

19 February 2024

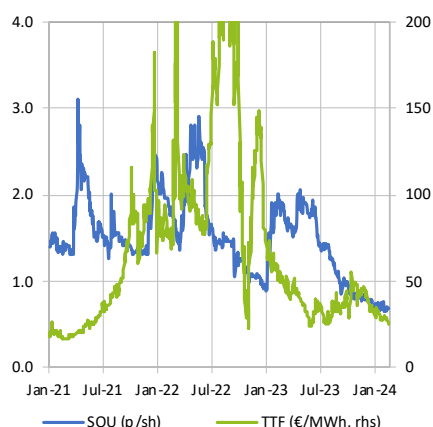
Stock Data

Ticker	SOU LN
Share Price:	0.765p
Market Cap:	£15m

Company description

Sound is a transition energy company with strong ESG credentials and a clear route to first gas production and revenues in 2024 through its low-cost phased development in Morocco, with significant resource upside to develop.

Price Chart



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Timing slips, but sticking to the plan

Last Thursday, Sound's Executive Chairman presented a comprehensive update to investors ([LINK](#)) on the Company's Moroccan developments, liquidity position and the status of its proposed transactions with Calvalley and Attijariwafa Bank.

The key new information was confirmation that the timing of first gas from the Phase 1 Micro-LNG project had slipped from 1H24 but was still expected onstream this year.

Phase 1 activities intensifying ahead of first gas later this year

Sound pointed to delays in the construction of Italfiuid's vendor-financed Phase 1 Micro-LNG plant, which is not under the control of the Company. The issue appears to be that Italfiuid will be late in constructing the 6,200 cubic metre LNG storage tank, such that the Company is looking at options to accelerate that component or to bring in smaller temporary facilities that will still allow Afriquia Gaz to start-up their LNG production in 2H24. The next expected operational news flow is for the rig to arrive in late March to install the production tubing on the TE-6 and TE-7 gas wells.

Liquidity remains tight, but prudently managing costs

Sound has about \$6m left to draw on the \$18m Afriquia Gaz facility that is funding the Phase 1 development and has also reduced the monthly cash burn rate to £0.25m ahead of closing the Calvalley deal, which should deliver back-costs that bolster its working capital position. Attijariwafa Bank has completed the legal and technical due diligence and has made a conditioned MAD2.365bn (~\$235m) offer for Phase 2 senior debt financing, subject to certain conditions being met such as gas sales agreement amendments, project development contracts and Government approvals.

Divestment at asset level minimises dilution to shareholders

Calvalley Petroleum (private) has completed its due diligence for the acquisition of a 40% stake from Sound in the Tendrara and Grand Tendrara licences (75% WI). 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. On completion, Sound believes the deal will provide the required equity financing to achieve first gas under the Phase 2 development plan, which is preferable to an equity raise at this price level that would dilute existing shareholders.

Targeting reactivation of exploration activities next year

Whilst management has strategically prioritised its gas monetisation strategy through the phased development of the TE-5 Horst (Tendrara Production Concession), the Company has also high graded the extensive exploration portfolio within the Greater Tendrara and Anoual exploration permits surrounding the development. Following completion of the deal, we would expect the partners to prioritise drilling an appraisal well on the adjacent TE-4 Horst structure, which would be fully funded by Calvalley.

No change to our BUY rating and 4.6p/share TP

While confirmation of a 6M delay to Phase 1 first gas was disappointing, the share price was up over 10% on Friday as investors were reassured by the Company's ongoing progress towards first production and revenues this year. In addition, all of the building blocks for Phase 2 are in place, save confirmation of the detailed agreements, and we look forward to Sound completing the project debt financing with Attijariwafa Bank and the partnership deal with Calvalley that should fully unlock the value of the Tendrara resource. Management is sticking to the plan.

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*SP Angel acts as Corporate Broker to Sound Energy plc