



I3 ENERGY

02 NOVEMBER 2020 07:49 GMT - PRODUCTION
02 NOVEMBER 2020 07:50 GMT - DISSEMINATION

Fortune favours the brave

Bloomberg	ticker	I3E LN
Share price	p/shr	4.05
Target	p/shr	10.7
TP upside	%	163%
Shares out	Million	700.1
Fd shares	Million	841.1
Mkt cap	US\$m	37.1
EV	US\$m	50.3

Since i3's two deals were proposed in H1 this year, realised oil and gas prices have risen materially, making the already discounted transactions look even cheaper. Edmonton Light oil prices have risen by over 100% and AECO gas c.65% since the effective date of the larger (Gain) transaction. Since the portfolios were acquired entirely unhedged, this has an immediate impact on group cash flow, with our FY20 operational CF forecasts more than doubling as a result. On the ground operations are also performing ahead of expectations, with production currently running at c.9,400 boepd. We forecast FY21 EBITDA of US\$30m and FCF of US\$17m, of which we expect c.US\$4.9m to be paid out in dividends. At the current share price of 4.05p/shr, this implies an impressive yield of 13.3%. We reiterate our BUY stance with an updated 10.7p/shr target price.

Figure 1: Summary financial forecasts

		2021 [OLD]	2021 [NEW]	% CHG	2022E [OLD]	2022E [NEW]	% CHG
Production, net	kboepd	9.0	9.0	+1%	9.1	9.1	-
Av. Price*	US\$/boe	21.4	22.2	+4%	21.5	22.0	+3%
Revenue	US\$m	70.5	73.4	+4%	71.5	73.2	+2%
EBITDA	US\$m	27.1	29.6	+9%	27.8	29.2	+5%
Margin	%	38%	40%	+6%	39%	40%	+2%
FCF	US\$m	14.6	17.2	+18%	15.3	16.8	+10%
FCF yield**	%	29.3%	46.3%	+58%	30.7%	45.3%	+47%
Dividend yield**	%	8.9%	13.3%	+49%	11.4%	16.4%	+44%

Sources: Mirabaud Securities. *Blended average in-basin price for gas, NGL & oil sales. **Yield at prevailing share price

ANALYST

James Midgley
+44 (0)20 3167 7273
James.midgley@mirabaud-msl.com

Tim Hurst-Brown
+44 (0)20 3167 7276
Tim.Hurst.Brown@mirabaud-msl.com

SALES

Jonathan Colvile
+44 (0) 20 3167 7282
jonathan.colvile@mirabaud-msl.com

Nick Orgill
+44 (0) 20 3167 7283
nick.orgill@mirabaud-msl.com

Pav Sanghera
+44 (0) 20 3167 7284
pav.sanghera@mirabaud-msl.com

Lucas McHugh
+44 (0) 20 3167 7233
lucas.mchugh@mirabaud-msl.com

Jason Woollard
+44 (0) 20 3167 7285
jason.woollard@mirabaud-msl.com

Guy Wheatley
+44 (0) 20 3167 7280
guy.wheatley@mirabaud-msl.com

Higher commodity prices bolster the coffers and underpin FY21 distributions: Consistent with the rise in forward strip prices we have updated our Q4 2020, FY21 and FY22 price assumptions (+21%, +4% and +3%, respectively on a blended basis). After also factoring in better than expected production figures, we estimate an additional US\$6.8m of EBITDA over Q4, with FY21 and FY22 also increasing by 9% and 5%, respectively. To put this into context, the 'extra' cash flow in Q4 '20 alone more than covers our forecasted US\$4.9m to be returned to shareholders next year in the form of dividends. Cash not earmarked for distributions will be used for growth, with the majority of capital likely to be allocated to acquisitions where returns are higher at present. With the company aiming to return some 30% of free cash flow to shareholders, further deals should incrementally boost i3's already impressive >13% yield.

Completion draws a line under the transactions and allows the focus to shift to operations: To date Toscana had been managing the Gain assets under a management and administrative services agreement. Now that the Toscana transaction has completed, the assimilation of the assets should be seamless and immediate (all Toscana staff are being retained) and i3 can now focus on maximising the potential of the new assets. While our forecasts assume natural decline in production, we expect opportunities within the acquired portfolios to boost near term production. Some 200 boepd of Toscana production remains shut in following the drop in oil prices during Q1 this year which we expect to be brought back onstream in due course. Other easy wins, such as infrastructure debottlenecking and well workovers, have the potential to further up production over the coming months.

Valuation and share price catalysts: We have nudged up our target price by 7% to 10.7p/shr driven largely by our updated near term price assumptions (as before set at the midpoint between PDP and 2P NAV). This represents c.165% upside from the current share price. In terms of catalysts, we see the declaration of the company's maiden dividend in Q1 as being key to proving the business model and attracting income-hungry investors. Meanwhile, new deal flow and/or progress in farming out Serenity would provide further out-of-the-blue upside, not to mention continuing strength in commodity prices (in particular domestic, AECO, gas).

I3 ENERGY

Figure 2: Valuation summary table

NET ASSET VALUE									
Asset	Gross		Net		Unrisked		Risked		
	mmbœ	Interest	mmbœ	US\$/boe	US\$m	p/shr	CoS	US\$m	p/shr
Canada 2PDP reserves	n/a	n/a	26.0	2.9	77	7.0	100%	77	7.0
Deduct: net debt*					(13)	(1.2)		(13)	(1.2)
Add: corporate items					3	0.3		3	0.3
Core NAV			26.0		66	6.0		66	6.0
Canada 2P reserves	n/a	n/a	32.5	4.3	138	12.6	75%	104	9.4
2P NAV			58.5		205	18.6		170	15.5
Serenity	17.5	100%	17.5	10.34	181	16.4	30%	54	4.9
Total NAV			76.0		386	35.0		225	20.4

Valuation assumptions:

Brent price: US\$45/bbl 2021, US\$50/bbl 2022, US\$55/bbl 2023 & US\$60/bbl flat thereafter.

NGL price (at local sales point): 45% of Brent long term.

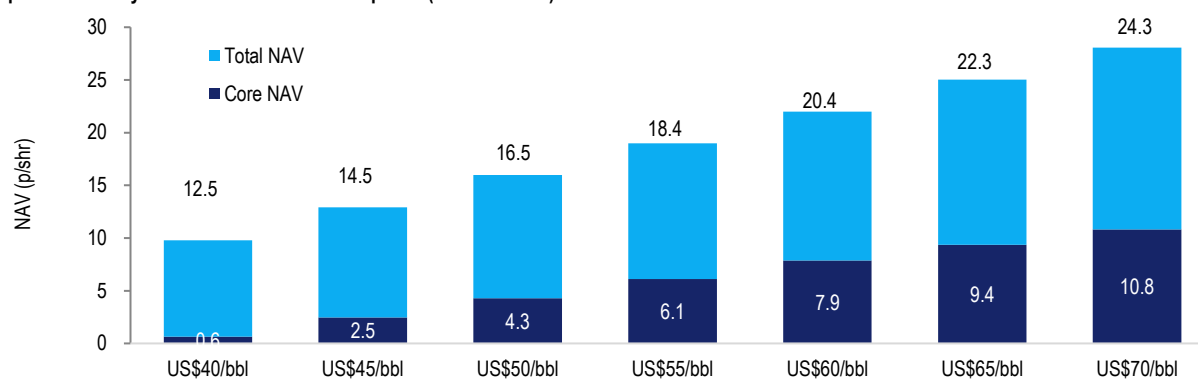
Henry Hub gas price: US\$3.00/mcf 2021, US\$2.70/mcf 2022, US\$2.5/mcf 2023, US\$3/mcf flat thereafter.

Discount rate 10%.

1.31 US dollar / sterling.

700.1m ordinary shares outstanding. 141.03m options and warrants outstanding with exercise prices 0.01p-11p/shr.

Oil price sensitivity – NAV at various flat Brent prices (2021 onwards):



Source: Mirabaud Securities. *Forecast net debt at YE20.

I3 ENERGY

Figure 5: Financial summary – P&L, cash flow and balance sheet

FYE 31ST DEC		2019	2020E	2021E	2022E	2023E
Net oil & gas production	boepd	-	2,998	9,046	9,096	9,142
Average realised price	US\$/boe	-	20.5	22.2	22.0	23.0
Net gas volumes	mmscf/d	-	9.8	30.7	30.8	30.7
Realised price at sales point	US\$/mcf	-	2.4	2.5	2.0	1.8
Gas revenue	US\$m	-	8.6	28.0	21.9	19.6
Net NGL volumes	bpd	-	843	1,918	1,945	2,055
Realised price at sales point	US\$/bbl	-	20.8	21.6	24.3	27.0
NGL revenue	US\$m	-	6.4	15.1	17.3	20.3
Net oil volumes	bopd	-	517	2,014	2,014	1,973
Realised price at sales point	US\$/bbl	-	37.5	39.0	44.0	49.0
Oil revenue	US\$m	-	7.1	28.7	32.3	35.3
Pipeline, other revenue	US\$m	-	0.4	1.6	1.6	1.6
Revenue	US\$m	-	22.5	73.4	73.2	76.8
Operating costs	US\$m	-	(9.1)	(36.7)	(36.8)	(37.4)
<i>Unit</i>	US\$/boe	-	(8.3)	(11.1)	(11.1)	(11.2)
G&A costs	US\$m	(9.5)	(7.1)	(7.1)	(7.1)	(7.1)
<i>Unit</i>	US\$/boe	-	(6.5)	(2.2)	(2.1)	(2.1)
EBITDA	US\$m	(9.5)	6.3	29.6	29.2	32.3
<i>EBITDA margin</i>	<i>US\$/boe</i>	-	27.8%	40.3%	40.0%	42.0%
DD&A	US\$m	-	(4.9)	(14.9)	(14.9)	(15.0)
Finance and other expenses	US\$m	(4.7)	(4.3)	(5.4)	(5.4)	(3.9)
Profit before tax	US\$m	(14.2)	(3.0)	9.4	8.9	13.3
Income tax	US\$m	-	-	-	-	-
Net income	US\$m	(14.2)	(3.0)	9.4	8.9	13.3
Adjusted EPS (fully diluted)	c/shr	-	(0.4)	1.1	1.1	1.6
Profit before tax	US\$m	(14.2)	(3.0)	9.4	8.9	13.3
Cash flow reconciliation	US\$m	7.2	9.3	20.2	20.3	18.9
Working capital movements	US\$m	0.2	(21.5)	-	-	-
Interest paid, net	US\$m	-	-	(2.9)	(2.9)	(1.4)
Tax paid	US\$m	-	-	-	-	-
Net operating cash flow	US\$m	(6.8)	(15.2)	26.8	26.4	30.8
<i>Cash flow margin</i>	<i>US\$/boe</i>	-	(13.9)	8.1	7.9	9.2
Capex (including A&D)	US\$m	(27.6)	(2.1)	(9.6)	(9.6)	(9.6)
Free cash flow	US\$m	(34.3)	(17.3)	17.2	16.8	21.3
Dividend pay-out	US\$m	-	-	(4.9)	(6.1)	(7.2)
Acquisitions/divestments	US\$m	(0.6)	(25.0)	-	-	-
Debt movement, other	US\$m	28.8	-	-	-	(35.7)
Share issuance	US\$m	30.6	36.1	-	-	-
Net increase (decrease) in cash	US\$m	24.5	(6.1)	12.3	10.7	(21.6)
Cash	US\$m	25.0	18.8	31.1	41.8	20.2
Other current assets		0.4	0.4	0.4	0.4	0.4
O&G assets		61.0	99.7	92.3	84.9	77.4
Total assets	US\$m	86.3	118.9	123.8	127.1	98.0
Debt	US\$m	17.1	32.0	32.0	32.0	-
Other liabilities & decommissioning	US\$m	27.8	27.3	27.7	28.1	28.6
Shareholder equity	US\$m	41.5	74.5	79.0	81.9	69.4
Total equity & liabilities	US\$m	86.3	133.8	138.7	142.0	98.0
<i>P/E - adjusted, fd</i>	x	-	(12.3x)	3.9x	4.2x	2.8x
<i>EV/EBITDAX</i>	x	-	4.7x	1.7x	1.3x	0.8x
<i>Dividend paid</i>	c/shr	-	-	0.71	0.87	1.03
<i>Dividend yield</i>	%	-	-	13.3%	16.4%	19.4%
<i>Dividend cover</i>	x	-	-	3.5x	2.8x	3.0x
<i>FCF yield</i>	%	-	(46.5%)	46.3%	45.3%	57.3%

Source: Mirabaud Securities.

I3 ENERGY

DISCLAIMER

RECOMMENDATIONS HISTORY

Market index : FTSE AIM O&G

Date	Market Index level	Share Price (p)	Target Price (p)	Opinion
i3 Energy	FTSE AIM O&G			
2 Nov 2020	990.64	4.05	10.7	BUY
1 Sep 2020	1,065.38	5.5	10.0	BUY

RATINGS, CERTIFICATION AND DISCLOSURE

RATINGS SYSTEM

BUY: The stock is expected to generate absolute positive price performance of over 10% during the next 12 months.

HOLD: The stock is expected to generate absolute price performance of between negative 10% and positive 10% during the next 12 months.

SELL: The stock is expected to generate absolute negative price performance of over 10% during the next 12 months.

RISK QUALIFIER: Speculative: The stock bears significantly higher risk that typically cannot be valued by normal fundamental criteria and investment in the stock may result in material loss.

The ratings are applicable to all research produced after 1st January 2016

13 ENERGY

INVESTMENT ANALYST CERTIFICATION

All research is issued under the regulatory oversight of Mirabaud Securities Limited.

Each Investment Analyst of Mirabaud Securities Limited whose name appears as the Author of this Investment Research hereby certifies that the recommendations and opinions expressed in the Investment Research accurately reflect the Investment Analyst's personal, independent and objective views about any and all of the Designated Investments or Relevant Issuers discussed herein that are within such Investment Analyst's coverage universe.

INVESTMENT RESEARCH DISCLOSURES

The following disclosures relate to this document: 1,2,3,4,10,11,12

1. This is a commissioned or a non-independent research note/comment.
2. In the past 12 months Mirabaud Securities or its affiliates have had corporate Finance mandates or managed or co-managed a public offering of the relevant Issuer's securities or received compensation for Corporate Finance services from the Relevant Issuer, excluding acting as a corporate broker, on a retained basis, for the Relevant Issuer.
3. Mirabaud Securities expect to receive or intend to seek compensation for Corporate Finance services from this company in the next 6 months, excluding acting as a corporate broker, on a retained basis, for the Relevant Issuer.
4. The Investment Analyst or a member of the Investment Analyst's household has a long position in the shares or derivatives of the Relevant Issuer.
5. The Investment Analyst or a member of the Investment Analyst's household has a short position in the shares or derivatives of the Relevant Issuer.
6. At the date of production Mirabaud Securities or its affiliates have a net long position exceeding 0.5% of the issued share capital of the Relevant Issuer.
7. At the date of production Mirabaud Securities or its affiliates have a net short position exceeding 0.5% of the issued share capital of the Relevant Issuer.
8. As of the month end immediately preceding the date of publication of this report, or the prior month end if publication is within 10 days following a month end, Mirabaud Securities and/or its affiliates beneficially owned 5% or more of any class of common equity securities of the Relevant Issuer.
9. A senior executive or director of Mirabaud Securities, or a member of his / her household, is an officer, director, advisor, or board member of the Relevant Issuer and/or one of its subsidiaries.
10. Mirabaud Securities acts as corporate broker, on a retained basis, for the Relevant Issuer.
11. This research note has been seen by the relevant Issuer to review factual content only prior to publication.
12. Factual changes have been made by the relevant Issuer prior to the distribution of this note/comment.

The Investment Analysts who are responsible for the preparation of this Investment Research are employed by Mirabaud Securities Limited a securities broker-dealer. The Investment Analysts who are responsible for the preparation of this Investment Research have received (or will receive) compensation linked to the general profits of Mirabaud Securities Limited.

Copies of the Mirabaud Securities Policy on the Management of Material Interests and Conflicts of Interest in Investment Research can be obtained from the Mirabaud Securities Compliance Department by emailing compliance@mirabaud-msl.com

For the valuation methodology and investment risks, please contact the primary analyst directly.

**ISSUED BY MIRABAUD SECURITIES LIMITED, A LIMITED COMPANY AUTHORISED AND REGULATED BY THE FINANCIAL CONDUCT AUTHORITY.
A MEMBER OF THE LONDON STOCK EXCHANGE**

© Mirabaud Securities Limited. All rights reserved. Any unauthorised use or distribution is strictly prohibited. This document has been prepared and issued by Mirabaud Securities Limited or its associated companies and has been approved for publication in the United Kingdom by Mirabaud Securities Limited, a limited company authorised and regulated by the Financial Conduct Authority or via its branch in Spain called Mirabaud Securities Limited Sucursal en España under MiFID passporting arrangements and whose conduct of business activities are regulated by the CNMV. Neither the information nor the opinions expressed in this document constitute or intend to be an offer, or a solicitation of an offer, to buy or sell relevant securities (i.e. securities mentioned herein and options, warrants, or rights to or interests in any such securities). The information and opinions contained in this document have been compiled from and based upon generally available information which Mirabaud Securities Limited believes to be reliable but the accuracy or completeness of which cannot be guaranteed. All comments and estimates given are statements of Mirabaud Securities Limited's or an associated company's opinion only and no express or implied representation or warranty is given or to be implied therefrom. All opinions expressed herein are subject to change without notice. This document does not take into account the specific investment objectives, financial status, attitude to risk or any other specific matters relevant to any person who receives this document and should therefore not be used in substitution for the exercise of judgment by such person. Neither Mirabaud Securities Limited nor any associated company accepts any liability whatsoever for any direct or consequential loss arising from the use of its research publications save where such loss arises as a direct result of Mirabaud Securities Limited's or an associated company's negligence. Research publications are issued by Mirabaud Securities Limited or an associated company for private circulation to eligible counterparties, professional clients and professional advisers, ("its clients"), and specifically not to private or retail clients. They may not be reproduced, distributed or published by you for any purpose except with Mirabaud Securities Limited's express written permission. Mirabaud Securities Limited, an associated company, or their employees and officers may have a holding (long or short) in an investment which it knows will be the subject of a published research recommendation to clients. It may also have a consulting relationship with a company being reported on. Mirabaud Securities Limited or an associated company may also act as agent of its clients and may have or have undertaken transactions in investments covered by this document prior to your receipt of it. Additional information on the contents of this report is available on request. Mirabaud Securities Limited and its affiliates (collectively "Mirabaud Group companies" or "Group") may collect and use personal data that they receive by any means. Mirabaud Group companies will only use such data in accordance with the Group Privacy Policy, a copy of which can be found on the www.mirabaud.com website or on request by emailing br.dataprivacy@mirabaud-msl.com.

IN THE UNITED STATES

Mirabaud Securities Limited is not a registered broker-dealer in the United States and, therefore, is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. This research report is provided for distribution to major U.S. institutional investors ONLY in reliance on the exemption from registration provided by Rule 15a-6 of the US Securities Exchange Act of 1934, as amended (the "Exchange Act") and interpretations thereof by the U.S. Securities and Exchange Commission ("SEC").

MAJOR U.S. INSTITUTIONAL INVESTORS

The Information being furnished is for distribution to "Major U.S. Institutional Investors" within the meaning of Rule 15a-6 of the U.S. Securities and Exchange Commission under the U.S. Securities Exchange Act of 1934.
