

# ZEPHYR ENERGY PLC (AIM: ZPHR)

July 10, 2023

Share price: £0.04

Target: £0.18

## First payment from insurance received

- Initial invoices submitted to the insurer have now been approved and reimbursement totalling ~US\$0.8 mm have been received. This represents ~100% of the initial claim (after US\$0.2 mm full claim deductible was satisfied). Additional invoices are being submitted on a regular basis with payments expected within 30 days of receipt by the insurer.
- Zephyr expects total costs for the remedial work on well State 36-2 to be in the region of US\$3-5 mm, all of which are expected to be covered by the insurance. The initial US\$0.8 mm reimbursement was largely for well control services and oil-based mud. Greater costs will come later in the process and are expected to be regularly re-imbursed as invoices are submitted.
- To date approximately 7,000 feet of 8,900 feet of tubing in well State 36-2 has been pulled and inspected with circa 15% of the pulled joints requiring replacement. Over the last two weeks Zephyr has retrieved ~500 feet of tubing and, importantly, a difficult area has now been passed and the company is making good progress again.
- Dominion expects to start delivering gas to Green River in late 3Q23 or early 4Q23, as previously announced.
- We re-iterate our target price of £0.18 per share in line with our ReNAV.

## Re-instating wells on the White Sands Unit (WSU)

- The Paradox acreage acquired around the White Sands Unit (WSU) last August and September has been incorporated into the WSU. This will simplify both the development of the area and the ability of Zephyr to hold the lands.
- Zephyr has recommenced production from the Greentown Federal 28-11 well (located on the WSU Paradox acreage acquired last September). In order to understand the well's potential contribution to overall field production when ongoing field infrastructure work has been completed. This is part of the assessment of five existing wellbores on the acreage.

## Forecasts and Valuation

Our ReNAV is unchanged at £0.18 per share. 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. Assuming US\$74/bbl for WTI from 3Q23 to YE25, we estimate that Zephyr will hold >US\$40 mm in net cash by YE25. Our unrisks NAV for the 39 mmboe 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		400%	
Share data	2022	2023e	2024e
Shares dil., mm	1,752	1,882	1,882
Mkt cap, US\$mm	\$78	\$84	\$88
EV, US\$mm	\$101	\$110	\$82
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	3.5x	5.4x	1.1x
EV per boe/d (US\$)*	\$68,013	\$87,866	\$13,385
Net asset value			
CNAV, £/shr			£0.02
RENAV, £/shr			£0.18
Unrisked NAV, £/shr			£1.07
P/CNAV			1.6x
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)			

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**Figure 1. Financial & operating information**

Zephyr Energy Plc (ZPHR LN)		Historical & Auctus Outlook						
Financial & Operating Information		2021	2022	2023e	2024e	2025e	2026e	2027e
<b>Commodity Prices</b>								
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
<b>Production</b>								
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%
<b>Netbacks</b>								
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%
<b>Financials</b>								
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
<b>Leverage</b>								
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.
<b>Capital Structure</b>								
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	\$78	\$84	\$88	\$88	\$88	\$88
Enterprise Value	US\$mm	\$128	\$101	\$110	\$82	\$36	(\$21)	(\$70)
<b>Dividends &amp; Sustainability</b>								
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%
<b>Performance</b>								
Prod. Per Shr Growth (Y/Y) - dil	%	n.a.	333%	-27%	374%	29%	-12%	-9%
PPS Growth (Y/Y) DDA - dil. <sup>b</sup>	%	n.a.	264%	-34%	461%	126%	-94407%	-100%
CFPS Growth (Y/Y) - dil.	%	-183%	741%	-40%	284%	8%	-16%	-10%
CFPS Growth (Y/Y) DDA - dil. <sup>b</sup>	%	n.a.	390%	-53%	337%	90%	-90444%	-100%
ROCE	%	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
<b>Net Asset Value</b> <sup>c</sup>								
CNAV (Atax) - diluted	£/shr	£0.02						
RENAV (Atax) - diluted	£/shr	£0.18						
Unrisked NAV (Atax) - diluted	£/shr	£1.07						
P/CNAV	x	1.6x						
P/RENAV	x	0.2x						
P/Unrisked NAV	x	0.0x						
<b>Valuation</b>		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	1.8x	2.9x	0.8x	0.7x	0.9x	1.0x
EV/DACF	x	53.1x	3.5x	5.4x	1.1x	0.4x	-0.3x	-1.1x
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	\$68,013	\$87,866	\$13,385	\$4,574	(\$2,966)	(\$11,125)
EV per 2P boe	US\$/boe	\$22.86	\$20.04	\$23.85	\$32.98	(\$159.89)	\$7.91	\$27.00
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; <sup>b</sup> 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 10-Jul-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	
<b>Total Core NAV</b>			<b>54</b>	<b>54</b>	<b>0.02</b>	<b>0.02</b>	<b>13%</b>
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%
<b>Total Risked Exploration</b>			<b>2435</b>	<b>357</b>	<b>0.15</b>	<b>1.04</b>	<b>87%</b>
<b>Total NAV</b>			<b>2489</b>	<b>411</b>	<b>0.18</b>	<b>1.07</b>	<b>100%</b>
<b>P/Core NAV</b>				<b>165%</b>			
<b>P/NAV</b>				<b>22%</b>			
<b>P/Unrisked NAV</b>				<b>4%</b>			

Note: NRI reserves and resources

Source: Auctus Advisors, Company Disclosures

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