

Corporate

Share Price	0.85p
Market Cap	£18m
Shares in Issue	2,081m
12m Trading Range	0.6p – 1.3p
Free Float	78%
Next Event	Operational update, Q1

Price performance (p)



Source: FactSet

Financial forecasts

Y/E Dec (£m)	2023A	2024E	2025E	2026E
Net Prod'n (mboe/d)	--	--	0.16	0.34
Gas Price (US\$/mcf)	--	--	8.1	8.1
Sales	--	--	2.2	4.7
EBITDA	(2.2)	(2.1)	(0.9)	0.3
Free Cash Flow	(5.1)	(9.9)	(7.7)	(17.9)
Net Cash/(Debt)	(30.3)	(30.5)	(39.3)	(58.7)
DPS (p)	--	--	--	--

Valuation (p/share)

Core NAV	2.3
Total Risked NAV	4.0
Total Unrisked NAV	11.2

Source: Audited accounts and Zeus estimates

Sound Energy is a broker client of Zeus

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# Sound Energy

## SOU LN - Oil & Gas Producers

### Tendrara site visit

- ◆ Last week we attended a site visit to Sound’s Tendrara asset in eastern Morocco. Development work at the site continues apace targeting first LNG production and sales, and we were left with a favourable impression of the JV and its contractors’ ongoing execution of the project.
- ◆ **LNG storage tank works progressing, power generation on site.** There are various elements to Sound’s Tendrara Phase 1 micro-LNG project required to support first LNG production and sales. There are two existing gas wells, TE-6 and TE-7, which have already been recompleted and are ready to be tied back to the processing facility. We toured the TE-7 well site, which was in good order, and we also had sight of trenching activities for the flow lines.
- ◆ The current critical path item for the project, and chief area of focus for the JV, is the LNG storage tank. This is constructed in two layers (an inner tank and an outer tank, with an insulation layer between the two), and we viewed the complete inner tank, construction of the outer tank, and construction of the outer tank lid, which will be lifted into place once the rest of the outer tank is complete. Good progress is clearly being made here, in our view.
- ◆ The JV has also installed the power generation facilities for the development, which will largely use Tendrara gas production as fuel.
- ◆ **Site layout prepared for installation of gas and LNG processing infrastructure.** The Tendrara JV and its contractors have also laid out the pads for the various processing facilities elements of the Phase 1 gas processing and LNG production facility, including the different separation units for purifying the raw gas and the cold box unit for converting this to LNG. The different processing units are expected to arrive assembled, and then all be connected up at the Tendrara site. These are typically already available and in storage at supplier facilities, and able to be shipped to Tendrara as required once the LNG storage tank is further progressed. The cold box unit is in Louisiana currently being prepared for shipping to the Tendrara site, for example. It is only once the units are shipped to the project site that the manufacturer performance guarantees begin, making it sensible to time these alongside the storage tank progress.
- ◆ As such, the site layout gives a good idea of the makeup of the completed development, and we were pleased to see the site in this state of readiness for further progression of the project over the coming months.
- ◆ **Remote location reduces impact, but local social projects still carried out.** Travelling to and touring around the Tendrara site, it’s clear that this is a remote location, out in the desert towards the border with Algeria. While this will clearly create some logistical challenges (Sound has previously constructed the last c.10 miles of road to the project site itself, for example), it also means little in the way of immediate nearby population for the project to disturb. Nevertheless, Sound has still ensured it carries out projects for the benefit of the local population, including installing water supplies to a local school and a mast to provide mobile connectivity. These help to underpin the company’s local license to operate.
- ◆ The rest of this note is comprised of various photos we took during our visit, which show the progress being made on Phase 1, and where the rest of the development will begin to be built out over the coming months.

## TE-07 well site



Source: Zeus Research

## TE-7 well christmas tree



Source: Zeus Research

## Flow line trenching works underway at site boundary



Source: Zeus Research

## Main project site, including LNG storage tank, power generation, and pads for processing units



Source: Zeus Research

## Main project site, showing pads for processing units



Source: Zeus Research

## LNG storage tank, showing construction progress of outer and inner tanks



Source: Zeus Research

## LNG storage tank lid



Source: Zeus Research

## Power generation units



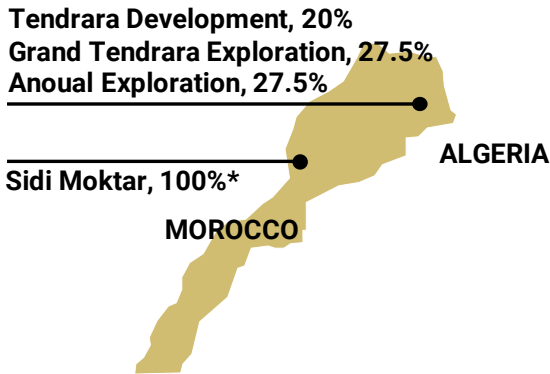
Source: Zeus Research

## Summary

### Market Data

Share Price	0.85p
Market Capitalisation	£18m
Shares Out	2,081m
Net Cash/(Debt) end 2023	(£30m)

### Morocco Asset Locations



### Summary Income Statement (£m)

Year to Dec	2022A	2023A	2024E	2025E	2026E
Sales	--	--	--	2.2	4.7
Royalty	--	--	--	--	--
OPEX	--	--	--	(1.4)	(2.6)
DD&A	(0.1)	(0.2)	--	(0.8)	(1.6)
G&A	(3.1)	(2.2)	(2.1)	(1.7)	(1.8)
<b>Op Profit</b>	<b>(3.1)</b>	<b>(2.4)</b>	<b>(2.1)</b>	<b>(1.7)</b>	<b>(1.3)</b>
EBITDA	(3.0)	(2.2)	(2.1)	(0.9)	0.3
Net Interest	(1.4)	(2.0)	(2.1)	(2.3)	(2.8)
<b>PBT (Adj)</b>	<b>(4.6)</b>	<b>(4.3)</b>	<b>(4.2)</b>	<b>(4.0)</b>	<b>(4.1)</b>
Tax	(1.6)	(0.0)	--	--	--
<b>PAT (Adj)</b>	<b>(6.2)</b>	<b>(4.3)</b>	<b>(4.2)</b>	<b>(4.0)</b>	<b>(4.1)</b>
EPS (Adj)	(0.35p)	(0.23p)	(0.21p)	(0.20p)	(0.21p)

### Summary Cashflow Statement (£m)

Year to Dec	2022A	2023A	2024E	2025E	2026E
Working Capital	(2.0)	0.4	--	--	--
Cash Tax	(0.0)	(0.1)	--	--	--
<b>Op CF</b>	<b>(3.9)</b>	<b>(1.5)</b>	<b>(1.9)</b>	<b>(0.6)</b>	<b>0.6</b>
Dev't CAPEX	(5.8)	(2.3)	(7.0)	(5.8)	(15.1)
Expl CAPEX	(0.4)	(0.7)	--	--	(2.1)
Acquisitions	--	--	8.2	--	--
<b>Investing CF</b>	<b>(6.2)</b>	<b>(2.9)</b>	<b>1.2</b>	<b>(5.8)</b>	<b>(17.2)</b>
<b>Free CF</b>	<b>(10.6)</b>	<b>(5.1)</b>	<b>(9.9)</b>	<b>(7.7)</b>	<b>(17.9)</b>
Net Borrowings	7.2	4.4	5.0	5.4	17.9
Interest Paid	(0.4)	(0.4)	(1.1)	(1.3)	(1.3)
<b>Financing CF</b>	<b>10.4</b>	<b>3.8</b>	<b>3.9</b>	<b>4.1</b>	<b>16.6</b>
Net Change in Cash	0.3	(0.6)	3.3	(2.3)	--
<b>Net Cash/(Debt)</b>	<b>(26.3)</b>	<b>(30.3)</b>	<b>(30.5)</b>	<b>(39.3)</b>	<b>(58.7)</b>

### Summary Balance Sheet (£m)

Year to Dec	2022A	2023A	2024E	2025E	2026E
PPE & Intangibles	199.4	192.9	191.7	196.7	212.3
Receivables and Inventories	3.8	1.8	1.8	1.8	1.8
Cash and Equivalents	3.9	3.0	6.3	4.0	4.0
<b>Total Assets</b>	<b>212.1</b>	<b>204.2</b>	<b>206.3</b>	<b>209.0</b>	<b>224.6</b>
Payables	1.9	2.5	2.5	2.5	2.5
Debt	30.2	33.3	36.8	43.3	62.7
<b>Total Liabilities</b>	<b>34.0</b>	<b>37.5</b>	<b>41.0</b>	<b>47.5</b>	<b>66.9</b>
Equity	178.1	166.7	165.2	161.5	157.7
<b>Liabilities + Equity</b>	<b>212.1</b>	<b>204.2</b>	<b>206.3</b>	<b>209.0</b>	<b>224.6</b>

### Valuation and Production Data

Discount Rate	10.0%
LT US\$/£	US\$1.30
Diluted NOSH (m)	2,184m

Year to Dec	2022A	2023A	2024E	2025E	2026E
Brent Oil Price (US\$/bbl)	99.0	82.1	80.0	70.0	65.0
Sound Gas Price (US\$/mcf)	--	--	--	8.1	8.1
Net Oil Production (mmbbl/d)	--	--	--	--	--
Net Gas Production (mmcf/d)	--	--	--	0.9	2.1
<b>Total Net Production (mboe/d)</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>0.16</b>	<b>0.34</b>
Unit OPEX (US\$/boe)	--	--	--	(29.6)	(27.0)
Unit OCF (US\$/boe)	--	--	--	(12.9)	5.9
Unit FCF (US\$/boe)	--	--	--	(166.9)	(185.9)

### Summary NAV

	Interest (%)	Net Unrisked (mmboe)	Unrisked Value (US\$/boe)	Unrisked Value (p/share)	Risked Value (US\$m)	Risked Value (p/share)
<b>Development</b>						
Tendirra Phase 1	20%	1	5.4	0.3	6.8	0.2
Tendirra Phase 2	20%	9	12.1	3.8	90.6	3.2
<b>Total Development</b>		<b>10</b>		<b>4.0</b>	<b>97</b>	<b>3.4</b>

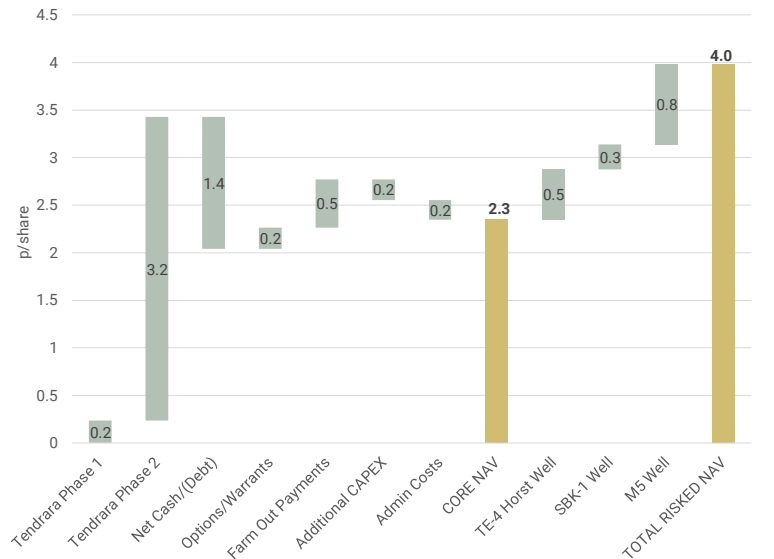
Net Cash/(Debt)					(39.3)	(1.4)
Options/Warrants/Converts					6.3	0.2
Farm Out Payments					14.5	0.5
Additional CAPEX					(6.2)	(0.2)
Admin Costs					(5.9)	(0.2)
<b>CORE NAV</b>				<b>2.9</b>	<b>67</b>	<b>2.3</b>

### Exploration/Appraisal Upside

TE-4 Horst Well - Tendirra	27.5%	8	6.0	1.8	15.0	0.5
SBK-1 Well - Tendirra	27.5%	4	6.0	0.9	7.5	0.3
M5 Well - Anoual	27.5%	26	6.2	5.6	24.0	0.8
<b>Total Exploration/Appraisal</b>		<b>38</b>		<b>8.3</b>	<b>47</b>	<b>1.6</b>

<b>TOTAL CORE + UPSIDE NAV</b>				<b>11.2</b>	<b>113</b>	<b>4.0</b>
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### NAV Distribution Chart



Source: Zeus, Company, Bloomberg, FactSet

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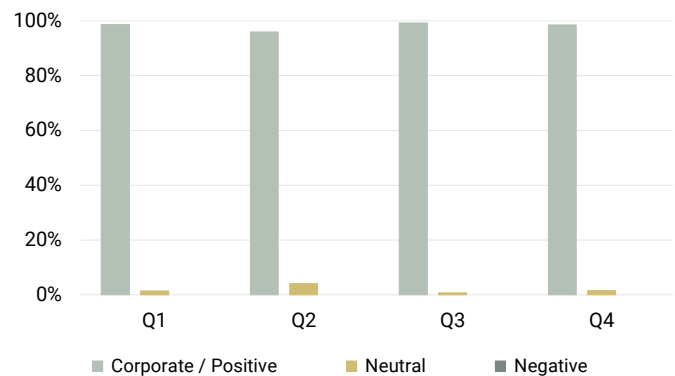
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