

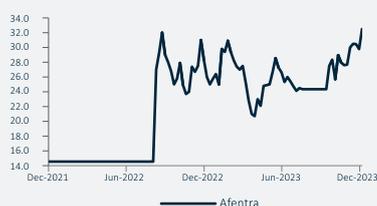
8 December 2023

Buy

Ticker	AET:AIM	
Oil & Gas		
Shares in issue (m)	220.1	
Next results	FY Apr	
Price	32.5p	
Target price	54.0p	
Upside	66%	
Market Cap	£71.5m	
Net debt/(cash)	£4.9m	
Other EV adjustments	£0.0m	
Enterprise value	£76.5m	

What's changed?	From	To
Adjusted EPS	-0.8	-1.4
Target price	54.0	n/c

Share price performance



%	1M	3M	12M
Actual	18.2	33.5	24.0

Company description

E&P company with a 'buy and build' strategy focused on Africa where management has extensive experience

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AFENTRA

Sonangol deal completes

Afentra has completed the Sonangol acquisition, the second of its three Angolan deals. This leaves just the Azule Energy transaction to complete, which is now expected in Q1 2024 but should be a formality after today's positive news. These acquisitions deliver Afentra a material non-operated shallow water portfolio in an established and prolific hydrocarbon province containing significant production enhancement, development and exploration opportunities. The improved fiscal terms of the producing assets are now effective, and these highly free cash-generative assets provide a solid foundation for Afentra's wider African growth ambitions. We reiterate our Buy rating and 54p/share risked NAV-based price target.

- **Sonangol acquisition completes.** Afentra has completed the acquisition from Sonangol of a 14% non-operating interest in Block 3/05 and a 40% non-operating interest in Block 23, offshore Angola. On top of the earlier INA deal, this increases Afentra's interest in producing Block 3/05 to 18%, which will rise to 30% upon completion of the ongoing Azule acquisition. It also provides a 40% non-operated interest in Block 23, which offers long-term development upside potential. The expected completion of the Azule transaction has slipped into Q1 2024 (we assume 1 February) but should be viewed as a formality by investors now.

- **Net completion payment of just cUS\$10m.** Afentra paid Sonangol a cash consideration of US\$21.1m on completion, down from the initial US\$56.5m due to cash flow adjustments from the effective transaction date of 20 April 2022. Afentra also inherits crude oil stock worth cUS\$11.9m (pre-tax) at \$75/bbl, which is expected to be sold in Q1 2024, effectively reducing the net completion payment to cUS\$10m after tax. The upfront consideration was funded from existing debt facilities, with US\$33.6m now drawn on Afentra's US\$110m RBL facility following the INA and Sonangol transactions. The US\$9.1m previously drawn on its US\$30m working capital facility has already been repaid out of crude oil sale proceeds and year-end net debt is expected to be cUS\$20.7m, which is essentially wiped out by an anticipated year-end oil stock entitlement of c300,000bbls worth cUS\$22.5m (pre-tax) at US\$75/bbl.

- **Assets performing well.** Block 3/05 continues to perform well with gross production of 20,560bpd in November, up from 18,000bpd in H1 2023, benefiting from the well intervention activities underway on Block 3/05. FY23 production guidance of 19,100bpd is in-line with the June 2023 CPR forecast. Production uptime has improved from 77% in Q1 2023 to 87% in Q3 2023 with ongoing investment in infrastructure expected to further enhance reliability and uptime. Water injection rates are increasing, and a second phase of Light Well Interventions (LWI) is underway, with 30 planned over the next 18-months. The long-term production test at the Gazela field on Block 3/05A is continuing at 1,300bpd and will inform potential low-cost development options for this field via the existing nearby Block 3/05 facilities and infrastructure.

Key estimates		2020A	2021A	2022A	2023E	2024E
Year end:		Dec	Dec	Dec	Dec	Dec
Revenue	\$m	0.0	0.0	0.0	15.0	114.7
Adj EBITDA	\$m	-2.0	-4.7	-8.7	1.0	56.6
Adj EBIT	\$m	-2.2	-5.0	-9.0	-1.7	37.8
Adj PBT	\$m	-1.9	-5.0	-9.1	-2.0	33.4
Adj EPS	c	-0.9	-2.3	-4.1	-1.4	12.1
DPS	c	0.0	0.0	0.0	0.0	0.0

Key valuation metrics

EV/sales	x	n/m	n/m	n/m	6.4	0.8
EV/EBIT (adj)	x	-44.2	-19.3	-10.7	-55.9	2.5
P/E (adj)	x	-47.2	-18.0	-9.9	-29.4	3.4
Dividend yield	%	0.0%	0.0%	0.0%	0.0%	0.0%
Free cash yield	%	-2.5%	-5.2%	-7.6%	-20.7%	6.7%

Sonangol deal completes

Income statement		2021A	2022A	2023E	2024E
Year end:		Dec	Dec	Dec	Dec
Sales	\$m	0.0	0.0	15.0	114.7
Gross profit	\$m	0.0	0.0	8.3	62.5
EBITDA (adjusted)	\$m	-4.7	-8.7	1.0	56.6
EBIT (adjusted)	\$m	-5.0	-9.0	-1.7	37.8
Associates/other	\$m	0.0	0.0	0.0	0.0
Net interest	\$m	-0.0	-0.1	-0.3	-4.4
PBT (adjusted)	\$m	-5.0	-9.1	-2.0	33.4
Total adjustments	\$m	0.0	0.0	0.0	0.0
PBT (stated)	\$m	-5.0	-9.1	-2.0	33.4
Tax charge	\$m	0.0	0.0	-1.0	-6.7
Minorities/Disc ops	\$m	0.0	0.0	0.0	0.0
Reported earnings	\$m	-5.0	-9.1	-3.1	26.6
Adjusted earnings	\$m	-5.0	-9.1	-3.1	26.6
Shares in issue (year end)	m	220.1	220.1	220.1	220.1
EPS (stated)	c	-2.3	-4.1	-1.4	12.1
EPS (adjusted, fully diluted)	c	-2.3	-4.1	-1.4	12.1
DPS	c	0.0	0.0	0.0	0.0

Cash flow		2021A	2022A	2023E	2024E
Year end:		Dec	Dec	Dec	Dec
EBITDA	\$m	-4.7	-8.7	1.0	56.6
Net change in working capital	\$m	0.2	2.0	-15.1	-2.8
Other operating items	\$m				
Cash flow from op. activities	\$m	-4.5	-6.7	-15.1	47.1
Cash interest	\$m	0.0	0.0	-0.5	-4.6
Cash tax	\$m	0.0	0.0	0.0	0.0
Capex	\$m	-0.2	-0.2	-2.9	-36.4
Other items	\$m	0.0	0.0	0.0	0.0
Free cash flow	\$m	-4.7	-6.9	-18.6	6.0
Acquisitions / disposals	\$m	0.0	0.0	-32.7	-13.1
Dividends	\$m	0.0	0.0	0.0	0.0
Shares issued	\$m	0.0	0.0	0.0	0.0
Other	\$m	-0.3	-10.3	43.6	3.3
Net change in cash flow	\$m	-5.0	-17.2	-7.7	-3.8
Opening net cash (debt)	\$m	42.7	37.7	20.4	-21.0
Closing net cash (debt)	\$m	37.7	20.4	-21.0	-28.0

Balance sheet		2021A	2022A	2023E	2024E
Year end:		Dec	Dec	Dec	Dec
Tangible fixed assets	\$m	0.7	0.5	33.5	64.2
Goodwill & other intangibles	\$m	21.3	21.3	21.3	21.3
Other non current assets	\$m	0.0	0.0	0.0	0.0
Net working capital	\$m	-0.2	-2.3	12.7	12.7
Other assets	\$m	0.0	10.2	0.2	0.2
Other liabilities	\$m	-0.6	-0.4	-0.4	-0.4
Gross cash & cash equivs	\$m	37.7	20.4	12.6	8.9
Capital employed	\$m	58.9	49.8	80.0	106.9
Gross debt	\$m	0.0	0.0	33.6	36.9
Net pension liability	\$m	0.0	0.0	0.0	0.0
Shareholders equity	\$m	58.9	49.8	46.4	70.0
Minorities	\$m	0.0	0.0	0.0	0.0
Capital employed	\$m	58.9	49.8	80.0	106.9

Growth analysis		2021A	2022A	2023E	2024E
Year end:		Dec	Dec	Dec	Dec
Sales growth	%	n/m	n/m	n/m	667.5%
EBITDA growth	%	-139.4%	-84.1%	111.6%	n/m
EBIT growth	%	-129.2%	-80.1%	80.8%	n/m
PBT growth	%	-161.9%	-82.0%	77.8%	n/m
EPS growth	%	-161.9%	-82.0%	66.3%	971.3%
DPS growth	%	n/m	n/m	n/m	n/m

Profitability analysis		2021A	2022A	2023E	2024E
Year end:		Dec	Dec	Dec	Dec
Gross margin	%	n/m	n/m	55.3%	54.4%
EBITDA margin	%	n/m	n/m	6.8%	49.3%
EBIT margin	%	n/m	n/m	-11.5%	32.9%
PBT margin	%	n/m	n/m	-13.5%	29.1%
Net margin	%	n/m	n/m	-20.5%	23.2%

Valuation analysis		2021A	2022A	2023E	2024E
Year end:		Dec	Dec	Dec	Dec
EV/EBITDA	x	-20.3	-11.0	94.9	1.7
EV/EBIT	x	-19.3	-10.7	-55.9	2.5
P/E	x	-18.0	-9.9	-29.4	3.4

Cash flow analysis		2021A	2022A	2023E	2024E
Year end:		Dec	Dec	Dec	Dec
Cash conv'n (op cash / EBITDA)	%	n/m	n/m	n/m	83.1%
Cash conv'n (FCF / EBITDA)	%	99.3%	78.5%	n/m	10.7%
U/lying FCF (capex = depn)	\$m	-4.7			
Cash quality (u/l FCF / adj earn)	%	95.0%			
Investment rate (capex / depn)	x	0.9	0.7	1.1	1.9
Interest cash cover	x	n/a	n/a	n/a	10.3
Dividend cash cover	x	n/a	n/a	n/a	n/m

Working capital analysis		2021A	2022A	2023E	2024E
Year end:		Dec	Dec	Dec	Dec
Net working capital / sales	%	n/m	n/m	85.2%	11.1%
Net working capital / sales	days	n/m	n/m	311	41
Inventory (days)	days	n/m	n/m	0	0
Receivables (days)	days	n/m	n/m	251	33
Payables (days)	days	n/m	n/m	n/a	n/a

Leverage analysis		2021A	2022A	2023E	2024E
Year end:		Dec	Dec	Dec	Dec
Net debt / equity	%	no debt	no debt	45.1%	40.0%
Net debt / EBITDA	x	n/a	n/a	20.7	0.5
Liabilities / capital employed	%	0.0%	0.0%	42.0%	34.5%

Capital efficiency & intrinsic value		2021A	2022A	2023E	2024E
Year end:		Dec	Dec	Dec	Dec
Adjusted return on equity	%	-8.5%	-18.2%	-6.6%	38.0%
RoCE (EBIT basis, pre-tax)	%	-8.5%	-18.0%	-2.1%	35.3%
RoCE (u/lying FCF basis)	%	-8.1%			
NAV per share	c	26.8	22.6	21.1	31.8
NTA per share	c	17.1	12.9	11.4	22.1

Valuation

Figure 1: Afentra net asset value

Net Asset Valuation	W.I. reserves mmboe	NPV/bbl US\$/boe	Unrisked NPV		Geological CoS	Commercial CoS	Dry hole cost US\$m	Risked NPV	
			US\$m	p/sh				US\$m	p/sh
Net cash / (debt)			-20.7	-7.5				-20.7	-7.5
G&A costs			-36.4	-13.2				-36.4	-13.2
Options			0.0	0.0				0.0	0.0
Angola acquisitions - initial consideration			-92.5	-33.6				-92.5	-33.6
NPV of contingent payments			-23.6	-8.6				-23.6	-8.6
Acquisitions CF completion adjustment			76.4	27.8				76.4	27.8
Angola Block 3/05 2P reserves	31.8	5.73	182.4	66.3	100%	100%		182.4	66.3
Core asset value:	31.8		85.5	31.1				85.5	31.1
Contingent resource:									
Angola Block 3/05 Impala South East infill	3.2	8.15	26.4	9.6	75%	100%	0.8	19.1	6.9
Angola Block 3/05 Impala infill	0.9	8.15	7.3	2.7	75%	100%	0.8	4.8	1.7
Angola Block 3/05 Palanca infill	1.3	8.15	10.8	3.9	75%	100%	0.8	7.3	2.7
Angola Block 3/05 Cobo workovers	0.3	8.15	2.7	1.0	75%	100%		2.0	0.7
Angola Block 3/05A 2C contingent resource	7.0	4.25	29.9	10.9	100%	75%		22.4	8.2
Angola Block 3/05 licence extension (2041 to 2045)	7.3	2.00	14.6	5.3	75%	75%		8.2	3.0
	20.1	4.55	91.8	33.4			2.3	63.8	23.2
Prospective resource:									
Angola Block 23 - Azul	12.0	5.00	60.0	21.8	50%	10%	5.0	0.0	0.0
	12.0		60.0	21.8			5.0	0.0	0.0
Total	64.0		237.3	86.3			7.3	149.3	54.3

Source: Cavendish estimates

Discounted at 10% to 1 January 2024.

Assumes long term Brent oil price of US\$70/bbl.

Sonangol deal completes

Income statement		2020A	2021A	2022A	2023E	2024E
Year end:		Dec	Dec	Dec	Dec	Dec
Sales	\$m	0.0	0.0	0.0	15.0	114.7
Cost of sales	\$m	0.0	0.0	0.0	-6.7	-52.3
Gross profit	\$m	0.0	0.0	0.0	8.3	62.5
Operating expenses	\$m	-2.0	-4.7	-8.7	-7.3	-5.9
EBITDA (adjusted)	\$m	-2.0	-4.7	-8.7	1.0	56.6
Depreciation	\$m	-0.2	-0.2	-0.2	-2.7	-18.8
Amortisation	\$m	0.0	0.0			
EBIT (adjusted)	\$m	-2.2	-5.0	-9.0	-1.7	37.8
Associates/other	\$m	0.0	0.0	0.0	0.0	0.0
Net interest	\$m	0.3	-0.0	-0.1	-0.3	-4.4
PBT (adjusted)	\$m	-1.9	-5.0	-9.1	-2.0	33.4
<i>restructuring costs</i>	\$m	0.0	0.0	0.0	0.0	0.0
<i>share based payments</i>	\$m	0.0	0.0	0.0	0.0	0.0
<i>other adjustments</i>	\$m	0.0	0.0	0.0	0.0	0.0
Total adjustments	\$m	0.0	0.0	0.0	0.0	0.0
PBT (stated)	\$m	-1.9	-5.0	-9.1	-2.0	33.4
Tax charge	\$m	0.0	0.0	0.0	-1.0	-6.7
<i>tax rate</i>	%	n/a	n/a	n/a	n/a	20.2
Minorities	\$m	0.0	0.0	0.0	0.0	0.0
Reported earnings	\$m	-1.9	-5.0	-9.1	-3.1	26.6
Tax effect of adjustments / other	\$m					
Adjusted earnings	\$m	-1.9	-5.0	-9.1	-3.1	26.6
<i>shares in issue (year end)</i>	m	220.1	220.1	220.1	220.1	220.1
<i>shares in issue (weighted average)</i>	m	220.1	220.1	220.1	220.1	220.1
<i>shares in issue (fully diluted)</i>	m	220.1	220.1	220.1	220.1	220.1
EPS (adjusted, fully diluted)	c	-0.9	-2.3	-4.1	-1.4	12.1
EPS (stated)	c	-0.9	-2.3	-4.1	-1.4	12.1
DPS	c	0.0	0.0	0.0	0.0	0.0

Growth analysis (adjusted basis where applicable)						
Sales growth	%	n/m	n/m	n/m	n/m	667.5%
EBITDA growth	%	n/m	-139.4%	-84.1%	111.6%	n/m
EBIT growth	%	n/m	-129.2%	-80.1%	80.8%	n/m
PBT growth	%	n/m	-161.9%	-82.0%	77.8%	n/m
EPS growth	%	n/m	-161.9%	-82.0%	66.3%	971.3%
DPS growth	%	n/m	n/m	n/m	n/m	n/m

Profitability analysis (adjusted basis where applicable)						
Gross margin	%	n/m	n/m	n/m	55.3%	54.4%
EBITDA margin	%	n/m	n/m	n/m	6.8%	49.3%
EBIT margin	%	n/m	n/m	n/m	-11.5%	32.9%
PBT margin	%	n/m	n/m	n/m	-13.5%	29.1%
Net margin	%	n/m	n/m	n/m	-20.5%	23.2%

Sonangol deal completes

Cash flow		2020A	2021A	2022A	2023E	2024E
Year end:		Dec	Dec	Dec	Dec	Dec
EBITDA	\$m	-2.0	-4.7	-8.7	1.0	56.6
Net change in working capital	\$m	-0.2	0.2	2.0	-15.1	-2.8
Share based payments	\$m	0.0	0.0	0.0	0.0	0.0
Profit/(loss) on sale of assets	\$m	0.0	0.0			
Net pensions charge	\$m					
Change in provision	\$m					
Other items	\$m	0.0	0.0	0.0	-1.0	-6.7
Cash flow from operating activities	\$m	-2.1	-4.5	-6.7	-15.1	47.1
Cash interest	\$m	0.0	0.0	0.0	-0.5	-4.6
Tax paid	\$m	0.0	0.0	0.0	0.0	0.0
Capex	\$m	-0.1	-0.2	-0.2	-2.9	-36.4
Other items	\$m	0.0	0.0	0.0	0.0	0.0
Free cash flow	\$m	-2.3	-4.7	-6.9	-18.6	6.0
Disposals	\$m	0.0	0.0	0.0	0.0	0.0
Acquisitions	\$m	0.0	0.0	0.0	-32.7	-13.1
Dividends on ord shares	\$m	0.0	0.0	0.0	0.0	0.0
Other cashflow items	\$m	0.0	-0.3	-10.3	43.6	3.3
Issue of share capital	\$m	0.0	0.0	0.0	0.0	0.0
Net change in cash flow	\$m	-2.2	-5.0	-17.2	-7.7	-3.8
Opening net cash (debt)	\$m	44.9	42.7	37.7	20.4	-21.0
Closing net cash (debt)	\$m	42.7	37.7	20.4	-21.0	-28.0

Cash flow analysis						
Cash conversion (op cash flow / EBITDA)	%	n/m	n/m	n/m	n/m	83.1%
Cash conversion (free cash flow / EBITDA)	%	113.6%	99.3%	78.5%	n/m	10.7%
Underlying free cash flow (capex = depreciation)	\$m	-2.3	-4.7			
Cash quality (underlying FCF / adjusted earnings)	%	122.9%	95.0%			
Investment rate (capex / depn)	x	0.5	0.9	0.7	1.1	1.9
Interest cash cover	x	n/a	n/a	n/a	n/a	10.3
Dividend cash cover	x	n/a	n/a	n/a	n/a	n/m

Sonangol deal completes

Balance sheet		2020A	2021A	2022A	2023E	2024E
Year end:		Dec	Dec	Dec	Dec	Dec
Tangible fixed assets	\$m	0.8	0.7	0.5	33.5	64.2
Goodwill	\$m	0.0	0.0	0.0	0.0	0.0
Other intangibles	\$m	21.2	21.3	21.3	21.3	21.3
Other non current assets	\$m	0.0	0.0	0.0	0.0	0.0
<i>inventories</i>	<i>\$m</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>
<i>trade receivables</i>	<i>\$m</i>	<i>0.2</i>	<i>0.3</i>	<i>0.4</i>	<i>10.3</i>	<i>10.3</i>
<i>trade payables</i>	<i>\$m</i>	<i>-0.2</i>	<i>-0.5</i>	<i>-2.7</i>	<i>2.5</i>	<i>2.5</i>
Net working capital	\$m	-0.0	-0.2	-2.3	12.7	12.7
Other assets	\$m	0.0	0.0	10.2	0.2	0.2
Other liabilities	\$m	-0.8	-0.6	-0.4	-0.4	-0.4
Gross cash & cash equivalents	\$m	42.7	37.7	20.4	12.6	8.9
Capital employed	\$m	63.9	58.9	49.8	80.0	106.9
Gross debt	\$m	0.0	0.0	0.0	33.6	36.9
Net pension liability	\$m	0.0	0.0	0.0	0.0	0.0
Shareholders equity	\$m	63.9	58.9	49.8	46.4	70.0
Minorities	\$m	0.0	0.0	0.0	0.0	0.0
Capital employed	\$m	63.9	58.9	49.8	80.0	106.9
Leverage analysis						
Net debt / equity	%	no debt	no debt	no debt	45.1%	40.0%
Net debt / EBITDA	x	n/a	n/a	n/a	20.7	0.5
Liabilities / capital employed	%	0.0%	0.0%	0.0%	42.0%	34.5%
Working capital analysis						
Net working capital / sales	%	n/m	n/m	n/m	85.2%	11.1%
Net working capital / sales	days	n/m	n/m	n/m	311	41
Inventory (days)	days	n/m	n/m	n/m	0	0
Receivables (days)	days	n/m	n/m	n/m	251	33
Payables (days)	days	n/m	n/m	n/m	n/a	n/a
Capital efficiency & intrinsic value						
Adjusted return on equity	%	-3.0%	-8.5%	-18.2%	-6.6%	38.0%
RoCE (EBIT basis, pre-tax)	%	-3.4%	-8.5%	-18.0%	-2.1%	35.3%
RoCE (underlying free cash flow basis)	%	-3.7%	-8.1%			
NAV per share	c	29.0	26.8	22.6	21.1	31.8
NTA per share	c	19.4	17.1	12.9	11.4	22.1

Sonangol deal completes

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Definition of research recommendations

Expected absolute returns

BUY is an expected return greater than 10%

HOLD is an expected return -10% - +10%

SELL is an expected return less than -10%

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Recommendation history

Company	Disclosures	Date	Rec	Price	Target price
Afentra		5 May 23	Buy	25.0p	37.0p

Source: Cavendish

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