimum Brent price of $65/bbl and minimum annual production of 15,000 bbl/d
[6] Payable on a sliding scale above a Brent price of $75/bbl with an annual cap of $7m over the years 2023, 2024 & 2025
[7] Subject to successful development of existing discoveries and a minimum Brent price of $65/bbl
[8] Payable 1 year from first oil date and split equally between Caco-Gazela and Punja ($7.5m each), subject to annual average Brent price of US$75/bbl and minimum average annual production of 5 kbbl/d from both fields

Source: AET.

Revised Sonangol acquisition:

- In conjunction with the Azule purchase, the original Sonangol deal is being restructured – passing back some of the Block 3/05 interest to the State operator, to ensure an appropriate balance of equity interests and tacit support for the Azule transaction. Under the revised terms, Afentra's acquired interest will be lowered by 6% (from 20% to 14%) for a pro-rata reduction in the upfront consideration to US$56m (vs. US$80m) and contingent amounts of up to US$35m (vs. US$50m) – as before, paid in equal instalments over the next 10 years (US$3.5m per annum).

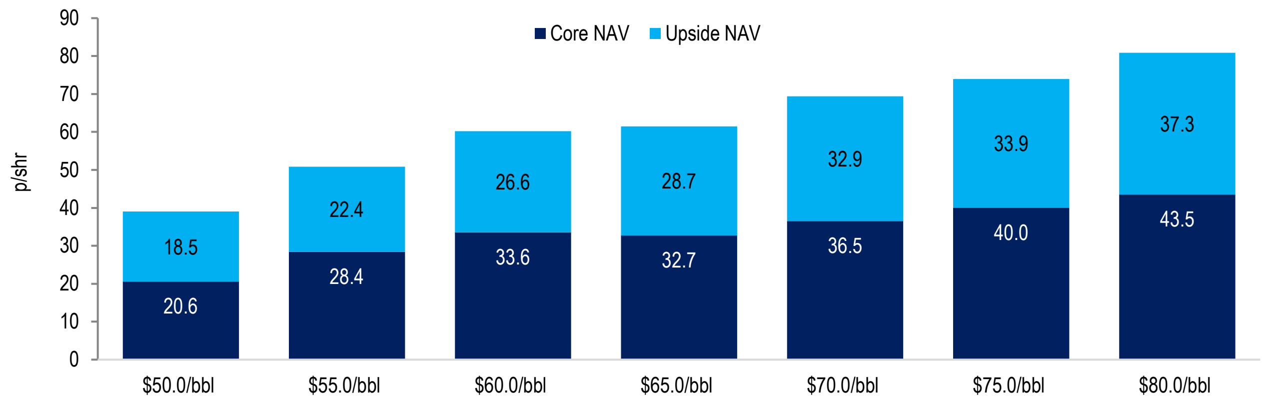
Figure 4: Valuation table

NET ASSET VALUE							
Asset	**Net**		**Unrisked**			**Risked**	
	mmboe	**US$/boe**	**US$m**	**p/share**	**CoS**	**US$m**	**p/share**
Block 3/05 - 2P	33	4.23	139	51.0	100%	139	51.0
Add: net debt - YE23			(33)	(12.2)		(33)	(12.2)
Add: corp overheads			(17)	(6.0)		(17)	(6.0)
Add: option proceeds			-	-		-	-
Core NAV	**33**		**89**	**32.7**		**89**	**32.7**
Block 3/05 – 3P	11	4.23	47	17.2	75%	35	12.9
Block 3/05 - 2C	6	2.49	14	5.3	60%	9	3.2
Block 3/05A - 2C	7	8.16	57	21.1	60%	34	12.6
Total NAV	**57**		**208**	**76.3**		**168**	**61.4**

Valuation assumptions:
Brent: US$84.7-86.5-80.4-65.0/bbl FY23-24-25-LT
Discount rate 10%.
1.24 US dollar / sterling.
220.1 basic shares, plus zero dilutive options & warrants = 220.1m fully diluted.

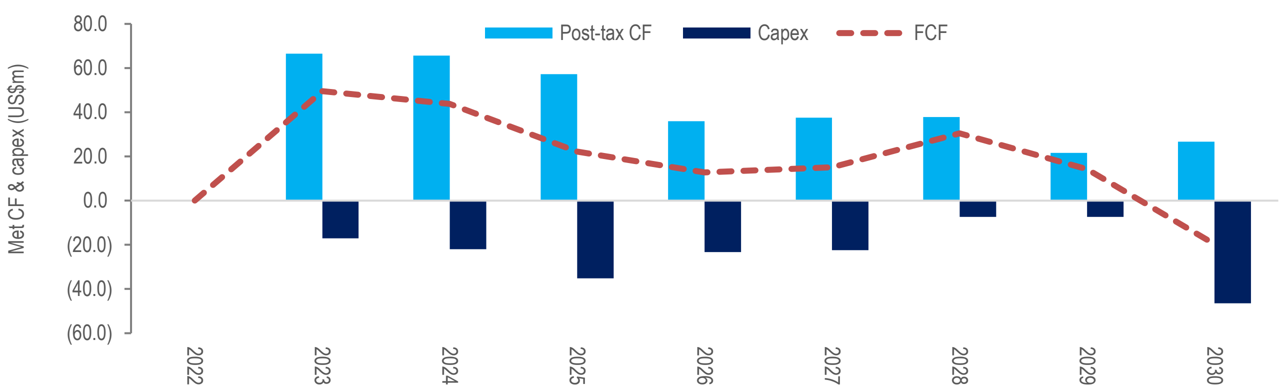
Source: Tennyson Securities.

Figure 5: Sensitivity table – Total NAV at various long term oil price assumptions (2026 onwards)



Source: Tennyson Securities.

Figure 6: DCF model of 2P reserves



Source: Tennyson Securities.

Figure 7: Financial summary – P&L, cash flow and balance sheet

FYE 31ST DEC		2021	2022E	2023E	2024E	2025E
WI production	**kbopd**	**-**	**-**	**0.4**	**5.4**	**5.4**
Entitlement share	%	-	-	70.3%	70.3%	70.3%
Entitlement production	Kbopd	-	-	0.3	3.8	3.8
Average realised price	US$/bbl	-	-	84.7	86.5	80.4
Revenue	**US$m**	**-**	**-**	**9.4**	**119.7**	**111.3**
Operating costs	US$m	-	-	(4.2)	(54.0)	(54.0)
	US$/boe	-	-	*26.7*	*27.4*	*27.4*
G&A costs	US$m	(2.0)	(5.2)	(5.5)	(5.5)	(5.5)
	US$/boe	-	-	*34.9*	*2.8*	*2.8*
EBITDA	**US$m**	**(2.0)**	**(5.2)**	**(0.3)**	**60.2**	**51.8**
EBITDA margin	*US$/boe*	-	-	*(3.5%)*	*50.3%*	*46.5%*
DD&A	US$m	(0.2)	(0.2)	(0.9)	(10.8)	(10.8)
Other	US$m	(2.7)	(3.5)	(1.0)	-	-
Decommissioning provision	US$m	-	-	(0.2)	(2.0)	(2.0)
Finance expense, net	US$m	(0.0)	(0.1)	-	(7.4)	(5.8)
Profit before tax	**US$m**	**(5.0)**	**(9.1)**	**(2.3)**	**40.0**	**33.2**
Income tax	US$m	-	-	-	-	-
Net income	**US$m**	**(5.0)**	**(9.1)**	**(2.3)**	**40.0**	**33.2**
Adjusted EPS (fully diluted)	c/shr	*(2.27)*	*(4.13)*	*(1.07)*	*18.17*	*15.07*
Profit before tax	**US$m**	**(5.0)**	**(9.1)**	**(2.3)**	**40.0**	**33.2**
Cash flow reconciliation	US$m	0.3	0.4	1.0	20.2	18.6
Working capital movements	US$m	0.2	2.0	-	-	-
Interest paid, net	US$m	(0.0)	0.1	-	(7.2)	(5.6)
Tax paid	US$m	-	-	-	-	-
Net operating cash flow	**US$m**	**(4.5)**	**(6.6)**	**(1.3)**	**53.0**	**46.2**
Cash flow margin	*US$/boe*	-	-	*(8.4)*	*26.9*	*23.4*
Capex (including ABEX)	US$m	(0.2)	(0.1)	(1.2)	(15.0)	(27.9)
Acquisitions	US$m	-	(0.0)	(60.4)	(7.0)	(7.2)
Free cash flow	**US$m**	**(4.7)**	**(6.8)**	**(62.9)**	**31.1**	**11.1**
Debt movement, other	US$m	(0.2)	(10.4)	59.0	(12.0)	(12.0)
Share issuance	US$m	-	-	-	-	-
Net increase (decrease) in cash	**US$m**	**(5.0)**	**(17.2)**	**(3.9)**	**19.1**	**(0.9)**
Cash	US$m	37.7	30.6	26.7	45.8	44.8
Total assets	**US$m**	**60.0**	**52.9**	**114.4**	**144.6**	**164.0**
Debt	US$m	-	-	59.0	47.2	35.4
Other liabilities & decommissioning	US$m	1.1	3.1	7.9	9.9	8.0
Shareholder equity	US$m	58.9	49.8	47.5	87.5	120.6
Total equity & liabilities	**US$m**	**60.0**	**52.9**	**114.4**	**144.6**	**164.0**
Adjusted P/E	x	-	-	-	*1.7x*	*2.0x*
EV/EBITDA	x	-	-	-	*1.7x*	*1.3x*
FCF yield*	%	-	-	-	*57.2%*	*27.5%*
Net debt / EBITDA trailing	x	-	-	-	*0.0x*	-

Source: Tennyson Securities. *Underlying FCF, adjusted for acquisition costs.

COMPANY BACKGROUND/OVERVIEW:

Afentra PLC (DEC LN) was formed in 2021 through a management and shareholder restructuring of Sterling Energy, an AIM listed cash shell. The company is led by CEO Paul McDade, previously CEO of Tullow Oil, with support from COO Ian Cloke and CFO Anastasia Deulina – both of whom worked at Tullow.

The company entered Angola in 2022 in back-to-back deals with Sonangol and INA, for an aggregate initial consideration to up to US$102.5m. A follow on deal with Azule Energy occurred the following year. Through these transactions the group holds a 30% interest in Block 3/05 and 21.33% in adjacent Block 3/05A.

The company's strategy is to build on this platform to expand further in Angola and the wider region.

SWOT ANALYSIS:

Strengths
Free cash flow generating
Proven management, Africa experience
Existing infrastructure, low capital intensity
Low decline, long life assets
Significant OIP

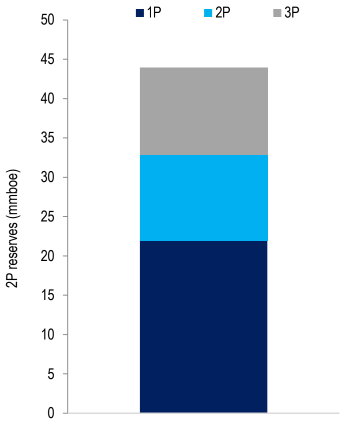
Weaknesses
Dependence on single asset for CF
Non-operated interests

Opportunities
Further accretive acquisitions
Low cost, high return development
Potential to boost recovery factor
Build closer relationship with Sonangol
Emission reductions

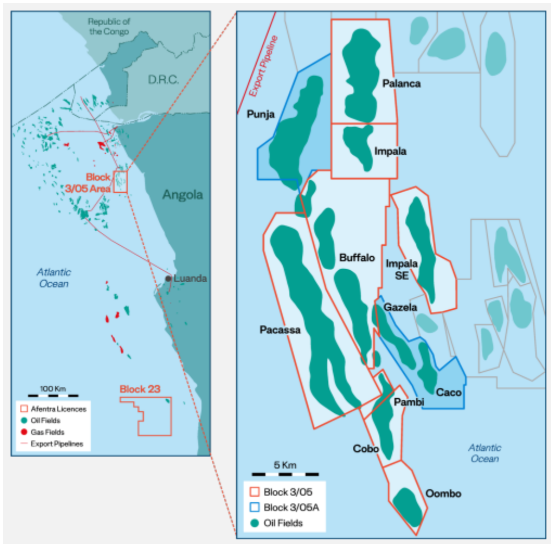
Threats
Rising acquisition costs
Country / political risks

PRODUCTION & RESERVES:

AET's WI production:	5.7 kboepd
AET's WI audited 2P reserves:	32.9 mmboe
Reserve replacmnt ratio (H1 2023):	~150%



ANGOLA ASSET MAP:



SHAREHOLDERS:

Top shareholders:

Askar Alshinbayev	21.9%
Denis O'Brien	7.2%
Kite Lake	6.1%
Athos Capital	3.1%

Director interests:

Anastasia Deulina	0.4%
Ian Cloke	1.0%
Paul McDade	1.4%
Gavin Wilson	1.4%

MANAGEMENT & BOARD:

Jeffrey MacDonald, Non-Exec. Chairman: Former MD at PE firm First Reserve, with a focus on oil & gas. Former CEO/founder of UK-focused E&P Caledonia O&G.

Paul McDade, CEO: Petroleum engineer with 35 years' experience inc. 19 years with Tullow as COO and then CEO. Left Tullow in 2019 and co-founded Afentra in 2021.

Ian Cloke, COO: Geoscientist with 25 years' oil industry experience, including 10 years at Exxon and 15 years at Tullow. Left Tullow in 2020 and co-founded Afentra in 2021.

Anastasia Deulina, CFO: Former energy investment banker and finance specialist. Previously Group Head of Strategy, Planning & M&A at Tullow.

Gavin Wilson, NED: Investment Director at Meridian Capital, a HK based investment firm. Founder and former manager of RAB Energy and RAB Octane funds.

Source: Tennyson Securities, Afentra, Bloomberg, ERCE.

DISCLAIMER

RECOMMENDATIONS HISTORY

Market index : FTSE AIM ENERGY

Date	Market Index level	Share Price (p)	Target Price (p)	Opinion
AET	**FTSE AIM ENERGY**			
30 Aug 2022	1496.99	33.0	40	BUY
18 Sept 2023	745.25	24.3	60	BUY

RATINGS, CERTIFICATION AND DISCLOSURE

RATINGS SYSTEM

BUY: The stock is expected to generate absolute positive price performance of over 10% during the next 12 months.

HOLD: The stock is expected to generate absolute price performance of between negative 10% and positive 10% during the next 12 months.

SELL: The stock is expected to generate absolute negative price performance of over 10% during the next 12 months.

INVESTMENT ANALYST CERTIFICATION

All research is issued under the regulatory oversight of Tennyson Securities, a trading name of Shard Capital Partners LLP ("Shard Capital").

Each Investment Analyst of Tennyson Securities whose name appears as the Author of this Investment Research hereby certifies that the recommendations and opinions expressed in the Investment Research accurately reflect the Investment Analyst's personal, independent and objective views about any and all of the Designated Investments or relevant issuers discussed herein that are within such Investment Analyst's coverage universe.

INVESTMENT RESEARCH DISCLOSURES 1,3,10,11,12

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