COMPANY REPORT

MARKETING COMMUNICATION PH

29 June 2023

Company Update

DIVERSIFIED ENERGY COMPANY#

BUY

OIL & GAS

TP: 175p

DATA	DEC LN
RIC	DEC.L
Price (27/6/2023)	85p
Up/Downside	107%
Market cap	£823m
EV	£2,202m
3m ADV	£2.12m
Index	FTSE 250
Next news	Half year results
Date	August 2023

Source: Peel Hunt, Refinitiv

SHARE PRICE PERFORMANCE

Source: Refinitiv

FORECAST CHANGES

Y/E Dec 2023	Old	New
FCF ($m)	342	338
Net debt ($m)	1,345	1,326
Adj. EBITDA ($m)	513	509

Source: Peel Hunt estimates

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#Corporate client of Peel Hunt

USA trip highlights upside across the portfolio

- Peel Hunt recently visited Diversified's operations and headquarters, meeting with key members of the management and technical teams.
- We saw a company focused on stewardship and operational progress. Topics discussed include; adding value through SAM, monetising undeveloped locations, plugging strategy and emissions reductions.
- We also update for the buyback and US$40m sale announced this week.

Drifting commodity prices and a weak market mean the shares now trade on extremely attractive 2023E FCF and dividend yields of 36% and 16%. The current share price is a very attractive entry point into this material, well run and FCF generative business, which is insulated from commodity prices by sector-leading hedging (c.85/80% of 2023/24E gas production hedged at US$3.5/3.1/MMBtu). We reiterate our 175p TP and Buy rating.

SAM is adding value to Central Region assets. Smarter Asset Management (SAM) is Diversified's program to maximise value from the existing asset base via low cost and fast payback projects such as digitalisation, production optimisation, restarting shut-in wells and well workovers. We were shown numerous examples of SAM in action and the impact this has had on production, costs and emissions.

Undeveloped well locations are material organic catalysts. There are c.200 net undeveloped well locations in the Central Region, which we value at 48-96p/sh risked-unrisked. On our trip we discussed monetisation options, including sales and third-party drilling. The locations are guided to typically add c.0.7-1.0Mboe/d production each and be economic at c.US$3.0-4.0MMBtu.

Next LVL offers plugging upside. Diversified acquired a number of well plugging companies during 2022 and integrated them into its subsidiary Next LVL, increasing internal capacity from 40/year (one crew) at YE21 to 450/year (15 crews) currently. This strategy has reduced costs, lowered inflation risk and generates third-party revenue (the former and latter are upsides to our model).

On track to meet GHG targets. We saw and discussed with operational staff two key projects to meet Diversified's GHG reduction targets; namely well handheld surveys and the pneumatic valve conversions. 100% of the wells have now been surveyed (target reached ahead of guidance) and last year 38% of the pneumatic valve conversions' five-year target was achieved.

Buyback and US$40m sale. We also update for the buyback and sale of 3Mboe/d non-core assets – resulting in a 2p increase in Core NAV to 176p.

VALUATION & PERFORMANCE

	Dec 23E	Dec 24E	Dec 25E
Oil price (US$/bbl)	75	75	65
Total production (Mboe/d)	141.7	131.8	122.6
Liquids production (Mbbl/d)	20.5	19.2	17.8
EV/EBITDAX	4.6	5.5	4.7
FCF yield	*36%*	*25%*	*29%*

SUMMARY FINANCIALS

	Dec 21	Dec 22	Dec 23E	Dec 24E	Dec 25E
Sales ($m)	1,008	1,919	998	1,165	1,091
EBITDAX ($m)	343	503	509	415	450
EPS – adj. dil. (c)	33.7	27.4	20.6	9.9	15.1
Free cash flow adjusted ($m)	252	219	338	261	300
Net (debt)/cash (US$) (m)	(1,010)	(1,435)	(1,326)	(1,235)	(1,104)
Dividend yield	*14%*	*16%*	*16%*	*16%*	*16%*

Source: Company accounts, Peel Hunt estimates, Refinitiv

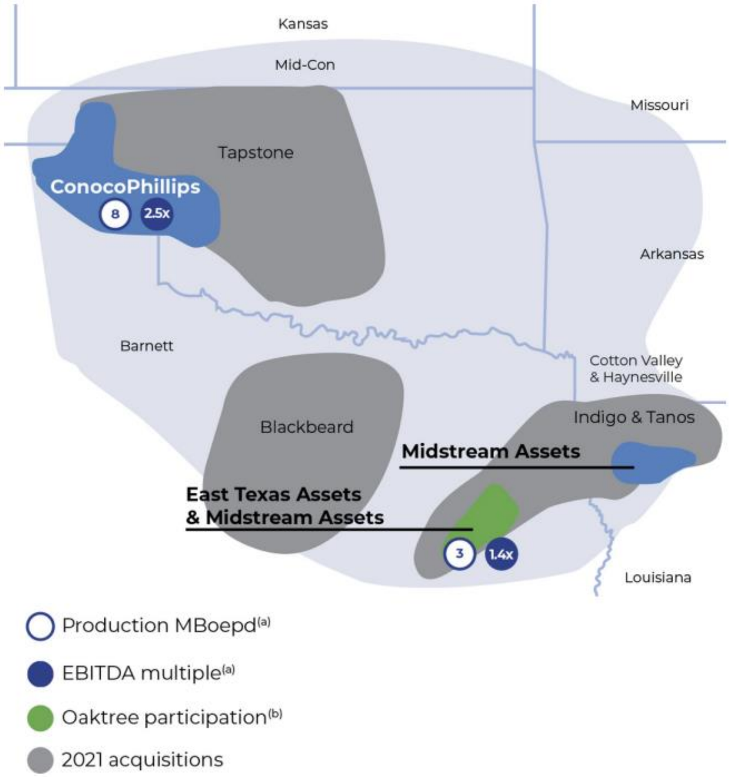
Overview of Peel Hunt's visit

During the week commencing 12 June, a team from Peel Hunt visited a number of Diversified's Central Region assets in Texas and Oklahoma, in addition to Diversified's corporate headquarters located in Birmingham, Alabama. As a general comment, we were extremely impressed with both the competence and enthusiasm of all the Diversified employees we met, following the company's four guiding principles of Safety, Production, Efficiency, Enjoyment.

In Texas, we visited numerous wells and a salt water disposal (SWD) plant from the Blackbeard asset package (Figure 1), and spent time with Nate Burger, Diversified's Director of Upstream Operations for the region. The Blackbeard asset was acquired in July 2021 for US$166m. It provides 2023E net production of 15Mboe/d (c.1% oil) from c.850 net wells, producing from the Barnett Shale reservoir (see our initiation note for details). We also visited Oklahoma where we viewed multiple wells from the Tapstone asset package, in addition to spending a day with Colt Carpenter, SVP of Upstream for the Central Division, and his team of c.10 operational managers in Oklahoma. The Tapstone asset was acquired in December 2021 for US$181m. It provides 2023E net production of 8Mboe/d (c.18% oil) from c.550 net wells, producing from Mid-Continental carbonate reservoirs (see our 7 October 2021 note for details).

During our day at corporate headquarters we spent time with members of the senior management, business development and finance teams. This included Brad Gray (COO), Eric Williams (CFO), Randy Baron (SVP Finance & Strategy), Travis Bartlett (VP Strategic Planning), John Crain (VP Treasury) and Doug Kris (VP Investor Relations). Brad Gray also shared information and pictures from his recent visit to Diversified's well plugging subsidiary Next LVL (details included in this note).

Figure 1: Assets visited in the Central Region and the Alabama headquarters



Source: DEC Annual report 2022

Adding value through SAM

SAM is Diversified's program of utilising low-cost, high-return projects to add value to the existing asset base

Smarter Asset Management (SAM) is Diversified's program of maximising value from the existing asset base, which is a key differentiator for the company given the focus on producing (rather than exploration or appraisal) assets. Projects included with the program are typically low cost and fast payback, such as digitalisation, production optimisation, returning to production (RTP) shut-in wells and well workovers. This program has helped maintain Diversified's low group production decline rate and in the Appalachian assets alone, Diversified estimates that SAM contributed US$58m during 2018-20. At the 2022 full-year results, Diversified provided a number of recent examples of SAM, including 305 Central Region workovers (adding c.6.7Mboe/d gross production for an average of US$45k/well, average payback two months), RTP c.340 Central Region wells, optimising Central Region compression (US$1.5m annual savings) and re-routing Appalachian volumes (annualised revenue uplift of US$15m).

Gas lift and plunger workovers utilised to boost production at Blackbeard

At the Blackbeard asset we were shown how production has been optimised by working over wells to add gas lift or plungers. Gas lift works by injecting natural gas into a well's annulus, reducing pressure and viscosity at the bottom of the well hence increasing production rate. An example of the valved pipe that allows gas lift can be seen in the foreground of Figure 2. As a well ages, plungers can be added to boost production. When closed the plunger constricts flow, allowing pressure to build up to a set level (high enough to move fluid up the well and also to allow the water and gas columns to separate). When this is reached, the plunger opens and the well flows (this happens c.50 times a day). Nate Burger commented that c.95% of the Blackbeard wells now use gas lift and/or plungers. We also saw a number of Blackbeard sites where the compressor units had been right-sized by Diversified to current production rates, reducing both costs and GHG emissions.

ESP and pump jack workovers utilised to boost production at Tapstone

At the Tapstone asset the wells produce a higher proportion of oil and are in carbonate reservoirs (stimulated using acid jobs so no proppant sand), so different methods are used to optimise production. Early in a well's life, electric submersible pumps (ESPs) help lift the well's fluid column, which is heavy due to it containing a large amount of frac fluid. ESPs comprise an impeller pump in the bottom c.30m of the well, this mechanically moves fluid up hole. However, later in a well's life, they are frequently worked over from ESPs to pump jacks, which use around half the electricity (adds cost and Scope 2 emissions) and cost c.US$200k vs c.US$60k for pump jacks. The pump jack (or 'nodding donkey') has a rod extending to the bottom of well. This moves up and down creating a low pressure zone to lift liquids. The operation managers commented that having a large well portfolio allows them to recycle ESPs and pump jacks as right-sizing is required, hence they have not needed to buy a new pump jack for over a decade.

Figure 2: Gas lift and plungers at Blackbeard

Source: Peel Hunt

Figure 3: Pump jacks and ESPs at Tapstone

Source: Peel Hunt

Well decline rates measured on the ground are in line with our modelling

Whilst with the operational teams, we also discussed the decline curves they are currently seeing in their assets and their forecast for the coming years. Nate Burger commented that in the Blackbeard asset they are currently seeing well decline rates in the range of 4-10%. This is a weighted average of around 8% and should drop to c.6% over the next few years (as the newest wells were drilled in 2017). This is bang in line with our Blackbeard asset model where we use an 8% decline rate for 2023 and a 6% terminal decline rate from 2025. Nate also mentioned that the wells have been declining in line with type curves, and these type curves have not needed adjustment for 10-15 years. We also discussed the water cut and GOR with Colt Carpenter, who said that both these parameters tend to remain stable throughout a well's life (in line with our modelling).

Digitalisation drive is optimising production and reducing costs and emissions

Diversified has been running a program to digitalise its wells, upstream and midstream infrastructure, with this data stored in the cloud so it can easily be accessed across a range of devices – from centralised control rooms to handheld tablets. This facilitates real-time monitoring of the assets; allowing production to be optimised, maintenance to be carried out more effectively and any fugitive GHG emissions to be addressed more quickly.

Operators are notified via text or email if asset moves outside set parameters

On the trip we were given a demonstration of Diversified's digital management capabilities from the regional office near Oklahoma City (Figure 4). We were shown the range of real-time data that is fed into the system, and how the operators set parameters on certain key variables. If an asset moves outside these parameters, the operator is immediately notified via a text or email. This allows the operator to react more quickly to carry out maintenance or adjust to the well. In addition, many of the wells have valves that can be controlled remotely, reducing the need for operators to physically visit wells. This reduced 'windshield time' (time driving to physically visit assets), lowering costs, GHG emissions and response time.

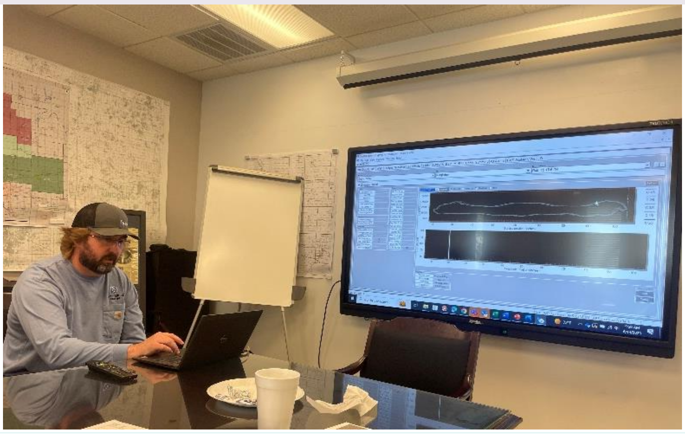
Diversified is also using SAM to drive down costs at the Central Region assets

During our visit another benefit of SAM was mentioned numerous times, namely the ability to use Diversified's name, focus on cost discipline and ability to bulk buy to drive down costs. In the Blackbeard asset SAM has been applied to reduce both water disposal costs (the largest variable opex cost on the asset) and chemical costs.

Figure 4: Regional office near Oklahoma City

Source: Peel Hunt

Figure 5: Demonstration of digital well management capabilities



Source: Peel Hunt

Undeveloped locations are material catalysts

c.200 net Central Region undeveloped well locations offer very material organic catalysts with a PHe risked/unrisked value of 48/96p

In addition to adding 17Mboe/d net production, the Tanos 2 acquisition package (announced in February 2023) includes 50 undeveloped well locations with a guided NPV10 of US$280m. In our 1 March Tanos 2 note, we added these to Risked NAV with a value of 12p/24p risked/unrisked. During the Tanos 2 presentation, Diversified announced there are a further c.300 gross (c.150 net) undeveloped locations across the rest of the Central Region portfolio (Figure 6). On the 2022 full-year results call, management commented that as the other Central Region locations are in similar reservoirs to Tanos 2 (primarily Cotton Valley), it is reasonable to model a similar NPV10 per location. Therefore, we include these c.150 net locations in Risked NAV at 36/72p risked/unrisked. With an aggregate estimated value of 48/96p risked/unrisked, the undeveloped Central Region locations are material organic share price catalysts.

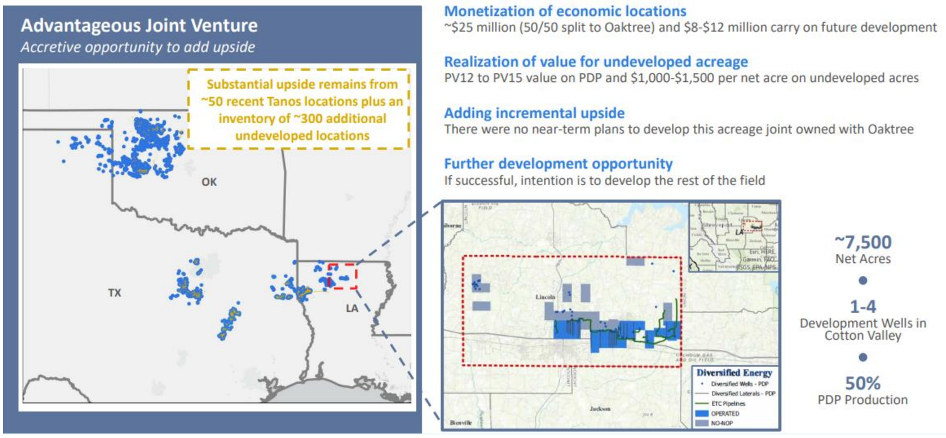
Undeveloped wells may be monetised via sales or third-party drilling

Two options Diversified's management have discussed to monetise the undeveloped well locations (hence moving them to Core NAV) are sales or third-party drilling. Diversified has a good track record of successfully selling down its undeveloped acreage, eg in November 2021 it sold a package of primarily undeveloped locations acquired as part of the Tanos 1 acquisition, for a sum of US$73m (split 50/50 between Diversified and partner Oaktree).

Undeveloped locations economic at US$3.0-4.0MMBtu Henry Hub

On our trip we discussed with management the option of bringing in a third-party to drill the locations. This would have the advantage of passing the drilling capex and risk to a third-party (who would also provide the drilling expertise) but allowing Diversified to benefit from the production post-drill. A possible structure is that the third-party would take the majority of production cash flows up until they have achieved a certain IRR, at which point the majority interest in the production cash flows would switch to Diversified. Diversified's management commented that the agreement may be in tranches of c.10-20 locations and that c.US$3.0-4.0MMBtu Henry Hub pricing is required to make the locations economic (ie achieve a good return as opposed to this being a break-even price). Given the Henry Hub forward curve is in contango and rises to >US$4.0MMBtu in 2024-25, it is possible a third-party drilling deal could be signed in the near term at current Henry Hub strip pricing. On the trip we also discussed the likely production for the 50 Tanos 2 locations. These were estimated at c.4-6MMscf/d IP30 gross (0.7-1.0Mboe/d) per location with a c.50% decline over two years. The Tanos 2 package also contains four DUCs (drilled but uncompleted wells). On the trip, management commented that these are economically attractive at c.US$3.0MMBtu Henry Hub and can all be completed and brought online in approximately three months. Diversified is currently progressing options to complete the DUCs in the most cost-efficient manner.

Figure 6: Extracting value from undeveloped acreage (illustrative example)



Source: Diversified Energy May 2023 coporate presentation

Next LVL offers well plugging upside

State agreements give good visibility on minimum plugging requirements for next decade (US$2m/year).

In 2019 Diversified negotiated 10-15-year agreements with four States (covering 99% of its Appalachian wells), setting the minimum number of wells required to be plugged per year at 80 (at US$23k/well, this is a minimum spend of US$2m/year). Diversified has continuously outperformed against this minimum, with 92/136/200 wells plugged in its Appalachian business during 2020/21/22 for a cost of US$2/3/5m. As part of its GHG emission reduction targets, Diversified guides that a minimum of 200 wells will be plugged per year (ie US$5m/year cost) going forward. We model c.250 wells being plugged in 2023 for a cost of US$6m. During 1Q23, 56 wells were plugged by Next LVL (26 internal, 30 for third-parties). Note plugging is a weather-sensitive operation so significantly less wells are typically plugged during winter than summer.

Diversified's internal plugging capacity has recently grown to 450 wells/years vs 200 wells/year minimum guidance

During 2022 Diversified acquired a number of well plugging companies and integrated them into its wholly-owned subsidiary, Next LVL. This has led to an increase in internal plugging capacity from 40/year (one crew) in December 2021 to 270/year (nine crews) in May 2022, 360/year (12 crews) in July 2022 and 450/year (15 crews) currently. Next LVL is now a material full services plugging company, with the 15 plugging rigs and crews supported by cement trucks, wire-line trucks, bulldozers plus lease and utilisation teams. When we met Brad Gray at Diversified's headquarters, he shared information and pictures from a recent visit to see Next LVL plug a well, see Figure 7. Onshore well plugging operations such as these are much cheaper, quicker and less complex than offshore plugging, and require only a light-weight rig (the one seen in Figure 7 is transported on the back of a truck). The typical stages are:

1) Site clearing and preparation.
2) Running of cementing string and pumping of cement.
3) Pulling of cementing string.
4) Wire-line log measurements to assure cement quality.
5) Restoration of site surface to original condition.

Figure 7: From left to right; cement truck, wireline truck, plugging rig, Brad assisting string pull operation

Source: Brad Gray, Diversified COO

Plugging business reduces costs, lowers inflation risk and generates third-party revenue

The increase in internal plugging capacity has numerous benefits to Diversified, including:

1. Reduced costs. This is a result of removing third-party margins, scale-efficiencies and the fact that the operator (ie now Diversified) is fully incentivised to reduce costs. The benefits of increased plugging capacity can already be seen in Diversified's average plugging cost, which has fallen from US$25k in 2020, to US$23k in 2021 and US$21k in 2022. Diversified's operational staff and management also discussed that now the company is firmly in the plugging business, there is potential to further reduce costs by utilising and developing new plugging technologies.
2. Insulation from inflation risk. This was of particular benefit in mid-2022 when commodity prices and rig rates rose. Given the Henry Hub forward curve is in contango (averaging c.US$4/MMBtu in 2024-25), this insulation from inflation may well be beneficial in the coming years.
3. Third-party revenue opportunities. Diversified's internal plugging capacity is now 450 wells/year, 250 (or 125%) above the guided minimum of 200/year. This spare capacity is being used to generate revenue by plugging State orphaned wells and other operators' wells. At its 2022 full-year results, Diversified announced that Next LVL has already being awarded contracts to plug 150 third-party wells in 2023. The opportunity to plug orphan wells was boosted by the US$1.4bn allocated to the States by the Federal Government as part of the Inflation Reduction Act of 2022.

Recent advancements in plugging business offer material upside to our current modelling

Note our model currently conservatively includes an Appalachian average plugging cost of US$23k/well and does not include any third-party revenue from plugging, hence there is material upside to be included in our model as Next LVL's track record continues to grow.

Majority of Diversified's plugging located in Appalachia

With c.61k net wells in Appalachia and c.5k net wells in the Central Region, the vast majority of plugging operations are in the former. However, in addition to the 200 Appalachian wells plugged during 2022, 14 wells were plugged in the Central Region. We discussed plugging with Colt Carpenter, who commented that as Diversified's plugging operations are concentrated in Appalachian, it currently does not make sense to build internal plugging capacity within the Central Region. However, this is something they may consider in the future. Nate Burger commented that three Blackbeard wells were plugged during 2022. These were all paid for by a third-party who wanted to develop the land and, given the amount of development in Texas, Nate sees high potential for this situation to occur again.

On track to meet GHG reduction targets

Comprehensive GHG emissions targets announced in 2021

At the 2021 Capital Markets Day, Diversified announced methane reduction targets of 30% by 2026 and 50% by 2030 (against a 2020 baseline). The targets appear sufficient to meet the US Environmental Protection Agency's proposals to reduce methane emissions 75% by 2035 (see our 23 November 2021 note). DEC also accelerated its commitment to reach carbon neutrality by 2040, a decade earlier than the previous commitment.

Investment to reduce emissions is already having an impact, group Scope 1 methane emissions intensity fell 25% between 2020 and 2022

To hit the GHG emissions targets, Diversified spent c.US$15m on additional investments in 2022, including increased fugitive emissions detection capacities, pneumatics and compression modifications, and accelerated well plugging. As a significant proportion of the 2022 spend was capex, going forward we forecast GHG spend of c.US$5m/year. This investment is already having a material impact on Diversified's group Scope 1 methane emissions intensity, which fell from 1.6MTCO2e/MMscfe in 2020 to 1.2MTCO2e/MMscfe in 2022.

All Central Region wells have now been surveyed for emissions

During our 2023 visit we witnessed a number of these GHG emissions reduction projects in action. At a Blackbeard well, Nate Burger demonstrated the use of one of Diversified's GT84 handheld quantitative emission detection devices (Figure 8). This is a very sensitive device which measures emissions down to parts per million (ppm), with a 500ppm reading considered a leak and hence repairable by Diversified. In some regions a qualitative 'flame camera' is used in conjunction with the GT84 as it can be used in a greater range of weather and is required by regulation in some States. The surveys are carried out during the usual yearly well visit by Diversified's staff, so post the initial investment in handheld devices (which occurred in 2022) there is very little incremental cost for the surveys. Colt Carpenter commented that all 7k gross operated wells in Diversified's Central Region portfolio have now been surveyed, with 90% found to have no leaks. Of the 700 wells found to have leaks, 600 have been repaired. The remaining c.100 are waiting on an order of "wellhead master valves", and should be repaired in a matter of months. In terms of costs to repair detected leaks, Colt commented that this is generally in the low single-digit dollars, with the most expensive repair he was aware of being c.US$1k. While we did not visit the Appalachian assets, Diversified previously announced that c.100% of wells here have now been surveyed, with similar leak detection rates and repair costs to those discussed with the Central Region operations teams. Surveying of all wells in the portfolio was achieved ahead of the guidance of mid-2023.

Figure 8: Demonstration of handheld emission detection device

Source: Peel Hunt

Pneumatic valves are being converted to compressed air to reduce emissions

At a different Blackbeard wellsite, Nate Burger showed us an example of Diversified's project to convert pneumatic valves from being natural gas to compressed air powered. The pneumatic valves (shown in Figures 8 and 10 - they are painted red) control fluid flow within pipes, and vent natural gas when they open and close (these are classed as non-fugitive GHG emissions). The project does not change the pneumatic valves themselves, but rather changes the power to compressed air so GHG emissions are not vented as they open and close. This conversion reduces both cost and GHG emissions. Nate Burger commented that across the Blackbeard wells, c.15% have recently been converted by Diversified from having natural gas powered pneumatics to compressed air powered pneumatics, with the remainder already using compressed air powered pneumatics.

Solar skids can be used to power the compressed air

At the Blackbeard wellsite we visited, Diversified uses solar skids (Figure 9) to power the compressed air. The skids themselves are currently purchased from a third-party for c.US$30k. However, Diversified is looking to build them in-house for an estimated cost of only c.US$10k (this should be available within months). Within the Blackbeard asset, solar skids have been used at c.10 well pads to date (there are a total of c.200 pads in Blackbeard). Blackbeard is piloting the solar skids for the other Central Region assets.

57 facilities converted to compressed air in 2022, 38% of five-year target

In the April 2023 Sustainability Report, Diversified commented that a total of 57 facilities across the portfolio (including 55 well pads, 40 of which are in the Central Region) had been converted to compressed air pneumatic valves in 2022, an impressive 38% of the five-year target). A further 50 well pads are intended to be converted in 2023.

Figure 9: Solar skid produces power. . .

Source: Peel Hunt

Figure 10: . . . for compressed air pneumatic valve (painted red)

Source: Peel Hunt

Share buyback and US$40m sale

Up to £97m share buyback approved at 2023 AGM

On 27 June, Diversified released details regarding the parameters of the share buyback programme that was approved at the 2023 AGM. The buyback will be up to a maximum of 97.4m shares (representing 10% of outstanding shares) or a total consideration of £97.4m. The programme will expire at the earlier date of 30 June 2024 or the date of the 2024 AGM. Diversified will make disclosures during the buyback period regarding the number of shares repurchased. Given the current disconnect between the 85p share price and the intrinsic value of the company (we value Diversified's Core NAV at 176p), in our view the share buyback programme is a very sensible use of capital which will be highly value accretive to shareholders. On 28 June, Diversified announced that it had purchased 0.1m shares at an average price of 84.4p/sh. We will include the buyback incrementally in our model as it progresses, and for now model US$20m of shares purchased during 2023 assuming a 90p average price and US$/£ exchange rate of 1.20. Note the buyback approved at the 2022 AGM expired on 1 June 2023, with the final three transactions as part of this buyback occurring on 30 May 2023, 30 October 2022 and 29 October 2022.

Sale at c.4x multiple vs 1.4-3.5x mutiples for acquired Texas and Oklahoma wells

On 28 June, Diversified announced the completion of the sale of c.200 net, non-core, non-operated wells within the Central Region. The wells are located in Oklahoma and Texas and are currently producing c.3Mboe/d. The gross consideration of US$40m represents a c.4x NTM cash flow multiple for the sale, highly accretive vs the 1.4-3.5x NTM cash flow multiples Diversified has paid for its Oklahoma and Texas acquisitions. Note the range is defined by 1.4x for the April 2022 East Texas acquisition and 3.5x for the May 2021 Blackbeard acquisition. The divestiture fits with the company's strategy of focusing on operated wells where SAM can more easily be applied, and the divested wells are guided to have higher operating expense than the average of the operated wells. The c.US$40m proceeds from the sale will be used to boost company liquidity and can be deployed towards the operated PDP-focused strategy. We have updated our model for the sale and assume the 3Mboe/d of sold non-core, non-operated production is from the COP asset. After updating for the buyback and sale, YE23E net debt falls from US$1,345m to US$1,326m and Core NAV increases from 174p to 176p.

This report is prepared solely for the use of Douglas Kris

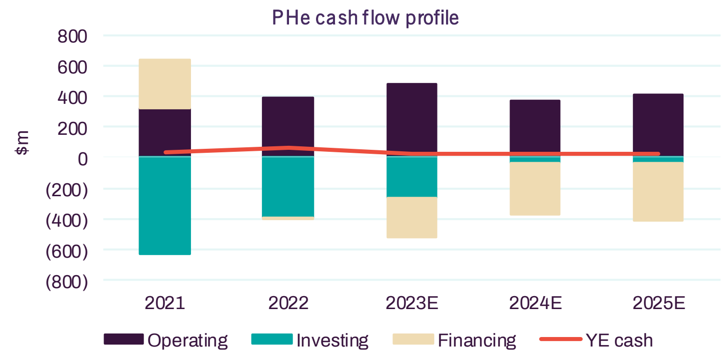
Financial statements

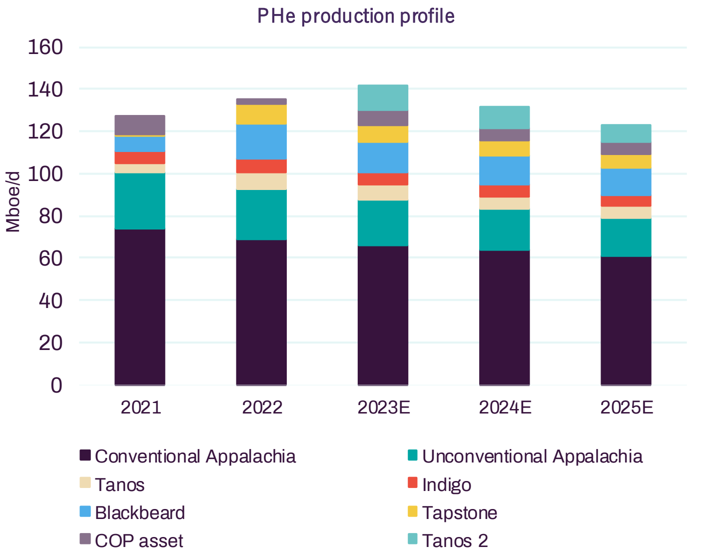
INCOME STATEMENT $m	Dec 21	Dec 22	Dec 23E	Dec 24E	Dec 25E
Revenue	**1,008**	**1,919**	**998**	**1,165**	**1,091**
Opex	(291)	(446)	(431)	(389)	(342)
G&A	(102)	(171)	(85)	(85)	(85)
EBITDAX	**614**	**1,303**	**482**	**691**	**664**
Depreciation, Amortisation	(168)	(222)	(168)	(160)	(151)
Impairments, Other	-	-	-	-	-
EBIT	**446**	**1,080**	**314**	**531**	**513**
Finance costs	(51)	(101)	(93)	(89)	(85)
Gain on derivative financial instruments	(975)	(1,759)	19	(285)	(222)
Accretion of asset retirement obligation	(24)	(28)	(28)	(28)	(28)
Other financial gains	53	7	(1)	(1)	(1)
PBT	**(551)**	**(800)**	**211**	**128**	**178**
Net tax	226	179	(21)	(33)	(32)
Net profit	**(325)**	**(621)**	**191**	**95**	**145**
Disc. ops and OCI	0	1	-	-	-
Total comprehensive income	**(325)**	**(620)**	**191**	**95**	**145**

CASHFLOW STATEMENT $m	Dec 21	Dec 22	Dec 23E	Dec 24E	Dec 25E
Pre-tax profit	**(325)**	**(621)**	**191**	**95**	**145**
Cash tax received (paid)	(11)	(26)	(21)	(33)	(32)
Other	656	1,035	311	311	294
Operating cash flow	**320**	**388**	**481**	**373**	**407**
PPE capex	(50)	(86)	(62)	(34)	(34)
Net considerations for M&A	(574)	(289)	(198)	-	-
Other	(2)	(12)	-	-	-
Investing cash flow	**(626)**	**(386)**	**(260)**	**(34)**	**(34)**
Debt issued (repaid)	295	448	(145)	(91)	(138)
Equity issued	214	-	156	-	-
Cash dividends paid	(130)	(143)	(162)	(167)	(167)
Repurchase of shares	-	(35)	(20)	-	-
Other	(62)	(276)	(87)	(81)	(75)
Financing cash flow	**317**	**(7)**	**(257)**	**(339)**	**(380)**
Cash at the start of the period	1	13	7	(28)	(28)
Net change in cash	11	(5)	(35)	0	(7)
Cash at the end of the period	**13**	**7**	**(28)**	**(28)**	**(34)**

BALANCE SHEET $m	Dec 21	Dec 22	Dec 23E	Dec 24E	Dec 25E
Oil and gas properties	2,530	2,556	2,648	2,522	2,405
PPE	414	463	463	463	463
Restricted cash	18	47	47	47	47
Other	195	411	411	411	411
Total non-current assets	**3,157**	**3,477**	**3,569**	**3,443**	**3,326**
Inventories and receivables	322	311	311	311	311
Cash	13	7	(28)	(28)	(34)
Other	2	36	36	36	36
Total current assets	**337**	**354**	**319**	**319**	**313**
Total Assets	**3,494**	**3,831**	**3,887**	**3,762**	**3,639**
Borrowings	59	271	169	158	140
Other	715	861	861	861	861
Current liabilities	**774**	**1,132**	**1,030**	**1,018**	**1,001**
Borrowings	952	1,169	1,138	1,070	961
Other (inc. decom liability)	1,105	1,668	1,684	1,701	1,718
Non-current liabilities	2,057	2,837	2,822	2,772	2,679
TOTAL LIABILITIES	**2,830**	**3,969**	**3,852**	**3,790**	**3,680**
Share capital/premium	1,065	1,064	1,221	1,221	1,221
Other reserves	14	(83)	(75)	(67)	(59)
Retained earnings	(431)	(1,134)	(1,125)	(1,197)	(1,218)
TOTAL EQUITY	**647**	**(153)**	**21**	**(43)**	**(56)**

KEY RATIOS	Dec 21	Dec 22	Dec 23E	Dec 24E	Dec 25E
WTI (PHe)	70	95	75	75	65
Henry Hub gas price (PHe)	3.8	6.5	3.0	4.0	4.0
Production (Mboe/d)	127	135	142	132	123
Unit opex ($/boe)	5.8	7.3	7.3	6.8	6.4
FCF	252	219	338	261	300
FCF yield	**24%**	**18%**	**36%**	**25%**	**29%**
Hedged adjusted EBITDA	343	503	509	415	450
Net cash/(debt)	**(1,010)**	**(1,435)**	**(1,326)**	**(1,235)**	**(1,104)**
Gearing (ND/hedged adjusted EBITDA)	2.9	2.9	2.6	3.0	2.5
EV / EBITDAX	**6.0**	**5.3**	**4.6**	**5.5**	**4.7**
EPS adj. dil. (c/sh)	33.7	27.4	20.6	9.9	15.1
EV / 1P	2.8	3.1	2.8	2.8	2.8
EV / Production	16,167	19,809	16,607	17,156	17,371
Dividend yield	**14%**	**16%**	**16%**	**16%**	**16%**
Dividend per share (c/sh)	16.0	16.9	17.5	17.5	17.5
Dividend / FCF	52%	66%	48%	64%	56%
FCF dividend cover	209%	157%	180%	161%	148%





Source: Company accounts, Peel Hunt estimates, Refinitiv

Summary NAV

01-Jan-23	CoD (%)	Interest (%)	Gas (MMBoe)	Liquids (MMbbls)	Total (MMboe)	NPV ($/boe)	NAV ($m)	NAV (£m)	NAV (p/sh)
Producing assets									
Conventional Appalachia		96%	393	75	468	5	2,217	1,847	191
Unconventional Appalachia		96%	132	-	132	3	451	375	39
Midstream revenue Appalachia		100%	n/a	n/a	n/a	n/a	220	184	19
Tanos		42%	30	2	32	4	119	99	10
Indigo		40%	26	5	31	3	96	80	8
Blackbeard		65%	77	15	92	3	279	233	24
Tapstone		43%	23	16	39	7	261	218	23
COP asset		70%	20	10	30	5	140	117	12
Tanos 2		73%	19	6	25	11	271	226	23
Total production assets			**720**	**129**	**849**		**4,054**	**3,378**	**350**
Net debt (YE22E)							(1,435)	(1,196)	(124)
Tanos 2 acquistion consideration							(244)	(203)	(21)
2023 equity raise (net)							156	130	13
Sale of non-core assets							46	38	4
Buyback							(20)	(17)	(2)
Hedging and physical contracts							(425)	(354)	(37)
Cash G&A							(77)	(64)	(7)
GHG emissions reduction projects							(16)	(13)	(1)
CORE NAV			**720**	**129**	**849**		**2,039**	**1,700**	**176**
Undeveloped Tanos 2 (c.50 locations)	50%						140	117	12
Undeveloped other CR (c.150 locations)	50%						420	350	36
Total development assets							**560**	**467**	**48**
RISKED NAV			**720**	**129**	**849**		**2,599**	**2,166**	**224**
RENAV			**720**	**129**	**849**		**2,599**	**2,166**	**224**

Source: Company accounts, Peel Hunt estimates, Refinitiv

	Recommendation distribution at Today's Date					Recommendation distribution for publications in the last 90 days				
	Total	Investment Banking Clients		Other		Total	Investment Banking Clients		Other	
Structure	No.	No.	%	No.	%	No.	No.	%	No.	%
Buy	270	127	47	143	53	382	166	43	216	57
Add	50	3	6	47	94	64	5	8	59	92
Hold	58	4	7	54	93	68	5	7	63	93
Reduce	2	0	0	2	100	5	0	0	5	100
Sell	4	0	0	4	100	6	0	0	6	100
Under Review	6	3	50	3	50	7	3	43	4	57

Peel Hunt's Recommendation Structure is as follows:
Buy, > +15% expected absolute price performance over 12 months
Add, +5-15% range expected absolute price performance over 12 months
Hold, +/-5% range expected absolute price performance over 12 months
Reduce, -5-15% range expected absolute price performance over 12 months
Sell, > -15% expected absolute price performance over 12 months
Under Review (UR), Recommendation, Target Price and/or Forecasts suspended pending market events/regulation

NB The recommendation is the primary driver for analyst views. The target price may vary from the structure due to market conditions, risk profile of the company and capital returns

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Number Disclosure

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3. The Company holds >3% in Peel Hunt
4. Peel Hunt makes a market in this Company
5. Peel Hunt is Broker to this Company and therefore provides investment services to the Company
6. During the last 12 months Peel Hunt has received compensation from this company for the provision of investment banking services
7. During the last 12 months Peel Hunt has acted as a sponsor/broker/ NOMAD/ financial advisor for an offer of securities from this company
8. Peel Hunt holds >5% in Company (calculated under Market Abuse Regulation (EU) 596/2014)
9. 1% beneficial ownership (calculated for purposes of FINRA under Section 13(d)/(g) of the Securities Exchange Act of 1934 and IIROC Rule 3400)
10. Peel Hunt holds a net long position that exceeds 0.5% in the Company (calculated under Market Abuse Regulation (EU) 596/2014).
11. Peel Hunt holds a net short position that exceeds 0.5% in the Company (calculated under Market Abuse Regulation (EU) 596/2014).

Company	Date	Disclosures/Rating	Target Price	Price
Diversified Energy Company		1, 4, 5, 6		
	29 Mar 23	Buy	175p	94p
	01 Mar 23	Buy	165p	103p
	21 Dec 22	Buy	180p	118p
	07 Jul 22	Buy	175p	111p

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