

Price	0.78p
Market Cap	£16m
Shares in Issue	2,043m
12m Trading Range	0.6p-1.3p
Free Float	78%
Next Event	Farm out closure, H2

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

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Sound Energy

SOU LN - Oil & Gas Producers

H1 2024 results

- ◆ Sound has announced its H1 2024 results, alongside providing an operational update on its ongoing Tendirra development project in Morocco. The company recently announced a farm out of Tendirra, which should close in the coming weeks and which we expect to leave Sound fully funded for Tendirra Phase 1 and 2 development.
- ◆ **H1 2024 results demonstrate Tendirra project progress and remaining funding wherewithal.** Sound reports an end H1 2024 cash position of £2.1m, after CAPEX of £2.0m and G&A of £1.4m during the period. Of the cash, £1.9m is held under discontinued operations in the subsidiary Sound is selling as part of its Tendirra farm out, though in practice we expect Sound to retain subsidiary cash after the transaction as part of working capital adjustments. The CAPEX spend demonstrates the ongoing progress being made with the Tendirra Phase 1 development, where we continue to expect first gas sales in mid-2025. We note that there is a £146.2m impairment in the H1 2024 P&L related to the farm out and the existing balance sheet value of the subsidiary being disposed of as part of this – this is a wholly non-cash charge, and does not affect the company’s funding position or our valuation.
- ◆ The cash holding, alongside the recently announced £1.5m bridge debt facility, continues to support ongoing Tendirra project progress while the Managem farm out is finalised, which we expect in the coming weeks and will include a cash back costs payment for Sound of around US\$13m at closing.
- ◆ **Tendirra development activities continue to move forward.** Sound continues to make steady progress on its Tendirra Phase 1 development. The two wells to be used for first gas were recently successfully worked over to prepare them for production operations. Works to construct the LNG storage tank continue, with the base and first layer of the tank complete, and inner tank construction ongoing. Sound also continues to work with contractors to construct various items of equipment at contractor facilities, for delivery to the Tendirra site over the next few months. Preparation for flow line installation is underway, and Afriquia Gaz is due to install the LNG transport infrastructure in spring 2025. This all continues to support an expectation of first gas sales in mid-2025.
- ◆ On Phase 2 development, discussions with ONEE on the gas offtake contract to adjust this based on feedback from debt providers are moving forward, and preparation for an update to existing FEED work post completion of the farm out is also underway. Phase 2 is an order of magnitude larger than Phase 1 (265bcf gross sales gas, compared with 39bcf for Phase 1), and will be substantially enabled by farm out closure.
- ◆ **New exploration/appraisal drilling upcoming.** The farm out will also fully fund the SBK-1 appraisal well (91bcf gross) and M5 exploration well (560bcf gross), both planned to be drilled in Q2/Q3 2025 and providing helpful catalysts in the next 12 months. These would be able to be developed via Tendirra Phase 2 infrastructure on success. Sound also continues to pursue a farm out to fund seismic on its Sidi Moktar licence, potentially helping fill the drilling hopper for future years.
- ◆ Going forward, we expect completion of the Phase 1 project in Q2 2025 (from Q1 2025 previously), and first gas sales from mid-2025, establishing revenues for Sound. We also expect progression of Tendirra Phase 2 desktop work and funding activities (including closing the farm out and confirming the project debt facility), going into FID in mid-2025. Additionally, there will also be the SBK-1 and M5 wells in Q2/Q3 2025.
- ◆ Overall, Sound continues to make good progress on its Tendirra development, both Phases 1 and 2, with today’s results helping demonstrate this since the beginning of 2024. The farm out is a significant achievement in this regard, which helps materially underpin the full

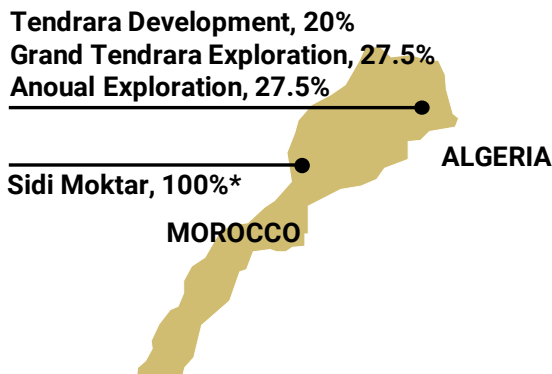
project, and we consider closure of this a distinct near-term catalyst for the shares. Alongside the subsequent project progress discussed above, in time we also look for potential diversification of the Sound portfolio, as management time can begin to be spent elsewhere once the Tendrara operatorship transfers with the farm out, giving the opportunity for new assets and work programmes. We await further news on all of the above.

- ◆ **Forecasts and valuation.** No change to forecasts or valuation.
- ◆ **Conclusion:** Sound holds the Tendrara gas asset onshore Morocco, which contains 305bcf of gross sales gas, or 10.2mmboc 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 recently announced 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 c.US\$13m of cash back costs for Sound) and leave Sound on 20%. The farm out should close in the coming weeks, and we then 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, we expect closure of the farm out followed by Phase 2 FEED work, completion of Phase 1 in early 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	0.78p
Market Capitalisation	£16m
Shares Out	1,993m
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

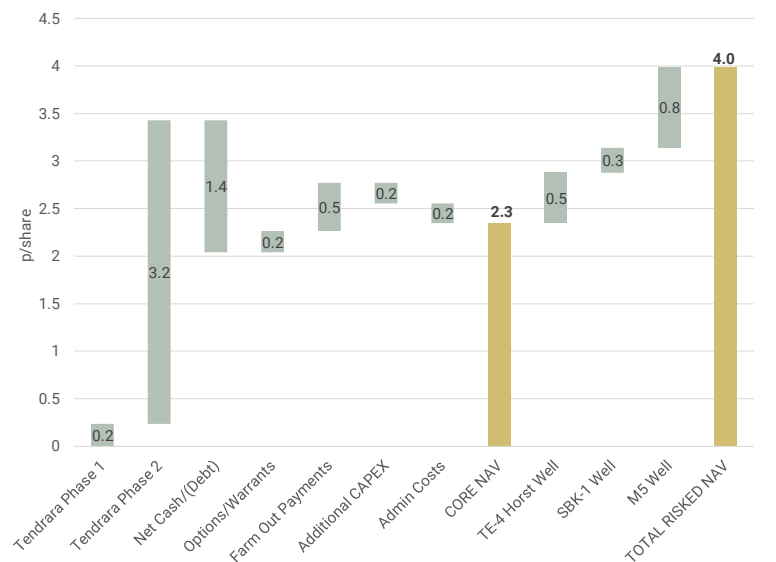
Net Cash/(Debt)					(39.3)	(1.4)
Options/Warrants/Converts					6.3	0.2
Farm Out Payments					14.5	0.5
Additional CAPEX					(6.2)	(0.2)
Admin Costs					(5.9)	(0.2)
CORE NAV				2.9	67	2.3

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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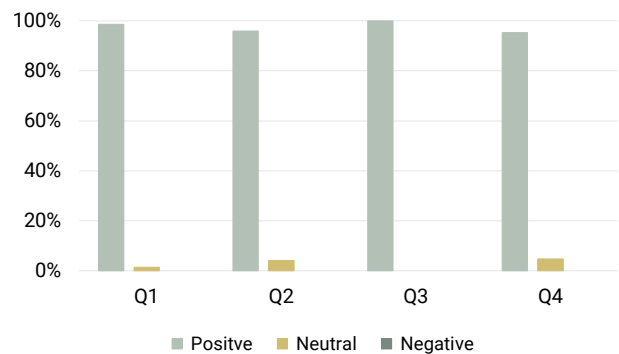
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