Afentra PLC (AET LN)

MARKET DATA

Bloomberg	ticker	AET LN
Share price	p/shr	55.0
Target	p/shr	80.0
TP upside	%	45%
Shares out	Million	226.2
Fd shares	Million	226.2
Mkt cap	US$m	159.2
EV (proj. YE23)	US$m	205.4

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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RISING STAR

Afentra (AET) announced closing of the Azule deal in May, concluding its amalgamation of interests in Angolan Blocks 3/05 (AET 30% WI) & 3/05A (AET 21.33% WI). The company's three-part entry into Angola illustrates the potential for value creation in West Africa and affirms its ability to source, structure and finance acquisitions, whilst effectively managing host Government relations. Following deal conclusion, AET is well positioned for follow-on M&A, either in Angola or further afield, with a robust balance sheet (net cash positive by YE24), access to capital and a rising corporate profile in the region. It also has a compelling organic growth story to drive shareholder value. Through a catalogue of well-defined redevelopment initiatives there is the potential to double production within the next 5 years. We reiterate our BUY recommendation with a raised target price of 80p/shr (vs 75p).

Figure 1: Summary financial forecasts

		2024E [OLD]	2024E [NEW]	% CHG	2025E [OLD]	2025E [NEW]	% CHG
Production, WI	**kboepd**	**5.4**	**5.1***	**(4.7%)**	**5.4**	**6.8**	**25.8%**
Av. price	US$/boe	79.3	79.9	0.7%	75.7	74.1	(2.0%)
Revenue	US$m	125.1	151.6**	21.2%	119.3	153.4	28.6%
EBITDA	**US$m**	**65.6**	**90.9**	**38.7%**	**59.8**	**85.0**	**42.1%**
Cash margin	*%*	52.4%	60.0%	14.5%	50.1%	55.4%	10.5%
FCF	**US$m**	**36.7**	**57.9**	**57.5%**	**20.1**	**36.0**	**78.8%**
EV/EBITDA	x	-	2.3x		-	1.8x	
Net debt/EBITDA	X	-	-		-	-	

Source: Tennyson Securities. *2024 WI production includes a 7-month contribution from Azule assets and excludes associated inherited crude inventory. **sales value for unwinding of Azule inventory is included in revenue est.

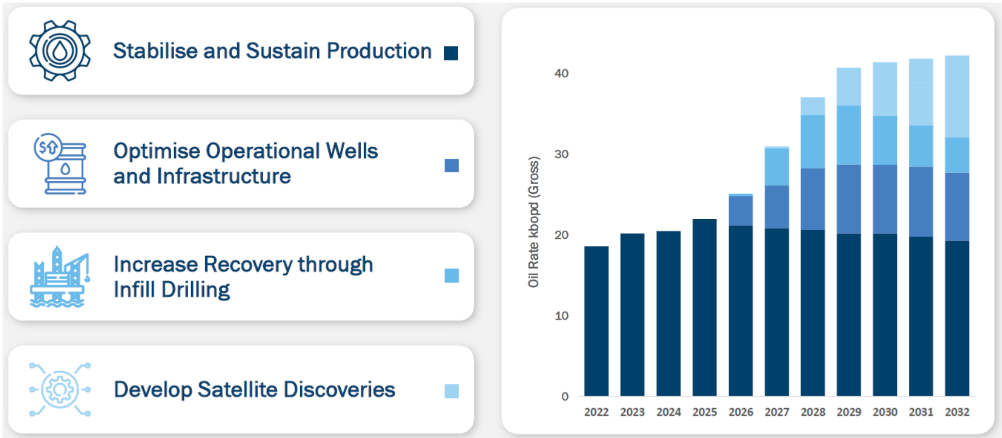
Azule deal completion - saving the best to last: Alongside closing of the Azule transaction in May, AET provided clarity around the scale of deal completion adjustments. The headline consideration of US$48.5m upfront was offset by cash flow earned since the effective date (Oct 2022), resulting in US$28.4m paid on completion. Additionally, AET inherited 480k bbls of crude inventory, worth US$36m (US$34m post-tax) at US$75/bbl. Absent an unforeseen fall in oil prices, when this inherited inventory is sold later in the year it will entirely offset the upfront completion payment – a materially better outcome than we had expected.

We note that the Azule deal includes deferred payments on 3/05 of up to US$7m/yr over 2 years, subject to oil price hurdles (maximum sum of US$14m achieved at prices of US$121.7/bbl). The first installment (for 2023) is wrapped into the Azule completion payment and amounted to just US$1.2m; a similar figure is expected to be paid in 2025 (for 2024). As such, taken in the round, the Azule assets (12% Block 3/05 & 16% 3/05A with associated net production ~2.9 kbopd) have been bought for effectively nil consideration (ignoring contingent payments on 3/05A of up to US$15m which only come into effect upon development of new fields).

Upgraded base profiles; LT growth potential >40 kbopd: AET has refreshed its internal 2P + 2C profiles to incorporate new technical studies and recent strong production performance. It now sees gross base production running above ~20 kbopd out to 2030 (see dark blue bars in Figure 2, below), ~10% ahead of ERCE's mid-2023 2P profile of ~18 kbopd flat. This assumes natural depletion (8-10%, ~2 kbopd PA) is offset by: (1) short cycle projects with fast paybacks (light well interventions (LWI), gas lift installations), (2) the ramp up of water injection (to >150 kbwpd LT) and (3) higher facilities uptime (>90% by 2025 vs 87% in 2023). Unit capital costs are estimated at US$4.8/bbl in this scenario (vs ERCE 2P case US$3.6/bbl), equating to ~US$550m gross over FY24-30 (~US$165m net to AET).

Longer term, AET sees production peaking at ~40 kbopd by 2030 (vs. ~35kbopd before), with the layering in of 2C volumes from heavy workovers, infill drilling and, eventually, the tie back of satellite fields. Incremental capital costs are estimated at US$12-13/bbl of 2C, equating to ~US$800m gross over FY24-31 (~US$240m net to AET).

Figure 2: Gross 2P + 2C production profiles – Blocks 3/05 & 3/05A*



Source: Afentra. *AET management estimates.

A chart illustrating the 2P + 2C production build up is shown in Figure 2, above. We note that the delivery of the 2C tranche is dependent on Sonangol's operating capabilities, a gas export solution (for satellite field developments) and a desire to stay FCF positive at the asset level.

Fiscal enhancements; potential cost pool upside: In April AET reported that the undeveloped Punja field in Block 3/05A has been awarded marginal field status and qualifies for preferential tax terms. This follows news of fiscal enhancements on Block 3/05 introduced at the end of 2023. Running the new regime through our Punja DCF model yields a >50% uplift in our value per bbl (to US$10.9/bbl) on ~18 mmbbls of gross 2C resources (~4 mmbbls net to AET). Looking ahead, we believe there is a reasonable chance that other undeveloped fields in Block 3/5A (Caco-Gazela) could qualify for similar tax treatment. Furthermore, there is a possibility of the cost pool on Block 3/05A (~US$600m gross) being amalgamated with 3/05, allowing for accelerated cost recovery. These mooted changes come amidst a wider push by the Angolan Government to encourage inward investment and arrest declining oil production.

Repeatable M&A strategy; proven ability to execute: AET has screened a total of ~40 M&A opportunities in the past 3 years and continues to actively review new acquisition targets, with a view to repeating the success of its Angolan entry. In our view, further expansion in Angola is arguably the most likely option, leveraging off the group's first mover advantage, strength of relationships in country and status as a reliable counterparty. However, the overriding driver is value, so other jurisdictions in West Africa are certainty a possibility if the right deal presents itself. Importantly, given the optionality to allocate capital towards organic growth opportunities, the company can afford to remain disciplined in its approach to M&A.

2C resources drive NAV uplift; upgrades to FY24-25e FCF: we have revised our financial model to reflect recent events and the current oil price curve. The net result is a ~6% upgrade in our Total NAV to 80.2p, primarily driven by a larger 2C value contribution (due to higher recoverable volumes and Punja fiscal improvement). Our Core NAV (2P reserves + corporate items) remains broadly unchanged at 41.6p (see summary NAV table in Figure 3, below).

Turning to our financial forecasts, higher base production in FY24-25e, combined with the unwinding of Azule crude oil inventories, yields upgraded FCF estimates of US$58m FY24 (+58%) and US$36m FY25 (+79%). On the back of this, group net debt of US$46.2m, reported at end May 2024, is seen swinging to a net cash position of US$9m by YE24 and US$39m by

YE25 (see summary financial forecasts in Figure 6, below). In terms of valuation metrics, AET shares trade on a FCF yield of 36% in FY24 and 0.7x P/NAV, leaving ample scope for a re-rating. We would add that our analysis excludes the potential for further acquisitions which are expected to be a key value driver going forward.

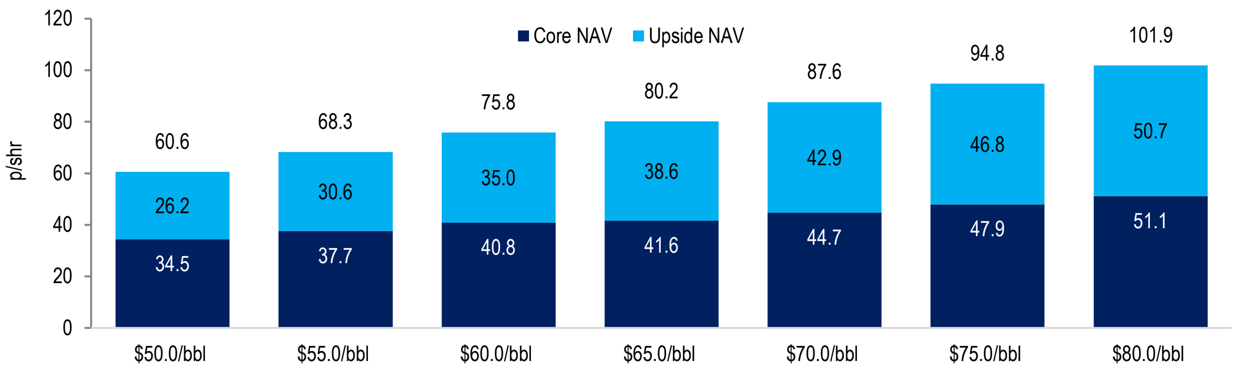
Figure 3: Valuation table

NET ASSET VALUE									
Asset	**Gross mmboe**	**%**	**Net mmboe**	**US$/boe**	**Unrisked US$m**	**p/share**	**CoS**	**Risked US$m**	**p/share**
Block 3/05 - 2P	110	30%	33	4.12	135	46.8	100%	135	46.8
Add: net debt - YE24					9	3.1		9	3.1
Add: corp overheads					(24)	(8.3)		(24)	(8.3)
Add: option proceeds					-	-		-	-
Core NAV	**110**		**33**		**120**	**41.6**		**120**	**41.6**
Block 3/05 – 3P	37	30%	11	4.12	46	15.8	75%	34	11.9
Block 3/05 – 2C base	19	30%	6	3.83	22	7.7	60%	13	4.6
Block 3/05 - 2C upside	45	30%	13	3.83	51	17.8	50%	26	8.9
Block 3/05A - 2C Punja	18	21%	4	10.91	42	14.5	60%	25	8.7
Block 3/05A - 2C Caco-Gaz	15	21%	3	6.92	22	7.7	60%	13	4.6
Total NAV	**244**		**70**		**304**	**104.9**		**232**	**80.2**

Valuation assumptions:
Brent: US$80-74-72-70-69-65/bbl FY24-25-26-27-28-LT
Discount rate 10%.
1.28 US dollar / sterling.
226.2m basic shares, plus zero dilutive options & warrants = 226.2m fully diluted.

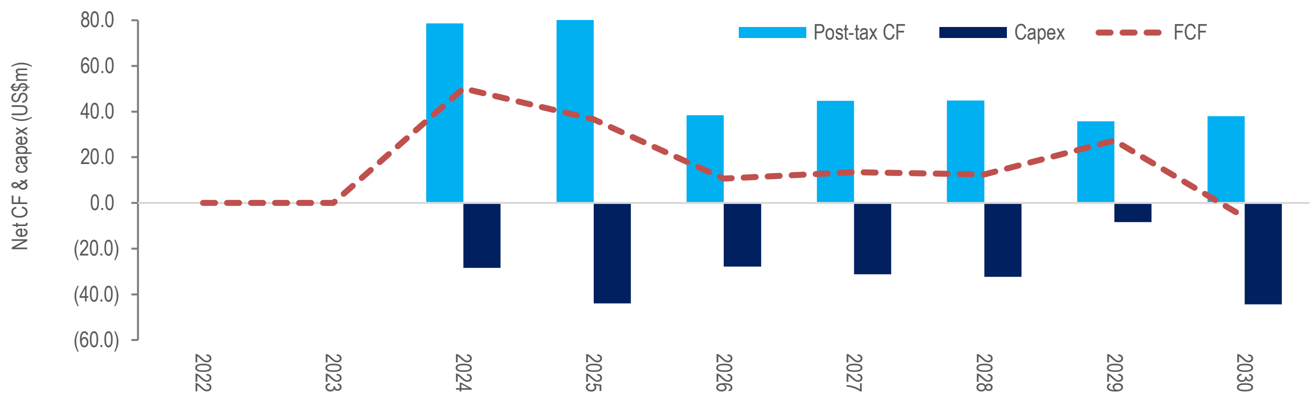
Source: Tennyson Securities.

Figure 4: Sensitivity table – Total NAV at various long term oil price assumptions (2029 onwards)



Source: Tennyson Securities.

Figure 5: DCF model of 2P reserves



Source: Tennyson Securities.

Figure 6: Financial summary – P&L, cash flow and balance sheet

FYE 31ST DEC		2022	2023	2024E	2025E	2026E
Gross field production	**kbopd**	-	20.2	21.0	22.9	21.8
AET's WI production	**kbopd**	**-**	**-**	**5.1**	**6.8**	**6.5**
Entitlement share	%	-	-	85.0%	83.5%	68.4%
Entitlement sales	mmboe	-	0.3	1.9*	2.1	1.6
Average realised price	US$/bbl	-	88.0	79.9	74.1	71.6
Revenue	**US$m**	**-**	**26.4**	**151.6**	**153.4**	**115.7**
Operating costs	US$m	-	(9.7)	(52.6)	(60.4)	(58.4)
	US$/boe	-	-	*28.0*	*24.4*	*24.7*
G&A costs	US$m	(5.2)	(5.7)	(8.0)	(8.0)	(8.0)
	US$/boe	-	-	*4.3*	*3.2*	*3.4*
EBITDA	**US$m**	**(5.2)**	**11.0**	**90.9**	**85.0**	**49.4**
EBITDA margin	*US$/boe*	-	*41.7%*	*60.0%*	*55.4%*	*42.6%*
DD&A	US$m	(0.2)	(2.9)	(10.3)	(13.6)	(13.0)
Other	US$m	(3.5)	(5.8)	(2.3)	-	-
Decommissioning provision	US$m	-	-	(2.0)	(2.0)	(2.0)
Finance expense, net	US$m	(0.1)	(3.3)	(4.7)	(3.4)	(2.0)
Profit before tax	**US$m**	**(9.1)**	**(0.9)**	**71.7**	**65.9**	**32.4**
Income tax	US$m	-	(1.8)	(8.5)	(8.5)	(6.3)
Net income	**US$m**	**(9.1)**	**(2.7)**	**63.2**	**57.5**	**26.0**
Adjusted EPS (fully diluted)	c/shr	*(4.02)*	*(1.20)*	*27.93*	*25.42*	*11.50*
Profit before tax	**US$m**	**(9.1)**	**(0.9)**	**71.7**	**65.9**	**32.4**
Cash flow reconciliation	US$m	0.4	7.1	17.0	19.0	17.0
Working capital movements	US$m	2.0	7.9	-	-	-
Interest paid, net	US$m	0.1	(2.3)	(4.1)	(2.8)	(1.4)
Tax paid	US$m	-	(1.8)	(8.5)	(8.5)	(6.3)
Net operating cash flow	**US$m**	**(6.6)**	**10.1**	**76.1**	**73.7**	**41.6**
Cash flow margin	*US$/boe*	-	-	*40.5*	*29.7*	*17.6*
Capex (including ABEX)	US$m	(0.2)	(3.4)	(18.3)	(37.7)	(24.3)
Free cash flow	**US$m**	**(6.8)**	**6.7**	**57.9**	**36.0**	**17.3**
Acquisitions	US$m	-	(48.1)	(33.8)	(6.2)	(3.5)
Debt movement, other	US$m	(10.4)	35.8	(8.6)	(10.5)	(10.5)
Share issuance	US$m	-	-	-	-	-
Net increase (decrease) in cash	**US$m**	**(17.2)**	**(5.6)**	**15.5**	**19.3**	**3.3**
Cash	US$m	30.6	19.6	35.1	54.3	57.6
Total assets	**US$m**	**52.9**	**210.8**	**268.0**	**317.6**	**335.7**
Debt	US$m	-	31.7	23.7	13.8	4.0
Other liabilities & decommissioning	US$m	3.1	131.0	133.0	135.0	137.0
Shareholder equity	US$m	49.8	48.1	111.3	168.8	194.8
Total equity & liabilities	**US$m**	**52.9**	**210.8**	**268.0**	**317.6**	**335.7**
Adjusted P/E	x	-	-	*2.5x*	*2.8x*	*6.1x*
EV/EBITDA	x	-	-	*2.3x*	*1.8x*	*2.4x*
FCF yield	%	-	*4.2%*	*36.3%*	*22.6%*	*10.9%*
Net debt / EBITDA trailing	x	-	*1.4x*	-	-	-

Source: Tennyson Securities. *Includes net inventory unwind of 300k bbls.

COMPANY BACKGROUND/OVERVIEW:

Afentra PLC (AET 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:

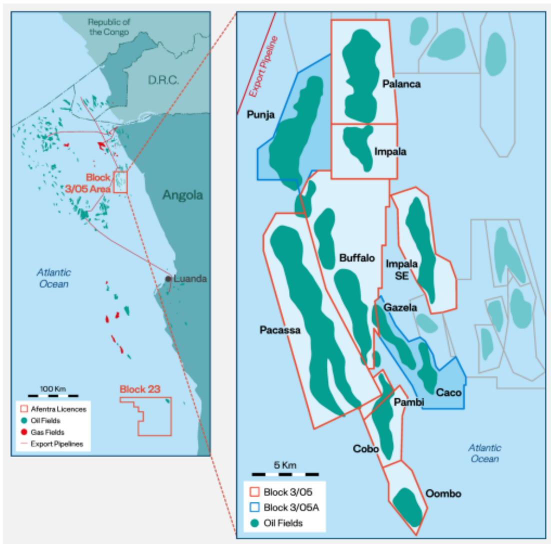
Strengths	Weaknesses
Free cash flow generating	Dependence on single asset for CF
Proven management, Africa experience	Non-operated interests
Existing infrastructure, low capital intensity	
Low decline, long life assets	
Significant OIP	

Opportunities	Threats
Further accretive acquisitions	Rising acquisition costs
Low cost, high return development	Country / political risks
Potential to boost recovery factor	
Build closer relationship with Sonangol	
Emission reductions	

PRODUCTION & RESERVES:

AET's WI production:	6.8 kboepd
AET's WI audited 2P reserves:	32.9 mmboe
Reserve replacmnt ratio (H1 2023):	~150%

ANGOLA ASSET MAP:



SHAREHOLDERS:

Top shareholders:

Askar Alshinbayev	21.3%
Denis O'Brien	7.0%
Kite Lake	6.0%
Athos Capital	3.1%

Director interests:

Paul McDade	2.4%
Ian Cloke	1.7%
Gavin Wilson	1.4%
Anastasia Deulina	1.1%
Jeffrey MacDonald	0.03%

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.

Thierry Tanoh, NED: Former CEO of EcoBank, ex. Oil Minister of Cote d'Ivoire 2017-18 and previously senior IFC Executive.

Source: Tennyson Securities, Afentra, Bloomberg, ERCE.

ASSET DETAIL

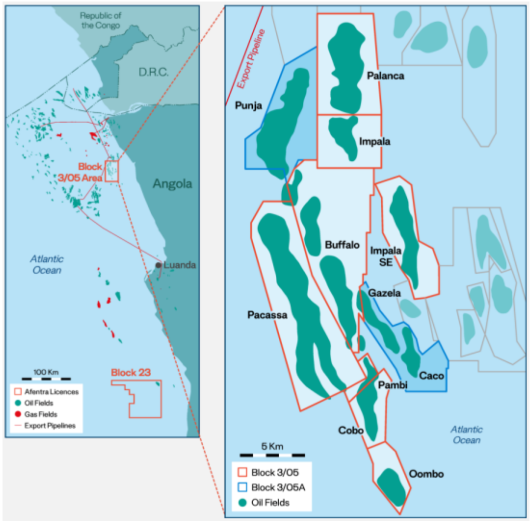
Asset summary – Block 3/05 & 3/05A

Afentra holds interests in two key production licences offshore Angola, namely Blocks 3/05 (30%) and 3/05A (21.33%). The acreage is located in the Congo Basin at the heart of Angola's main producing region, in water depths of 40-100m. The blocks are operated by the National Oil Company, Sonangol, with Afentra and M&P the other key players (see Figure 7, below). Current gross production is running at ~23 kbopd (~6.8 kbopd net to AET), the vast majority of which is derived from eight fields on Block 3/05. Block 3/05A is at an earlier stage of appraisal and development, with just a small amount of test production from a single well in the Caco-Gazela field.

Figure 7: Licence map & partners

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	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%	--



Source: Afentra. *AET management estimates.

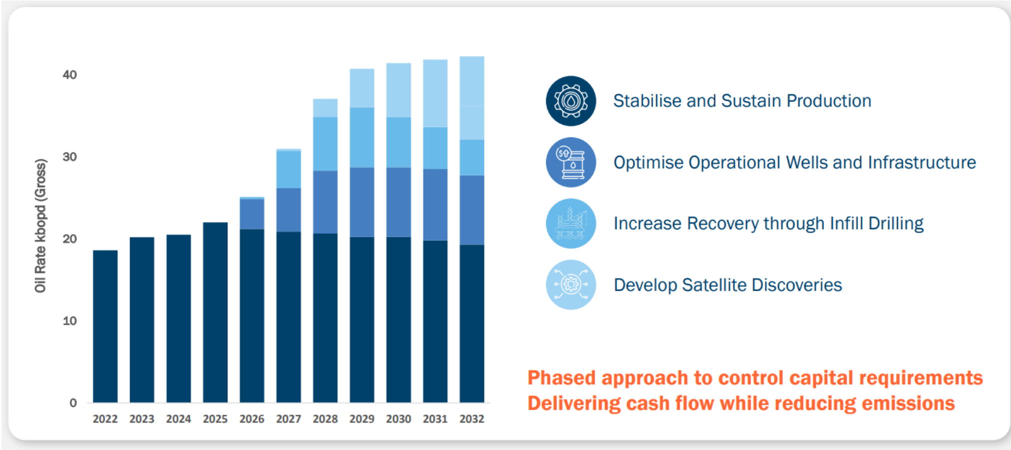
The main fields on Block 3/05 were discovered and developed in the 1980-90s; peak oil production of ~200 kbopd was hit in the late 90s. The assets are considered mid-life; of the 3.5bn bbls of OIP around 42% has been recovered to date (>1.5bn bbls). Analogues suggest the recovery rate could eventually exceed 50%, implying ~250 mmbbls left to produce. 2P reserves are currently audited at 109.5 mmbbls (33 mmbbls net to AET) by ERCE (June 2023). Given the size of the asset, we see the potential for continual reserve replacement as incremental development projects are identified, worked up and migrated into the 2P category. In the first year of ownership (2023) AET achieved a 2P replacement ratio of >150%.

Due to the scale of historic production, the assets benefit from substantial existing infrastructure (17 installations), pipelines and wells (157 wells, of which 42 are in production). Furthermore, relatively little activity has occurred in recent years. The former operator Elf (Total) relinquished control to Sonangol over 2005-13 and since then the asset has been run for cash. The entry of Afentra and Paris-listed independent M&P has breathed life in the project; at the same time Sonangol's appetite for reinvestment and growth is gradually changing.

Growth projects

Since acquiring the assets, AET has undertaken internal technical studies to identify growth projects and associated development potential for the future. The company's latest iteration of this work is illustrated in the updated 2P+2C production profiles shown in Figure 8, below.

Figure 8: Gross 2P + 2C production profiles – Blocks 3/05 & 3/05A*

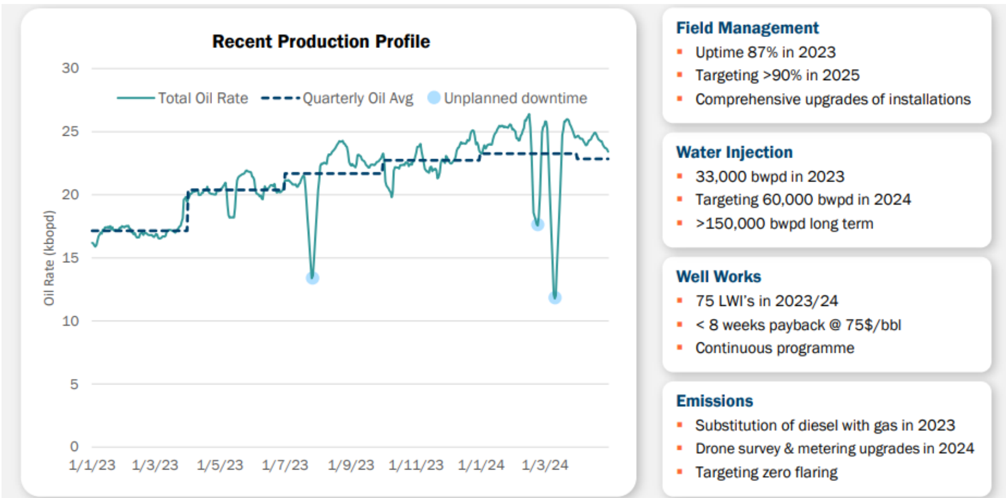


Source: Afentra.

The near-term focus (2024-26) will be on low cost, short cycle opportunities, with a view to bolstering production. Some 45 light well interventions (LWI) are planned in 2024, each adding ~150 bopd and costing US$0.5m with a pay-back of <8 weeks (at US$75/bbl). This follows a successful programme of 30 LWI in 2023 which added an incremental ~4 kbopd (see Figure 9, below).

Reinstating water injection is another important near-term focus. This involves the upgrading of pumps and power systems to steadily increase injected volumes. Last year water injection averaged 33 kbwpd; this is expected to ramp up to 66 kbwpd in 2024 (exiting at 90 kbwpd) and >150 kbwpd over the LT. The initial impact of water injection should start to be felt in 2025. We note that former operator Elf successfully implemented waterflood in the late 1990s, with peak rates of >350 kbwpd – before it was halted due to suboptimal maintenance.

Figure 9: Production history and maintenance projects

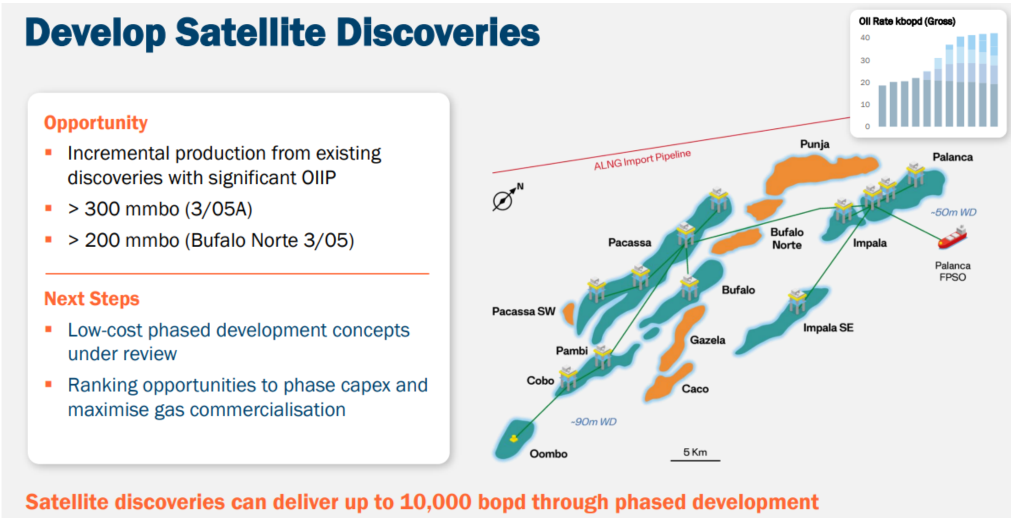


Source: Afentra.

Looking further ahead, AET has identified various incremental optimisation projects, namely installing gas lift and ESPs in selected wells, as well as heavier workovers. A total of 10 gas lift interventions have been worked up, each adding 75-150 bopd at a cost of US$300k, with a payback of 10 weeks at US$75/bbl. Heavy workovers (500-700 bopd per well) and ESP installations (400-500 bopd per well) are bigger ticket items (due to the need for a drilling rig), each costing US$14-15m with paybacks of 2-3 years at US$75/bbl. AET is assessing the installation of ESPs at 20 well sites and heavy workovers at a further 10 wells. These projects are slated to start late 2025 onwards.

Once optimisation initiatives are exhausted, there is a significant infill drilling opportunity to improve recovery. No infill wells have been drilled on the asset for more than 10 years. A phased drilling programme is penciled in to start 2026-27, with over 20 well locations identified. Each new well is estimated cost US$40-50m and be capable of producing between 500-2,000 bopd.

Figure 10: Satellite discoveries



Source: Afentra.

Lastly, there is also a significant opportunity to develop satellite fields over existing infrastructure (see Figure 10, above, for key undeveloped fields). Some 0.5bn bbls of OIP is estimated in fallow fields across Blocks 3/05 & 3/05A; recovery rates are conservatively assumed at less than 10% (but should be much higher in practice). These fields are typically higher GOR (gas-oil ratio) and require a gas offtake solution, via tie-in to the ALNG pipeline running 5km to the north of the licence. It is estimated that these discoveries can deliver up to 10 kbopd through phased development with first oil and gas as early as 2028.

ESG considerations

Angola is targeting zero emissions from flaring by 2030 which the Block 3/05 partnership is on course to meet. As a first step, AET plans to install metering systems on the well stock so it can create a baseline for flaring. By ramping up water injection and repressuring the field reservoirs, more of the gas will be held in solution – thus the gas-oil ratio (GOR) of production should gradually reduce. Moreover, increased internal power needs for water injection pumps and ESPs will utilise more produced gas for power generation. Longer term, the approach is to commercialise all the associated gas, thus alleviating flaring and generating incremental revenue.

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
9 Nov 2023	654.40	30.2	75	BUY
17 June 2024	607.09	55.0	80	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”).

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