

ZEPHYR ENERGY PLC (AIM: ZPHR)

June 27, 2023

Share price: £0.04

Target: **£0.18**

Waiting on well 36-2 test

- FY23 production, revenue and operating income had been reported previously.
- At Well 36-2, two thirds of the tubing has already been pulled out and Zephyr is cautiously progressing the activity to pull out the rest. This can take a few more weeks. The timing of the well test is the main factor driving the delivery of first production in the Paradox.
- Well 16-2 is expected to be worked-over once Well 36-2 has been tested. We understand the results of the analysis subsequent to the testing of the well are consistent with a salt blockage. The company is performing some further work on salt precipitation mitigation measures with vendors and testing different water samples.
- The surface facilities will be sized according to the stabilized flow rates achieved at both wells.
- Dominion continues to be expected to start delivering gas to Green River in late 3Q23 or early 4Q23.
- We re-iterate our target price of £0.18 per share in line with our ReNAV.

Balance sheet

Zephyr held US\$7.5 mm in cash at 16 June. We have assumed that the company has fully drawn on its debt facilities with overall debt standing at ~US\$32 mm. The current work at Well 36-2 is covered by Zephyr's insurance and, while the company has not yet been re-imbursed, we understand that the insurer has already approved the re-imbursement of some costs. We anticipate minimum net capex in 2H23.

Forecasts and Valuation

We have updated our model to incorporate FY22 actuals. Our ReNAV is broadly at £0.18 per share. With the Slawson, State 36-2 and State 16-2 wells onstream, we continue to forecast overall net production increasing from ~1 mboe/d in 1Q23 to >4.5 mboe/d in 1Q24 and >7.5 mboe/d in 4Q24. We now forecast Zephyr to hold >US\$50 mm in net cash by YE24. Our unrisks NAV for the 39 mmmboe 2C contingent resources in Cane Creek reservoir targeted by the State 36-2 well in the Paradox basin is £0.15 per share.

Rating & target		Old	New	
Target		£0.18	n.c.	
Yield			0%	
Implied total return			374%	
Share data		2022	2023e	2024e
Shares dil., mm		1,752	1,882	1,882
Mkt cap, US\$mm		\$83	\$89	\$93
EV, US\$mm		\$106	\$114	\$87
Financial Data		2022	2023e	2024e
Gas, mmcf/d**		1.3	1.1	16.5
Liquids, bbl/d**		1,280	1,068	3,406
Total boe/d (6:1)**		1,490	1,249	6,152
CFO, US\$mm		\$25	\$20	\$75
Net capex, US\$mm		\$56	\$25	\$44
Net debt, US\$mm*		\$23	\$26	(\$6)
CFPS dil., US\$/shr		\$0.03	\$0.02	\$0.06
EPS dil., US\$/shr		\$0.02	\$0.00	\$0.02
Valuation		2022	2023e	2024e
Share price, £/shr		£0.04	£0.04	£0.04
EV/DACF		3.6x	5.7x	1.1x
EV per boe/d (US\$)*		\$70,928	\$91,604	\$14,180
Net asset value				
CNAV, £/shr				£0.02
RENAV, £/shr				£0.18
Unrisked NAV, £/shr				£1.07
P/CNAV				1.7x
P/RENAV				0.2x
P/ unrisked NAV				0.0x
All figures in US\$ unless otherwise noted				
* based on working capital rather than cash				
** based on net production (NRI)				

All figures in US\$ unless otherwise noted
 * based on working capital rather than cash
 ** based on net production (NRI)

Contact details

Analyst:
Stephane Foucaud
 sf@auctusadvisors.co.uk
 +44 7854 891249

Figure 1. Financial & operating information

Zephyr Energy Plc (ZPHR LN)		Historical & Auctus Outlook						
Financial & Operating Information		2021	2022	2023e	2024e	2025e	2026e	2027e
Commodity Prices								
WTI	US\$/bbl	\$65.74	\$95.27	\$84.53	\$89.45	\$70.71	\$67.00	\$67.00
Henry Hub	US\$/mcf	\$3.19	\$6.13	\$3.05	\$4.38	\$5.50	\$5.50	\$5.50
USD/CAD	US\$/C\$	\$0.78	\$0.78	\$0.78	\$0.75	\$0.75	\$0.75	\$0.75
USD / GBP	US\$/£	\$1.37	\$1.24	\$1.24	\$1.30	\$1.30	\$1.30	\$1.30
Production								
Oil and Liquids	bbl/d	216	1,280	1,068	3,406	3,691	3,206	2,908
Natural Gas	mmcf/d	0.1	1.3	1.1	16.5	25.5	22.5	20.5
Total (6 mcf = 1 boe)	boe/d	238	1,490	1,249	6,152	7,942	6,959	6,333
% Oil and Liquids	%	91%	86%	85%	55%	46%	46%	46%
Netbacks								
Realized Price	US\$/boe	\$69	\$76	\$69	\$53	\$44	\$42	\$41
Royalties	US\$/boe	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Opex and production tax	US\$/boe	\$11	\$14	\$15	\$12	\$10	\$10	\$10
Operating Netback	US\$/boe	\$58	\$64	\$53	\$41	\$33	\$32	\$31
Taxes	US\$/boe	\$0	\$0	\$0	\$5	\$3	\$3	\$3
Cash Flow Netback	US\$/boe	\$28	\$54	\$44	\$34	\$29	\$27	\$27
Government Take	%	0%	0%	0%	10%	7%	7%	6%
Financials								
Cash Flow (CFO)	US\$mm	\$1	\$25	\$20	\$75	\$82	\$69	\$62
CFPS - diluted	US\$/shr	\$0.00	\$0.03	\$0.02	\$0.06	\$0.06	\$0.05	\$0.05
EBITDAX	US\$mm	\$2	\$30	\$20	\$89	\$92	\$77	\$69
E&D Capex	US\$mm	\$16	\$24	\$23	\$44	\$36	\$12	\$12
A&D Capex, Net	US\$mm	\$5	\$32	\$2	\$0	\$0	\$0	\$0
Total Net Capex	US\$mm	\$21	\$56	\$25	\$44	\$36	\$12	\$12
Total Net Capex/CFO	x	-26.6x	-2.2x	-1.2x	-0.6x	-0.4x	-0.2x	-0.2x
Leverage								
Net Debt	US\$mm	\$3	\$23	\$26	(\$6)	(\$52)	(\$109)	(\$159)
Net debt/CFO (Trailing)	x	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Entry Net Debt/CFO	x	n.a.	0.1x	1.1x	0.3x	n.a.	n.a.	n.a.
Capital Structure								
Basic Shares o/s @ YE	mm	1290	1583	1713	1713	1713	1713	1713
Diluted Shares o/s @ YE	mm	1310	1752	1882	1882	1882	1882	1882
Market Capitalization	US\$mm	\$125	\$83	\$89	\$93	\$93	\$93	\$93
Enterprise Value	US\$mm	\$128	\$106	\$114	\$87	\$41	(\$16)	(\$66)
Dividends & Sustainability								
Dividends	US\$mm	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Dividends	\$/shr	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Dividend Yield	%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Free Cash Flow	US\$mm	(\$15)	\$1	(\$3)	\$31	\$46	\$57	\$50
Cash Use/CFO	%	-2657%	-223%	-124%	-58%	-44%	-17%	-19%
Performance								
Prod. Per Shr Growth (Y/Y) - dil	%	n.a.	333%	-27%	374%	29%	-12%	-9%
PPS Growth (Y/Y) DDA - dil. ^b	%	n.a.	267%	-34%	457%	118%	1012%	-108%
CFPS Growth (Y/Y) - dil.	%	-183%	741%	-40%	284%	8%	-16%	-10%
CFPS Growth (Y/Y) DDA - dil. ^b	%	n.a.	394%	-53%	334%	83%	965%	-108%
ROCE	%	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Net Asset Value ^c								
CNAV (Atax) - diluted	£/shr	£0.02						
RENAV (Atax) - diluted	£/shr	£0.18						
Unrisked NAV (Atax) - diluted	£/shr	£1.07						
P/CNAV	x	1.7x						
P/RENAV	x	0.2x						
P/Unrisked NAV	x	0.0x						
Valuation		2021	2022	2023e	2024e	2025e	2026e	2027e
Share Price, YE/Current	£/shr	£0.07	£0.04	£0.04	£0.04	£0.04	£0.04	£0.04
P/CF	x	31.7x	1.9x	3.1x	0.8x	0.8x	0.9x	1.0x
EV/DACF	x	53.1x	3.6x	5.7x	1.1x	0.5x	-0.2x	-1.0x
Target EV/DACF	x	105.7x	135.6x	12.0x	16.7x	3.5x	3.4x	2.9x
EV per boe/d	\$/boepd	\$537,805	\$70,928	\$91,604	\$14,180	\$5,190	(\$2,263)	(\$10,353)
EV per 2P boe	US\$/boe	\$22.86	\$20.89	\$24.86	\$34.94	(\$181.43)	\$6.03	\$25.12
EV per 2P boe, with FDC	US\$/boe	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

a) EBITDAX = Pre-Int. & Pre-Tax Cash Flow; ^b DDA = Debt-and-Dividend-Adjusted

c) CNAV incl. 2P reserves, RENAV incl. 2P reserves + Risked LT inventory upside, ENAV incl. 2P reserves + Unrisked LT inventory upside

d) NRI Production, reserves and resources

Source: Auctus Advisors, Company Disclosures

**Futures strip as of 26-Jun-23

Figure 2. NAV Table

Asset Valuation	2P/2C/P50 (mmboe)	CoS (%)	Unrisked (US\$ mm)	EMV (US\$ mm)	Riskd £/Share	Unrisked £/Share	% Total
Net Cash (YE23)			-18	-18	-0.01	-0.01	-4%
G&A			-19	-19	-0.01	-0.01	-5%
Williston Basin 2P Reserves	4.00	100%	61	61	0.03	0.03	
Paradox Basin 2P Reserves	2.57	100%	29	29	0.01	0.01	
Total Core NAV			54	54	0.02	0.02	13%
Paradox Basin 2C Resources	39	65%	341	222	0.10	0.15	54%
Paradox Basin Prospective Resources - C9 Reservoir	30	55%	268	135	0.06	0.11	33%
Paradox Basin Prospective Resources - Other overlying Reservoirs	210	33%	1826	0	0.00	0.78	0%
Total Risked Exploration			2435	357	0.15	1.04	87%
Total NAV			2489	411	0.18	1.07	100%
P/Core NAV				165%			
P/NAV				22%			
P/Unrisked NAV				4%			

Note: NRI reserves and resources

Source: Auctus Advisors, Company Disclosures

Copyright and Risk Warnings

Zephyr Energy Plc ("Zephyr" or the "Company") is a corporate client of Auctus Advisors LLP ("Auctus").

Auctus receives, and has received in the past 12 months, compensation for providing corporate broking and/or investment banking services to the Company, including the publication and dissemination of marketing material from time to time.

MiFID II Disclosures

This document, being paid for by a corporate issuer, is believed by Auctus to be an 'acceptable minor non-monetary benefit' as set out in Article 12 (3) of the Commission Delegated Act C(2016) 2031 which is part of UK law by virtue of the European Union (Withdrawal) Act 2018. It is produced solely in support of our corporate broking and corporate finance business. Auctus does not offer a secondary execution service in the UK.

This note is a marketing communication and NOT independent research. As such, it has not been prepared in accordance with legal requirements designed to promote the independence of investment research and this note is NOT subject to the prohibition on dealing ahead of the dissemination of investment research.

Author

The research analyst who prepared this research report was Stephane Foucaud, a partner of Auctus.

Not an offer to buy or sell

Under no circumstances is this note to be construed to be an offer to buy or sell or deal in any security and/or derivative instruments. It is not an initiation or an inducement to engage in investment activity under section 21 of the Financial Services and Markets Act 2000.

Note prepared in good faith and in reliance on publicly available information

Comments made in this note have been arrived at in good faith and are based, at least in part, on current public information that Auctus considers reliable, but which it does not represent to be accurate or complete, and it should not be relied on as such. The information, opinions, forecasts and estimates contained in this document are current as of the date of this document and are subject to change without prior notification. No representation or warranty either actual or implied is made as to the accuracy, precision, completeness or correctness of the statements, opinions and judgements contained in this document.

Auctus' and related interests

The persons who produced this note may be partners, employees and/or associates of Auctus. Auctus and/or its employees and/or partners and associates may or may not hold shares, warrants, options, other derivative instruments or other financial interests in the Company and reserve the right to acquire, hold or dispose of such positions in the future and without prior notification to the Company or any other person.

Information purposes only

This document is intended to be for background information purposes only and should be treated as such. This note is furnished on the basis and understanding that Auctus is under no responsibility or liability whatsoever in respect thereof, whether to the Company or any other person.

Investment Risk Warning

The value of any potential investment made in relation to companies mentioned in this document may rise or fall and sums realised may be less than those originally invested. Any reference to past performance should not be construed as being a guide to future performance. Investment in small companies, and especially upstream oil & gas companies, carries a high degree of risk and investment in the companies or commodities mentioned in this document may be affected by related currency variations. Changes in the pricing of related currencies and or commodities mentioned in this document may have an adverse effect on the value, price or income of the investment.

Distribution

This document is directed at persons having professional experience in matters relating to investments to whom Article 19 of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 ("FPO") applies, or high net worth organisations to whom Article 49 of the FPO applies. The investment or investment activity to which this communication relates is available only to such persons and other persons to whom this communication may lawfully be made ("relevant persons") and will be engaged in only with such persons. This Document must not be acted upon or relied upon by persons who are not relevant persons. Without limiting the foregoing, this note may not be distributed to any persons (or groups of persons), to whom such distribution would contravene the UK Financial Services and Markets Act 2000 or would constitute a contravention of the corresponding statute or statutory instrument in any other jurisdiction.

Disclaimer

This note has been forwarded to you solely for information purposes only and should not be considered as an offer or solicitation of an offer to sell, buy or subscribe to any securities or any derivative instrument or any other rights pertaining thereto ("financial instruments"). This note is intended for use by professional and business investors only. This note may not be reproduced without the prior written consent of Auctus.

The information and opinions expressed in this note have been compiled from sources believed to be reliable but, neither Auctus, nor any of its partners, officers, or employees accept liability from any loss arising from the use hereof or makes any representations as to its accuracy and completeness. Any opinions, forecasts or estimates herein constitute a judgement as at the date of this note. There can be no assurance that future results or events will be consistent with any such opinions, forecasts or estimates. Past performance should not be taken as an indication or guarantee of future performance, and no representation or warranty, express or implied is made regarding future performance. This information is subject to change without notice, its accuracy is not guaranteed, it may be incomplete or condensed and it may not contain all material information concerning the company and its subsidiaries. Auctus is not agreeing to nor is it required to update the opinions, forecasts or estimates contained herein.

The value of any securities or financial instruments mentioned in this note can fall as well as rise. Foreign currency denominated securities and financial instruments are subject to fluctuations in exchange rates that may have a positive or adverse effect on the value, price or income of such securities or financial instruments. Certain transactions, including those involving futures, options and other derivative instruments, can give rise to substantial risk and are not suitable for all investors. This note does not have regard to the specific instrument objectives, financial situation and the particular needs of any specific person who may receive this note.

Auctus (or its partners, officers or employees) may, to the extent permitted by law, own or have a position in the securities or financial instruments (including derivative instruments or any other rights pertaining thereto) of the Company or any related or other company referred to herein, and may add to or dispose of any such position or may make a market or act as principle

in any transaction in such securities or financial instruments. Partners of Auctus may also be directors of the Company or any other of the companies mentioned in this note. Auctus may, from time to time, provide or solicit investment banking or other financial services to, for or from the Company or any other company referred to herein. Auctus (or its partners, officers or employees) may, to the extent permitted by law, act upon or use the information or opinions presented herein, or research or analysis on which they are based prior to the material being published.

Further Disclosures for the United Kingdom

This note has been issued by Auctus Advisors LLP, which is authorised and regulated by the Financial Conduct Authority. This note is not for distribution to private customers. This note is not intended for use by, or distribution to, US corporations that do not meet the definition of a major US institutional investor in the United States or for use by any citizen or resident of the United States.

This publication is confidential and may not be reproduced in whole or in part or disclosed to another party, without the prior written consent of Auctus. Securities referred to in this note may not be eligible for sale in those jurisdictions where Auctus is not authorised or permitted by local law to do so. In particular, Auctus does not permit the distribution or redistribution of this note to non-professional investors or other persons to whom disclosure would contravene local securities laws. Auctus expressly disclaims and will not be held responsible in any way, for third parties who affect such redistribution.

© Auctus Advisors LLP All rights reserved 2023