

Afentra PLC (AET LN)

MARKET DATA

Bloomberg	ticker	AET LN
Share price	p/shr	30.20
Target	p/shr	75.00
TP upside	%	148%
Shares out	Million	220.1
Fd shares	Million	220.1
Mkt cap	US\$m	81.5
EV (proj. YE23)	US\$m	115.0

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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GOVERNMENT APPROVAL LANDS

In a corporate update this morning, Afentra (AET) announced Government approval of the Sonangol acquisition clearing a key regulatory hurdle in the consolidation of its ownership in Block 3/05, offshore Angola. Alongside this news, the company reiterated that it expects to complete both the Sonangol and Azule Energy transactions by year-end and unveiled specific details around the improved fiscal terms on Block 3/05. We have adjusted our model to reflect the fiscal amendments, as well as the latest Brent forward curve, yielding a ~24% increase in our Total NAV and a ~12% upgrade in aggregate FY24-25e EBITDA (to US\$125m, 0.9x EV). Noting increased visibility around deal completion and the marked uplift in asset value, we reiterate our BUY stance with a revised target price of 75p (vs. 60p).

Figure 1: Summary financial forecasts

		2024E [OLD]	2024E [NEW]	% CHG	2025E [OLD]	2025E [NEW]	% CHG
Production, WI	kboepd	5.4	5.4	-	5.4	5.4	-
Av. price	US\$/boe	86.5	79.3	(8.3%)	80.4	75.7	(5.9%)
Revenue	US\$m	119.7	125.1	4.5%	111.3	119.3	7.2%
EBITDA	US\$m	60.2	65.6	8.9%	51.8	59.8	15.5%
Cash margin	%	50.3%	52.4%	4.2%	46.5%	50.1%	7.7%
FCF	US\$m	31.1	36.7	18.2%	11.1	20.1	82.0%
EV/EBITDA	x	-	1.8x	-	-	1.3x	-
Net debt/EBITDA	X	-	-	-	-	-	-

Sources: Tennyson Securities.

Completion timetable remains on track: Afentra has announced the receipt of Government approval for the Sonangol transaction, the first of two outstanding acquisitions in Angola. The company is now working with Sonangol towards final completion of the deal (purely administrative process) which is expected to occur in late Q4 2023. Meanwhile, in relation to the Azule acquisition, the company noted it similarly expects Government approval and completion within Q4 2023, as per previous guidance. Given the two transactions are connected (the Sonangol deal was restructured to allow room for the Azule purchase), in our view, Government approval for Azule should be a formality. Lastly, the pro-rata redistribution of the interests of China Sonangol International in Block 3/05A to the incumbent licence holders (for nil consideration) has been approved by the Government. This follows China Sonangol's earlier decision to withdraw from the licence.

Once all of the above are consummated (year-end), Afentra will hold an enlarged 30% (vs 4%) in flagship Block 3/05 and 21.33% (vs. 4%) in adjacent Block 3/05A, with total working interest production of ~6 kboepd and 2P + 2C reserves of 53 mboe. We forecast an aggregate cash outflow on closing of ~US\$50m (for Sonangol and Azule) – funded with existing cash and available debt (~US\$100m undrawn on RBL at H1 2023) – resulting in PLC net debt of ~US\$34m at year-end (~0.5x FY24e EBITDA). An overview of the transactions is detailed in Figure 2, below.

Improved Block 3/05 fiscal terms unveiled: Alongside the transaction update, Afentra also confirmed that improvements to the Block 3/05 fiscal terms have now been approved by Executive Decree. This follows the extension of the licence term to 2040 earlier in the year. The enhancements materially improve contractor take and will become effective on execution of an addendum to the PSA which is expected to occur in December 2023. In a fresh reserve report adjusting for the changes, ERCE estimates an increase in PV10 reserves (2P) to US\$255m (equivalent to 95p/shr), compared to US\$215m (80p/shr) under the old regime. The

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tax improvements reflect an acknowledgement by the Government of the need for fiscal reform to encourage fresh investment and follows similar changes on other blocks in country.

New fiscals drive NAV & CF upgrades, despite marginally lower oil price: We have worked the new Block 3/05 fiscal terms into our CF forecasts and NAV (summarised in Figures 1, 3 & 6), as well as the recent downward move in the Brent forward curve for FY23-25 (since our last publication in Sept 23). The net result is a 31% & 24% uplift in Core NAV & Total NAV to 43p & 76p, respectively. In addition, our FY24-25e EBITDA moves up 9-16% to US\$66-60m. With Afentra shares trading on a P/NAV of 0.4x and an EV/EBITDA multiple of 1.8-1.3x FY24-25, we continue to see significant scope for a re-rating at current levels – with less than full value attached to the existing assets, let alone the future potential of Afentra’s acquisition platform.

Figure 2: 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 kbb/d from both fields

Source: AET.

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Figure 3: Valuation table

NET ASSET VALUE

Asset	Net mboe	US\$/boe	Unrisked US\$m	p/share	CoS	Risked US\$m	p/share
Block 3/05 - 2P	33	5.05	166	61.4	100%	166	61.4
Add: net debt - YE23			(34)	(12.4)		(34)	(12.4)
Add: corp overheads			(17)	(6.1)		(17)	(6.1)
Add: option proceeds			-	-		-	-
Core NAV	33		116	42.9		116	42.9
Block 3/05 – 3P	11	5.05	56	20.8	75%	42	15.6
Block 3/05 - 2C	6	3.60	21	7.7	60%	12	4.6
Block 3/05A - 2C	7	8.16	57	21.3	60%	34	12.8
Total NAV	57		250	92.7		205	75.9

Valuation assumptions:

Brent: US\$82.7-79.3-75.7-65.0/bbl FY23-24-25-LT

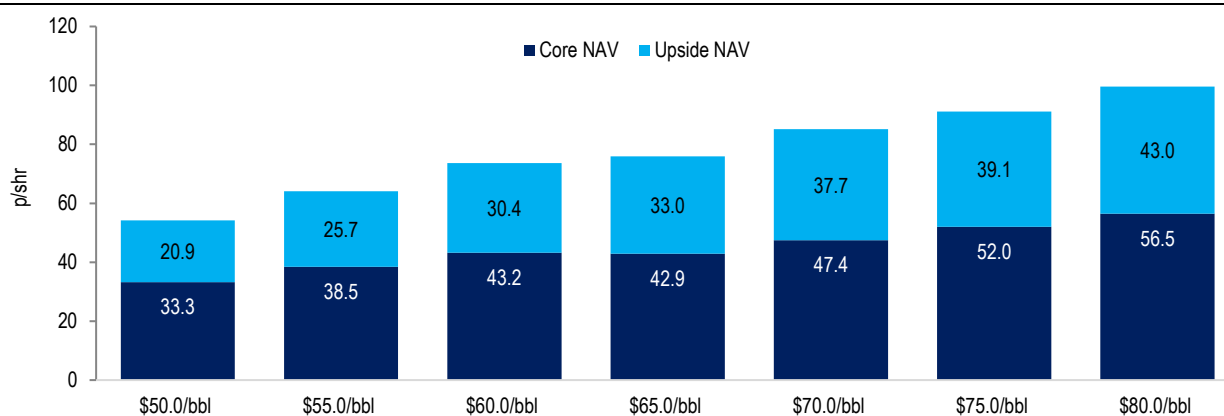
Discount rate 10%.

1.23 US dollar / sterling.

220.1 basic shares, plus zero dilutive options & warrants = 220.1m fully diluted.

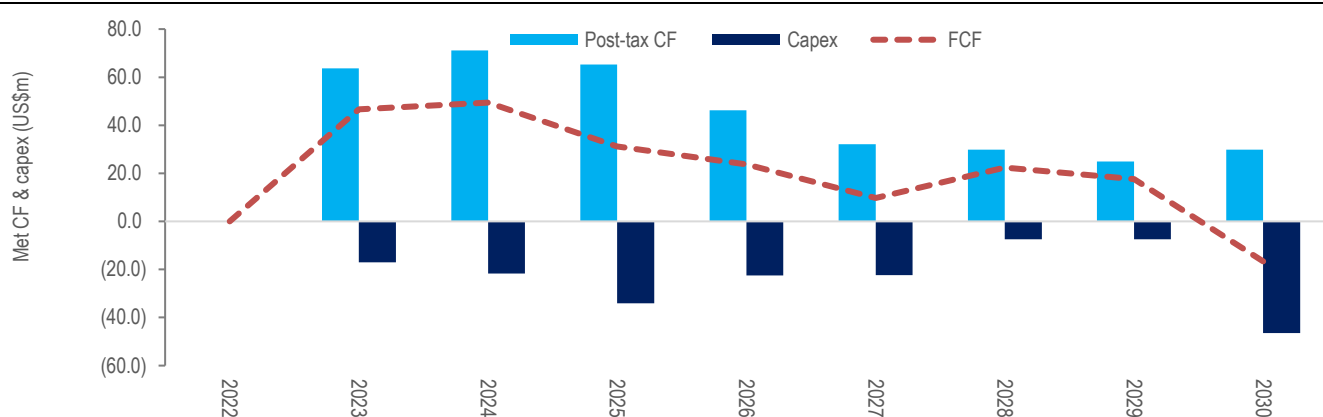
Source: Tennyson Securities.

Figure 4: Sensitivity table – Total NAV at various long term oil price assumptions (2026 onwards)



Source: Tennyson Securities.

Figure 5: DCF model of 2P reserves



Source: Tennyson Securities.

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Figure 6: 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%	80.0%	80.0%
Entitlement production	Kbopd	-	-	0.3	4.3	4.3
Average realised price	US\$/bbl	-	-	82.7	79.3	75.7
Revenue	US\$m	-	-	9.2	125.1	119.3
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)	(0.5)	65.6	59.8
<i>EBITDA margin</i>	<i>US\$/boe</i>	-	-	(6.0%)	52.4%	50.1%
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)	(2.6)	45.3	41.2
Income tax	US\$m	-	-	-	-	-
Net income	US\$m	(5.0)	(9.1)	(2.6)	45.3	41.2
Adjusted EPS (fully diluted)	c/shr	(2.27)	(4.13)	(1.17)	20.61	18.70
Profit before tax	US\$m	(5.0)	(9.1)	(2.6)	45.3	41.2
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)	(1.5)	58.4	54.2
<i>Cash flow margin</i>	<i>US\$/boe</i>	-	-	(9.8)	29.6	27.5
Capex (including ABEX)	US\$m	(0.2)	(0.1)	(1.2)	(15.0)	(27.9)
Acquisitions	US\$m	-	(0.0)	(60.4)	(6.7)	(6.1)
Free cash flow	US\$m	(4.7)	(6.8)	(63.1)	36.7	20.1
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)	(4.1)	24.7	8.1
Cash	US\$m	37.7	30.6	26.5	51.2	59.3
Total assets	US\$m	60.0	52.9	114.2	149.7	177.1
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	47.2	92.6	133.7
Total equity & liabilities	US\$m	60.0	52.9	114.2	149.7	177.1
Adjusted P/E	x	-	-	-	1.8x	2.0x
EV/EBITDA	x	-	-	-	1.8x	1.3x
FCF yield*	%	-	-	-	53.3%	32.3%
Net debt / EBITDA trailing	x	-	-	-	-	-

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

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COMPANY BACKGROUND/OVERVIEW:

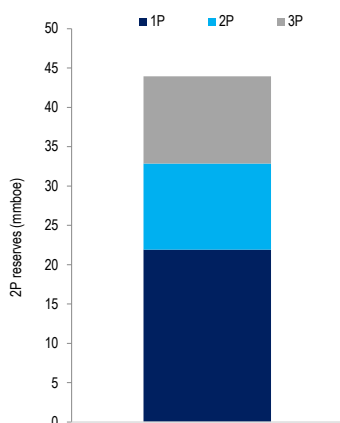
Afentra PLC (DEC LN) was formed in 2021 through a management and shareholder restructuring of Sterling Energy, an AIM listed cash shell. The company is led by CEO Paul McDade, previously CEO of Tullow Oil, with support from COO Ian Cloke and CFO Anastasia Deulina – both of whom worked at Tullow.

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.

PRODUCTION & RESERVES:

AET's WI production: 6 kboepd
 AET's WI audited 2P reserves: 32.9 mmboe
 Reserve replacmnt ratio (H1 2023): ~150%



SWOT ANALYSIS:

Strengths

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

Opportunities

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

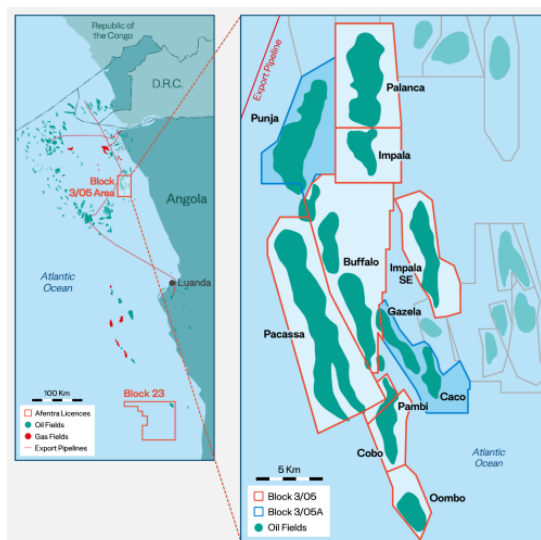
Weaknesses

- Dependence on single asset for CF
- Non-operated interests

Threats

- Rising acquisition costs
- Country / political risks

ANGOLA ASSET MAP:



SHAREHOLDERS:

Top shareholders:

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

Director interests:

Anastasia Deulina	0.5%
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.

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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
9 Nov 2023	654.40	30.2	75	BUY

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