AozoraStep

Exit EnQuest: Brace for higher than expected capex

Company:	EnQuest (ENQ LN)	**Market Cap:**	$540mio
Industry:	Oil Producer	**Net debt:**	$1.28bn
Country:	UK, Malaysia	**Revenue:**	$1.5bn ($75 barrel oil, 55k boepd)
Date:	2nd February 2022	**Net Income:**	$0mio ($450mio Depletion) (0%)
Dividend:	-	**Free Cash Flow:**	$450mio (30%)
Entry:	$525mio	**Exit:**	$540mio

Exit: EnQuest sold

When I bought EnQuest I had a cautious view on the upcoming trading update in February, which is likely to be issued tomorrow. Similar to Studio Retail Group, a few competitors have already issued their trading update, such as Tullow Oil, which sold off after the update due to higher capex spending on infrastructure in the current year and more on drilling in the following, leaving production roughly flat year-on-year.

Why sell ahead of the update?

Usually I don't like to trade positions and rather see it as investments that need to hit my target valuation. However, EnQuest had some unexpected downturn in production in late 2021. The Health and Safety Executive issued a series of improvement notices to EnQuest late last year with Magnus production potentially affected due to flaring[1]. This could mean additional capital expenditures, perhaps even to a degree that they need to build gas capturing tools for Magnus to avoid flaring in the future (this is my pure speculation at this point). If this were to happen, EnQuest would likely need to reduce guidance for this year's production as well. For this very simple reason, I decided to sell my position and wait for more insight. The turnaround of EnQuest, however, remains intact, if this scenario does not come into play – especially in light of $100 a barrel of oil…

[1] https://resources.hse.gov.uk/notices/notices/notice_list.asp?ST=N&CO=&SN=F&SF=RN%2C+%7C&EO=LIKE&SV=Enquest%2C+%7C

57 Lansdowne House, Berkeley Square, London W1J 6ER
www.aozorastep.com · david@aozorastep.com

Legal Disclaimer

The contents of this publication have been prepared solely for the purpose of providing information about AozoraStep Capital LLP and the services and products it offers, which are targeted for professional investors only. The opinions and views expressed are those of AozoraStep, may change without notice and should not be construed as investment, tax, legal or other advice. AozoraStep does not guarantee the completeness and accuracy of the information provided and all content can become out of date. Products or services mentioned on this site are subject to legal and regulatory requirements in applicable jurisdictions and may not be available in all jurisdictions. Accordingly persons are required to inform themselves and observe any such restrictions. In respect to investments described on this website, past performance is not a guide to future performance. The value of investments and the income of any financial instruments mentioned on this website may fall as well as rise and may have tax consequences. The performance of AozoraStep is based on a personal track record and audited by Sedulo for the time period Q1 2019 - Q1 2021 only with further audits being done on an occasional basis. AozoraStep Capital LLP is currently not authorized by the FCA, but is in the process of authorization. AozoraStep Capital LLP is registered in England and Wales with registered number OC436835. Registered Office: 57 Lansdowne House, Berkeley Square, London W1J 6ER, United Kingdom. Reproduction or distribution of any materials obtained in this presentation or linking to this presentation without written permission is prohibited.

57 Lansdowne House, Berkeley Square, London W1J 6ER
www.aozorastep.com · david@aozorastep.com