Sound Energy plc

Inclusion of gas liquefaction within the CPF EIA approval, now enables the micro liquified natural gas ('mLNG') development planned as Phase 1 of the Concession field development plan to get underway. Phase 2, the Tendrara Gas Export Pipeline ('TGEP') led full field development, also continues to move forward having now formally secured its necessary land access approvals. Indeed, the last major hurdle is now just the tariff agreement with respect to this access. With the passing of this further significant milestone, negotiations continue with both the originally proposed purchaser (now of course on a non-exclusive basis) and other parties that had also expressed an interest what has become an increasingly de-risked asset. While any formal outcome from the complex negotiation and diligence processes now underway is unlikely to be seen until 2H 2020, the expectation of now being able to bring mLNG onstream in good time using well-established, technologies backed by supported by equipment providers and potential funding partners, offers a new prospective source of free cash that, in turn, could be utilised while anticipating successful completion of the proposed farm-down. As TPI detailed in initiation research released earlier this month, while as much as a year's slippage of the original development timetable could be the eventual outcome, SOU's share price appears to belie the true scale of the opportunity presented in this highly prospective, virgin territory.

Morocco's largest onshore-focused upstream gas company today provided an update on its Eastern Morocco licences ('the Portfolio'), in which it confirmed receipt of a further Environmental Impact Assessment ('EIA') approval and land corridor rights in respect of the TGEP.

Regarding SOU's February's announcement regarding plans to pursue the first phase of the TE-5 Horst development at the Tendrara Production Concession via mLNG production, the Group has now received the EIA approval from the Moroccan Ministry of Energy, Mines & Environment related the proposed gas treatment plant and compression station, including the option for gas liquefaction.

While continuing to progress the TGEP-led full field development of the Concession alongside the nLNG production strategy, following discussions with representatives of Morocco's Ministry of Interior and of the Forestry Department in order to obtain rights through a long-term lease agreement for a 50m wide corridor along the entire 120 km length of the TGEP, SOU has now also formally received the land access approvals from the Ministry. This covers 99.9% of the entire length of the 50m wide TGEP corridor with the remaining land approvals outstanding covering land required for the three principal blacktop roads and five river crossings along the TGEP route, which are now expected to be sought at a later date, after Final Investment Decision ('FID') is taken. The last major Ministry-negotiated hurdle therefore, remains just to agree the tariff for the land access itself. Representing further important milestones in the process of developing and commercialising the Concession, SOU's Board considers today's news to be key with respect to progressing towards the FID.

Prudent modelling of SOU's discovery alone suggests considerable value is being created as it inexorably moves toward completing full field development. Interest in the Group's surrounding licence areas should also magnify once the Concession demonstrates meaningful production. Industry standard DCF$_{10\%}$ analysis has been based on highly prudent farm-down assumptions and a certified mid-case original gas in place ('OGIP') of 0.65Tcf, leading to clean output of 66MMscf/d commencing Q3'2022E and sustained for 10 full years thereafter. This indicates a Project post-tax NPV$_{10\%}$ of US$587m, and a project IRR of 44%. TPI has assumed SOU holds just a (post-deal) 23.3% WI (compared with 47.5% presently) which, after adjusted for estimated current net debt of £18.4m, derives a valuation of 7.5p/share, although successful negotiation that results in lower dilution, commencement of mLNG extraction and/or further exploration success offers significant upside potential.

Stock Data

Share Price:	1.13p
Target price:	7.50p
Market Cap.:	£13.1m
Shares in issue:	1,156m

Company Profile

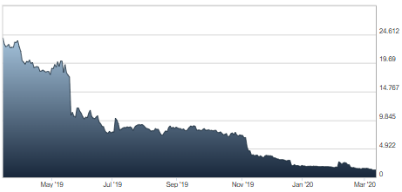
Sector:	Oil, Gas and Coal
Ticker:	SOU.L
Exchange:	AIM

Activities

Sound Energy ('SOU, 'the Group') is a Moroccan exploration company focused onshore gas with a low cost 0.65 Tcf discovery (TE-5 Horst). It has supportive cornerstone investors, multiple strategic partners and a regional gas strategy that is underpinned by strong demand and local pricing.

Website: www.soundenergyplc.com

1-Year Share Price Performance



Source: LSE

Note: Past performance is not an indication of future performance.

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