

Cap Energy

Company update

Oil discovered offshore Senegal

Oil & gas

21 October 2014

Price **145.00p**
Market cap **£42m**

US\$1.6/£

Net cash (£m) at 30 June 2014 0.01

Shares in issue 29m

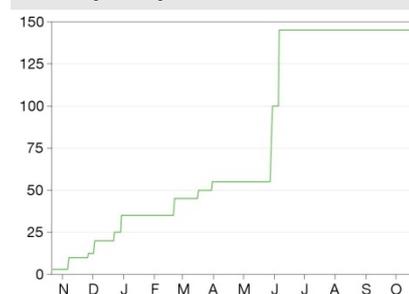
Free float 12.2%

Code CAPP

Primary exchange ISDX

Secondary exchange N/A

Share price performance



%	1m	3m	12m
Abs	0.0	0.0	4733.3
Rel (local)	8.8	7.3	4995.9

52-week high/low 145.00p 3.00p

Business description

Cap Energy is an independent upstream oil and gas company focused on the exploration, production and development of conventional hydrocarbons in sub-Saharan Africa.

Next events

Senegal 2D analysis	Q414
SNE-1 drilling	Q414
G-B 3D survey	Start November 2014
G-B 3D analysis	Q115

Analysts

Elaine Reynolds	+44 (0)20 3077 5713
Ian McLelland	+44 (0)20 3077 5756

oilandgas@edisongroup.com
[Edison profile page](#)

The discovery of oil in Cairn Energy's FAN-1 well offshore Senegal has confirmed a proven hydrocarbon system in the basin and should boost the prospectivity of Cap Energy's assets in the adjacent Djiffere block. However, the second well in Cairn's campaign, the SNE-1 well currently drilling, will be more geologically analogous to Cap's future prospects in Senegal. In saying this, the FAN-1 well is relevant to the company's other key area of Guinea-Bissau, where a 3D seismic survey is planned to kick off in early November 2014 and will be used together with the application of Rex Virtual Drilling technology to identify oil-bearing prospects.

Year end	Revenue (£m)	EBITDA (£m)	PBT* (£m)	Debt (£m)	Net cash/ (debt) (£m)	Capex (£m)
12/12	0.0	(0.1)	(0.1)	0.0	0.0	(0.2)
12/13	0.0	(0.6)	(0.6)	0.0	0.9	(0.6)
12/14e	0.0	(1.0)	(1.0)	(0.8)	(0.5)	(1.9)
12/15e	0.0	(1.2)	(1.3)	(7.3)	(7.3)	(5.3)

Note: *PBT is normalised, excluding intangible amortisation, exceptional items and share-based payments.

Spotlight on Senegal

Cairn's success in Senegal is likely to focus investor's attention on the region, having confirmed a working petroleum system and de-risking at least source and migration across a range of basin plays. However it is the outcome of its next well, SNE-1 that will be most relevant for Cap Energy. Sitting on the shelf edge, SNE-1 is more geologically analogous to Cap's prospectivity in the Djiffere block. Having acquired its Senegalese assets in February 2014, the company has moved quickly to progress its portfolio, completing a 3700km 2D seismic survey in June 2014 and planning to complete the interpretation and Virtual Drilling analysis by the end of November with a view to having a 3D survey carried out in Q115 and to complete the identification of the most suitable prospect to drill by the end of Q315.

Impact on Guinea-Bissau

In addition to Senegal, with the deepwater geology of Cap's Block 5B in Guinea-Bissau analogous to that encountered in FAN-1, there should also be a positive read-across for this frontier area. The upcoming 3D survey planned for the block will allow a more thorough comparison and potential further de-risking. 20 leads have been identified in Block 5B based on 2D seismic and are being refined, together with a Virtual Drilling analysis for input into the design of the 3D survey. Meanwhile the 2013 2D seismic data acquired across Block 1 are being reinterpreted and a Virtual Drilling analysis will be carried out here during H214.

Financials: Funding required for 3D seismic

Cap remains at too early a stage to assign a RENAV valuation. The current focus is on securing c £7m of additional finance, primarily to cover 3D seismic in Guinea Bissau. Cap management has received assurances of funding being available from its major shareholders, while a farm-out also remains a possibility. Funding may also come from a raise linked to a move to AIM, most likely now in 2015.

Cap Energy is a research client of Edison Investment Research Limited

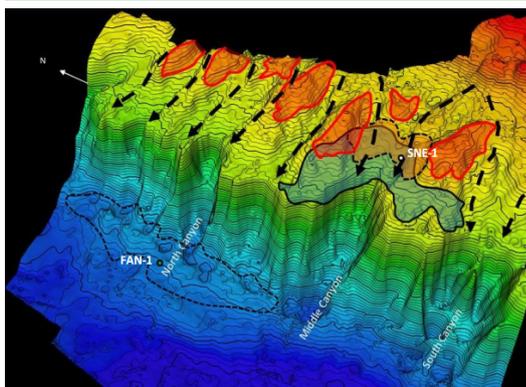
FAN-1 discovery highlights Senegal potential

Cairn Energy has announced the discovery of oil in its FAN-1 exploration well, around 100km offshore the coast of Senegal and to the west of Cap's Djiffere block. The well encountered 29m of net oil-bearing reservoir in Cretaceous sandstones (mainly in the H300 North Fan) with oil ranging between 28° API and 41° API. Cairn estimates that the structure contains gross P50 STOIIIP of 950mmbbls, albeit with a large range of uncertainty with a P90 to P10 STOIIIP range of 250mmbbls to 2,500mmbbls. No testing of the well has been carried out so we do not have any indication of recoverable resources, although these are likely to be lower than previous operator gross mean prospective resource estimates of 282mmbbls and 535mmbbls for the H150 and H300 fans respectively. Cairn has indicated that a discovery greater than 250mmbbls recoverable is likely to be commercial.

As a deepwater fan prospect FAN-1 is not directly analogous to the shallower shelf prospects likely to be targeted by Cap. However, a successful discovery in the Sangomar block adjacent to Cap's acreage is positive news for the area. It confirms the presence of a working petroleum system that had been suspected based on oil shows from four wells drilled in a neighbouring block by Esso between 1968 and 1972. Cap management also believes that this will de-risk the source, migration and presence of kitchen in Djiffere.

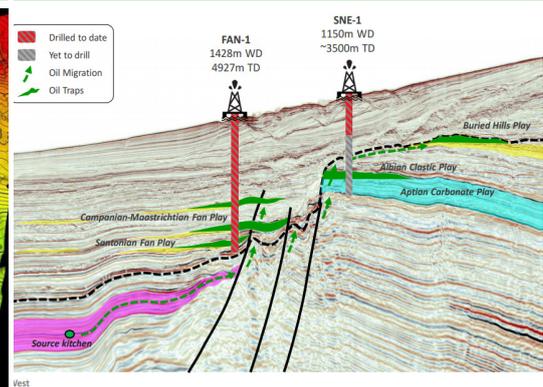
Once operations on FAN-1 are completed, Cairn will move the Cajun Express semi-sub closer to the coastline to drill its second and final well in this campaign. SNE-1 is targeting 550mmbbls of gross mean unrisks prospective resources across two objective reservoirs, the Albian Clastic and Aptian Carbonate. The well is a shelf-edge prospect that is more closely analogous to Cap's Djiffere block prospectivity, all of which is located on the shelf edge. Further success here for Cairn should materially upgrade Cap's potential for success in Djiffere. SNE-1 was estimated to take 45 days to drill; however, since the top hole section is already in place in the well, we expect the drilling time to be reduced if drilling issues are not encountered. The top-hole section was drilled in May 2014 when deeper drilling on FAN-1 had to be halted due to rig maintenance issues. This unscheduled maintenance resulted in a delay to work on FAN-1 of around 47 days.

Exhibit 1: 2014 Sangomar wells



Source: FAR

Exhibit 2: 2014 Sangomar wells on seismic



Source: FAR

Having acquired its 44.1% share of the Djiffere block in February 2014, Cap hopes to drill a well in 2015, and is currently working to identify suitable prospects. The company carried out a 3,700km 2D seismic survey across the block between April and June 2014. Processing these data is ongoing, with interpretation expected to be completed by the end of the year. Results from the FAN-1 well will also be incorporated in the interpretation. Simultaneously, the seismic data will undergo a Virtual Drilling analysis, a technology exclusive to Cap's partner TAOL, which aims to predict the presence of liquid hydrocarbons and thereby significantly de-risk the prospects before drilling.

Beyond the existing awarded acreage, press reports have also indicated that Senegal authorities are aiming to award exploration licences for two more offshore blocks by the end of the year. The same report also indicates that state-run Petrosen is looking to secure funding to pursue a third block on its own.

3D seismic planned for Guinea-Bissau

Although the spotlight is currently on Senegal due to Cairn's ongoing drilling campaign, Cap is also working to progress its interests in neighbouring Guinea-Bissau. Sitting in the same basin as the Senegal assets, the prospective leads are distributed across a carbonate shelf that passes abruptly to deeper water to the west. As the deepwater geology of Cap's Block 5B is analogous to that of the FAN-1 location in Senegal, Cap plans to use the results of Cairn's well to look for similar prospects in its Guinea-Bissau acreage. This will become more accurate when tied into a 3D survey planned to start in November 2014 over Block 5B. The company believes that the presence of source rock in FAN-1 increases confidence that it is also present in Guinea-Bissau.

In addition, seismic survey operator Polarcus has carried out two 3D surveys offshore Guinea-Bissau separate to Cap's blocks, which have identified several fan systems on the shelf edge similar to those in Senegal.

Preparations are being finalised for the Block 5B survey to de-risk the leads identified on 2D seismic. The majority of leads here sit on the shelf, in water depths between 1,125m and 3,150m, although some sit in water depths of 3,200m to 3,500m. The P50 STOIPs are mostly over 100mmbbls, with the largest assessed at 2,433mmbbl.

Block 1 sits in much shallower waters of up to 100m and within easy reach of shore. The mean prospective resources are in the region of 50-120mmbbls. A Virtual Drilling analysis on Block 1 seismic data is underway to identify prospects and is expected to be completed by the end of 2014.

Valuation and financials: Funding is current focus

Cap remains at too early a stage to consider a RENAV valuation, although there is significant upside potential if the company can upgrade its leads to drill-ready prospects. Consistent with our April 2014 [initiation note](#), we estimate a 300mmbbl prospect would add between 11p and 102p per share depending on the acreage and PSC terms. Meanwhile, Guinea-Bissau blue-sky valuations could exceed £20/share, although this is speculative pending further 3D seismic.

Since our initiation note, Cap has continued to be extremely thinly traded, which means that minor dealing activity can have a large impact on the company's share price. Since the beginning of May 2014 there has been only £62k of trading in Cap stock, but this has still increased the share price from 45p to 140p/share.

Funding continues to be tight while the company remains held primarily by directors and related parties. However, we estimate that £7.3m will be required through to end 2015, primarily to fund 3D seismic surveys, initially in Block 5B and then in Block 1, as well as possibly Senegal. This may be funded either through a shareholder loan, equity raise or potentially a farm-out (shown in our models as debt only for illustrative purposes). If funding is through a shareholder loan, we would expect Cap to look to move to an IPO, although this is now likely to be a 2015 event rather than in H214, as was previously planned.

Exhibit 3: Financial summary

	£'000s	2011	2012	2013	2014e	2015e
Dec		IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS						
Revenue		0	0	0	0	0
Cost of Sales		0	0	0	0	0
Gross Profit		0	0	0	0	0
EBITDA		(61)	(114)	(625)	(993)	(1,202)
Operating Profit (before amort. and except.)		(61)	(114)	(625)	(993)	(1,202)
Intangible Amortisation		0	0	0	0	0
Exceptionals		(0)	25	0	0	0
Other		0	0	0	0	0
Operating Profit		(61)	(90)	(625)	(993)	(1,202)
Net Interest		(41)	49	1	0	(138)
Profit Before Tax (norm)		(102)	(65)	(624)	(993)	(1,340)
Profit Before Tax (FRS 3)		(102)	(41)	(624)	(993)	(1,340)
Tax		0	0	0	0	0
Profit After Tax (norm)		(102)	(65)	(624)	(993)	(1,340)
Profit After Tax (FRS 3)		(102)	(41)	(624)	(993)	(1,340)
Average Number of Shares Outstanding (m)		0.9	2.9	11.4	28.9	29.0
EPS - normalised (p)		(11.6)	(2.2)	(5.5)	(3.4)	(4.6)
EPS - normalised fully diluted (p)		(6.9)	(2.2)	(5.5)	(3.4)	(4.6)
EPS - (IFRS) (p)		(11.6)	(1.4)	(5.5)	(3.4)	(4.6)
Dividend per share (p)		0.0	0.0	0.0	0.0	0.0
Gross Margin (%)		N/A	N/A	N/A	N/A	N/A
EBITDA Margin (%)		N/A	N/A	N/A	N/A	N/A
Operating Margin (before GW and except.) (%)		N/A	N/A	N/A	N/A	N/A
BALANCE SHEET						
Fixed Assets		269	2	2,527	4,479	9,792
Intangible Assets		0	0	2,508	4,383	7,571
Tangible Assets		269	2	19	14	2,139
Investments		0	0	0	82	82
Current Assets		0	222	913	391	88
Stocks		0	0	0	0	0
Debtors		0	4	32	88	88
Cash		0	0	881	303	0
Other		0	219	0	0	0
Current Liabilities		(156)	(264)	(193)	(1,722)	(910)
Creditors		0	0	(25)	(216)	(216)
Short term borrowings		0	(0)	0	(812)	0
Other current liabilities		(156)	(264)	(168)	(694)	(694)
Long Term Liabilities		(507)	0	0	(0)	(7,161)
Long term borrowings		0	0	0	0	(7,299)
Other long term liabilities		(507)	0	0	(0)	138
Net Assets		(394)	(40)	3,247	3,148	1,808
CASH FLOW						
Operating Cash Flow		(136)	22	(974)	(321)	(1,340)
Net Interest		0	49	1	0	(138)
Tax		0	0	0	0	0
Capex		0	(222)	(585)	(1,881)	(5,313)
Acquisitions/disposals		0	0	0	0	0
Financing		0	150	3,568	902	0
Dividends		0	0	0	0	0
Other		0	(0)	(1,130)	(90)	0
Net Cash Flow		(136)	(0)	880	(1,390)	(6,790)
Opening net debt/(cash)		(8)	(0)	(0)	(881)	509
HP finance leases initiated		0	0	0	0	0
Other		128	(0)	1	0	0
Closing net debt/(cash)		(0)	(0)	(881)	509	7,299

Source: Company accounts, Edison Investment Research

Edison, the investment intelligence firm, is the future of investor interaction with corporates. Our team of over 100 analysts and investment professionals work with leading companies, fund managers and investment banks worldwide to support their capital markets activity. We provide services to more than 400 retained corporate and investor clients from our offices in London, New York, Frankfurt, Sydney and Wellington. Edison is authorised and regulated by the Financial Conduct Authority (www.fsa.gov.uk/register/firmBasicDetails.do?sid=181584). Edison Investment Research (NZ) Limited (Edison NZ) is the New Zealand subsidiary of Edison. Edison NZ is registered on the New Zealand Financial Service Providers Register (FSP number 247505) and is registered to provide wholesale and/or generic financial adviser services only. Edison Investment Research Inc (Edison US) is the US subsidiary of Edison and is regulated by the Securities and Exchange Commission. Edison Investment Research Limited (Edison Aus) [46085869] is the Australian subsidiary of Edison and is not regulated by the Australian Securities and Investment Commission. Edison Germany is a branch entity of Edison Investment Research Limited [4794244]. www.edisongroup.com

DISCLAIMER

Copyright 2014 Edison Investment Research Limited. All rights reserved. This report has been commissioned by Cap Energy and prepared and issued by Edison for publication globally. All information used in the publication of this report has been compiled from publicly available sources that are believed to be reliable, however we do not guarantee the accuracy or completeness of this report. Opinions contained in this report represent those of the research department of Edison at the time of publication. The securities described in the Investment Research may not be eligible for sale in all jurisdictions or to certain categories of investors. This research is issued in Australia by Edison Aus and any access to it, is intended only for "wholesale clients" within the meaning of the Australian Corporations Act. The Investment Research is distributed in the United States by Edison US to major US institutional investors only. Edison US is registered as an investment adviser with the Securities and Exchange Commission. Edison US relies upon the "publishers' exclusion" from the definition of investment adviser under Section 202(a)(11) of the Investment Advisers Act of 1940 and corresponding state securities laws. As such, Edison does not offer or provide personalised advice. We publish information about companies in which we believe our readers may be interested and this information reflects our sincere opinions. The information that we provide or that is derived from our website is not intended to be, and should not be construed in any manner whatsoever as, personalised advice. Also, our website and the information provided by us should not be construed by any subscriber or prospective subscriber as Edison's solicitation to effect, or attempt to effect, any transaction in a security. The research in this document is intended for New Zealand resident professional financial advisers or brokers (for use in their roles as financial advisers or brokers) and habitual investors who are "wholesale clients" for the purpose of the Financial Advisers Act 2008 (FAA) (as described in sections 5(c) (1)(a), (b) and (c) of the FAA). This is not a solicitation or inducement to buy, sell, subscribe, or underwrite any securities mentioned or in the topic of this document. This document is provided for information purposes only and should not be construed as an offer or solicitation for investment in any securities mentioned or in the topic of this document. A marketing communication under FCA rules, this document has not been prepared in accordance with the legal requirements designed to promote the independence of investment research and is not subject to any prohibition on dealing ahead of the dissemination of investment research. Edison has a restrictive policy relating to personal dealing. Edison Group does not conduct any investment business and, accordingly, does not itself hold any positions in the securities mentioned in this report. However, the respective directors, officers, employees and contractors of Edison may have a position in any or related securities mentioned in this report. Edison or its affiliates may perform services or solicit business from any of the companies mentioned in this report. The value of securities mentioned in this report can fall as well as rise and are subject to large and sudden swings. In addition it may be difficult or not possible to buy, sell or obtain accurate information about the value of securities mentioned in this report. Past performance is not necessarily a guide to future performance. Forward-looking information or statements in this report contain information that is based on assumptions, forecasts of future results, estimates of amounts not yet determinable, and therefore involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of their subject matter to be materially different from current expectations. For the purpose of the FAA, the content of this report is of a general nature, is intended as a source of general information only and is not intended to constitute a recommendation or opinion in relation to acquiring or disposing (including refraining from acquiring or disposing) of securities. The distribution of this document is not a "personalised service" and, to the extent that it contains any financial advice, is intended only as a "class service" provided by Edison within the meaning of the FAA (ie without taking into account the particular financial situation or goals of any person). As such, it should not be relied upon in making an investment decision. To the maximum extent permitted by law, Edison, its affiliates and contractors, and their respective directors, officers and employees will not be liable for any loss or damage arising as a result of reliance being placed on any of the information contained in this report and do not guarantee the returns on investments in the products discussed in this publication. FTSE International Limited ("FTSE") © FTSE 2014. "FTSE®" is a trade mark of the London Stock Exchange Group companies and is used by FTSE International Limited under license. All rights in the FTSE indices and/or FTSE ratings vest in FTSE and/or its licensors. Neither FTSE nor its licensors accept any liability for any errors or omissions in the FTSE indices and/or FTSE ratings or underlying data. No further distribution of FTSE Data is permitted without FTSE's express written consent.