

10 November 2023

Buy

Ticker	AET:AIM
Oil & Gas	
Shares in issue (m)	220.1
Next results	FY Apr
Price	29.5p
Target price	54.0p
Upside	83%
Market Cap	£64.9m
Net debt/(cash)	£5.1m
Other EV adjustments	£0.0m
Enterprise value	£70.0m

What's changed?	From	To
Adjusted EPS	5.3	-0.8
Target price	37.0	54.0

Share price performance



%	1M	3M	12M
Actual	13.5	21.1	8.9

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 acquisition receives government approval

Positive news from Afentra yesterday, which has received government approval for the Sonangol acquisition, offshore Angola. This should boost investor confidence that both this and the Azule Energy transaction on the same assets will complete before year-end. A successful conclusion to these two transactions, alongside the already completed INA acquisition, will 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 being acquired have also been approved by government and are the key driver behind a 45% increase in our price target to 54p/sh. These highly free cash-generative assets will provide a solid foundation for Afentra and an excellent springboard for its wider African growth ambitions.

- **Deals on track.** Afentra has received government approval for 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. The government approval process for its acquisition of additional interests in Block 3/05 (12%) and Block 3/05A (16%) from Azule Energy remains ongoing. Formal completion of both acquisitions is still expected before year end. Successful completion of these deals, alongside the already completed INA acquisition, will bring Afentra up to a 30% interest in Block 3/05 and 21.33% in Block 3/05A, representing net 2P reserves of 33 mmbbls, discovered contingent resources of 13 mmbbls and net working interest production of around 6,000 bopd.
- **Improved fiscal terms approved.** In May 2023, the Block 3/05 licence was extended from July 2025 to the end of 2040 with improved fiscal terms that have now been ratified and are expected to come into effect in December. The revised fiscal terms materially enhance the economics of Block 3/05, raising the CPR estimate for Afentra's net entitlement reserves by 8% to 22.8 mmbbls and the NPV10 of its 30% stake in the block by 19% to US\$255m. They are also the key driver behind the 45% increase to our risked NAV-based price target, which rises from 37p to 54p/sh.
- **Strong FCF potential.** The acquisitions are expected to be immediately accretive, have a low oil price break-even and payback in under three years. Assuming a 1 December completion, we forecast 2023 EBITDA of US\$3.6m, rising to US\$49m in 2024 and US\$105 in 2025. At our 54p/sh price target, Afentra would trade on undemanding EV/EBITDA multiples of 3.1x in 2024 and 1.4x in 2025. We estimate the assets can generate FCF of cUS\$25m p.a. over the next five years at US\$70/bbl Brent, albeit this is back-end loaded (2025-27) due to near-term capex requirements.

Key estimates		2020A	2021A	2022A	2023E	2024E
Year end:		Dec	Dec	Dec	Dec	Dec
Revenue	\$m	0.0	0.0	0.0	20.1	113.1
Adj EBITDA	\$m	-2.0	-4.7	-8.7	3.6	49.1
Adj EBIT	\$m	-2.2	-5.0	-9.0	-0.3	30.8
Adj PBT	\$m	-1.9	-5.0	-9.1	-0.4	23.8
Adj EPS	c	-0.9	-2.3	-4.1	-0.8	6.3
DPS	c	0.0	0.0	0.0	0.0	0.0

Key valuation metrics		2020A	2021A	2022A	2023E	2024E
EV/sales	x	n/m	n/m	n/m	4.3	0.8
EV/EBIT (adj)	x	-39.5	-17.3	-9.6	-255.1	2.8
P/E (adj)	x	-41.8	-16.0	-8.8	-44.6	5.8
Dividend yield	%	0.0%	0.0%	0.0%	0.0%	0.0%
Free cash yield	%	-2.8%	-5.9%	-8.6%	-3.9%	-9.3%

Sonangol acquisition receives government approval

Income statement		2021A	2022A	2023E	2024E
Year end:		Dec	Dec	Dec	Dec
Sales	\$m	0.0	0.0	20.1	113.1
Gross profit	\$m	0.0	0.0	10.8	54.9
EBITDA (adjusted)	\$m	-4.7	-8.7	3.6	49.1
EBIT (adjusted)	\$m	-5.0	-9.0	-0.3	30.8
Associates/other	\$m	0.0	0.0	0.0	0.0
Net interest	\$m	-0.0	-0.1	-0.1	-7.0
PBT (adjusted)	\$m	-5.0	-9.1	-0.4	23.8
Total adjustments	\$m	0.0	0.0	0.0	0.0
PBT (stated)	\$m	-5.0	-9.1	-0.4	23.8
Tax charge	\$m	0.0	0.0	-1.4	-10.0
Minorities/Disc ops	\$m	0.0	0.0	0.0	0.0
Reported earnings	\$m	-5.0	-9.1	-1.8	13.8
Adjusted earnings	\$m	-5.0	-9.1	-1.8	13.8
Shares in issue (year end)	m	220.1	220.1	220.1	220.1
EPS (stated)	c	-2.3	-4.1	-0.8	6.3
EPS (adjusted, fully diluted)	c	-2.3	-4.1	-0.8	6.3
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	3.6	49.1
Net change in working capital	\$m	0.2	2.0	-0.2	-2.7
Other operating items	\$m				
Cash flow from op. activities	\$m	-4.5	-6.7	2.0	36.4
Cash interest	\$m	0.0	0.0	-1.0	-8.3
Cash tax	\$m	0.0	0.0	0.0	0.0
Capex	\$m	-0.2	-0.2	-4.1	-35.5
Other items	\$m	0.0	0.0	0.0	0.0
Free cash flow	\$m	-4.7	-6.9	-3.1	-7.4
Acquisitions / disposals	\$m	0.0	0.0	-46.7	-5.5
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	70.7	17.1
Net change in cash flow	\$m	-5.0	-17.2	20.9	4.2
Opening net cash (debt)	\$m	42.7	37.7	20.4	-18.8
Closing net cash (debt)	\$m	37.7	20.4	-18.8	-30.7

Balance sheet		2021A	2022A	2023E	2024E
Year end:		Dec	Dec	Dec	Dec
Tangible fixed assets	\$m	0.7	0.5	47.5	70.3
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	-2.3	-2.3
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	41.2	45.3
Capital employed	\$m	58.9	49.8	107.6	134.5
Gross debt	\$m	0.0	0.0	60.0	76.0
Net pension liability	\$m	0.0	0.0	0.0	0.0
Shareholders equity	\$m	58.9	49.8	47.6	58.5
Minorities	\$m	0.0	0.0	0.0	0.0
Capital employed	\$m	58.9	49.8	107.6	134.5

Growth analysis		2021A	2022A	2023E	2024E
Year end:		Dec	Dec	Dec	Dec
Sales growth	%	n/m	n/m	n/m	462.0%
EBITDA growth	%	-139.4%	-84.1%	141.2%	n/m
EBIT growth	%	-129.2%	-80.1%	96.2%	n/m
PBT growth	%	-161.9%	-82.0%	95.7%	n/m
EPS growth	%	-161.9%	-82.0%	80.3%	871.5%
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	53.9%	48.6%
EBITDA margin	%	n/m	n/m	17.8%	43.4%
EBIT margin	%	n/m	n/m	-1.7%	27.3%
PBT margin	%	n/m	n/m	-1.9%	21.1%
Net margin	%	n/m	n/m	-8.9%	12.2%

Valuation analysis		2021A	2022A	2023E	2024E
Year end:		Dec	Dec	Dec	Dec
EV/EBITDA	x	-18.1	-9.8	23.9	1.8
EV/EBIT	x	-17.3	-9.6	-255.1	2.8
P/E	x	-16.0	-8.8	-44.6	5.8

Cash flow analysis		2021A	2022A	2023E	2024E
Year end:		Dec	Dec	Dec	Dec
Cash conv'n (op cash / EBITDA)	%	n/m	n/m	55.4%	74.1%
Cash conv'n (FCF / EBITDA)	%	99.3%	78.5%	-85.7%	-15.1%
U/lying FCF (capex = deprn)	\$m	-4.7			
Cash quality (u/l FCF / adj earn)	%	95.0%			
Investment rate (capex / deprn)	x	0.9	0.7	1.0	1.9
Interest cash cover	x	n/a	n/a	2.0	4.4
Dividend cash cover	x	n/a	n/a	n/a	n/a

Working capital analysis		2021A	2022A	2023E	2024E
Year end:		Dec	Dec	Dec	Dec
Net working capital / sales	%	n/m	n/m	-11.3%	-2.0%
Net working capital / sales	days	n/m	n/m	-41	-7
Inventory (days)	days	n/m	n/m	0	0
Receivables (days)	days	n/m	n/m	8	1
Payables (days)	days	n/m	n/m	49	9

Leverage analysis		2021A	2022A	2023E	2024E
Year end:		Dec	Dec	Dec	Dec
Net debt / equity	%	no debt	no debt	39.6%	52.5%
Net debt / EBITDA	x	n/a	n/a	5.2	0.6
Liabilities / capital employed	%	0.0%	0.0%	55.8%	56.5%

Capital efficiency & intrinsic value		2021A	2022A	2023E	2024E
Year end:		Dec	Dec	Dec	Dec
Adjusted return on equity	%	-8.5%	-18.2%	-3.8%	23.6%
RoCE (EBIT basis, pre-tax)	%	-8.5%	-18.0%	-0.3%	22.9%
RoCE (u/lying FCF basis)	%	-8.1%			
NAV per share	c	26.8	22.6	21.6	26.6
NTA per share	c	17.1	12.9	11.9	16.9

Sonangol acquisition receives government approval

Afentra has received approval from the Government of Angola for 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. The government approval process for its acquisition of additional interests in Block 3/05 (12%) and Block 3/05A (16%) from Azule Energy remains ongoing. Formal completion of both acquisitions is still expected before year end.

Completion of these transactions, alongside the already completed INA acquisition, will bring Afentra up to a 30% interest in Block 3/05 and 21.33% in Block 3/05A, with net working interest production of around 6,000 bopd.

Combined, these three acquisitions will deliver Afentra a material non-operated shallow water portfolio containing significant production enhancement, development and exploration opportunities. The producing fields are highly free-cash-generative: we estimate they are capable of generating cUS\$25m p.a. of average FCF over the next five years at US\$70/bbl Brent. They provide a solid foundation for Afentra and an excellent springboard for its wider African growth ambitions.

Revised fiscal terms approved

In May 2023, the Block 3/05 licence was extended from July 2025 to the end of 2040 with improved fiscal terms that have now been ratified and are expected to come into effect in December.

The [revised fiscal terms](#) materially enhance the economics of Block 3/05, raising the CPR estimate for Afentra's net entitlement reserves by 8% (from 21.1 to 22.8 mmbbls) and the NPV10 of its 30% stake in the block by 19% (from US\$215m to US\$255m). They are also the key driver behind the 45% increase to our risked NAV-based price target, which rises from 37p to 54p/sh.

History of Sonangol transaction

Back in July 2023, Afentra signed a SPA with Azule Energy (a 50:50 Angolan JV between BP and ENI) to acquire a 12% interest in Block 3/05 and a 16% interest in Block 3/05A for a firm consideration of US\$48.5m and deferred contingent payments of up to US\$36m, subject to oil price, production and development conditions.

To ensure government support for this additional transaction, Afentra also agreed to amend the terms of its April 2022 deal with state-owned Sonangol, reducing the interest being acquired from 20% to 14%. This was to ensure Sonangol, the Block 3/05 operator, remains the largest partner on the licence. The terms of the amended SPA were unchanged, with the acquisition consideration reduced pro rata to the smaller licence interest. As such, the firm and contingent considerations reduced to US\$56m and US\$35m, respectively.

Figure 1: Afentra Angola acquisition structures for Block 3/05 and 3/05A transactions

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%⁴	
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

Source: Afentra

1 Payable as US\$2m p.a. over 3 years, paid as a 30% share of revenue upside above US\$65/bbl Brent.

2 Payable as US\$3.5m p.a. over 10 years, subject to US\$65/bbl minimum Brent price and minimum annual production of 15,000 bpd.

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.

Sonangol acquisition receives government approval

These two transactions, when combined with the previously announced and completed INA acquisition, will provide Afentra material positions in both production Block 3/05 (30%) and development Block 3/05A (21.33%) for a total consideration of up to US\$208.5m, significantly increasing its exposure to the upside potential within these licences from production enhancement and near-term development activities.

The Azule and the amended Sonangol acquisitions increase Afentra's exposure to a high-quality asset base with long-life, low-cost production on Block 3/05, which contains significant production optimisation opportunities. It also provides material access to light oil and associated gas discoveries in Block 3/05A with near-term tie-back development potential to existing Block 3/05 infrastructure. The acquisitions also increase Afentra's position within the licence consortium, giving it greater influence over future growth investments and emissions reduction measures.

Figure 2: Comparison of Block 3/05 transactions

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		

Source: Afentra

1 Payable as US\$2m p.a. over 3 years, paid as a 30% share of revenue upside above US\$65/bbl Brent.

2 Payable as US\$3.5m p.a. over 10 years, subject to minimum US\$65/bbl Brent and minimum annual production of 15,000 bpd.

3 Payable as US\$150k for each unit of Brent price increment above US\$75/bbl with an annual cap of US\$7m over 2023, 2024 & 2025.

4 Ratio relative to Sonangol cost pool per % working interest.

Figure 3: Licence interests

Block 3/05	Post completion interests		
	INA deal	Sonangol deal	Azule deal
Sonangol (op.)	50%	36%	36%
Afentra	4% → 18% → 30%		
Maurel & Prom	20%	20%	20%
etu energias	10%	10%	10%
NIS Naftagas	4%	4%	4%
Azule Energy	12%	12%	0%

Block 3/05A ¹	Post completion interests		
	INA deal	Sonangol deal	Azule deal
Sonangol (op.)	33.33%	33.33%	33.33%
Maurel & Prom	26.67%	26.67%	26.67%
Afentra	5.33% → 5.33% → 21.33%		
etu energias	13.33%	13.33%	13.33%
NIS Naftagas	5.33%	5.33%	5.33%
Azule Energy	16.00%	16.00%	0%

Source: Afentra

Azule acquisition terms

Acquisition of additional equity in Block 3/05 (12%) and Block 3/05A (16%):

- Initial consideration of US\$48.5m, essentially the same unit price as the Sonangol deal.
- Contingent consideration of up to US\$21m over 3 years subject to certain oil price and Block 3/05 production hurdles and an annual cap of US\$7m. The maximum contingent payment for the Azule deal is significantly lower than the US\$35m associated with the Sonangol deal.
- Contingent consideration of up to US\$15m linked to the successful future development of certain Block 3/05A discoveries and associated oil price and production hurdles. These contingent payments have a higher oil price threshold than the Sonangol deal, US\$75/bbl vs US\$65/bbl, and a sliding scale rather than bullet payment structure providing greater headroom before the maximum contingent payment is incurred.
- Effective date of transaction 31 October 2022.

The Azule deal also benefits from a significantly higher Block 3/05 cost pool than the Sonangol transaction (~1.8x), which improves the asset economics.

Amended Sonangol acquisition terms

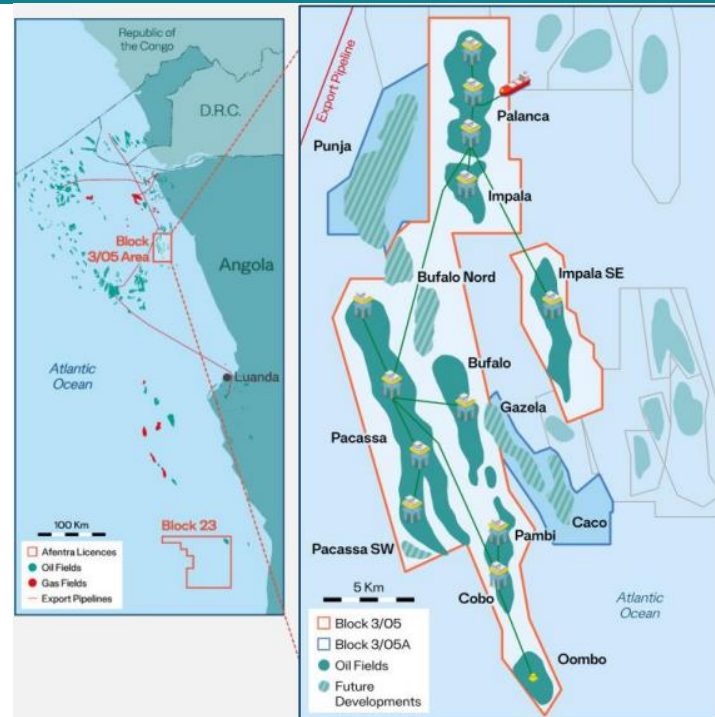
The terms of this deal were amended for Afentra acquiring a reduced working interest (from 20% to 14%) in Block 3/05:

- Initial consideration of US\$56m, down from US\$80m previously.
- Contingent consideration of up to US\$35m, versus up to US\$50m previously, to be paid over ten years commencing 1 January 2023 subject to certain oil price, production hurdles and an annual cap of US\$3.5m (previously US\$5m).
- Effective date unchanged at 20 April 2022.

Sonangol acquisition receives government approval

Combined, these acquisitions provide Afentra with a more material non-operated stake in both producing Block 3/05 (30% up from 24%) and development Block 3/05A (21.33% up from 5.33%).

Figure 4: Blocks 3/05 and 3/05A



Source: Afentra

This raises Afentra's net 2P working interest reserves from Block 3/05 by 19% from 27.7 mmbbls to 32.9 mmbbls. It also provides significantly larger exposure to the material development potential contained on Block 3/05A, with estimated net 2C discovered resources for both blocks increasing from 10 mmbbls to 13.1 mmbbls.

Afentra's expected net oil production following these transactions, including the long-term production testing of the Gazela field on Block 3/05A, also rises from ~4,500 bpd to ~6,000 bpd.

Half-year results confirmed the assets have been performing well, with gross production from Block 3/05 averaging 18,000 bopd in H1 2023, with output at over 19,000 bpd in June, already demonstrating the benefit of continued restoration works over Q1 2023 in addition to the well intervention activities underway on the block. In Block 3/05A, long-term testing of the Gazela field continues at c1,200 bbl/d, which will help inform potential low-cost development options for this field via the existing nearby Block 3/05 facilities and infrastructure.

Funding in place

The Azure and amended Sonangol acquisitions will be financed through Afentra's existing debt facilities with Mauritius Commercial Bank and Trafigura alongside its existing cash resources (US\$15.7m at end-June 2023). The debt facilities include:

- A 5-year RBL facility of up to US\$110m with US\$75m available to finance the Sonangol and INA transactions and up to US\$35m available for the Azure transaction. Incurs interest of 8% over 3-month SOFR (currently 5.3%).
- A 5-yr revolving working capital facility of up to US\$30m for financing between crude offtakes, repayable with the proceeds from each lifting. Incurs interest of 4.75% over 1-month SOFR.

These facilities have already been used by Afentra for the INA transaction, which completed in May. Afentra paid a net upfront consideration for the INA deal at completion of US\$17.0m and put an additional US\$10m into escrow, to be paid to INA once the Block 3/05 licence extension is formally completed. To fund this, Afentra drew down US\$18.9m from its debt facilities and used US\$8.1m of cash resources.

Sonangol acquisition receives government approval

Offsetting this upfront consideration was the ~208,000 barrels of crude oil stock Afentra inherited with the deal. Afentra sold its first 300,000 bbl cargo of crude oil in August 2023 for US\$26.4m (pre-tax), monetising the inherited crude oil stock and subsequent production from the INA deal. These funds will have been used to repay the funds drawn on the working capital facility.

The US\$103.5m initial cash consideration payable by Afentra for the Azule and Sonangol stakes will be reduced by the cash flows from the acquired assets between their effective dates (20 April 2022 for Sonangol, 31 October 2022 for Azule) and completion. Essentially this means that any delays to the closing date for these deals has no economic impact. Assuming the transactions complete on 1 December 2023, we estimate an effective date cash flow adjustment on completion of cUS\$50m, lowering Afentra's actual cash payment on completion to cUS\$50m, which we expect to be funded via drawdown of its RBL facility.

Valuation and estimates

We have updated our estimates and valuation for the improved fiscal terms on Block 3/05, which is the key driver behind the 45% increase in our risked NAV and price target, from 37p to 54p/sh.

Figure 5: Afentra net asset value

Net Asset Valuation	W.I. reserves	NPV/bbl	Unrisked NPV		Geological	Commercial	Dry hole cost	Risked NPV	
	mmboe	US\$/boe	US\$m	p/sh	CoS	CoS	US\$m	US\$m	p/sh
Net cash / (debt)			-6.2	-2.3				-6.2	-2.3
G&A costs			-35.4	-12.9				-35.4	-12.9
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			-26.5	-9.6				-26.5	-9.6
Acquisitions CF completion adjustment			51.3	18.6				51.3	18.6
Angola Block 3/05 2P reserves	29.6	6.66	197.2	71.7	100%	100%		197.2	71.7
Core asset value:	29.6		87.9	31.9				87.9	31.9
Contingent resource:									
Angola Block 3/05 Impala South East infill	3.2	8.07	26.2	9.5	75%	100%	0.8	18.9	6.9
Angola Block 3/05 Impala infill	0.9	8.07	7.3	2.6	75%	100%	0.8	4.7	1.7
Angola Block 3/05 Palanca infill	1.3	8.07	10.7	3.9	75%	100%	0.8	7.2	2.6
Angola Block 3/05 Cobo workovers	0.3	8.07	2.7	1.0	75%	100%		2.0	0.7
Angola Block 3/05A 2C contingent resource	7.0	4.00	28.2	10.2	100%	75%		21.1	7.7
Angola Block 3/05 licence extension (2041 to 2045)	5.4	2.00	10.8	3.9	75%	75%		6.1	2.2
	18.2	4.70	85.7	31.2			2.3	60.0	21.8
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	59.8		233.5	84.9			7.3	147.8	53.7

Source: Cavendish.

Assumes long term Brent oil price of US\$70/bbl, GBPUSD 1.25. Discounted to 1 July 2023 at 10%.

Our financial forecasts are summarised in Figure 6, below. We forecast 2023 revenue of US\$20m assuming the Sonangol and Azule deals complete on 1 December. In 2024, the first full year including all deals, this jumps to US\$113m at US\$70/bbl Brent, rising further to US\$171m in 2025 as planned investment delivers growth. Our EBITDA forecast rises from US\$3.6m in 2023, to US\$49m in 2024 and US\$105m in 2025. At our 54p/sh risked NAV-based price target, Afentra would trade on undemanding EV/EBITDA multiples of 3.1x in 2024 and 1.4x in 2025.

Figure 6: Afentra estimate summary

FY estimates (to end-December)		2023E	2024E	2025E	2026E	2027E
Net entitlement production	kbopd	2.0	4.0	6.2	4.5	4.0
Brent Oil Price	US\$/bbl	80.00	70.00	70.00	70.00	70.00
Revenue	US\$m	20.1	113.1	170.7	139.6	127.4
Cost of sales	US\$m	(9.3)	(58.2)	(59.3)	(52.6)	(52.1)
Gross Profit	US\$m	10.8	54.9	111.4	87.0	75.3
Admin expenses	US\$m	(7.3)	(5.9)	(6.0)	(6.1)	(6.2)
EBITDA	US\$m	3.6	49.1	105.4	80.9	69.1
% margin	%	18%	43%	62%	58%	54%
DD&A	US\$m	(3.9)	(18.2)	(27.0)	(23.8)	(17.6)
EBIT	US\$m	(0.3)	30.8	78.4	57.0	51.5
Net finance expense	US\$m	(0.1)	(7.0)	(6.2)	(3.4)	(0.6)
Profit/(loss) before tax	US\$m	(0.4)	23.8	72.2	53.6	50.9
Income tax	US\$m	(1.4)	(10.0)	(12.7)	(25.6)	(24.1)
Profit/(loss) after tax	US\$m	(1.8)	13.8	59.5	28.0	26.8
Net cash flow from operations	US\$m	2.0	36.4	88.8	51.2	41.3
Capex (incl. E&A)	US\$m	(4.1)	(35.5)	(35.0)	-	-
Net acquisitions/contingent payments	US\$m	(46.7)	(5.5)	(5.5)	(3.5)	(3.5)
Borrowing proceeds	US\$m	60.0	16.0	(24.0)	(16.0)	(16.0)
Net change in cash	US\$m	20.9	4.2	17.8	28.1	20.9
Yr-end cash (excluding restricted)	US\$m	41.2	45.3	63.1	91.2	112.2
Yr-end debt	US\$m	60.0	76.0	52.0	36.0	20.0
Net (debt)/cash	US\$m	(18.8)	(30.7)	11.1	55.2	92.2

Source: Cavendish.

Assumes 1 December completion of Sonangol and Azule acquisitions.

Sonangol acquisition receives government approval

Income statement		2020A	2021A	2022A	2023E	2024E
Year end:		Dec	Dec	Dec	Dec	Dec
Sales	\$m	0.0	0.0	0.0	20.1	113.1
Cost of sales	\$m	0.0	0.0	0.0	-9.3	-58.2
Gross profit	\$m	0.0	0.0	0.0	10.8	54.9
Operating expenses	\$m	-2.0	-4.7	-8.7	-7.3	-5.9
EBITDA (adjusted)	\$m	-2.0	-4.7	-8.7	3.6	49.1
Depreciation	\$m	-0.2	-0.2	-0.2	-3.9	-18.2
Amortisation	\$m	0.0	0.0			
EBIT (adjusted)	\$m	-2.2	-5.0	-9.0	-0.3	30.8
Associates/other	\$m	0.0	0.0	0.0	0.0	0.0
Net interest	\$m	0.3	-0.0	-0.1	-0.1	-7.0
PBT (adjusted)	\$m	-1.9	-5.0	-9.1	-0.4	23.8
<i>restructuring costs</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>share based payments</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>other adjustments</i>	<i>\$m</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>
Total adjustments	\$m	0.0	0.0	0.0	0.0	0.0
PBT (stated)	\$m	-1.9	-5.0	-9.1	-0.4	23.8
Tax charge	\$m	0.0	0.0	0.0	-1.4	-10.0
<i>tax rate</i>	<i>%</i>	<i>n/a</i>	<i>n/a</i>	<i>n/a</i>	<i>n/a</i>	<i>42.1</i>
Minorities	\$m	0.0	0.0	0.0	0.0	0.0
Reported earnings	\$m	-1.9	-5.0	-9.1	-1.8	13.8
Tax effect of adjustments / other	\$m					
Adjusted earnings	\$m	-1.9	-5.0	-9.1	-1.8	13.8
<i>shares in issue (year end)</i>	<i>m</i>	<i>220.1</i>	<i>220.1</i>	<i>220.1</i>	<i>220.1</i>	<i>220.1</i>
<i>shares in issue (weighted average)</i>	<i>m</i>	<i>220.1</i>	<i>220.1</i>	<i>220.1</i>	<i>220.1</i>	<i>220.1</i>
<i>shares in issue (fully diluted)</i>	<i>m</i>	<i>220.1</i>	<i>220.1</i>	<i>220.1</i>	<i>220.1</i>	<i>220.1</i>
EPS (adjusted, fully diluted)	c	-0.9	-2.3	-4.1	-0.8	6.3
EPS (stated)	c	-0.9	-2.3	-4.1	-0.8	6.3
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	462.0%
EBITDA growth	%	n/m	-139.4%	-84.1%	141.2%	n/m
EBIT growth	%	n/m	-129.2%	-80.1%	96.2%	n/m
PBT growth	%	n/m	-161.9%	-82.0%	95.7%	n/m
EPS growth	%	n/m	-161.9%	-82.0%	80.3%	871.5%
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	53.9%	48.6%
EBITDA margin	%	n/m	n/m	n/m	17.8%	43.4%
EBIT margin	%	n/m	n/m	n/m	-1.7%	27.3%
PBT margin	%	n/m	n/m	n/m	-1.9%	21.1%
Net margin	%	n/m	n/m	n/m	-8.9%	12.2%

Sonangol acquisition receives government approval

Cash flow		2020A	2021A	2022A	2023E	2024E
Year end:		Dec	Dec	Dec	Dec	Dec
EBITDA	\$m	-2.0	-4.7	-8.7	3.6	49.1
Net change in working capital	\$m	-0.2	0.2	2.0	-0.2	-2.7
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	-1.4	-10.0
Cash flow from operating activities	\$m	-2.1	-4.5	-6.7	2.0	36.4
Cash interest	\$m	0.0	0.0	0.0	-1.0	-8.3
Tax paid	\$m	0.0	0.0	0.0	0.0	0.0
Capex	\$m	-0.1	-0.2	-0.2	-4.1	-35.5
Other items	\$m	0.0	0.0	0.0	0.0	0.0
Free cash flow	\$m	-2.3	-4.7	-6.9	-3.1	-7.4
Disposals	\$m	0.0	0.0	0.0	0.0	0.0
Acquisitions	\$m	0.0	0.0	0.0	-46.7	-5.5
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	70.7	17.1
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	20.9	4.2
Opening net cash (debt)	\$m	44.9	42.7	37.7	20.4	-18.8
Closing net cash (debt)	\$m	42.7	37.7	20.4	-18.8	-30.7

Cash flow analysis						
Cash conversion (op cash flow / EBITDA)	%	n/m	n/m	n/m	55.4%	74.1%
Cash conversion (free cash flow / EBITDA)	%	113.6%	99.3%	78.5%	-85.7%	-15.1%
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	1.0	1.9
Interest cash cover	x	n/a	n/a	n/a	2.0	4.4
Dividend cash cover	x	n/a	n/a	n/a	n/a	n/a

Sonangol acquisition receives government approval

Balance sheet		2020A	2021A	2022A	2023E	2024E
Year end:		Dec	Dec	Dec	Dec	Dec
Tangible fixed assets	\$m	0.8	0.7	0.5	47.5	70.3
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>0.4</i>	<i>0.4</i>
<i>trade payables</i>	<i>\$m</i>	<i>-0.2</i>	<i>-0.5</i>	<i>-2.7</i>	<i>-2.7</i>	<i>-2.7</i>
Net working capital	\$m	-0.0	-0.2	-2.3	-2.3	-2.3
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	41.2	45.3
Capital employed	\$m	63.9	58.9	49.8	107.6	134.5
Gross debt	\$m	0.0	0.0	0.0	60.0	76.0
Net pension liability	\$m	0.0	0.0	0.0	0.0	0.0
Shareholders equity	\$m	63.9	58.9	49.8	47.6	58.5
Minorities	\$m	0.0	0.0	0.0	0.0	0.0
Capital employed	\$m	63.9	58.9	49.8	107.6	134.5
Leverage analysis						
Net debt / equity	%	no debt	no debt	no debt	39.6%	52.5%
Net debt / EBITDA	x	n/a	n/a	n/a	5.2	0.6
Liabilities / capital employed	%	0.0%	0.0%	0.0%	55.8%	56.5%
Working capital analysis						
Net working capital / sales	%	n/m	n/m	n/m	-11.3%	-2.0%
Net working capital / sales	days	n/m	n/m	n/m	-41	-7
Inventory (days)	days	n/m	n/m	n/m	0	0
Receivables (days)	days	n/m	n/m	n/m	8	1
Payables (days)	days	n/m	n/m	n/m	49	9
Capital efficiency & intrinsic value						
Adjusted return on equity	%	-3.0%	-8.5%	-18.2%	-3.8%	23.6%
RoCE (EBIT basis, pre-tax)	%	-3.4%	-8.5%	-18.0%	-0.3%	22.9%
RoCE (underlying free cash flow basis)	%	-3.7%	-8.1%			
NAV per share	c	29.0	26.8	22.6	21.6	26.6
NTA per share	c	19.4	17.1	12.9	11.9	16.9

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Sonangol acquisition receives government approval

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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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