

ZEPHYR ENERGY PLC (AIM: ZPHR)

August 15, 2023

Share price: £0.04

Target: £0.18

High sales in the Williston. Progress at Well 36-2 (Paradox) hindered by extreme heat

- 2Q23 sales volumes averaged 1,385 boe/d compared to 1Q23 sales volumes of 1,093 boe/d as more of Zephyr's existing production wells were changed from temporarily shut-in to producing status during 2Q23. We conservatively forecasted only ~1,050 boe/d for 2Q23.
- The recently acquired Slawson operated wellbore interests are now fully drilled and completed. Production from these working interests continues to be expected to be online by October following completion of surface facilities on the well pad.
- Zephyr has decided to participate in the drilling of 10 new wells in a highly attractive part of the Williston Basin, where the initial two wells drilled by the operator in 2021 have been some of the top performers in Zephyr's non-operated portfolio, paying out in under six months from first production. The net overall capex is ~US\$0.2 mm. The new wells are expected to be on stream before YE23 with first revenues ~150 days later.
- In the Paradox, progress in pulling out the tubing at well 36-2 has been hindered by recent extreme heat with operations limited to nighttime only. The work-over costs have totalled less than US\$2 mm so far. All the submitted invoices have been approved by the insurer and reimbursement are regularly received within 30 days of receipt by the insurer.
- Dominion continues to be expected 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/sh in line with our ReNAV.

Additional acreage in the Paradox

Zephyr has acquired an additional 640 leased acres in the Paradox Basin close to Zephyr's existing White Sands Unit and gas export infrastructure. This takes the company's total position in the Paradox to >48,000 gross acres. The new acreage is on Utah School and Institutional Trust Lands Administration (SITLA) lands and was secured during the most recent SITLA auction.

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\$82/bbl for WTI from 3Q23 to YE25, we estimate that Zephyr will hold ~US\$55 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		350%	
Share data	2022	2023e	2024e
Shares dil., mm	1,752	1,882	1,882
Mkt cap, US\$mm	\$87	\$93	\$98
EV, US\$mm	\$110	\$118	\$92
Financial Data	2022	2023e	2024e
Gas, mmcf/d**	1.3	1.2	16.5
Liquids, bbl/(6:1)**	1,280	1,138	3,406
Total boe/d (6:1)**	1,490	1,335	6,152
CFO, US\$mm	\$25	\$21	\$75
Net capex, US\$mm	\$56	\$25	\$44
Net debt, US\$mm*	\$23	\$25	(\$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	3.7x	5.7x	1.2x
EV per boe/d (US\$)**	\$73,843	\$88,731	\$14,881
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)

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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
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	1,138	3,406	3,691	3,206	2,908
Natural Gas	mmcf/d	0.1	1.3	1.2	16.5	25.5	22.5	20.5
Total (6 mcf = 1 boe)	boe/d	238	1,490	1,335	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	\$68	\$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	\$52	\$41	\$33	\$32	\$31
Taxes	US\$/boe	\$0	\$0	\$0	\$5	\$3	\$3	\$3
Cash Flow Netback	US\$/boe	\$28	\$54	\$43	\$34	\$29	\$27	\$27
Government Take	%	0%	0%	0%	10%	7%	7%	6%
Financials								
Cash Flow (CFO)	US\$mm	\$1	\$25	\$21	\$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	\$21	\$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	\$25	(\$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	\$87	\$93	\$98	\$98	\$98	\$98
Enterprise Value	US\$mm	\$128	\$110	\$118	\$92	\$46	(\$11)	(\$61)
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	(\$2)	\$31	\$46	\$57	\$50
Cash Use/CFO	%	-2657%	-223%	-120%	-58%	-44%	-17%	-19%
Performance								
Prod. Per Shr Growth (Y/Y) - dil.	%	n.a.	333%	-22%	343%	29%	-12%	-9%
PPS Growth (Y/Y) DDA - dil.	%	n.a.	270%	-29%	419%	113%	533%	-117%
CFPS Growth (Y/Y) - dil.	%	-183%	741%	-38%	273%	8%	-16%	-10%
CFPS Growth (Y/Y) DDA - dil.	%	n.a.	397%	-51%	320%	78%	506%	-116%
ROCE	%	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Net Asset Value								
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	2.0x	3.2x	0.9x	0.8x	1.0x	1.1x
EV/DACF	x	53.1x	3.7x	5.7x	1.2x	0.5x	-0.2x	-1.0x
Target EV/DACF	x	105.7x	135.6x	12.0x	16.2x	3.5x	3.3x	2.9x
EV per boe/d	\$/boepd	\$537,805	\$73,843	\$88,731	\$14,881	\$5,733	(\$1,643)	(\$9,672)
EV per 2P boe	US\$/boe	\$22.86	\$21.75	\$25.93	\$37.13	(\$176.07)	\$4.33	\$23.19
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 15-Aug-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)			-17	-17	-0.01	-0.01	-4%
G&A			-19	-19	-0.01	-0.01	-5%
Williston Basin 2P Reserves	4.00	100%	62	62	0.03	0.03	
Paradox Basin 2P Reserves	2.57	100%	29	29	0.01	0.01	
Total Core NAV			55	55	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			2491	412	0.18	1.07	100%
P/Core NAV				169%			
P/NAV				23%			
P/Unrisked NAV				4%			

Note: NRI reserves and resources

Source: Auctus Advisors, Company Disclosures

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