

Corporate

 Current price **1.67p**

 Sector **Oil & Gas**

 Code **DELT.L**

 AIM **AIM**

Share Performance



	1m	3m	12m
DELT.L	-1.5%	31.9%	158.9%

Source: Thomson Reuters, Allenby Capital

Share Data

 Market Cap (£m) **23.5**

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

 52 weeks (p) **High** **Low**
2.10 **0.63**

 Financial year end **30 December**

Source: Company Data, Allenby Capital

Key Shareholders

 IPGL (Michael Spencer) **16.8%**

 Richard Sneller **10.0%**

 Hargreaves Lansdown **9.5%**

 Canaccord Genuity **7.7%**

 Fiske plc **5.0%**

 Janus Henderson **4.3%**

Source: Company Data, Allenby Capital

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Deltic Energy plc (DELT.L)

Pensacola firm well commitment, valuation upgrade

Deltic has reached a potentially transformational stage in its development. This follows the Shell/Deltic JV's final decision to drill the Pensacola Zechstein reef prospect on licence P2252 in the prolific Carboniferous/Zechstein fairway towards the northern margin of the Southern North Sea (SNS) Basin. The JV is planning to drill an exploration well to test the prospect in May 2022. The Pensacola project has been subject to rigorous appraisal by Shell which validates the earlier work undertaken by Deltic. Importantly, following 3-D seismic evaluation the project has been considerably de-risked with the GCOS increased from 20% to 55%. Pre-drilling this ranks as a high probability of success. With P50 prospective resources of 309 bcf Pensacola is potentially one of the highest impact gas wells to be drilled in the SNS in recent years.

- P2252:** The licence lies approximately 75 km east of the Tees estuary in relatively shallow water of about 60m which facilitates the use of low-cost jack-up rigs. Shell is the operator with a 70% interest. Deltic has a 30% interest and from the date of the final investment decision will finance its share of licence and well costs. These have been previously estimated by Deltic at £4m and are comfortably fully funded from existing cash resources.
- Pensacola prospect:** Zechstein carbonate reefs are a relatively new exploration play in the UK SNS and are gaining interest following discoveries. Pensacola is considered by Deltic to be analogous to the ONE-Dyas/Spirit Darach discovery approximately 40 km to the east. This flowed oil (3,500 b/d) and gas under test. Licence P2258 (Shell 70%, Deltic 30%) located immediately to the north of P2252 is believed by Deltic to contain an extension of the Pensacola prospect. Pensacola's P50 prospective resources of 309 bcf are unchanged from earlier estimates. The upgraded GCOS (geological chance of success) reflects superior imaging following Shell's 3-D seismic shoot in August 2019. After evaluation, structural closure and trap integrity could be more clearly identified than previously.
- Work programme:** We understand that Pensacola well planning and design are underway. The other key tasks before well spudding are a site survey, the rig contract, OCTG procurement and rig mobilisation. Drilling will take about 40 days. The decision to drill in May 2022 is six months or so after the earlier date of Q4 2021. This reflects, we believe, Shell's desire to undertake a broader SNS drilling programme which could include the Selene prospect in the Lemman sandstone fairway about 180 km SE of Pensacola.
- Valuation:** We are upgrading our Deltic valuation to reflect the increase in the GCOS for Pensacola. The risked Pensacola is now £31.1m (2.2p/share) against £11.9m. On a risked GCOS basis the overall valuation rises from £223m to £231m or from 15.8p to 16.4p/share. We have continued to use a valuation quotient of \$5.0/boe for the three most advanced projects Pensacola, Selene and Dewar and \$2.0/boe for the others. Our exchange rate assumption is £1=\$1.37 against £1=\$1.30 previously. The variance between our risked valuation and the £24m market capitalisation remains marked.

Year End: 31 December					
(£'000)	2018	2019	2020E	2021E	2022E
EBITDA	(1,653)	(1,589)	(1,403)	(1,468)	(1,520)
NET CASH FLOW	409	12,423	(1,847)	(3,871)	(8,403)
NET CASH	1,426	13,849	12,002	8,132	(271)

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

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

Financials

We believe at end 2020 Deltic had a cash position of about £12m. By end March this will probably have fallen to around £11.6m. Due to the change in timing for Pensacola drilling from Q4 2021 to May 2022 the end 2021 cash position will probably be significantly higher than forecast previously. We now look for cash at end 2021 of £8.1m against £6.1m previously. This forecast assumes that Deltic will incur around £2m of Pensacola licence and operational cost bearing in mind that from the date of Shell's final investment decision it will no longer be free-carried. We assume that the remaining balance of Deltic's commitment on the Pensacola project will be paid in 2022.

For Selene we had previously allowed £4.5m for Deltic's share of drilling and related costs. This remains the case. Note for both 2021 and 2022 we have also included in the cash flow forecasts a further £0.5m for other project-related spending. Total capital spending in 2022 will therefore be around £7m. At end 2022 we are expecting a net debt position of £0.27m which is in line with our earlier forecast.

Exhibit 1: Revised risked valuation

Projects	Licence	Location/ geology	WI %	Gross un-risked		Net un-risked		GCOS %	Net risked		Valuation		Net risked	
				P50 resources bcfe	P50 resources mmboe	P50 resources bcfe	P50 resources mmboe		P50 resources bcfe	P50 resources mmboe	\$/boe	\$m	£m	p/share
Three leading projects														
Pensacola	P2252	SNS, PZ, Csst	30	310	52	93	16	55	51	9	5.0	42.6	31.1	2.2
Selene	P2437	SNS, PLsst	50	346	58	173	29	70	121	20	5.0	100.9	73.7	5.2
Dewar	P2352	CNS, Pal Fsst	50	237	40	119	20	40	47	8	5.0	39.5	28.8	2.1
Total leading projects				893	149	385	64		220	37		183.0	133.6	9.5
Other projects														
Other	P2252	SNS, PZ, Csst	30	213	36	64	11	44	28	5	2.0	9.3	6.8	0.5
Other	P2437	SNS, PLsst	50	95	16	48	8	43	21	3	2.0	6.9	5.0	0.4
Other	P2424	SNS Trsst, Csst	50	656	109	328	55	32	105	17	2.0	35.0	25.5	1.8
Other	P2428	SNS Csst, PLsst, PZ	50	904	151	452	75	23	104	17	2.0	34.7	25.3	1.8
Other	P2435	SNS, PLsst	25	135	23	34	6	54	18	3	2.0	6.1	4.4	0.3
Other	P2567	SNS Trsst, Csst		1,124	187	562	94	22	124	21	2.0	41.2	30.1	2.1
Total				3,127	521	1,487	248		399	67		133.1	97.2	6.9
Total all licences				4,020	670	1,872	312		619	103		316.2	230.8	16.4

Source: Company; Allenby Capital

Exchange rate: £1=\$1.37

Per share calculations based on 1405.96m shares in issue

Note: Working interests for P2252 and P2437 take into account the Shell farm-in

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

Working interest for P2435 is the actual status as of November 2020.

SNS is Southern North Sea, CNS is Central North Sea.

PZ is Permian Zechstein, Csst is Carboniferous sandstone; PLsst is Permian Leman sandstone; Pal Fsst is Paleocene Forties sandstone; Trsst is Triassic sandstone

Exhibit 2: Summary Financials (£000s)

INCOME STATEMENT						
Year end: 31 December	2017	2018	2019	2020E	2021E	2022E
Administrative Expenses	(1,592)	(1,661)	(1,709)	(1,411)	(1,476)	(1,528)
Impairment charge	0	1	(801)	0	0	0
Operating Profit	(1,592)	(1,660)	(2,510)	(1,411)	(1,476)	(1,528)
Finance Income/other	1	1	150	25	0	0
PBT	(1,590)	(1,659)	(2,360)	(1,386)	(1,476)	(1,528)
Taxation	-	-	-	-	-	-
Net Income	(1,590)	(1,659)	(2,360)	(1,386)	(1,476)	(1,528)
Comprehensive Loss	(1,590)	(1,659)	(2,360)	(1,386)	(1,476)	(1,528)
EBITDA	(1,473)	(1,653)	(1,589)	(1,403)	(1,468)	(1,520)
Avg. Shares Basic (m)	343.9	475.4	979.6	1,406.0	1,406.0	1,406.0
EPS (reported) 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)	(1,386)	(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	(0)	5	(1)
Share Based Payments	114	122	172	100	100	125
Net Operating cash flow	(1,428)	(1,523)	(1,413)	(1,272)	(1,368)	(1,400)
Acquisition of PPE	(2)	(10)	(6)	(5)	(3)	(3)
Exp and Eval assets additions	(224)	(665)	(896)	(570)	(2,500)	(7,000)
Other	1	0	(80)	0	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	(1,847)	(3,871)	(8,403)
Net cash/(debt)	1,017	1,426	13,849	12,002	8,132	(271)
BALANCE SHEET						
	2017	2018	2019	2020E	2021E	2022E
Intangible assets	775	1,617	1,128	1,693	4,189	11,189
Property, Plant & Equipment	4	12	47	49	48	48
Other	54	54	0	0	0	0
Total Non-Current Assets	833	1,683	1,175	1,742	4,237	11,237
Receivables	89	82	130	100	100	100
Cash & Cash Equivalents	1,017	1,426	13,849	12,002	8,132	500
Total Current Assets	1,106	1,508	13,979	12,102	8,232	600
Total Assets	1,939	3,191	15,154	13,845	12,469	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	771
Current Liabilities	213	396	199	175	175	946
Total Liabilities	213	396	199	175	175	946
Net assets	1,727	2,795	14,956	13,670	12,294	10,891
Net cash/(debt)	1,017	1,426	13,849	12,002	8,132	(271)
Shareholder Equity	1,727	2,795	14,956	13,670	12,294	10,891
Total Equity & Liabilities	1,939	3,191	15,154	13,845	12,469	11,837

Source: Company reports and Allenby Capital estimates

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