

**Buy**

Current price 51p

Oil &amp; Gas

United Kingdom

AIM

Reuters/Bloomberg	AET
Shares in issue (m)	226.2
Market Cap (£m)	114.4
Net cash/(debt) (£m)	(36.7)
Enterprise Value (£m)	151.1
Website	afentraplc.com

Next update

Operating update November 2024

Performance	1m	3m	12m
Absolute %	7.7	(6.3)	94.6
Rel index %	7.3	(7.9)	77.5
Relative to FTSE All Share			

Exchange rate £1.00=\$1.25

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**Afentra<sup>^</sup>****Up and running with the antelope**

Afentra is breaking new ground as an Angola-focused AIM-listed oil producer but is pursuing a well-established growth strategy based on acquiring and enhancing mid-life upstream assets. It has an experienced management team that has done it before and a strong balance sheet, positioning it for further acquisitions. We initiate coverage of Afentra with a Buy rating and fair value estimate of 103p.

**Supporting an African energy transition:** Afentra was established in 2021 as an independent E&P fit for the African energy transition by Paul McDade, Ian Cloke and Anastasia Deulina, who all previously worked together at Tullow Oil. It has been positioned as a responsible custodian of oil & gas production assets with material unrealised potential in Africa that no longer fit the strategy of existing owners (typically IOCs). Its first transactions have provided Afentra with a core position offshore Angola, where it already has a clear vision for production and reserve growth. The strategy is like the one pursued by Tullow Oil (and others) in the UK North Sea 30 years ago, but with the added emphasis on lowering the environmental impact of its operations. Management is clear that it is seeking other West African opportunities to replicate its Angolan portfolio.

**Ambitions to double reserves and production:** Afentra's core asset is a 30% interest in Block 3/05, a mid-life asset that averaged c.20kbbbl/d gross in FY23A with 2P reserves of c.110mmmbbls, but where production peaked in 1998 at c.200kbbbl/d and with it already having produced over 1.3bnbbls. Afentra has presented a strategy for reinvestment in the block (and neighbouring Block 3/05A) that can take production above 40kbbbl/d by FY29F and ultimately recover more than twice the current 2P reserve base. These ambitions are being supported by the regulator (ANPG) and the state-owned operator (Sonangol) that are actively working to encourage investment in the sector. This multi-year strategy is already underway, with facility upgrades and low-cost, quick-return well interventions starting in FY23A.

**Self-funding growth:** The Angolan acquisitions were funded from cash and debt with no equity dilution. We estimate the company can end FY24F back in a net cash position, due to the high cash flow generation of the assets during FY23A and FY24F. Afentra's investment plans for Blocks 3/05 and 3/05A are designed to be fully funded by operating cash flows from the assets, keeping the business free cash flow positive and preserving the balance sheet to fund further acquisitions.

**Valuation indicates a lot more to play for:** The stock is among the top-performing UK-listed oil & gas companies in 2024, up c.37% YTD versus the FTSE AIM Energy sub-sector down 21%. However, we believe our 103p/share Tangible NAV estimate provides a good indication of fair value for Afentra, implying the shares have the potential to double as it delivers on its investment strategy in Angola. We view an FY25F EV/FFO of 2.9x as undemanding for a business targeting material self-funded production and reserve growth from such a robust financial position. **BUY.**

**Results and forecasts**

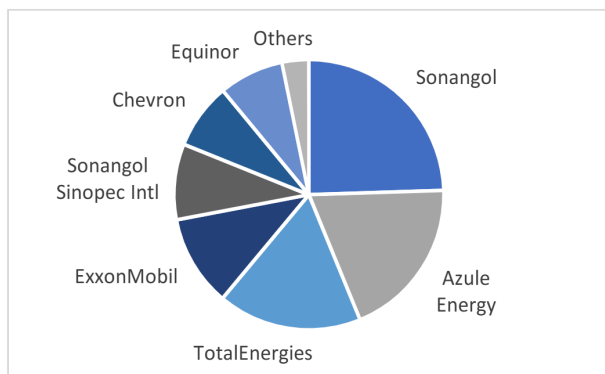
Year to Dec	Revenue (\$m)	Adj EBITDAX (\$m)	FFO (\$m)	Adj EPS (c)	Net cash/(debt) (\$m)	EV/FFO (x)	FCF yield (%)
2023A	26.4	11.0	2.1	(1.2)	(17.0)	89.2	4.5
2024F	185.0	92.1	70.4	20.1	25.6	2.7	51.5
2025F	154.0	87.4	66.5	15.9	24.6	2.9	3.3
2026F	157.5	97.9	77.2	19.1	28.5	2.5	5.2

Source: Company Data; Shore Capital Markets

This report is prepared solely for the use of Buchanan Energy Team

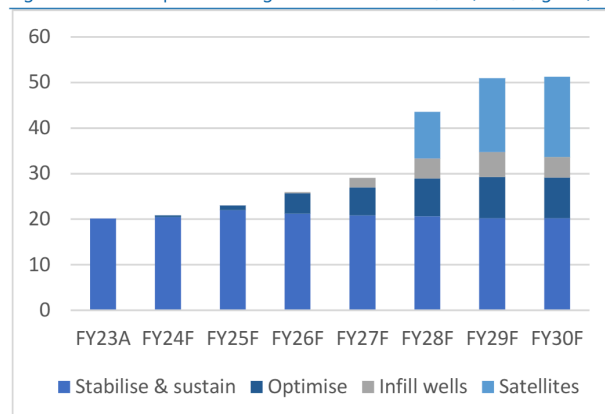
## Afentra in six charts

Figure 1: M&A opportunity in Angola – 2023 production distribution



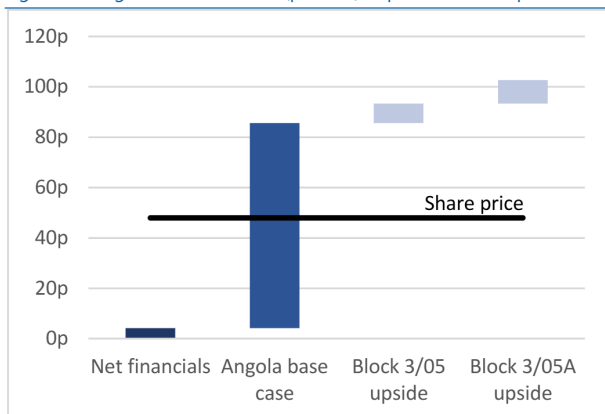
Source: ANPG Management Report 2023

Figure 2: Material production growth from Block 3/05 (kbb/d, gross)



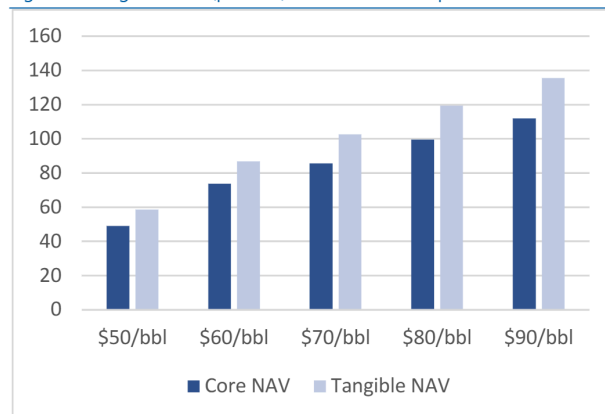
Source: Company Data; Shore Capital Markets

Figure 3: Tangible NAV estimate (p/share) implies material upside



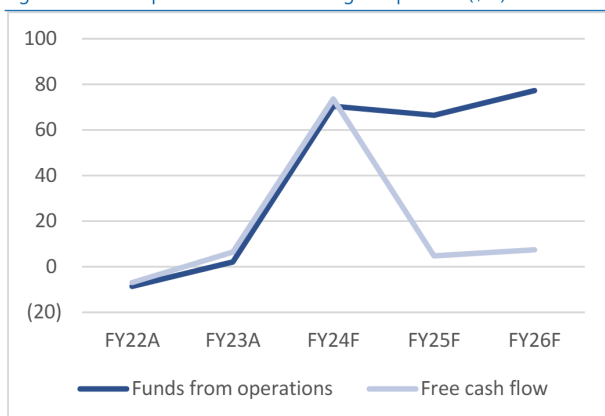
Source: Shore Capital Markets

Figure 4: Tangible NAV (p/share) is sensitive to oil price outlook



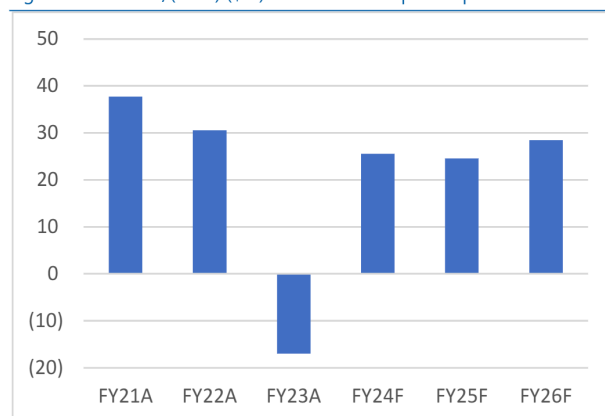
Source: Shore Capital Markets

Figure 5: Growth plans include remaining FCF positive (\$m)



Source: Company Data; Shore Capital Markets

Figure 6: Net cash/(debt) (\$m) almost back to pre-acquisitions level



Source: Company Data; Shore Capital Markets



## Investment summary

A strategy to pursue new opportunities to invest in the energy transition in Africa

The company's key asset is a 30% non-operated stake in Angola's Block 3/05

On track to be back to a net cash position by the end of FY24F

Fair value estimate of 103p/share

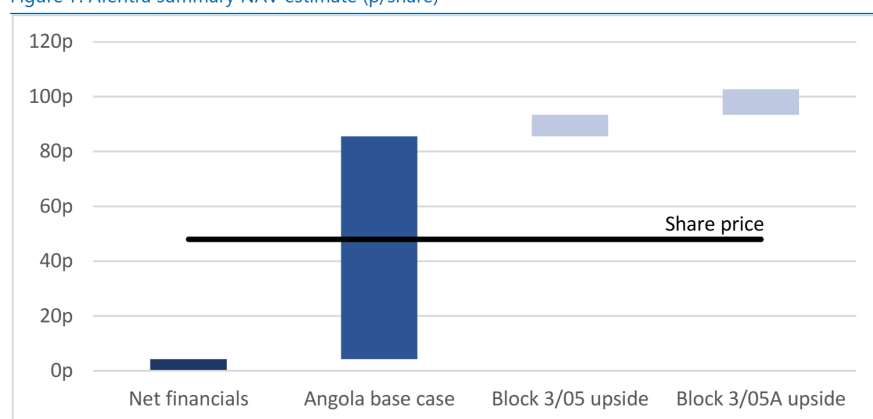
Afentra is a relative newcomer to the independent oil & gas sector, but one with a highly experienced management team led by former Tullow Oil CEO Paul McDade. In 2021 Mr McDade joined the AIM-listed business – then named Sterling Energy – alongside former Tullow colleagues Ian Cloke and Anastasia Deulina, Afentra's COO and CFO, respectively. The company was then rebranded as Afentra with a strategy to pursue new opportunities to invest in the energy transition in Africa, leveraging the leadership team's extensive operating experience and relationships on the continent.

Over the past four years, Afentra has completed three transactions to build a 30% non-operated stake in Angola's Block 3/05. This is the company's key asset, forecast by management to deliver pro forma net oil production of c.6kbbbl/d in FY24F. Management sees material upside potential on Block 3/05 and the neighbouring discoveries on Block 3/05A which can be realised through investment to optimise the existing facilities and by developing unexploited resources in the area. In Angola, Afentra is benefiting from a supportive government that has been reforming the oil industry to incentivise investment and an operator in Sonangol, the state oil company, which appears responsive to Afentra's plans to realise more value from the assets.

The Angolan portfolio has been built without any equity dilution and we estimate Afentra is on track to be back to a net cash position by the end of FY24F. Management has made clear its aspirations for further acquisition-led growth in Africa, with it looking to replicate some of the success Tullow Oil had in the UK North Sea, by acquiring mid-life assets from IOCs. The aim is to continue leveraging its experience in sub-Saharan Africa and take the opportunity to acquire assets that larger oil & gas companies are seeking to divest for strategic reasons.

Our fair value estimate of 103p/share is based on our Tangible NAV calculation, which reflects our evaluation of Afentra's plans for the Angolan Blocks 3/05 and 3/05A.

Figure 7: Afentra summary NAV estimate (p/share)



Source: Shore Capital Markets

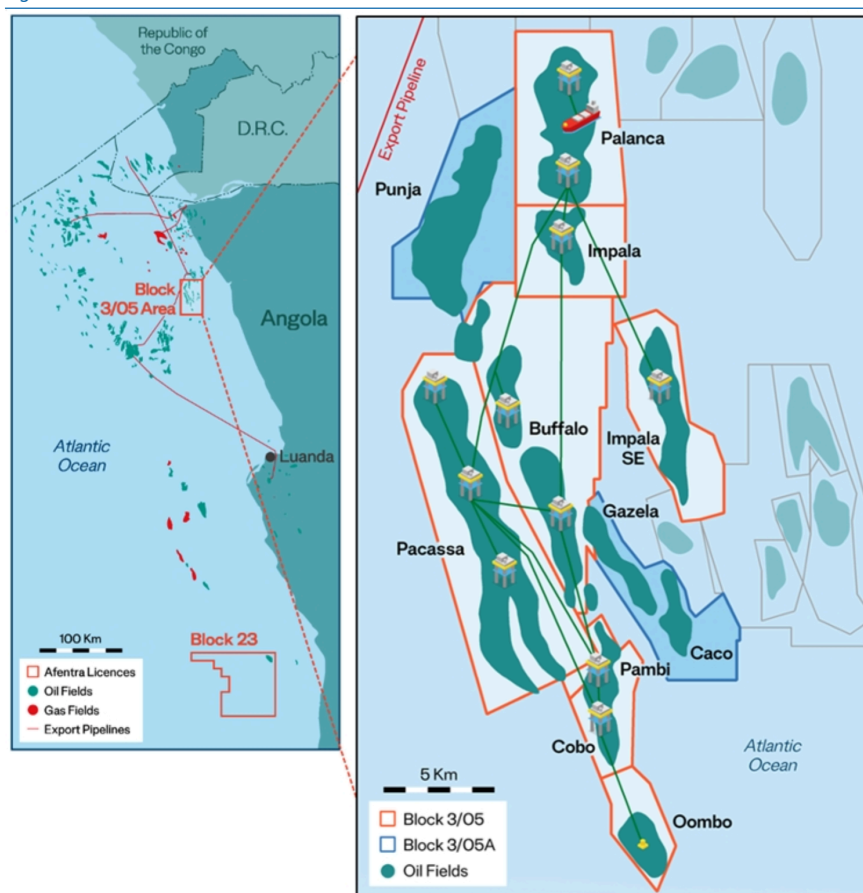


## Targeting material reserve and production growth

Management sees significant remaining potential within Blocks 3/05 and 3/05A...

Afentra's decision to acquire the Angolan assets was driven by a combination of a pro-industry regulatory environment and the significant remaining potential management sees within Blocks 3/05 and 3/05A. Production started from the fields in 1985 and peaked at around 200kbb/d in 1998. Gross production across nine shallow-water fields (water depths of 50-100m) averaged c.20kbb/d in FY23A. The blocks are operated by Sonangol, the national oil company, and the other partners are Maurel et Prom, etu energias and NIS Naftagas.

Figure 8: Afentra's Blocks 3/05 and 3/05A oilfields



Source: Company Data

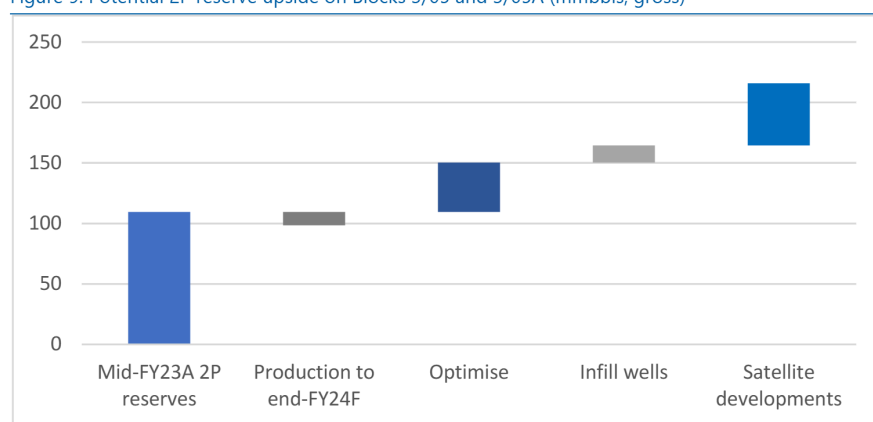


...the upside potential for Afentra is the underdeveloped nature of the assets

## All about nudging up the recovery factor

The upside potential for Afentra is the underdeveloped nature of the assets with over 3 billion barrels of oil initially in place on Block 3/05, of which around 43% has been recovered to date. The end-H1 FY23 gross 2P reserve estimate of c.110mmbbls assumes an ultimate recovery factor of c.46%; however, Afentra is targeting ultimate recovery of over 50%, which implies more than 250mmbbls are yet to be extracted, more than double current 2P reserves. There is also a further 300mmbbls of oil in place on the almost entirely undeveloped Block 3/05A (c.1% recovered to date), where Afentra is already outlining plans to develop c.33mmbbls via two satellite developments in the medium term. Figure 9 summarises the gross reserve upside that Afentra has outlined based on its evaluation of the portfolio to date.

Figure 9: Potential 2P reserve upside on Blocks 3/05 and 3/05A (mmbbls, gross)



Source: Company Data; Shore Capital Markets

The strategy has been unlocked by the licence extension to 2040 (from 2025)...

...four stages to the strategy

We expect future reserve growth at the assets to be gradual as Afentra takes the role of a very pro-active but non-operating partner to steer the partnership through these development plans. The strategy has been unlocked by the licence extension to 2040 (from 2025), which provides the partnership with the time to realise the value that can be created from increased investment. A key element of the plans is for the assets to remain self-funding (free cash flow positive) throughout. The strategy is presented in four stages, with an initial emphasis on lower-cost and rapid-payback opportunities.

### 1. Stabilise and sustain production

The groundwork to extend the field life and improve asset integrity is already well underway with FY23A facility upgrades improving uptime and increasing water injection capacity. Facility uptime was 87% in FY23A with an FY25F target of >90%. Increased water injection – it doubled year-on-year in FY23A and is to double again in FY24F – can increase reservoir pressure, positively impacting oil production in the medium term. This activity also includes the initial work to reduce GHG emissions from the assets, with gas starting to replace diesel for power generation and new metering equipment being installed to measure future progress on minimising gas flaring.



## 2. Optimise operational wells and infrastructure

Afentra estimates optimisation of the existing 157 wells on the fields can add over 5kbb/d to gross production in the medium term. The initial focus has been on low-cost light well interventions (LWIs) that cost \$0.5m/well and can pay back in under eight weeks at current oil prices. 15 LWIs were completed in H1 FY24A with another 20 planned for H2. Looking ahead to FY25F, the plan is to begin heavy workovers and the installation of ESPs (electric submersible pumps) to bring currently shut-in wells back into production.

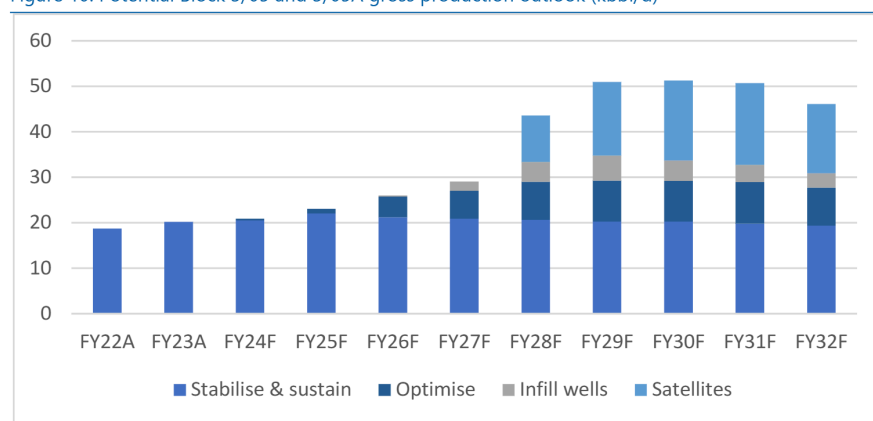
## 3. Increase recovery through infill drilling

No new production wells have been drilled on Block 3/05 for over ten years. Afentra has identified over 20 possible drilling locations and aims to resume infill drilling in FY26F or FY27F – this includes wells that were work commitments as part of the licence extension. Individual wells can develop 3-5mmbbls and add 0.5-2.0kbb/d to gross production. Further 3D seismic data could be acquired to help high-grade the possible drilling locations.

## 4. Develop satellite discoveries

There is over 300mmbbls of oil in place within three undeveloped discoveries on Block 3/05A – Gazela, Caco and Punja. Afentra intends to use the Block 3/05 infrastructure to develop these resources as satellite tiebacks with low-cost phased development concepts under review. There is already test production from Gazela with the Gaz-101 well averaging 1.3kbb/d gross during H1 FY24A. These developments are not expected to come onstream until FY28F or FY29F as the partners focus on the infield opportunities before committing to these larger-scale projects. The need for a gas management plan is also important – particularly for Punja – with Afentra looking to avoid flaring gas from any new development. Solutions for the associated gas include export via the Angola LNG network and gas re-injection. Punja has already been granted Marginal Discovery status and benefits from improved fiscal terms.

Figure 10: Potential Block 3/05 and 3/05A gross production outlook (kbb/d)



Source: Company Data; Shore Capital Markets

Reducing GHG emissions a key element of the investment proposition to investors and other stakeholders

## Embedding improved environmental performance

Afentra classes reducing GHG emissions as a key element of its investment proposition to investors and other stakeholders. It not only seeks to enhance the economic value of the assets it acquires but also to reduce the environmental impact they have, to deliver sustainable change within the energy transition.

Since joining the Block 3/05 partnership during FY23A, Afentra has immediately worked to establish a clear GHG emissions-reduction agenda for the assets. The goal for FY24F is to establish a robust baseline for emissions (drone surveys, flare metering). Gas utilisation has been identified as a key driver towards the reduction of Scope 1 emission intensity (estimated at 79mtCO<sub>2</sub>/boe in 2021) with gas commercialisation the ultimate objective longer term. In the near term, switching to gas from diesel for power generation and facility investments to improve overall efficiency and reduce fugitive emissions can help improve the environmental performance of the assets.

Scheduled operating updates are likely to be the key catalysts for the stock

## Delivery is the catalyst

As the four-stage plan indicates, Afentra's investment case is centred around multi-year production and reserve growth from Block 3/05. As a result, scheduled operating updates are likely to be the key catalysts for the stock as investors look for evidence of progress on both execution of initial activity and securing partnership support for the longer-term plans that involve larger capital commitments. Now that the Angolan acquisition activity is complete (for the time being, at least), we expect management to establish a cycle of regular operating updates in line with its peer group of UK-listed independent oil & gas producers.

- **November 2024 – operating update:** We expect an update covering year-to-date production, which should include the impact of a scheduled three-week shutdown in September. The timing of the next cargo sale (currently late Q4 FY24F or early Q1 FY25F) could also be clarified.
- **January 2025 – operating update with FY25F guidance:** We expect management to confirm FY24F gross production and sales revenues, which should allow the market to calibrate financial estimates, while demonstrating the pace at which Afentra has recouped the upfront costs of its Angolan acquisitions. We also expect the company to provide guidance for FY25F on production and costs. We currently forecast FY25F net production of 6.8kbb/d and a capital budget of c.\$65m. This will be the first time Afentra has published annual guidance.
- **March 2025 – FY24 results and reserve report:** We expect Afentra to obtain an updated Competent Person's Report for Block 3/05, with new reserve estimates that reflect the impact of activity completed during FY23A and FY24F (infrastructure upgrades, light well interventions), and possibly firm infill drilling and workover activity scheduled for FY25F. An increase in the mid-FY23 gross 2P reserve estimate of c.110mmbbls (c.33mmbbls net to Afentra) would demonstrate the impact the company is starting to have on the assets.



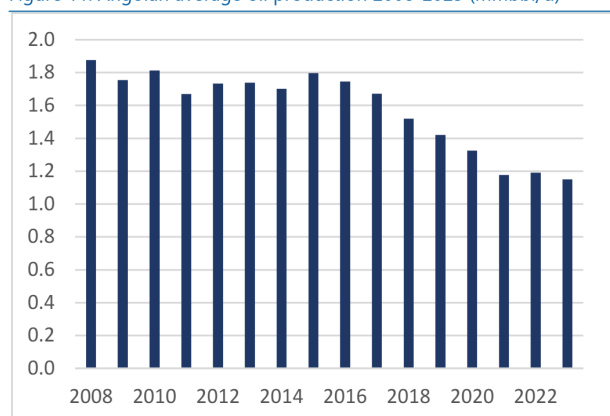
## Angola: A road less travelled for independent E&Ps

Angola is the second-largest sub-Saharan African oil producer behind Nigeria

Angola has been an established oil producer for over 50 years, with production peaking during 2008 at close to 2 million barrels a day. Between 2007 and 2023 it was a member of OPEC, and it remains the second-largest sub-Saharan African oil producer behind Nigeria with output of c.1.1mmbbl/d. The country's oil industry remains dominated by IOCs alongside the state oil company, Sonangol.

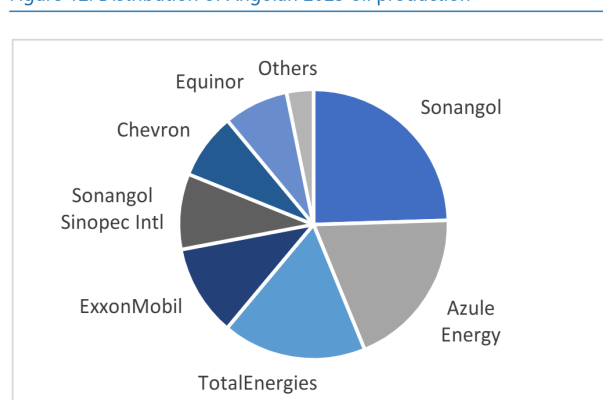
The involvement of independent E&Ps has been limited, but this is changing as the basin matures and the Government has implemented reforms intended to attract more investment to maximise the value of the country's oil & gas resources. Afentra's strategic entry into Angola is in response to these reforms, and although it is the only publicly listed Angola-focused E&P, it is not alone. Azule Energy (created through the 2022 merger of BP and Eni's Angolan upstream businesses) and etu energias (the acquirer of Galp's Angolan upstream portfolio in 2024) are also highlighting the potential for Angola to be a platform on which to build an upstream oil & gas business with scope for material organic and acquisition-led growth.

Figure 11: Angolan average oil production 2008-2023 (mmbbl/d)



Source: Energy Institute, 2024 Statistical Review of World Energy

Figure 12: Distribution of Angolan 2023 oil production



Source: ANPG Management Report 2023

The Angolan Government has implemented reforms intended to attract more investment to the sector

### Pro-industry regulatory reforms

The oil sector accounts for over 90% of the country's exports, and 40% of the Government's total tax revenues. In 2018, the Government responded to declining oil production and investment over the previous decade with major reforms to the sector, which have included changes to reduce bureaucracy around contracting and the creation of new legal and fiscal regimes for natural gas. The most significant change was the creation of Agência Nacional de Petróleo, Gás e Biocombustíveis (ANPG) in 2019, which took over responsibilities for regulating, monitoring and promoting oil & gas activities from Sonangol, the national oil company. Since its creation ANPG has worked with existing contractors to increase investment in existing assets in exchange for fiscal incentives and sought to attract new participants through regular licencing rounds.



Leaving OPEC has freed the Government and IOCs within Angola to pursue strategies to maximise oil production

Licence extension obtained and improved fiscal terms secured for Block 3/05

In late 2023, Angola left OPEC following a disagreement over production quotas. The decision reflected the Angolan Government's view that OPEC membership was no longer in the national interest. It followed OPEC proposals to cut production quotas that would have conflicted with Angola's ambitions to increase oil output, thereby boosting US dollar earnings and tax revenues. The decision frees the Government – via both ANPG and Sonangol – and international oil companies within Angola to pursue strategies to maximise oil production.

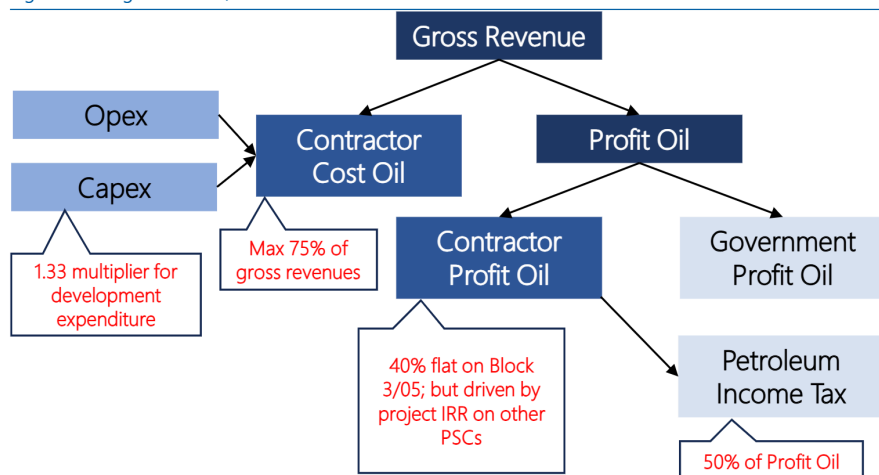
### Fiscal regime evolving to attract investment

Afentra's early experiences working with ANPG and the Government of Angola is demonstrating how Angola is seeking to attract increased investment into its oil & gas industry. The Block 3/05 partners obtained a licence extension to 31 December 2040 (from July 2025) and secured improved fiscal terms during 2023. The higher cost ceiling (75% of gross revenues, up from 65%) and more favourable profit oil split (40%, up from 30%) for the contractors increase our discounted cash flow (DCF) valuation of the asset by c.15%.

On Block 3/05A the Punja Development Area has been classified as a Marginal Discovery by the Government, which allows it to benefit from a higher cost ceiling (80% rather than 50%) and lower Petroleum Income Tax rate (25%, down from 50%). This has a material impact on the project economics for a potential development. We believe that the Caco-Gazela Development Area could also be designated as a Marginal Discovery in due course.

Afentra's assets are held under Production Sharing Contracts (PSCs) with relatively straightforward fiscal terms, which are outlined in Figure 13 for Block 3/05. Limits on the percentage of revenue available for cost recovery, the distribution of profit oil between contractors and the Government, and the level of uplift applied to development spending vary between PSCs, while Petroleum Income Tax is 50% for all PSCs (or 25% for Marginal Discoveries).

Figure 13: Angola Block 3/05 PSC structure



Source: Shore Capital Markets

## Still pursuing new ventures

The focus is on West African assets

### Beyond Angola

Afentra's management team has been clear about its intention to expand the portfolio with further acquisitions, notably with the comment *"don't expect us to just be in Angola in 3-5 years"*. Its transactions in Angola have demonstrated management's capacity to complete deals with NOCs and independent oil companies, and an ability to quickly make an impact on operations with production already increasing. The focus is on West African assets like Block 3/05 that combine cash flow from existing production with some unrealised upside potential. Management's experience with Tullow Oil means that it can leverage its collective experience and relationships in several of the region's oil producing countries, including Ghana, Gabon, Côte d'Ivoire, Senegal, Equatorial Guinea and Republic of Congo.

A chance to leverage its early-mover status to secure other opportunities in the country

### More to do in Angola

As already outlined, Angola's oil industry is still dominated by larger operators. Afentra has a chance to leverage its early-mover status to secure other opportunities in the country. Delivery on its plans for Block 3/05 should enhance its reputation with both the Government and Sonangol, who could become a source of similar opportunities to rejuvenate mid-life assets.

In July 2024, Afentra signed the KON 19 licence, after being assigned a 45% non-operated interest. This marks its entry into the onshore Kwanza Basin where there is evidence of a working petroleum system from historical drilling activity. It is awaiting the formal award of a second licence, KON 15, during Q4 FY24F. Initial activity will focus on data acquisition to identify and high-grade low-cost drilling opportunities, while the outcome of ongoing appraisal on legacy fields within other licences can help demonstrate a route to future commerciality before Afentra commits to any exploration drilling.

Afentra obtained a 40% stake in Block 23 (partnered with Sonangol as operator) as part of its Block 3/05 transaction with Sonangol. Located in the deepwater Kwanza Basin, Block 23 is largely unexplored with one small oil discovery and located south of TotalEnergies' ongoing Kaminho development. There are no outstanding work commitments.





## Valuation: 103p/share Tangible NAV

Our sum-of-the-parts NAV estimate for Afentra is outlined in Figure 14. It reflects our understanding of the company's investment plans for the existing portfolio and the current fiscal regime for its assets in Angola. We view Tangible NAV as our primary indicator of valuation for oil & gas companies such as Afentra – it reflects the value of the existing production portfolio plus a risked assessment of tangible future development plans, adjusted for financial assets and liabilities. The company's exploration licences can become part of Total NAV as drill-ready prospects are matured and represent a source of potential upside to our Tangible NAV estimate.

We highlight the following key assumptions:

- **Oil price:** We assume \$80/bbl Brent in H2 FY24F and \$70/bbl from FY25F onwards. We assume its crude oil sales realise a price in line with the Brent benchmark.
- **Discount rate:** We use DCF analysis to value each asset. A discount rate of 15% is used for all Afentra's assets, which we believe is appropriate. Our valuation is as at the end of FY24F.
- **Reserves and resources:** In late FY23A Afentra published a Competent Person's Report for Block 3/05 that included gross 2P reserves of c.110mmbbls as at end-June 2023. Management has subsequently provided its own estimates on the opportunity to recover a higher proportion of the >3 billion barrels of oil in place on Block 3/05 through further investment to optimise existing wells and infrastructure. This equates to an end-FY24F gross 2P reserve estimate of 139mmbbls for Block 3/05 (c.42mmbbls net to Afentra), which provides the basis for our valuation of the asset within our Core NAV.
- **Development upside:** Our Tangible NAV estimate includes a risked assessment of additional contingent resources, where we believe management has the willingness and financial resources to pursue development. Afentra has outlined medium-term plans to increase oil recovery from Block 3/05 through infill drilling (14mmbbls gross; 4mmbbls net) and develop other discoveries within Blocks 3/05 (19mmbbls gross; 6mmbbls net) and 3/05A (33mmbbls gross; 7mmbbls net).
- **Deferred consideration:** We estimate contingent payments totalling c.\$34m remain payable at the end of FY24F. The majority are payable to Sonangol at \$3.5m/year through to FY33F and contingent on Block 3/05 annual gross volumes exceeding 15kbb/d and Brent prices averaging over \$65/bbl.
- **Share count:** To calculate the per share valuation we use the most recently disclosed total shares outstanding (c.226.2m), adjusted for the dilutive impact of unvested nil-cost share options under the Founders' Share Plan (c.11.8m) and other options (4.5m), which have an exercise price of 57.4p/share.



Figure 14: Afentra – our NAV estimate summary

Afentra						End-FY24 Valuation	
FY24F Production	Net reserves mmboe		PV15% \$/boe	PV15% \$mn	Probability of success	Riskd valuation \$mn	p/share
Angola	42	Oil	6.30	266	100%	266	88
Angola deferred consideration				(20)	100%	(20)	(7)
<b>Production &amp; development</b>	<b>42</b>		<b>5.80</b>	<b>246</b>		<b>246</b>	<b>81</b>
<b>Financial items</b>							
End FY24F net cash/(debt) adjusted for deals				26		26	8
General & Administrative expenses (2 years)				(16)		(16)	(5)
Net decommissioning obligations				(0)		(0)	(0)
Hedging & investments				0		0	0
Impact of dilutive options				3		3	1
<b>Net financial assets/(liabilities)</b>				<b>13</b>		<b>13</b>	<b>4</b>
<b>CORE NET ASSET VALUE</b>				<b>259</b>		<b>259</b>	<b>86</b>
<b>Development upside</b>	<b>Net resources mmboe</b>	<b>Start-up year</b>	<b>PV15% \$/boe</b>	<b>PV15% \$mn</b>	<b>Probability of success</b>	<b>Riskd valuation \$mn</b>	<b>p/share</b>
Angola - Block 3/05 upside	10	2026	3.60	35	67%	24	8
Angola - Block 3/05A upside	7	2028	8.10	57	50%	28	9
<b>Pre-development assets</b>	<b>17</b>			<b>92</b>		<b>52</b>	<b>17</b>
<b>TANGIBLE NET ASSET VALUE</b>				<b>351</b>		<b>311</b>	<b>103</b>
<b>Exploration &amp; appraisal</b>	<b>Net resources mmboe</b>	<b>FY24-25F wells</b>	<b>PV15% \$/boe</b>	<b>PV15% \$mn</b>	<b>Probability of success</b>	<b>Riskd valuation \$mn</b>	<b>p/share</b>
<b>Exploration &amp; appraisal</b>						<b>0</b>	<b>0</b>
<b>TOTAL NET ASSET VALUE</b>						<b>311</b>	<b>103</b>
Shares outstanding (m)	226.2						
Dilutive options (m)	16.3						
Fully diluted shares (m)	242.4						
Brent price assumption	\$82/bbl in 2024F, \$70/bbl in 2025F, \$70/bbl thereafter						
Forex USD/GBP	1.25						

Source: Company Data; Shore Capital Markets



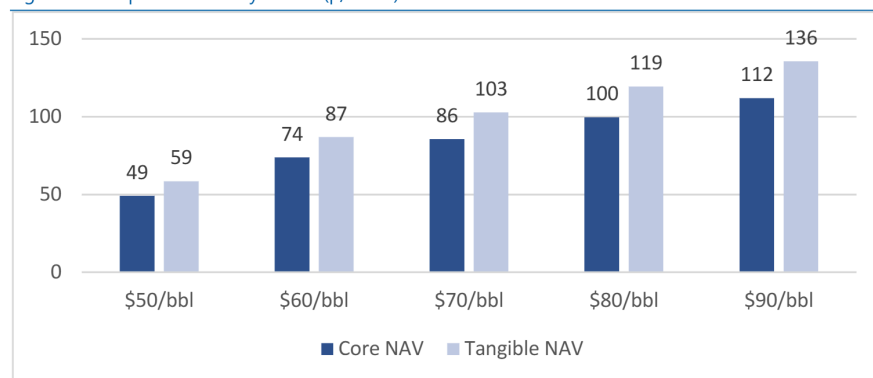
Sensitivity of Afentra's valuation to oil price expectations is significant but in line with other small oil producers

## Oil price sensitivity analysis

The sensitivity of Afentra's valuation to oil price expectations is significant, but in line with other small oil producers. A change in our base-case \$70/bbl Brent price assumption from FY25F onwards to \$60/\$80 results in a -15%/+16% change to our Tangible NAV estimate for the company. Looking at our FY25F cash flow estimates, we calculate that every \$10/bbl move in the oil price would change annual cash flows by c.\$20m.

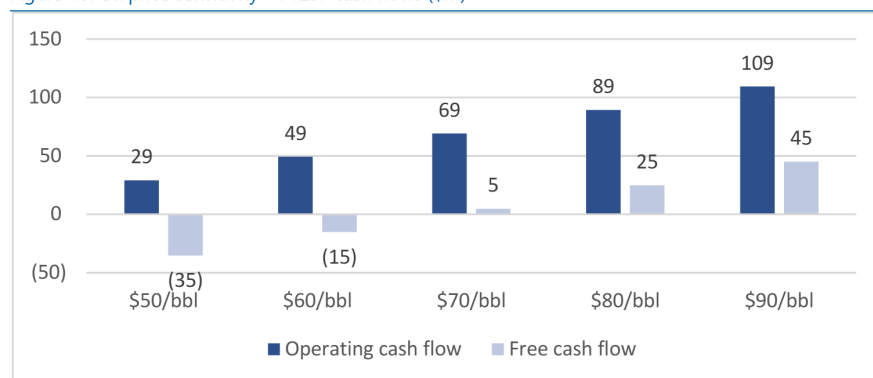
We estimate that Afentra can achieve free cash flow breakeven in FY25F at c.\$68/bbl based on its stated plans to step up investment on Block 3/05 to increase production. A lower oil price environment may result in a lower level of capital investment, which would negatively impact near to medium-term production and therefore valuation.

Figure 15: Oil price sensitivity – NAV (p/share)



Source: Shore Capital Markets

Figure 16: Oil price sensitivity – FY25F cash flows (\$m)



Source: Shore Capital Markets

Some general and company-specific risks to consider

Like all UK-listed oil & gas companies, our valuation and financial estimates for Afentra are exposed to commodity price risk, forex risks (specifically the US\$:£ rate) and general project execution risks. We would also highlight the following issues as specific to Afentra:



- **Management estimates:** Afentra's management has presented a clear vision of the potential to materially increase reserves and production from Block 3/05 and begin commercialising the discoveries on Block 3/05A. The production outlook it presents – doubling to over 40kbbbl/d by FY29F – is based on management estimates rather than the Block 3/05 CPR published in late 2023, as are the contingent resource estimates it provides for Block 3/05A. We do not doubt the rigour and technical expertise that underpin Afentra's management's estimates, but they are not yet verified by an independent reserve auditor's report.
- **Partnership alignment:** Afentra is a non-operator on both Block 3/05 and 3/05A. Its technical input appears to be valued by operator Sonangol and the other JV partners, but the timing and extent of further investment is contingent on the approval of partners who may have competing priorities for capital.
- **Further acquisition activity:** Afentra's management has been clear about its ambitions to expand the business with further acquisitions in West Africa. Its intention is to target assets like those it has already acquired in Angola (existing production, proven reserves, unrealised upside), but any deal has the potential to meaningfully alter the investment case and.

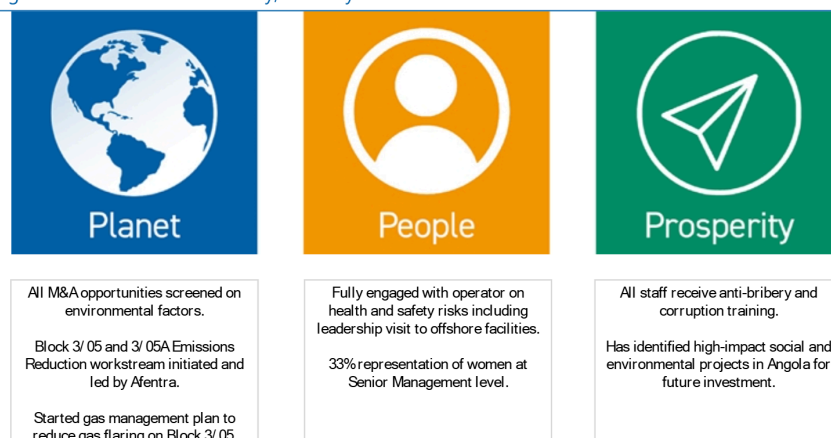
## Navigating the energy transition

The impact of the energy transition – phasing out fossil fuel consumption, in favour of lower or zero-emission energy systems – on oil & gas producers is material, but gradual. The industry's role is to continue producing the hydrocarbons required to fulfil the world's rising demand for low-cost energy, while seeking to minimise the environmental impact of these operations.

Afentra has set out how the energy transition creates an opportunity for an Africa-focused E&P to grow, while improving the environmental impact of its operations. It is already leading the JV's new Emissions Reduction workstream and worked with Sonangol to upgrade the metering system used to measure flare volumes. However, after completing its first acquisition in mid-FY23A, it was not able to include the typical GHG emission disclosures of its peers within its FY23 annual report. We expect environmental (and broader ESG) disclosures to increase markedly in the coming years.

The energy transition creates an opportunity for an Africa-focused E&P to grow

Figure 17: Afentra's sustainability, diversity and inclusion credentials



Source: Shore Capital Markets

## Financial estimates

Afentra's recent financial history reflects a business in transition – underlying financial performance only likely to become clear during FY25F

The current Afentra management team took over the business in early FY21A with cash-in-hand of c.\$43m and one exploration asset in Somaliland. It has used that cash alongside new debt facilities to fund the acquisition of its Angolan business, with the third transaction completing in May 2024. Therefore, the company's recent financial history reflects a business in transition with the underlying financial performance of the portfolio only likely to become clear during FY25F (assuming that there is a pause in acquisition activity). The highly accretive nature of the company's three deals on Blocks 3/05 and 3/05A has already been demonstrated by the fact that a cumulative upfront consideration of \$117m has already been recovered through cash flow from the assets.

Our FY24F-FY26F financial estimates are outlined in Figures 18-21. They are based on the investment plans management has outlined to optimise the existing wells and infrastructure on Block 3/05, which management believes can achieve a c.27% increase in gross production between FY23A and FY26F.

### Planning to reinvest operating cash flows in the portfolio

Our FY24F free cash flow estimate of c.\$74m is driven by the sale of oil inventory acquired through the acquisitions. It is not an indication of the likely run-rate for FY25F and FY26F when inventory levels have normalised and capital expenditure steps up to begin delivering on management's asset optimisation and infill drilling plans. FY24F estimates have very limited exposure to the oil price for the remainder of the year as c.75% of oil sales scheduled for FY24F have already completed, the most recent occurring in August at \$83.7/bbl.

Back to a net cash position in H2 FY24F, increasing its capacity to pursue further acquisitions

We do not anticipate Afentra returning cash to shareholders during the forecast period. The free cash flow it is forecast to generate in H2 FY24F moves it back into a net cash position, increasing its capacity to pursue further acquisitions. The modest levels of free cash flow we forecast for FY25F and FY25F are largely offset by contingent acquisition payments.

### Debt facilities funded acquisitions and provide liquidity

Afentra has a \$75m reserve-based lending (RBL) facility and a \$30m working capital facility, with both facilities maturing in May 2028. The RBL has been used to partially fund the acquisitions and was c.\$48m drawn at the end of H1 FY24A. It has a linear repayment profile of c.\$11m/year. The working capital facility provides short-term liquidity around the timing of payments for oil cargoes, with drawdowns repaid from sales receipts.

Management aims to manage capital spending to remain free cash flow positive

We do not expect Afentra to draw debt to fund its planned investments in Blocks 3/05 and 3/05A – these should be funded from operating cash flows, based on management's comments that it would aim to manage capital spending to remain free cash flow positive.



Figure 18: Afentra – income statement (\$m, unless otherwise stated)

Year-end December	FY22A	FY23A	FY24F	FY25F	FY26F
Brent oil price (\$/bbl)	100.93	82.49	81.88	70.00	70.00
Net production (kboe/d)	0.0	0.7	5.1	6.8	7.6
<b>Revenue</b>	<b>0.0</b>	<b>26.4</b>	<b>185.0</b>	<b>154.0</b>	<b>157.5</b>
<i>Revenue per boe</i>	<i>n/a</i>	<i>100.35</i>	<i>99.88</i>	<i>61.85</i>	<i>56.56</i>
Operating costs	0.0	(11.7)	(79.0)	(60.6)	(56.0)
<i>Opex per boe</i>	<i>n/a</i>	<i>(44.59)</i>	<i>(42.67)</i>	<i>(24.32)</i>	<i>(20.12)</i>
Depletion	0.0	(0.8)	(21.5)	(26.4)	(27.0)
Other cost of sales	0.0	0.0	0.0	0.0	0.0
<b>Gross profit/ (loss)</b>	<b>0.0</b>	<b>13.8</b>	<b>84.4</b>	<b>67.0</b>	<b>74.5</b>
Administration expenses	(5.5)	(6.6)	(9.9)	(7.3)	(7.3)
Pre-licence costs	(3.5)	(4.8)	(3.2)	(3.0)	(3.0)
Impairment charges	0.0	0.0	0.0	0.0	0.0
Other operating income/ costs	0.0	0.0	0.0	0.0	0.0
<b>Operating profit/ (loss)</b>	<b>(9.0)</b>	<b>2.4</b>	<b>71.3</b>	<b>56.7</b>	<b>64.2</b>
Net finance costs	(0.1)	(3.3)	(14.9)	(9.0)	(7.8)
Other non-op income/ (costs)	0.0	0.0	0.0	0.0	0.0
<b>Profit/ (loss) before tax</b>	<b>(9.1)</b>	<b>(0.9)</b>	<b>56.4</b>	<b>47.7</b>	<b>56.4</b>
<b>Adj. profit/ (loss) before tax</b>	<b>(9.1)</b>	<b>(0.9)</b>	<b>56.4</b>	<b>47.7</b>	<b>56.4</b>
Tax expense	0.0	(1.8)	(8.3)	(9.4)	(10.3)
<b>Net profit/ (loss) (reported)</b>	<b>(9.1)</b>	<b>(2.7)</b>	<b>48.1</b>	<b>38.3</b>	<b>46.0</b>
<b>Adj. net profit/ (loss)</b>	<b>(9.1)</b>	<b>(2.7)</b>	<b>48.1</b>	<b>38.3</b>	<b>46.0</b>
Average shares outstanding (m)	220.1	220.1	224.8	226.2	226.2
EPS (cents, basic)	(4.1)	(1.2)	21.4	16.9	20.4
<b>Adj. EPS (cents, diluted)</b>	<b>(4.1)</b>	<b>(1.2)</b>	<b>20.1</b>	<b>15.9</b>	<b>19.1</b>
Dividend (p/share)	0.0	0.0	0.0	0.0	0.0

Source: Company Data; Shore Capital Markets

Figure 19: Afentra – Adj. EBITDAX calculation (\$m)

Year-end December	FY22A	FY23A	FY24F	FY25F	FY26F
<b>Operating profit/ (loss)</b>	<b>(9.0)</b>	<b>2.4</b>	<b>71.3</b>	<b>56.7</b>	<b>64.2</b>
- DD&A	0.2	2.9	16.4	25.7	28.7
- Pre-licence costs	3.5	4.8	3.2	3.0	3.0
- Share based payments	0.0	1.0	1.2	2.0	2.0
- Impairment charges	0.0	0.0	0.0	0.0	0.0
- Other adjustments	0.0	0.0	0.0	0.0	0.0
<b>Adj. EBITDAX</b>	<b>(5.2)</b>	<b>11.0</b>	<b>92.1</b>	<b>87.4</b>	<b>97.9</b>

Source: Company Data; Shore Capital Markets





Figure 20: Afentra – cash flow statement (\$m, unless otherwise stated)

Year-end December	FY22A	FY23A	FY24F	FY25F	FY26F
Operating profit/(loss)	(9.0)	2.4	71.3	56.7	64.2
DD&A	0.2	2.9	16.4	25.7	28.7
Impairment & other exceptionals	0.0	0.0	0.0	0.0	0.0
Tax paid	0.0	(1.8)	(8.3)	(9.4)	(10.3)
Net interest	0.1	0.8	5.0	(0.2)	(0.1)
Other non-cash adjustments	(0.0)	(2.1)	(14.0)	(6.3)	(5.2)
<b>Funds from operations (ShoreCap)</b>	<b>(8.6)</b>	<b>2.1</b>	<b>70.4</b>	<b>66.5</b>	<b>77.2</b>
Working capital movements	2.0	7.9	34.6	2.8	(2.8)
<b>Operating cash flow (ShoreCap)</b>	<b>(6.6)</b>	<b>10.1</b>	<b>105.0</b>	<b>69.3</b>	<b>74.4</b>
<i>OCF per share (cents)</i>	<i>(3.0)</i>	<i>4.6</i>	<i>43.9</i>	<i>28.8</i>	<i>30.9</i>
Capital spending	(0.2)	(3.4)	(31.2)	(64.5)	(67.0)
Lease payments	(0.2)	(0.2)	(0.2)	0.0	0.0
<b>Free cash flow (ShoreCap)</b>	<b>(7.0)</b>	<b>6.5</b>	<b>73.7</b>	<b>4.8</b>	<b>7.4</b>
<i>FCF per share (cents)</i>	<i>(3.2)</i>	<i>2.9</i>	<i>30.8</i>	<i>2.0</i>	<i>3.1</i>
Acquisitions	(10.2)	(42.8)	(28.2)	(5.8)	(3.5)
Disposals	0.0	0.0	0.0	0.0	0.0
Shareholder returns	0.0	0.0	0.0	0.0	0.0
<b>Surplus/(deficit) before financing</b>	<b>(17.2)</b>	<b>(36.3)</b>	<b>45.5</b>	<b>(1.0)</b>	<b>3.9</b>
Net equity proceeds	0.0	0.0	0.0	0.0	0.0
Net debt proceeds	0.0	30.7	8.1	(10.7)	(10.7)
Other adjustments	(0.1)	(0.0)	0.0	(0.0)	0.0
<b>Net change in cash</b>	<b>(17.3)</b>	<b>(5.7)</b>	<b>53.6</b>	<b>(11.7)</b>	<b>(6.8)</b>

Source: Company Data; Shore Capital Markets

Figure 21: Afentra – summary balance sheet (\$m, unless otherwise stated)

Year-end December	FY22A	FY23A	FY24F	FY25F	FY26F
Cash and equivalents	30.6	19.6	68.3	56.6	49.8
Net working capital	(2.3)	(14.8)	(62.1)	(66.2)	(67.1)
<b>Net current assets</b>	<b>28.3</b>	<b>4.7</b>	<b>6.2</b>	<b>(9.5)</b>	<b>(17.3)</b>
Tangible assets	0.5	75.1	120.3	156.3	189.5
Intangible assets	21.3	21.9	24.4	31.9	41.9
Other non-current assets	0.0	77.0	130.9	130.9	130.9
<b>Total assets</b>	<b>50.2</b>	<b>178.7</b>	<b>281.7</b>	<b>309.6</b>	<b>345.1</b>
Short and long term debt	0.0	(31.7)	(42.2)	(31.8)	(21.2)
Lease liabilities	(0.3)	(0.2)	0.0	0.0	0.0
Other non-current liabilities	(0.0)	(98.9)	(143.6)	(143.6)	(143.6)
<b>Total equity</b>	<b>49.8</b>	<b>48.0</b>	<b>95.9</b>	<b>134.2</b>	<b>180.3</b>
Net debt/(cash)	(30.6)	17.0	(25.6)	(24.6)	(28.5)
<i>Net debt/Adj. EBITDAX(x)</i>	<i>n/a</i>	<i>1.5</i>	<i>n/a</i>	<i>n/a</i>	<i>n/a</i>
Net debt/(cash) (reported)	(30.2)	12.3	(26.1)	(24.9)	(28.6)

Source: Company Data; Shore Capital Markets



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