

WENTWORTH RESOURCES PLC (AIM: WEN)

September 03, 2020

Share price: £0.16

Target: £0.40

20% dividend increase is a testament to Wentworth's strength

- 1H20 gross production (58.3 mmcf/d) was in line with previous indications.
- Unsurprisingly, given the slow pick-up in gas demand in the aftermath of COVID-19, FY20 production guidance has been marginally reduced from 65-75 mmcf/d to 60-70 mmcf/d.
- Production has already increased to ~68 mmcf/d over July and August, including ~72 mmcf/d for August.
- Importantly, with US\$16.7 mm in cash at the beginning of September and no debt, the company is increasing its interim dividend by 20% to US\$1.2 mm with an overall expected total dividend distribution of ~US\$3.6 mm (1.43p per share) for FY2020. This represents ~9% dividend yield.

High yield. Sustainable dividend.

Wentworth is expected to pay 1.43p per share in dividends for 2020. The resulting ~9% dividend yield is one of the highest offered by the very small number of UK listed E&Ps that are still paying a dividend. Importantly Wentworth is able to pay this distribution while maintaining a healthy cash balance even though gas sales are relatively low (60-70 mmcf/d gross). With TPDC now settling its invoices and gas realizations being effectively fixed, this level of distribution looks to be sustainable. We also note that the progressive recovery of gas demand and the near-term extension of the Kinyerezi-1 power station with 20-30 mmcf/d additional gross demand imply an increase in sales, revenue and cashflow. Wentworth's Mnazi Bay field can already deliver 100 mmcf/d production without any additional capex.

Value name

The shares trade at EV/DACF multiples of 1.9x in 2020 and 0.7x in 2021. Our NAV based on the company's 2P reserves stands at £0.27 per share. Growing sales to 110 mmcf/d would take our 2P NAV to £0.32 per share. Extending the Mnazi Bay licence would unlock the 3P case with an overall value of £0.57 per share for the entire company.

Rating & target	Old	New	
Target	n.a.	£0.40	
Yield		9%	
Implied total return		n.a.	
Share data	2019	2020e	2021e
Shares dil., mm	193	193	193
Mkt cap, US\$m	\$43	\$40	\$42
EV, US\$m	\$31	\$22	\$15
Financial data	2019	2020e	2021e
Gas, mmcf/d	22.2	21.5	27.1
Liquids, bbl/d	0	0	0
Total boe/d (6:1)	3,704	3,587	4,525
CFO, US\$m	\$13	\$10	\$14
Net capex, US\$m	\$0	\$0	\$1
Net debt, US\$m	(\$12)	(\$18)	(\$27)
CFPS dil., US\$/shr	\$0.04	\$0.05	\$0.07
EPS dil., US\$/shr	\$0.01	\$0.02	\$0.00
Valuation	2019	2020e	2021e
Share price, £/shr	£0.17	£0.17	£0.17
EV/DACF	3.4x	1.9x	0.7x
EV per boe/d (US\$)	\$8,382	\$6,242	\$3,236
Net asset value			
CNAV, £/shr			£0.32
RENAV, £/shr			£0.39
Unrisked NAV, £/shr			£0.57
P/CNAV			0.5x
P/RENAV			0.4x
P/ENAV			0.3x

All figures in US\$ unless otherwise noted

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Figure 1. Financial & operating information

Wentworth Resources Limited (WRL LN)

Financial & Operating Information		2019a	2020e	2021e	2022e	2023e	2024e
Commodity Prices							
Brent	US\$/bbl	\$63.90	\$38.74	\$47.52	\$57.52	\$60.00	\$60.00
UK NBP	US\$/mcf	\$7.30	\$7.10	\$7.10	\$7.14	\$7.14	\$7.58
USD/CAD	US\$/C\$	\$0.76	\$0.77	\$0.78	\$0.80	\$0.81	\$0.81
USD / GBP	US\$/£	\$1.35	\$1.25	\$1.31	\$1.32	\$1.32	\$1.32
Production							
Oil and Liquids	bbl/d	0	0	0	0	0	0
Natural Gas	mmcf/d	22	22	27	27	27	35
Total (6 mcf = 1 boe)	boe/d	3,704	3,587	4,525	4,525	4,525	5,856
% Oil and Liquids	%	0%	0%	0%	0%	0%	0%
Netbacks							
Realized Price	US\$/boe	\$19.23	\$19.52	\$19.90	\$20.40	\$20.91	\$21.44
Royalties	US\$/boe	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Production & Transport Costs	US\$/boe	\$3.95	\$2.99	\$2.99	\$2.99	\$2.99	\$2.99
Operating Netback	US\$/boe	\$12.88	\$14.05	\$14.42	\$14.86	\$15.31	\$15.77
Taxes	US\$/boe	(\$7.27)	(\$6.71)	(\$5.92)	(\$6.28)	(\$6.35)	(\$5.71)
Cash Flow Netback	US\$/boe	\$5.61	\$7.33	\$8.50	\$8.58	\$8.96	\$10.06
Government Take	%	56.4%	47.8%	41.1%	42.3%	41.5%	36.2%
Financials							
Cash Flow (CFO)	US\$m	\$13	\$10	\$14	\$14	\$15	\$22
CFPS - diluted	US\$/shr	\$0.04	\$0.05	\$0.07	\$0.07	\$0.08	\$0.11
EBITDAX	a US\$m	\$3	\$10	\$14	\$14	\$15	\$22
E&D Capex	US\$m	\$0	\$0	\$1	\$5	\$16	\$0
A&D Capex, Net	US\$m	\$0	\$0	\$0	\$0	\$0	\$0
Total Net Capex	US\$m	\$0	\$0	\$1	\$5	\$16	\$0
Total Net Capex/CFO	x	0.2x	0.0x	0.0x	0.1x	0.4x	1.1x
Leverage							
Net Debt	US\$m	(\$12)	(\$18)	(\$27)	(\$32)	(\$27)	(\$45)
Net debt/CFO (Trailing)	x	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Entry Net Debt/CFO	x	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Capital Structure							
Basic Shares o/s @ YE	mm	186	186	186	186	186	186
Diluted Shares o/s @ YE	mm	193	193	193	193	193	193
Market Capitalization	US\$m	\$43	\$40	\$42	\$42	\$42	\$42
Enterprise Value	US\$m	\$31	\$22	\$15	\$10	\$15	(\$3)
Dividends & Sustainability							
Dividends	US\$m	\$1	\$3	\$4	\$4	\$4	\$4
Dividends	\$/shr	\$0.00	\$0.01	\$0.02	\$0.01	\$0.02	\$0.01
Dividend Yield	%	2.5%	8.5%	9.1%	9.1%	9.1%	9.1%
Free Cash Flow	US\$m	\$13	\$10	\$13	\$9	(\$1)	\$22
Cash Use/CFO	%	0%	2%	6%	37%	108%	0%
Performance							
Prod. Per Shr Growth (Y/Y) - dil.	%	-17%	-1%	26%	0%	0%	29%
PPS Growth (Y/Y) DDA - dil.	b %	n.a.	n.a.	121%	277%	4%	-187%
CFPS Growth (Y/Y) - dil.	%	-36%	29%	46%	1%	5%	45%
CFPS Growth (Y/Y) DDA - dil.	b %	%	%	%	%	%	%
ROCE	%	n.a.	3%	8%	8%	9%	14%
Net Asset Value							
CNAV (Atax) - diluted	£/shr	£0.32					
RENAV (Atax) - diluted	£/shr	£0.39					
Unrisked NAV (Atax) - diluted	£/shr	£0.57					
P/CNAV	x	0.5x					
P/RENAV	x	0.4x					
P/Unrisked NAV	x	0.3x					
Valuation		2019a	2020e	2021e	2022e	2023e	2024e
Share Price, YE/Current	\$/shr						
P/CF	x	5.8x	4.2x	3.0x	3.0x	2.8x	2.0x
EV/DACF	x	3.4x	1.9x	0.7x	0.4x	0.7x	-0.3x
Target EV/DACF	x	n.a.	n.a.	0.0x	n.a.	n.a.	n.a.
EV per boe/d	\$/boepd	\$8,382	\$6,242	\$3,236	\$2,157	\$3,309	(\$469)
EV per 2P boe	US\$/boe	\$6.13	\$6.49	\$4.90	\$4.03	\$4.85	\$1.88
EV per 2P boe, with FDC	US\$/boe	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

^{a)} EBITDAX = Pre-Int. & Pre-Tax Cash Flow; ^{b)} DDA = Debt-and-Dividend-Adjusted

^{c)} CNAV incl. 2P reserves, RENAV incl. 2P reserves + Risked LT inventory upside, ENAV incl. 2P reserves + Unrisked LT inventory upside

Source: Auctus Advisors, Company Disclosures

**Futures strip as of 3-Sep-20

Figure 2. NAV Table

Asset Valuation	WI Reserves and Resources		EMV (US\$ mm)	Risk		% Total
	(mmboe)	Unrisked (US\$ mm)		Riskd £/Share	Unrisked £/Share	
Net Cash YE20		18	18	0.07	0.07	18%
FY20 Dividend		3	3	0.01	0.01	4%
G&A		-30	-30	-0.12	-0.12	-32%
Mnazi Bay (Msimbati Area) 2P - 85 mmcf/d plateau	19	75	75	0.31	0.31	79%
Incremental Mnazi Bay (Msimbati Area) 2P - 110 mmcf/dplateau from 2024	6	11	11	0.05	0.05	12%
Total Core NAV		77	77	0.32	0.32	81%
Mnazi Bay development upside - licence extension (3P)	33	60	18	0.07	0.25	19%
Exploration leads	100	0	0	0.00	0.00	0%
Total Risked Exploration		60	18	0.07	0.25	19%
Total Risked NAV		137	95	0.39	0.57	100%
Unrisked NAV		137		0.57		

Source: Auctus, Company Disclosures

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