EDISON

SDX Energy

Lalla Mimouna - de-risks demand expectations

Well result

Oil & gas

SDX Energy has discovered gas at the LNB-1, Morocco with 300m of gas-bearing horizons discovered in an over-pressured section in the Lafkarena sequence. Heavy hydrocarbons contained in gas indicate a thermogenic hydrocarbon source rock, indicative of a new petroleum system that has previously not been encountered at Sebou. Preliminary estimates of recoverable gas at LNB-1 are un-risked mid-case volume of 10.2bcf with 55kbbls of condensate. This is significantly larger than the traps encountered at Sebou and exceeds the threshold for commerciality for a processing facility and pipeline to Sebou area. LNB-1 awaits logging and testing which will be carried out in due course once suitable equipment can be mobilised. We see this a material discovery for SDX, should flow tests confirm productivity, for two reasons: 1) well costs are marginally higher than at Sebou at c $2.7m but with un-risked recoverable volumes five times greater, per-well returns are likely to be significantly superior. In addition, once de-risked, the new play at Lalla Mimouna has the potential to rapidly de-risk SDX's ability to meet projected gas demand in Kenitra. 2) liquids discovered at LNB-1 open up a new play fairway with potential to provide SDX with an additional revenue stream in Morocco that is not constrained by demand.

Year end	Revenue ($m)	PBT* ($m)	Operating cash flow ($m)	Net cash ($m)	Capex ($m)
12/15	11.4	11.1	(5.2)	8.2	(5.1)
12/16	12.9	(26.7)	(1.9)	4.7	(11.9)
12/17	36.3	3.3	21.6	25.8	(49.1)*
12/18e	65.2	31.2	49.8	26.1	(50.6)

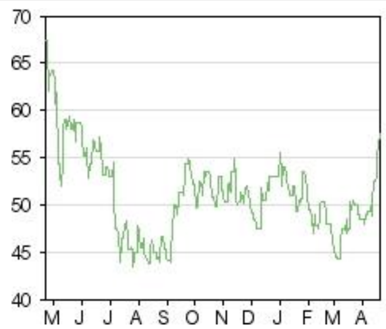
Note: *PBT is normalised, excluding amortisation of acquired intangibles, share-based payments. *Includes Circle acquisition ($28.1m).

We recently published a detailed update on our view of group valuation, which stands at a core NAV of 58.3p/share and RENAV of 65.6p/share. We expect to de-risk Ibn-Yunus, Egypt on flow testing, however indicatively moving to 80% chance of success from 32% would add 4.4p/share to our RENAV in our 90bcf recoverable case.

20 April 2018

Price	**57.5p**
Market cap	**£118m**
	US$:£0.8
Net cash ($m) at 28 February 2018	30.6
Shares in issue	205m
Free float	80%
Code	SDX
Primary exchange	AIM
Secondary exchange	TSX Venture

Share price performance



Business description

SDX Energy is a North African E&P listed in Toronto and London. It has oil and gas production in Egypt and Moroccan gas production. The company's nine-well Moroccan programme has a 86% success rate to date.

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Edison profile page

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