

Stock Data

Share Price: 2.85p
Market Cap.: £33.1m
Shares in issue: 1,162m

Company Profile

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

Activities

Sound Energy plc ('SOU', 'Sound', '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](https://www.lse.com)

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

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Sound Energy plc

The Moroccan focused upstream oil and gas company yesterday released an update in relation to its micro liquified natural gas ('mLNG') phase 1 development plan for the TE-5 Horst development (the 'Phase 1 Development') at its Tendrara Production Concession (the 'Concession'). The signing of a Heads of Terms ('HoT') and award of exclusivity with a Moroccan conglomerate (the 'Partner'), which has significant domestic liquified petroleum gas, butane and propane distribution and marketing operations, for the purchase of LNG represents an important step toward delivery of Sound's production development plans. Key commercial terms have been outlined along with the proposed Partner's partial funding in the form of both an equity subscription and a secured commercial loan. This is being pursued in tandem with the Concession's full field development plan that is centred around the development of a 120km pipeline and central processing facility (the 'Phase 2 Development').

HoT – LNG Gas Sales Agreement

Under the HoT, the parties have agreed to use their reasonable endeavours to negotiate and enter into a gas sales agreement (the 'Proposed GSA'). Pursuant to this, Sound Energy Morocco East Limited, on behalf of the Concession joint venture partners, will commit, over a period of 10 years from first gas from the Concession, to produce, process, liquefy and sell to the Partner an annual contractual quantity of 100 million standard cubic metres of gas (approximately 4 billion standard cubic feet of gas per year) from the Phase 1 Development. The Partner will commit to an annual minimum 'Take or Pay' quantity of 90 million standard cubic metres of gas, priced within a range of US\$7 to US\$9 per million British thermal units ('mmBTU'), with an indexed formula using a combination of the [European Title Transfer Facility](#) and [United States Henry Hub](#) benchmark indexes.

Modelling Sound's TE-5 Horst discovery

[Prudent modelling](#) of SOU's TE-5 Horst discovery alone suggests considerable value will be created as the Group inexorably moves toward LNG production followed by the commencement of full field development. Interest in its surrounding license areas should also magnify once the Concession demonstrates meaningful production. Based on regional gas pricing, the decade-long Proposed GSA affords the Group protection from the exceptional volatility such as has recently demonstrated by international spot.

Industry standard DCF_{10%} analysis for the prospect 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 adjusting 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 further upside potential. As TPI detailed in its [SOU initiation research](#) released in March 2020, while as much as a year's slippage of the Group's original development timetable might be foreseen and notwithstanding its relatively modest short-term funding needs, the share price still appears to belie the true scale of the opportunity presented in this highly prospective, virgin territory.

Please note that TPI's valuation is based on financial modelling and there is no guarantee that such a valuation will ever be realised, therefore please do not base investment decisions on this valuation alone.

Grant of Exclusivity

Sound signed the HoT with the Moroccan conglomerate on 26 June 2020, pursuant to which it entered into exclusive discussions with the Partner in order to enter into agreements for both the purchase of LNG to be produced from the TE-5 Horst development, as well as the partial financing of the Phase 1 Development by the Partner (the 'Proposed Transaction').

Exclusivity has been granted to the Partner in relation to the Proposed Transaction until 31 December 2020. In this context, Sound and its Partner have agreed to use their reasonable endeavours to conclude the Proposed Transaction on the basis of key commercial terms set out in the HoT.

Proposed Partner project funding details

In order to accelerate the delivery of first gas under the Phase 1 Development Plan, the Partner has also agreed under the HoT to use reasonable endeavours to conclude definitive agreements in respect of a proposed partial financing for the development through:

- A £2 million subscription by the Partner for 159,731,651 new Sound Energy ordinary shares at a price of 1.2521 pence per new ordinary share; and
- A secured commercial loan of \$13.5 million provided by the Partner to the Group in respect of the Phase 1 Development, with an 11.5% coupon and 12-year term.

Negotiations progress regarding mLNG production plant

The Group continues to progress negotiations with potential service providers in relation to the design, procurement, construction and operation of the gas processing and liquefaction unit (the "mLNG Facility") required for the Phase 1 Development and with additional funding partners for the balance of the finance required for the Phase 1 Development.

Despite COVID-19 outbreak restrictions, which have delayed progress of the Phase 1 Development Plan, Sound aims to take a Final Investment Decision ("FID"), subject to the approval of the Concession joint venture partners, during H2 2020.

Sound's Board has cautioned that whilst the HoT is binding during its Term in the grant of Exclusivity and in its recording of the commitment by the Group and the Partner to use reasonable endeavours to conclude the Proposed Transaction based on the key commercial terms set out in the HoT, it remains subject to, *inter alia*, the negotiation and entry of further binding agreements, to the approval of the Concession joint venture partners and to a FID on the Phase 1 Development being taken.

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