

Corporate

Share Price	0.65p
Market Cap	£14m
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

Morocco farm out completion

- ◆ Sound has completed the farm out of its Tendirra area assets to Managem, as announced earlier this year. This provides carry and also cash back costs which, alongside agreed debt facilities, we expect to leave Sound fully funded for its ongoing Phase 1 Tendirra development, upcoming Phase 2 development, and two exploration/appraisal wells planned for 2025. This is an important moment for Sound, helping secure a significant work programme for the company over the coming years, and a route to significant cash flows.
- ◆ **Farm out deal provides significant funding for Sound.** The farm out is being effected by a partial sale of a Sound UK subsidiary that holds the assets (Sound Energy Morocco East Ltd), on terms the same as those announced in June 2024. Sound moves from its existing 75% interest in its Tendirra development to 20%, and from 75% to 27.5% in its Grand Tendirra and Anoual exploration blocks. In return, Sound receives: net carry of up to US\$24.5m on its Tendirra Phase 2 development CAPEX (FID targeted for mid-2025); US\$3.6m carry on the SBK-1 appraisal well and US\$2.6m carry on the M5 exploration well (both planned for 2025); US\$13.1m in cash to cover back costs from the effective date of January 2022; and a US\$1.5m contingent cash payment within one year of first gas on Phase 2.
- ◆ This is a very significant deal for Sound, principally due to the funding it provides. We expect the back costs and carry plus existing debt facilities plus an already-agreed Phase 2 project debt facility to now fully fund Sound for: completion of ongoing Phase 1 development activities; all Phase 2 development CAPEX to first gas; and the two exploration/appraisal wells planned for 2025. Locking in this funding, from a credible partner with significant existing Moroccan and African interests, is a big step forward for Sound and the value of its assets, in our view.
- ◆ **Forward news flow includes development activity, first production, FID, and new drilling.** The farm out now underpins a material forward work programme for Sound over 2025 and beyond. The Phase 1 development of Tendirra (via a micro-LNG facility) is already underway, and we continue to expect first gas exports and revenues for Sound in mid-2025. FID on Phase 2 (to be developed via a pipeline connection) is targeted for mid-2025, with development works to follow and first gas in mid-2027. Phase 2 is an order of magnitude larger - 265bcf of gross sales gas, compared to 39bcf in Phase 1. Based on our modelling, once Phase 2 is onstream Sound could achieve EBITDA of £17m and free cash flow of £12m from 2028, significantly underpinned by long-term offtake contracts.
- ◆ There is then drilling of the SBK-1 appraisal well (91bcf gross) and M5 exploration well (560bcf gross), both planned to be drilled in Q2/Q3 2025, providing helpful additional catalysts in the next 12 months. These would be able to be developed via Tendirra Phase 2 infrastructure on success.
- ◆ There is also potential for widening the asset base, potentially into new jurisdictions, as more management time is able to be spent on this post the farm out. We await further news.
- ◆ Overall, while we were always confident the Managem farm out would complete, it is still good to see this actually achieved, funding secured, and the company's various work programmes able to progress apace. We look forward to a year of material operational news flow in 2025.
- ◆ **Forecasts and valuation.** No change – we had already assumed completion of the farm out in our forecasts and valuation.
- ◆ **Conclusion:** Sound holds the Tendirra gas asset onshore Morocco, which contains 305bcf of gross sales gas, or 10.2mboe net to Sound's 20%. Phase 1 development is already

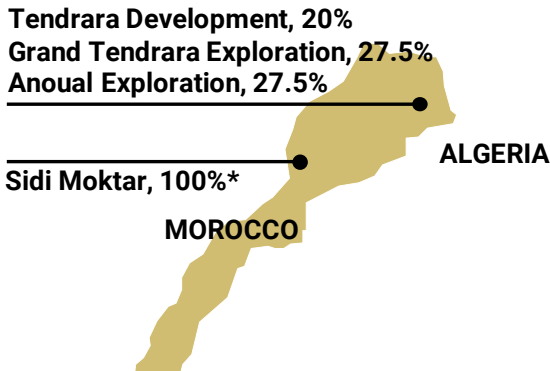
underway, with first gas sales at 10mmcf/d gross (0.3mboe/d net) via a micro-LNG facility expected in mid-2025. Phase 2 is substantially larger, targeting 42mmcf/d gross (an additional 1.4mboe/d net). Sound has now closed a significant farm out to Moroccan-based natural resources player Managem which, alongside an agreed debt facility, is expected to see Phase 2 fully funded (including US\$13.1m of cash back costs for Sound) and leave Sound on 20%. Now that the farm out has closed we expect progression of FEED, going into Phase 2 FID in mid-2025, and first gas sales from Phase 2 in mid-2027. Once Phase 2 is onstream, our long-term forecasts imply Sound EBITDA of £17m and FCF of £12m – significant cash flows for a company of its size, which will also help pay down debt. The farm out also funds the SBK-1 and M5 exploration wells nearby Tendrara, expected to be drilled in 2025. In terms of upcoming catalysts, now that the farm out is closed we expect progression of Phase 2 FEED work, completion of Phase 1 in H1 2025, first gas sales from Phase 1 and also Phase 2 FID both in mid-2025, and the two exploration wells in Q2/Q3 2025 – a busy overall programme. Our total risked NAV is 4.0p, and we have a positive outlook for the shares.

Summary

Market Data

Share Price	0.65p
Market Capitalisation	£14m
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)
Op Profit	(3.1)	(2.4)	(2.1)	(1.7)	(1.3)
EBITDA	(3.0)	(2.2)	(2.1)	(0.9)	0.3
Net Interest	(1.4)	(2.0)	(2.1)	(2.3)	(2.8)
PBT (Adj)	(4.6)	(4.3)	(4.2)	(4.0)	(4.1)
Tax	(1.6)	(0.0)	--	--	--
PAT (Adj)	(6.2)	(4.3)	(4.2)	(4.0)	(4.1)
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)	--	--	--
Op CF	(3.9)	(1.5)	(1.9)	(0.6)	0.6
Dev't CAPEX	(5.8)	(2.3)	(7.0)	(5.8)	(15.1)
Expl CAPEX	(0.4)	(0.7)	--	--	(2.1)
Acquisitions	--	--	8.2	--	--
Investing CF	(6.2)	(2.9)	1.2	(5.8)	(17.2)
Free CF	(10.6)	(5.1)	(9.9)	(7.7)	(17.9)
Net Borrowings	7.2	4.4	5.0	5.4	17.9
Interest Paid	(0.4)	(0.4)	(1.1)	(1.3)	(1.3)
Financing CF	10.4	3.8	3.9	4.1	16.6
Net Change in Cash	0.3	(0.6)	3.3	(2.3)	--
Net Cash/(Debt)	(26.3)	(30.3)	(30.5)	(39.3)	(58.7)

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
Total Assets	212.1	204.2	206.3	209.0	224.6
Payables	1.9	2.5	2.5	2.5	2.5
Debt	30.2	33.3	36.8	43.3	62.7
Total Liabilities	34.0	37.5	41.0	47.5	66.9
Equity	178.1	166.7	165.2	161.5	157.7
Liabilities + Equity	212.1	204.2	206.3	209.0	224.6

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
Total Net Production (mboe/d)	--	--	--	0.16	0.34
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)
Development						
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
Total Development		10		4.0	97	3.4

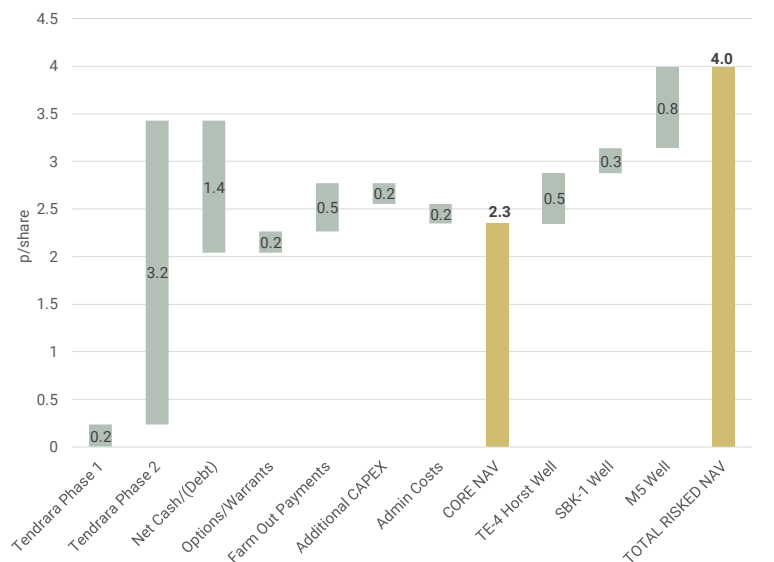
Net Cash/(Debt)					(39.3)	(1.4)
Options/Warrants/Converts					6.3	0.2
Farm Out Payments					14.5	0.5
Additional CAPEX					(6.2)	(0.2)
Admin Costs					(5.9)	(0.2)
CORE NAV				2.9	67	2.3

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
Total Exploration/Appraisal		38		8.3	47	1.6

TOTAL CORE + UPSIDE NAV				11.2	113	4.0
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NAV Distribution Chart



Source: Zeus, Company, Bloomberg, FactSet

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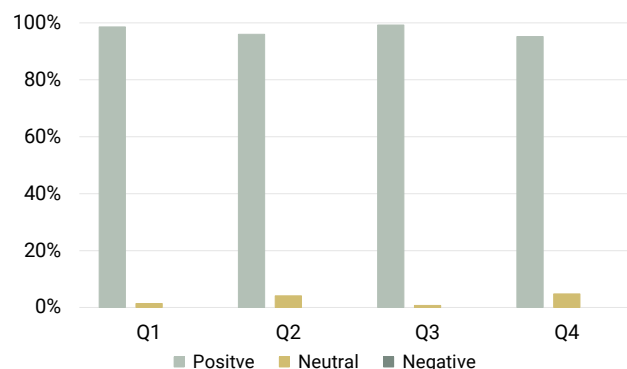
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