

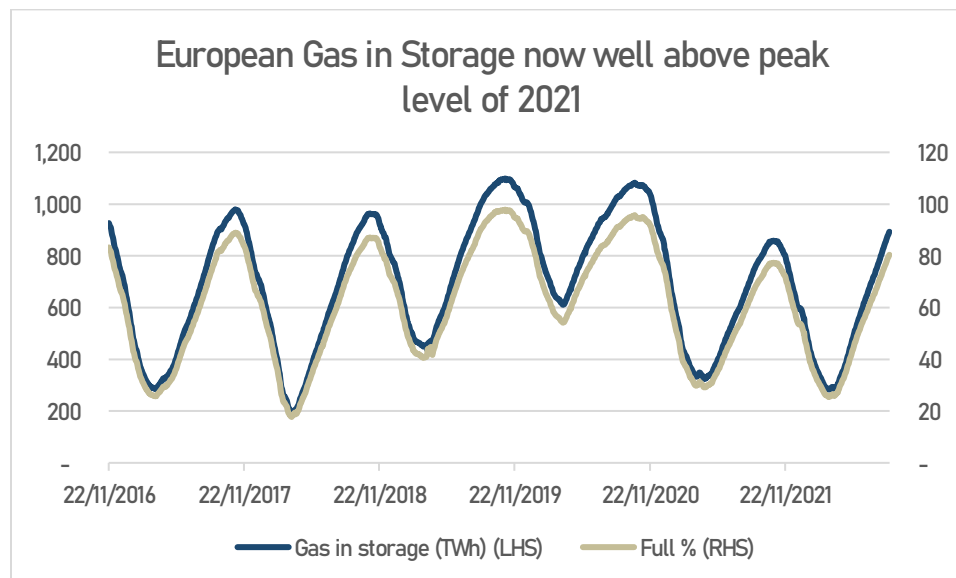
Exit Serica Energy: Gas prices might have peaked

Company:	Serica Energy (SQZ LN)	Market Cap:	£1.2bn
Industry:	Oil & Gas	Net Cash:	£100mio + £400mio pledged for margins
Country:	UK	Revenue:	£1.26bn
Date:	30 th August 2022	Net Income:	£375mio (30%)*
Dividend:	3%	Free Cash Flow:	£400mio (32%)
Entry:	£817mio	Exit:	£1.2bn

*numbers assume 26.832k boepd production, GBp 201 per therm (gas), \$100 a barrel (oil), 60% tax rate

EU gas in storage at 80%

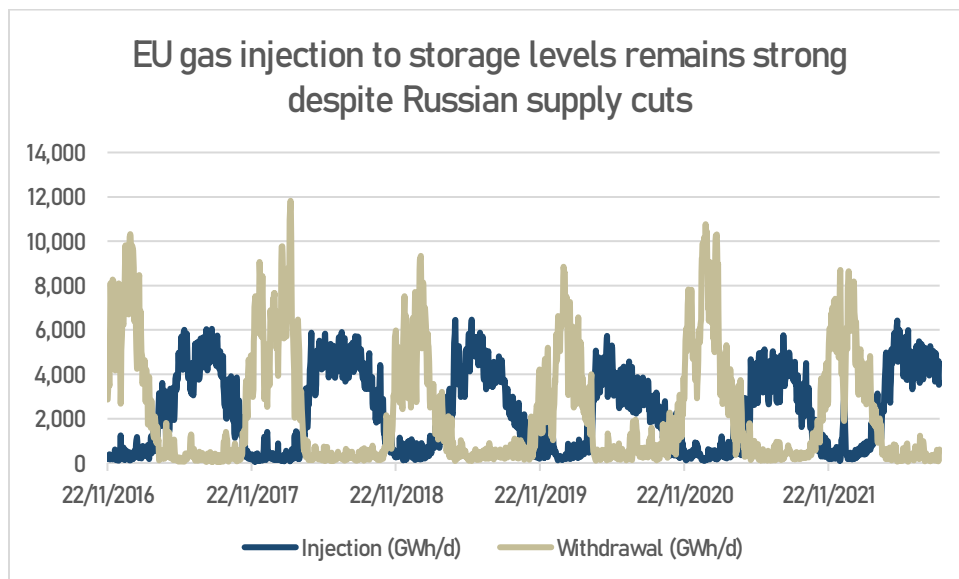
In recent weeks I was quite surprised how gas prices rallied to new all-time-highs on a daily basis, yet storage tanks were filling up rapidly in the EU. But the market turned a corner when German economy minister Habeck said that storage tanks are filling faster than planned. UK's gas per therm for the month ahead collapsed by as much as 30% (yet still at very lofty levels of 450 p/th). Different to previous price declines, Russian intervention did not help gas prices to turn a corner, as Russia stopped gas flows to Engie in France and reduced flows to ENI in Italy. Given that my initial price target was reached and the speed of the decline in gas prices, this made an exit in Serica Energy attractive.



Source: AGSI

Living without Russian gas

I'm beginning to believe that Europe will get through the winter without Russian gas. Even during maintenance period of Nordstream I, the EU was able to grow at a rate of 3-4 TWh a day. As a comparison, in the cold winter of 2017/18 between 1st Nov and 1st April a total of 834 TWh have been withdrawn from EU gas storage, which compares to current storage levels of 893 TWh as of 30th August 2022, while between 1st June and 1st September in 2017 on average 4.689 TWh per day have been injected into storage, which compares to 4.429 TWh per day between 1st June and 1st September 2022 (All AGSI data). This would mean a shortage of 23.66 TWh this year compared to 2017/18. If we have a milder winter like the one in 2019/20, a total of 572 TWh have been withdrawn from storage between 1st Nov and 1st April. Combine this with gas saving efforts by companies and the public, it is hard to imagine Europe running out of gas during this winter unless any unforeseen problems occur on LNG trading routes.



Source: AGSI

Fair valuation assessment

Even if we had reached a peak in gas prices, Serica Energy is still making massive profits (£280mio) when gas prices are at 150p/th vs. recent peak of 550p/th. Since Tuesday, Serica Energy has shed around £200mio in market cap and is currently valued at £1bn or £600mio enterprise value taking their cash hoard into account. This makes it still a very attractive valuation. For this reason, I will continue to monitor possible re-entry points depending on where gas prices are and how the situation looks on supply/demand.



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