

Corporate

 Current price **0.95p**

 Sector **Oil & Gas**

 Code **DELT.L (CLNR)**

 AIM **AIM**

Share Performance



Source: Thomson Reuters, Allenby Capital

Share Data

 Market Cap (£m) **13.4**

 Shares in issue (m) **1,406**

52 weeks	High	Low
	1.65p	0.625p

 Financial year end **December**

Source: Company Data, Allenby Capital

Key Shareholders

 IPGL (Michael Spencer) **16.8%**

 Canaccord **14.4%**

 Lombard Odier **8.2%**

 Hargreaves Lansdown **8.1%**

 Janus Henderson **6.7%**

 Fiske **4.5%**

Source: Company Data, Allenby Capital

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Deltic Energy Plc (Cluff) (DELT.L)

Highly encouraging Selene resource upgrade

Deltic Energy's recent announcement concerning an upgrade to the gas in place and the GCOS (geological chances of success) of the Selene prospect in the SNS (Southern North Sea) is highly encouraging. Selene's updated P50 gas in place of 629 bcf is a 44% increase over the previous estimate which would suggest one of the most significant discoveries in the event of exploration success. The new GCOS of 70% is very high for this stage of evaluation pre-drilling suggesting that Selene is being considered as an appraisal well. It should also be remembered in terms of commercialisation that Selene lies close to infrastructure owned by its JV partner, Shell. The Pensacola project is advancing towards a firm drilling decision by end November. Shell has now delivered a full seismic data suite. Deltic is anticipating that Pensacola will be drilled in H2 2021.

- Selene background:** Selene is located c. 100 km east of the Humber estuary in the prolific Leman Sandstone fairway. Contained in P2437, Selene is owned 50:50 by Deltic and Shell. Deltic retains operatorship until drilling. According to Deltic, Selene is the largest untested structure in the heavily developed Leman fairway. Crucially Selene lies only 20 km north of Shell's Barque field infrastructure which is linked to the Bacton gas terminal on the Norfolk coast. Drilling has been provisionally scheduled for mid-2022. Shell is scheduled to finance 75% of well costs. Deltic estimates its share of well costs at £4.5m.

- Selene resource base:** Deltic has been working closely with Shell in evaluating reprocessed 3-D seismic for Selene using innovative technology. This has greatly improved knowledge of the sub-surface and enhanced confidence in the scale of the structure. Previously uncertainty on this front had been a major issue surrounding Selene. The upshot has been a 44% increase in the P50 gas-initially-in-place from 437 bcf to 629 bcf gross. The GCOS has also been increased from an already high 39% to 70%, implying a low-risk drilling opportunity more akin to an appraisal well. For the purpose of our valuation estimate, we have increased our estimate of P50 prospective resources by 19% to 346bcf gross. This reflects a recovery rate of 55%. We believe that 346bcf would comfortably offer sufficient critical-mass for development. In the Leman fairway a resource of anything over 100 bcf would likely be commercial.

Financials: Our view of Deltic's cash outlook is broadly unchanged from the June 2022 note. Deltic continues to be comfortably financed for its mid-term work programme. We forecast cash of £12.0m for end 2020 and £6.1m for end 2021 assuming that drilling of Pensacola takes place as provisionally scheduled in the second half of the latter year.

Valuation: We are upgrading our valuation estimates for Deltic for the increase in the Selene resource base and the GCOS. Our risked absolute valuation rises from £116m to £146m while the success case valuation for Pensacola, Selene and Dewar increases from £234m to £276m. We have continued to use a valuation quotient in a success case of \$5.0/boe. On a per share basis our valuation estimates are 9.8p and 17.9p on a risked and a Pensacola, Selene and Dewar success case respectively. This compares with 8.3p and 16.7p respectively previously.

Year End: 31 December

(£'000)	2018	2019	2020E	2021E	2022E
PBT	(1,659)	(2,360)	(1,384)	(1,476)	(1,528)
EBITDA	(1,532)	(1,589)	(1,426)	(1,468)	(1,520)
NET OP. CASH FLOW	(1,523)	(1,413)	(1,320)	(1,372)	(1,399)
NET CASH	1,426	13,849	12,004	6,134	(269)

Allenby Capital acts as Nomad & Broker to Deltic Energy Plc (Cluff) (DELT.L).

Please refer to the last page of this communication for all required disclosures and risk warnings.

Pensacola

New 3-D seismic delivered, project moving to a firm well decision in November

Deltic has a 30% non-operated working interest in P2252 in the SNS which contains the Pensacola Zechstein Reef prospect. On August 13 Deltic announced that Shell, the operator of P2252, had delivered processed 3-D seismic data over Pensacola.

The broadband pre-stack depth migration (Pre-SDM) volume includes the new Bluewater data acquired by Shell in the August 2019 seismic shoot, merged with reprocessed legacy 3-D data. No new information regarding prospectivity has been released but Deltic stated in its announcement that the application of proprietary advanced processing technology has delivered a 'robust image over the Pensacola prospect'.

The Deltic-Shell partnership is now working on updating the interpretation of the Pensacola prospect. Importantly, Deltic has indicated that the partnership is committed to meeting its timelines under the licence's terms by which a contingent well commitment will become firm on December 1, 2020. Deltic continues to expect a well to test the Pensacola prospect to be drilled in the second half of 2021.

Under the terms of the farm-out agreement with Shell 100% of Deltic's costs pre-drilling including seismic acquisition and processing and technical workflows to support a well decision will be carried by Shell. According to Deltic its share of Pensacola well costs are likely to be £3-4.5m. Significantly, this is funded by the cash position.

Pensacola location and prospectivity

The Pensacola prospect lies about 75 km east of the Tees estuary towards the northern margin of the SNS basin. Significantly, the prospect is situated in a zone that has been attracting growing attention for its Permian Zechstein reef potential.

Pensacola is believed by Deltic to be analogous to the Ossian prospect located approximately 45 km east of Pensacola. This was successfully tested by the ONE Dyas' Darach Central-1 well in 2019. The northern margin of the SNS is also a Carboniferous sandstone gas play zone.

Deltic's P50 prospective resource estimate for Pensacola is a significant 309 bcf of gas. The GCOS is put at a relatively low 20% but we would expect that post evaluation of the new seismic data there will be the potential for enhancement. P2252 also contains two other Zechstein structural reef prospects and a Carboniferous sandstone prospect. Based on all four P2252 prospects Deltic has estimated P50 resources of 523 bcf.

32nd North Sea Licencing Round

Awards by the OGA (Oil and Gas Authority) relating to the 32nd North Sea Licencing Round in which Deltic has applied are expected imminently.

Project	Working interest post farm-in	Net un-risked P50 resources		Net risked P50 resources		Valuation quotient	Un-risked valuation		Risked valuation adj for dilution	
		bcfe	mmboe	bcfe	mmboe		\$/boe	\$m	\$m	£m
SNS licence P2252	30	157	26	47	8	2.5	65.4	19.4	15.2	1.1
SNS Licence P2437	50	220.5	37	142	24	2.5	91.9	59.0	46.1	3.3
SNS P2424, P2428	50	738	123	214	36	2.0	246.0	71.4	55.7	4.0
SNS P2435	25	34	6	18	3	2.0	11.3	6.1	4.7	0.3
CNS 30th Round licences P2352	50	119	20	47	8	2.5	49.4	19.75	15.4	1.1
Total		1268	211	468	78		463.9	175.6	137.2	9.8

Source: Allenby Capital. Exchange rate: US\$1.28; Conversion: 6000 cf/boe

Note: Working interests for P2252 and P2437 are post the Shell farm-outs.

Working interest for P2435 is actual as of June 2019

Working interests for P2424, P2428, P2352 assume a farm-down from 100%

Per share calculation based on 1,405.96 shares in issue

Exhibit 2: Valuation success case

Prospect	Working interest post farm-in	Net un-risked P50 resources		Valuation quotient	Net un-risked valuation		
		bcfe	mmboe		\$/boe	\$m	£m
Pensacola	30	93	15.5	5.00	77.5	61	4.3
Selene	50	173	28.8	5.00	144.2	114	8.1
Dewar	50	118.5	19.8	5.00	98.8	78	5.5
Total		384.5	64.1		320.4	252.3	17.9

Source: Allenby Capital

Note: Working interests for P2252 and P2437 are post the Shell farm-outs.

Working interest for P2435 is actual as of June 2019

Working interests for P2424, P2428, P2352 assume a farm-down from 100%

Per share calculation based on 1,405.96 shares in issue

Financials

Exhibit 3: Summary financials: Year end 31 December (£000s)

INCOME STATEMENT	2017	2018	2019	2020E	2021E	2022E
Administrative Expenses	(1,592)	(1,661)	(1,709)	(1,434)	(1,476)	(1,528)
Impairment charge	0	1	(801)	0	0	0
Operating Profit	(1,592)	(1,660)	(2,510)	(1,434)	(1,476)	(1,528)
Finance Income/other	1	1	150	50	0	0
PBT	(1,590)	(1,659)	(2,360)	(1,384)	(1,476)	(1,528)
Taxation	-	-	-	-	-	-
Net Income	(1,590)	(1,659)	(2,360)	(1,384)	(1,476)	(1,528)
Comprehensive Loss	(1,590)	(1,659)	(2,360)	(1,384)	(1,476)	(1,528)
EBITDA	(1,473)	(1,532)	(1,589)	(1,426)	(1,468)	(1,520)
Avg. Shares Basic (m)	343.9	475.4	979.6	1,406.0	1,406.0	1,406.0
EPS (report) p	(0.46)	(0.35)	(0.24)	(0.32)	(0.10)	(0.11)
CASH FLOW	2017	2018	2019	2020E	2021E	2022E
Net Loss for the year	(1,590)	(1,660)	(2,360)	(1,384)	(1,476)	(1,528)
Change in receivables	54	7	(17)	30	0	0
Change in payables	(10)	2	21	(24)	0	0
Depreciation	5	8	120	8	4	4
Other	0	(2)	651	(50)	0	0
Share Based Payments	114	122	172	100	100	125
Net Operating cash flow	(1,428)	(1,523)	(1,413)	(1,320)	(1,372)	(1,399)
Acquisition of PPE	(2)	(10)	(6)	(5)	(3)	(3)
Exp and Eval assets additions	(224)	(665)	(896)	(570)	(4,500)	(5,000)
Other	1	0	(80)	50	0	0
Proceeds from farm-out			470	0	0	0
Proceeds from issue of shares	962	2,607	14,348	0	0	0
Net cash flow	(691)	409	12,423	(1,845)	(5,875)	(6,402)
Net cash/(debt)	1,017	1,426	13,849	12,004	6,134	(269)
BALANCE SHEET	2017	2018	2019	2020E	2021E	2022E
Intangible assets	775	1617	1128	1693	6189	11189
Property, Plant & Equipment	4	12	47	49	48	48
Other	54	0	0	0	0	0
Total Non-Current Assets	833	1,629	1,175	1,742	6,237	11,237
Receivables	89	82	130	100	100	100
Cash & Cash Equivalents	1,017	1,426	13,849	12,004	6,134	500
Total Current Assets	1,106	1,508	13,979	12,104	6,234	600
Total Assets	1,939	3,137	15,154	13,846	12,471	11,837
Non-Current Liabilities	0	0	0	0	0	0
Trade payables	112	269	173	175	175	175
Other payables	100	127	26	0	0	0
ST debt	0	0	0	0	0	769
Current Liabilities	213	396	199	175	175	944
Total Liabilities	213	396	199	175	175	944
Net assets	1,727	2,741	14,956	13,671	12,296	10,893
Net cash/(debt)	1,017	1,426	13,849	12,004	6,134	(269)
Shareholder Equity	1,727	2,795	14,956	13,671	12,296	10,893
Total Equity & Liabilities	1,939	3,191	15,154	13,846	12,471	11,837

Source: Deltic Energy; Allenby Capital

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