

28 June 2023

Stock Data

Ticker	SOU LN
Share Price:	1.40p
Market Cap:	£26m

Company description

Sound is a transition energy company with strong ESG credentials and a clear route to first gas production and revenues within the next 12M through its low-cost onshore gas development in Morocco.

Price Chart



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Debt project funding offer received

Sound Energy announced the receipt of a conditioned offer made by Attijariwafa bank of ~\$237m debt project funding for the Phase 2 Tendirara development in Morocco. The Company, on behalf of the Tendirara Production Concession partners, will now work with its EPC contractors and officials to satisfy the conditions precedent.

We reiterate our BUY rating and 4.6p/share target price.

Attijariwafa makes conditioned offer of project debt financing

Sound, on behalf of the Tendirara Production Concession partners, has received a conditioned offer from Attijariwafa bank for the arrangement of project debt financing for the Phase 2 development of Sound Energy's Tendirara Production Concession. Attijariwafa has agreed to fully underwrite a maximum project finance facility of 2.365bn Dirhams (c.\$237m) for a 12-year term, including a 2-year grace period from first drawdown, which it plans to loan to a newly incorporated Tendirara Production Concession partner special purpose vehicle (SPV) incorporated under Moroccan law. The field development partners in the SPV will be able to select from fixed, variable and fully floating interest rate alternatives with at customary margins for hydrocarbon infrastructure development project financing facilities.

Working with EPC contractors to satisfy conditions precedent

Attijariwafa bank, a Moroccan multinational bank and one of the leading banks in Morocco, has offered the debt financing subject to the conditions precedent (CP) to the conditioned offer being satisfied prior to a long stop date of 30 September 2023. The CPs effectively fall into the standard three requirements: government approvals, engineering documentation, and a solid gas sales agreement. We note that drawdown from the debt facility is conditioned to simultaneous capital contribution to ensure a maximum gearing level of 65%, highlighting the importance of the overall package. Sound commented that most of the CPs to the offer are to be expected and that it has already been advancing a number of these with the EPC contractors for some time.

Improved visibility on the debt and equity package needed for Phase 2

Sound is currently in a 45-day period of exclusivity with Calvalley Petroleum (private) for a partial divestment of a 40% stake in the Tendirara and Grand Tendirara licences (75% WI). On completion, Sound believes the deal would provide the required equity financing to achieve first gas under its Phase 2 development plan and also fund the costs of drilling an appraisal well on the TE-4 Horst. In our view, attracting a highly regarded industry partner is essential to offset risk, mitigate costs and receive independent validation on the prospectivity and commerciality of the resource base. With the debt financing package now also progressing in tandem, we think that this should remove some of the funding overhang on the shares caused by the market's restlessness after a long 12M process to receive the term sheet.

Reiterate BUY rating and 4.6p/share TP

While the financing process has been drawn-out, this will be the first financing of its size for a gas field development in Morocco and has likely required a great deal of work behind the scenes by management to bring the complete package together. Now, with the indicative terms on the table for both the equity and debt financings needed to develop the higher impact Phase 2 pipeline gas project, we feel that the end game is in sight. Our BUY rating and 12-month target price of 4.6p/share are based solely on the risked value of the Core NAV assets plus the TE-4 Horst appraisal well.

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***SP Angel acts as Corporate Broker to Sound Energy plc**