

Corporate

 Current price **2.20p**

 Sector **Oil & Gas**

 Code **DELT.L**

 AIM **AIM**

Share Performance



— DELT.L +31% +18% +110%

Source: Reuters Eikon, Allenby Capital

Share Data

 Market Cap (£m) **30.9**

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

 52 weeks (p) High Low
2.25 0.83

 Financial year end **30 December**

Source: Company Data, Allenby Capital

Key Shareholders

IPGL (Michael Spencer) 16.8%

Richard Sneller 10.5%

Hargreaves Lansdown 9.8%

Canaccord Genuity 7.7%

Fiske plc 4.4%

Janus Henderson 4.3%

Source: Company Data, Allenby Capital

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Deltic Energy plc (DELT.L)

Major farm-out deal with Cairn

Deltic Energy continues to successfully implement its strategy of early-stage project de-risking in overlooked but prospective areas of the SNS (Southern North Sea) gas basin followed by farm-outs. The latest move involves a comprehensive farm-out to Cairn Energy (CNE.L) of five licences. These lie in the heart of the prolific Carboniferous and Permian Zechstein fairway towards the northern margin of the SNS. Deltic believes it has the largest exploration acreage in this zone. Cairn's decision to farm-in expands and enhances Deltic's partner base, validates its technical work, much as for the Shell farm-ins and accelerates project development and ultimately monetisation. The farm-ins all involve free-carry work programmes until the drill or drop decision is made. Cairn will pay upfront \$1m for licence back costs and finance 70% of well costs for either of the two most advanced prospects on P2428 and P2567 representing a further carry of \$2.5m. Deltic will retain licence interests of between 30% and 40% while Cairn will become operator across all licences.

- P2428 (Cupertino):** Deltic will retain a 40% interest in the licence post the farm-out to Cairn. P2428 on its southern boundary lies about 20 km north of Spirit Energy's Pegasus field and hosts a four-way dip closed structure. There are three play types in ascending order: Carboniferous Scremerston sandstone, Richmond Leman sandstone and the Plymouth Zechstein carbonates. The Scremerston sandstones form reservoir rocks elsewhere in the Carboniferous fairway such as at the Breagh and Pegasus fields. The Leman sandstones host large gas fields further south in the SNS while the Plymouth prospect is believed by Deltic to be an analogue of the Pensacola prospect about 60km to the WNW. Deltic has estimated P50 prospective resources for P2428 of a sizeable 895 bcf. The GCOS (geological chances of success) of an apparently modest 23% is typical for prospects at this stage. Cairn is planning a 3-D seismic shoot over P2428 and P2567 which should increase the GCOS and identify drilling locations. Note, Deltic has imaged the P2428 prospects using legacy reprocessed 2-D seismic. We believe that the free carry on the seismic survey alone is worth in excess of \$5m.
- P2567 (Cadence):** Deltic will also retain a 40% interest in this licence. P2567 lies immediately to the south-west of P2428 and contains prospects in both the Triassic Bunter and Carboniferous sandstones. The latter based on the large Cadence prospect is the primary focus. Deltic believes that gas could be trapped in the Carboniferous by the Base Permian Unconformity (BPU) boundary structure. P50 resources have been estimated by Deltic to be in excess of P2428 at 1,124 BCF but again the GCOS is typically low at 22%. Note, for P2567 the sub-surface has been imaged using legacy 3-D seismic. According to Deltic, well costs for either P2478 or P2567 are likely to be approaching \$25m gross including testing.
- Valuation:** We have upgraded our risked valuation across Deltic's licence portfolio from £214m or 15.2p/share to £222m or 15.8p/share. The upgrade reflects an increase in the valuation quotient for P2428 and P2567 prospects in the light of the Cairn farm-in partly offset by lower equity in the licences. Our quotient for the most advanced Plymouth and Cadence prospects has been lifted from \$2.0-\$3.5/boe. Our success case valuation for the five most advanced prospects rises sharply to 30.3/share from 15.0p/share reflecting the addition of Plymouth and the Cadence Carboniferous plays.

Year End: 31 December

(£'000)	2018	2019	2020	2021E	2022E
EBITDA	(1,653)	(1,589)	(1,587)	(1,601)	(1,619)
NET CASH	1,426	13,849	11,969	9,242	276

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.

Work programme timeline

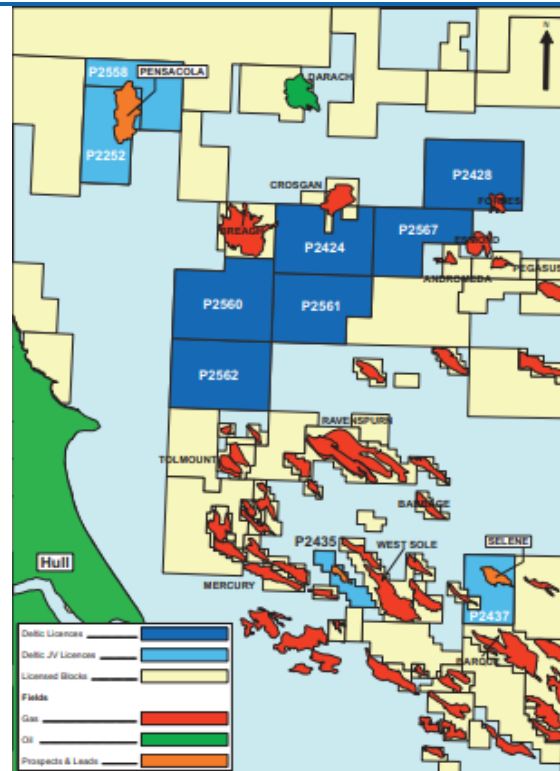
Presently the Cairn farm-in agreement is conditional on regulatory approval. We believe this likely to be received by mid-September 2021. Following approval and the deal going unconditional the \$1m initial consideration fall due.

In terms of the work programme under the agreement the initial focus will on P2428 and particularly the Plymouth Zechstein prospect. We understand that Cairn may be able to conduct a 3-D seismic shoot over P2428 by the fourth quarter of 2021. Assuming this to be the case we think it may be possible to drill the Plymouth prospect by late 2023. This reflects nine months seismic evaluation and 12 months for well planning/design, permitting, securing a rig, procuring materials and rig mobilisation. We believe that a well will take about 40 days to drill. Plymouth’s P50 resources currently stand at 282 bcf. The key risk according to Deltic is the quality of the carbonate reservoir.

It should be noted that based on the terms of the P2428 licence Cairn will need to make a drill or drop decision by end September 2023. This timing looks comfortable at this juncture. Given our scenario, Deltic’s share of the drilling costs of \$7.5m will start falling due in late 2022. The well carry means that Deltic will only pay 30% of the well costs despite having 40% of the equity.

As far as P2567 is concerned, the timing of the work programme has yet to be fully defined at this stage but is expected to include seismic reprocessing. Given that legacy 3-D seismic is available, the lead time to drilling could be shorter than for P2428. Cairn may conceivably undertake a broader sequential drilling programme on the Carboniferous fairway in 2024. Presently the lead time to a drill or drop decision on P2567 looks very comfortable given that the licence has only recently been awarded and has a drill or drop cut-off date of late 2024. The same well carry would apply to this licence if drilled first.

Exhibit 1: Deltic’s SNS licence interests



Source: Company data

South of Breagh licences

The farm-out deal with Cairn also includes three licences. P2560, P2561 and P2562, in a zone of the Carboniferous fairway between the Breagh field (Ineos) in the north and the Tolmount field (Harbour Energy HBR.L, formerly Premier Oil and Chrysaor) in the south. All three licences contain early-stage projects in which Cairn will have a 70% interest and will become the operator. Deltic will retain the residual 30%.

Surprisingly perhaps little exploration has been undertaken South of Breagh with a lack of high-quality 3-D seismic being a key constraint. Deltic, however, believes that South of Breagh zone has significant potential in the Zechstein, Leman and Carboniferous horizons across the acreage. The initial phase of the work programme South of Breagh will probably involve the purchase of and reprocessing of legacy seismic and/or the acquisition of new 3-D seismic across the licence area.

As yet no prospective resources have been assigned to the three South of Breagh licences. Therefore, at this stage these licences have not been included in our valuation.

Cairn Energy

We believe Cairn Energy brings excellent technical and financial credentials as an operator to Deltic's highly prospective SNS projects. Most significantly perhaps, Cairn has an impressive record of discoveries in new basins. These occurred initially in south Asia and most recently offshore Mexico. Cairn also has North Sea exposure through its historic interests in the Catcher and Kraken oil fields. Interestingly, however, it has agreed to sell these in the second half of 2021 for \$460m plus contingent consideration linked to the price of oil. Cairn has proven to be a skilled trader of assets over the years. It continues to retain exploration acreage in the Central North Sea.

At end 2020 Cairn had a sizeable cash position of \$570m (no drawn debt) of which \$250m was subsequently returned to shareholders by special dividend. It should also be noted that in December 2020 Cairn was awarded by the India Arbitration Tribunal \$1.2m plus interest following an arbitration decision under the UK-India Investment Treaty

Financials

We believe Deltic's financial position remains comfortable vis-à-vis its near to mid-term spending commitments. Cash stood at £11.52m at end March 2021 and we believe at end July 2021 was around £10.9m. It should be remembered that following the positive well investment decision on Pensacola at the end of March, Deltic became responsible for its share of licence and project costs. The underlying cash flow could, therefore, be in the throes of accelerating.

As noted earlier, Deltic should be in receipt of the \$1m payable relating to the Cairn farm-out agreement by mid to late September 2021. Consequently, we are boosting our year end cash forecast from £8.51m to £9.24m. For 2022 we are now looking for a cash balance of £0.55m which compares with a net debt position of £0.28m previously. The forecast assumes no major impact of expenditure on preparatory work for a prospective P2428 well.

Summary financials

Exhibit 2: Summary Financials (£'000), Y/E December

INCOME STATEMENT	2017	2018	2019	2020	2021E	2022E
Administrative Expenses	(1,592)	(1,661)	(1,709)	(1,699)	(1,716)	(1,734)
Impairment charge	0	1	(801)	0	0	0
Operating Profit	(1,592)	(1,660)	(2,510)	(1,699)	(1,716)	(1,734)
Finance Income/other	1	1	150	34	755	8
PBT	(1,590)	(1,659)	(2,360)	(1,666)	(961)	(1,726)
Taxation	-	-	-	-	-	-
Net Income	(1,590)	(1,659)	(2,360)	(1,666)	(961)	(1,726)
Comprehensive Loss	(1,590)	(1,659)	(2,360)	(1,666)	(961)	(1,726)
EBITDA	(1,473)	(1,653)	(1,589)	(1,587)	(1,601)	(1,619)
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)	(0.07)	(0.12)
CASH FLOW	2017	2018	2019	2020	2021E	2022E
Net Loss for the year	(1,590)	(1,660)	(2,360)	(1,666)	(961)	(1,726)
Change in receivables	54	7	(17)	38	0	0
Change in payables	(10)	2	21	30	0	0
Depreciation	5	8	120	113	115	115
Other	0	(2)	651	(31)	(25)	0
Share Based Payments	114	122	172	148	148	148
Net Operating cash flow	(1,428)	(1,523)	(1,413)	(1,368)	(724)	(1,463)
Acquisition of PPE	(2)	(10)	(6)	(160)	(3)	(3)
Exp and Eval assets additions	(224)	(665)	(896)	(359)	(2,000)	(7,500)
Other	1	0	(80)	(54)	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	(1,940)	(2,727)	(8,966)
Net cash/(debt)	1,017	1,426	13,849	11,969	9,242	276
BALANCE SHEET	2017	2018	2019	2020	2021E	2022E
Intangible assets	775	1,617	1,128	1,431	3,382	10,885
Property, Plant & Equipment	4	12	47	497	496	381
Other	54	54	0	37	0	0
Total Non-Current Assets	833	1,683	1,175	1,965	3,878	11,266
Receivables	89	82	130	54	54	54
Cash & Cash Equivalents	1,017	1,426	13,849	11,969	9,242	276
Total Current Assets	1,106	1,508	13,979	12,023	9,296	330
Total Assets	1,939	3,191	15,154	13,988	13,174	11,596
Non-Current Liabilities	0	0	0	304	304	304
Trade payables	112	269	173	153	153	153
Other payables	100	127	26	93	93	93
ST debt	0	0	0	0	0	0
Current Liabilities	213	396	199	246	246	246
Total Liabilities	213	396	199	550	550	550
Net assets	1,727	2,795	14,956	13,438	12,624	11,046
Net cash/(debt)	1,017	1,426	13,849	11,969	9,242	276
Shareholder Equity	1,727	2,795	14,956	13,438	12,624	11,046
Total Equity & Liabilities	1,939	3,191	15,154	13,988	13,174	11,596

Source: Company data, Allenby Capital forecasts

Exhibit 3: RISKED VALUATION

Projects	Licence Location/ geology	WI %	Gross un-risked P50 resources		Net un-risked P50 resources			Net risked P50 resources		Valuation quotient		Net risked valuation	
			bcfe	mmboe	bcfe	mmboe	GCOS %	bcfe	mmboe	\$/boe	\$m	£m	p/share
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	270	45	135	23	70	95	16	5.0	78.8	57.5	4.1
Dewar	P2352 CNS Pal Fsst	50	237	40	119	20	40	47	8	5.0	39.5	28.8	2.1
Plymouth	P2428 SNS PZ	40	282	47	113	19	19	21	4	3.5	12.5	9.1	0.6
Cadence	P2567 SNS Csst	40	600	100	240	40	22	53	9	3.5	30.8	22.5	1.6
Total leading projects			817	136	347	58		193	32		204.2	149.0	10.6
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	102	17	51	9	40	21	3	2.0	6.9	5.0	0.4
Other	P2424 SNS Tr, C sst	50	656	109	328	55	32	105	17	2.0	35.0	25.5	1.8
Other	P2428 SNS Csst,PLsst,PZ	40	613	102	245	41	23	56	9	2.5	23.5	17.2	1.2
Other	P2435 SNS PLsst	25	135	23	34	6	54	18	3	2.0	6.1	4.4	0.3
Other	P2567 SNS Tr, C sst	40	524	87	210	35	22	46	8	2.5	19.2	14.0	1.0
Total			2243	374	931	155		274	46		100.0	73.0	5.2
Total all licences			3060	510	1278	213		467	78		304.1	222.0	15.8

Source: Company data, Allenby Capital forecasts 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 4: Valuation success case

Prospect	Working interest post farm-in %	Net un-risked P50 resources		Valuation quotient \$/boe	Net un-risked valuation		
		bcfe	mmboe		\$m	£m	p/share
Pensacola	30	93	15.5	5.00	77.5	57	4.0
Selene	50	135	22.5	5.00	112.5	82	5.8
Dewar	50	119	19.8	5.00	98.8	72	5.1
Plymouth	40	113	18.8	5.00	94.0	69	4.9
Cadence	40	240	40.0	5.00	200.0	146	10.4
Total		699	116.6		288.8	425	30.3

Source: Company; Allenby Capital

Note: Conversion 6,000 cf/boe, exchange rate £1=\$1.37, Dewar working interest assumes a farm-down from 100%, working interests for Pensacola and Selene are post the Shell farm-outs, per share calculation based on 1,405.96m shares in issue, Dewar per share not diluted for CLNR share of drilling costs.

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