

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, Q2

Price performance (p)



Source: FactSet

Financial forecasts

Y/E Dec (£m)	2023A	2024A	2025E	2026E
Net Prod'n (mboe/d)	--	--	0.01	0.34
Gas Price (US\$/mcf)	--	--	8.1	8.1
Sales	--	--	0.2	4.7
EBITDA	(2.2)	(4.5)	(1.7)	1.6
Free Cash Flow	(5.1)	(9.1)	(10.4)	(15.1)
Net Cash/(Debt)	(30.3)	(29.8)	(41.3)	(58.0)
DPS (p)	--	--	--	--

Valuation (p/share)	
Core NAV	2.4
Total Risked NAV	4.1
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

### Full year 2024 results

- ◆ Sound has released its full year 2024 results, showing the positive cash impact of the Tendrara farm down completed in Q4 2024, and highlighting ongoing progress on Tendrara Phase 1 development and upcoming Phase 2 FID.
- ◆ **Full year results highlight cash availability.** Sound's results report an end 2024 cash number of £7.9m, from £3.0m at the end of 2023. This reflects the £9.2m of net cash payments received under the Tendrara Managem farm out, alongside CAPEX of £5.4m and G&A of £3.7m (which was higher than previously due to farm out costs – we forecast a significantly lower level going forward), alongside a positive working capital swing and debt drawings.
- ◆ This leaves net debt at the end of 2024 at £29.8m, marginally ahead of our £28.9m forecast overall.
- ◆ These results highlight the significant improvement in the company's funding position for Tendrara post the farm out, which has provided cash while also reducing Sound's CAPEX payments due to the company's lower stake. Sound recently announced a change in the contract for its Phase 1 micro-LNG facility from a lease to an EPC contract, aimed at underpinning project timescales, and we continue to expect locally sourced project level debt to be available to Sound to make up any consequent shortfall in resources (the new contract increases 2025 CAPEX by US\$3.1m for Sound's 20% interest). Moving to the EPC contract also removes the US\$38k/day micro-LNG facility lease rate, likely to save Sound a material c.US\$1.5m/year in OPEX once the project is online, we expect.
- ◆ **Tendrara project continues to advance towards Phase 1 first gas and Phase 2 FID.** Sound's Tendrara Phase 1 development (which we expect to develop 39bcf of sales gas and produce at 10mmcf/d, both gross) continues to make good progress. Much of the processing equipment (including the amine towers, LNG cold box, and power generation) has now arrived onsite and been installed, and the LNG storage tank has now had its roof installed and is in the final phase of construction. First gas/LNG sales continue to be expected in Q4 2025.
- ◆ For Tendrara Phase 2, which is planned to be tied into the regional GME gas pipeline and develop 265bcf of gross sales gas, progress towards FID continues. This includes the process with Phase 2 project debt provider Attijariwafa Bank (where an agreed debt facility is already in place), and Tendrara project operator Managem has confirmed plans to take Phase 2 FID during 2025.
- ◆ This is all positive momentum at Tendrara, continuing to work towards first gas this year. It is also reassuring to see the expectation of Phase 2 FID in 2025 maintained now that Managem has taken over as operator. Phase 2 represents the bulk of the value at Tendrara, but the project would also include infrastructure and a pipeline connection that could then be used to commercialise other regional discoveries, making it all the more important. We await further news on Phases 1 and 2 over the coming months.
- ◆ **Exploration wells continue to be pursued.** As part of its Managem farm out, Sound is also carried for planned exploration wells on SBK-1 (91bcf gross) and M5 (560bcf), nearby Tendrara. The JV requires various government approvals (including around licence phases and work programmes) before these wells can go ahead, but the wells could still come through and represent important catalysts during 2025. We await further updates.
- ◆ **New assets continue to be reviewed.** Having now transferred operatorship of Tendrara to Managem, Sound can be expected to have increasing management time to commit to potential new assets. There is a wide field of possibilities here, with the potential to add production volumes and operational activity, in new countries, driving portfolio diversity and

growth. While this process is currently relatively early stage, Sound will have an increasingly cash flow generative platform to use here going forward.

- ◆ **Forecasts and valuation.** Our P&L forecasts remain unchanged, though we adjust our net debt numbers to account for the 2024 outturn, shown below.

### Change to forecasts

Year To: December (£m)	2025E New	2025E Old	% change	2026E New	2026E Old	% change
Net Prod'n (mboe/d)	0.01	0.01	n/a	0.34	0.34	n/a
Gas Price (US\$/mcf)	8.1	8.1	n/a	8.1	8.1	n/a
Sales	0.2	0.2	n/a	4.7	4.7	n/a
EBITDA	(1.7)	(1.7)	n/a	1.6	1.6	n/a
Free Cash Flow	(10.4)	(10.4)	n/a	(15.1)	(15.1)	n/a
Net Cash/(Debt)	(41.3)	(40.3)	n/a	(58.0)	(57.0)	n/a
DPS (p)	–	–	n/a	–	–	n/a

Source: Zeus

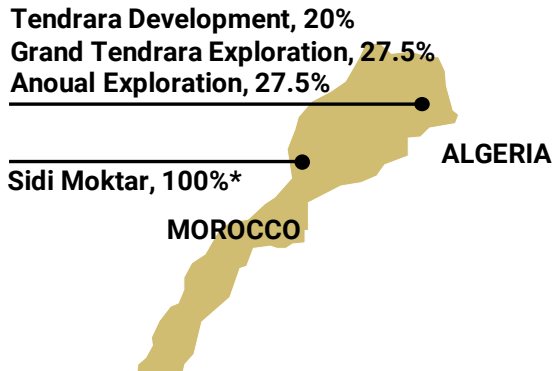
- ◆ On valuation, this adjusts for the 2024 results and for rolling over our valuation date. Our total risked NAV increases from 3.9p to 4.1p.
- ◆ **Conclusion:** Sound holds the Tendrara gas asset onshore Morocco, which contains 305bcf of gross sales gas, or 10.2mmboe net to Sound's 20%. Phase 1 development is already underway, with first gas sales at 10mmcf/d gross (0.3mboe/d net) via a micro-LNG facility expected in Q4 2025. Phase 2 is substantially larger, targeting 42mmcf/d gross (an additional 1.4mboe/d net). Sound recently closed a significant farm out to Moroccan-based natural resources player Managem which, alongside project debt, is expected to see Phase 2 fully funded and leave Sound on 20%. Now that the farm out has closed we expect progression of FEED, going into Phase 2 FID in late 2025, and first gas sales from Phase 2 in early 2028. Once Phase 2 is onstream, our long-term forecasts imply Sound EBITDA of £19m and FCF of £14m – 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, targeted 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 Q4 2025, first gas sales from Phase 1 and also Phase 2 FID both in Q4 2025, and the two exploration wells – a busy overall programme. Our total risked NAV is 4.1p, 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 2024	(£30m)

## Morocco Asset Locations



## Summary Income Statement (£m)

Year to Dec	2023A	2024A	2025E	2026E	2027E
Sales	--	--	0.2	4.7	4.7
Royalty	--	--	--	--	--
OPEX	--	--	(0.1)	(1.3)	(1.3)
DD&A	(0.2)	(0.1)	(0.1)	(1.6)	(1.6)
G&A	(2.2)	(4.5)	(1.7)	(1.8)	(1.8)
Op Profit	(2.4)	(4.6)	(1.7)	(0.0)	(0.1)
EBITDA	(2.2)	(4.5)	(1.7)	1.6	1.6
Net Interest	(2.0)	(2.3)	(2.3)	(2.8)	(4.0)
PBT (Adj)	(4.3)	(6.9)	(4.0)	(2.9)	(4.1)
Tax	(0.0)	--	--	--	--
PAT (Adj)	(4.3)	(6.9)	(4.0)	(2.9)	(4.1)
EPS (Adj)	(0.23p)	(0.34p)	(0.19p)	(0.14p)	(0.20p)

## Summary Cashflow Statement (£m)

Year to Dec	2023A	2024A	2025E	2026E	2027E
Working Capital	0.4	1.7	--	--	--
Cash Tax	(0.1)	--	--	--	--
Op CF	(1.5)	(2.3)	(1.4)	1.9	1.8
Dev't CAPEX	(2.3)	(4.8)	(7.7)	(13.6)	(11.8)
Expl CAPEX	(0.7)	(0.7)	--	(2.1)	--
Acquisitions	--	9.2	--	--	--
Investing CF	(2.9)	3.8	(7.7)	(15.7)	(11.8)
Free CF	(5.1)	(9.1)	(10.4)	(15.1)	(12.9)
Net Borrowings	4.4	4.5	6.5	15.1	12.9
Interest Paid	(0.4)	(1.2)	(1.3)	(1.3)	(3.0)
Financing CF	3.8	3.2	5.2	13.8	10.0
Net Change in Cash	(0.6)	4.7	(3.9)	--	--
Net Cash/(Debt)	(30.3)	(29.8)	(41.3)	(58.0)	(72.0)

## Summary Balance Sheet (£m)

Year to Dec	2023A	2024A	2025E	2026E	2027E
PPE & Intangibles	192.9	24.6	32.3	46.3	56.5
Receivables and Inventories	1.8	3.3	3.3	3.3	3.3
Cash and Equivalents	3.0	7.9	4.0	4.0	4.0
Total Assets	204.2	58.4	62.2	76.2	86.4
Payables	2.5	3.7	3.7	3.7	3.7
Debt	33.3	37.7	45.3	62.0	76.0
Total Liabilities	37.5	41.4	48.9	65.6	79.6
Equity	166.7	17.0	13.2	10.6	6.7
Liabilities + Equity	204.2	58.4	62.2	76.2	86.4

## Valuation and Production Data

Discount Rate	10.0%
LT US\$/£	US\$1.30
Diluted NOSH (m)	2,274m

Year to Dec	2023A	2024A	2025E	2026E	2027E
Brent Oil Price (US\$/bbl)	82.1	79.9	70.0	70.0	65.0
Sound Gas Price (US\$/mcf)	--	--	8.1	8.1	8.1
Net Oil Production (mbbl/d)	--	--	--	--	--
Net Gas Production (mmcf/d)	--	--	0.1	2.1	2.1
Total Net Production (mboe/d)	--	--	0.01	0.34	0.34
Unit OPEX (US\$/boe)	--	--	(27.9)	(13.6)	(13.6)
Unit OCF (US\$/boe)	--	--	(344.5)	19.4	19.1
Unit FCF (US\$/boe)	--	--	(2,601.1)	(156.9)	(134.0)

## 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	10.0	0.4	12.5	0.4
Tendirra Phase 2	20%	9	12.6	3.8	94.8	3.2
Total Development		10		4.2	107	3.6

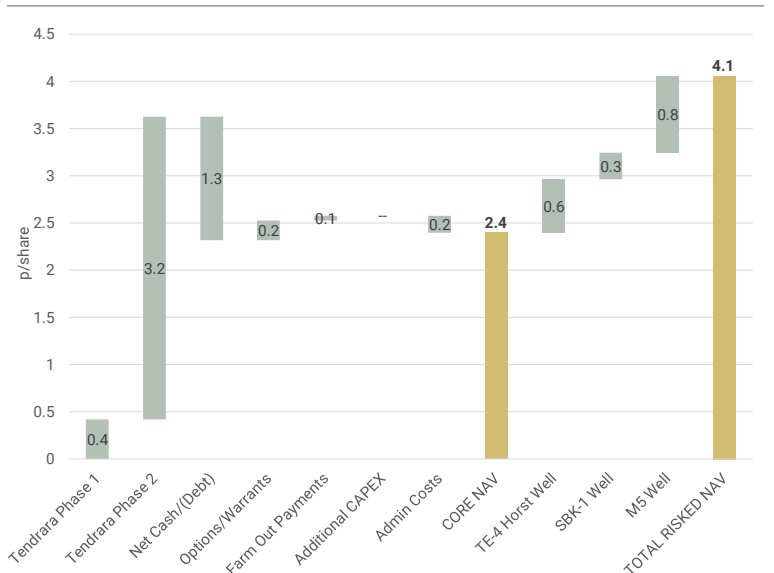
Net Cash/(Debt)	(38.8)	(1.3)
Options/Warrants/Converts	6.3	0.2
Farm Out Payments	1.5	0.1
Additional CAPEX	--	--
Admin Costs	(5.4)	(0.2)
<b>CORE NAV</b>	<b>3.0</b>	<b>71</b>
		<b>2.4</b>

## Exploration/Appraisal Upside

TE-4 Horst Well - Tendirra	27.5%	8	6.7	1.9	16.8	0.6
SBK-1 Well - Tendirra	27.5%	4	6.7	1.0	8.4	0.3
M5 Well - Anoual	27.5%	26	6.2	5.4	24.0	0.8
Total Exploration/Appraisal		38		8.2	49	1.7

TOTAL CORE + UPSIDE NAV				11.2	120	4.1
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## NAV Distribution Chart



Source: Zeus, Company, Bloomberg, FactSet

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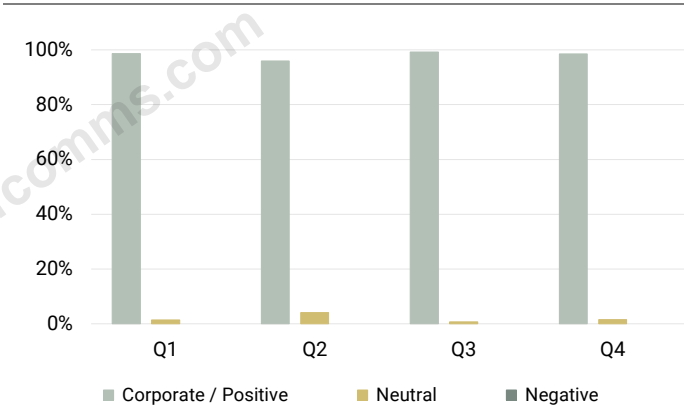
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