

Bowleven

Company update

Awaiting farm-out closing

Bowleven (BLVN) has not escaped the poor sentiment seen across the E&P sector. Despite being near to closing a farm-out that will catalyse a \$170m payment (equivalent to 33p/share) and being exposed to four material wells (two carried under the farm-out) in 2015, its shares have fallen by nearly 20% since our initiation in mid-July; it now lies 55% below our core NAV of 73p/share and 65% lower than the RENAV of 96p/share. The full-year results indicate the farm-out with Lukoil/NewAge is close to completion (with just the gazetting of the presidential decree now required), which will enable all the partners to continue with the development of Etinde.

Year end	Revenue (\$m)	EBITDA* (\$m)	PBT* (\$m)	Net cash (debt) (\$m)	Capex (\$m)
06/13	0.0	(10.6)	(10.6)	19.7	(114.4)
06/14	0.0	(11.6)	(13.2)	20.5	(18.0)
06/15e	0.0	(12.7)	(13.2)	150.4	(20.0)
06/16e	0.0	(12.7)	(13.2)	104.4	(35.0)

Note: *PBT is normalised, excluding intangible amortisation, exceptional items and share-based payments. We exclude Bomono development capex in the figures above.

Farm-out closing a key step

Under the terms of the farm-out with Lukoil/NewAge, BLVN will be carried on two material appraisal wells to be drilled in 2015 and will receive \$170m cash (enough to fund all expected activities). Ministerial approval has been given, and the parties await the gazetting of the final presidential decree. Once complete, BLVN expects to receive payment within 15 working days. This process has been longer than hoped (the second deadline extension recently moved the agreement to 31 December vs initially anticipated 31 August 2014), but the delays to project sanction should not overshadow the value Bowleven should accrue from Etinde.

Look forward to 2015 drilling at Bomono and Etinde

The first of the Bomono wells (Zingana) will likely spud towards the turn of the year, likely targeting both oil and gas across four discrete sands. Should the wells at Bomono be successful, the liquids mix will be key. While oil will be more immediately commercial, any gas found has the potential to feed into local power generation. Contingent on execution of the farm-down, the two planned Etinde appraisal wells have the potential to markedly increase resources in the block, and underpin further development of the block, most probably contributing towards the proposed CLNG project.

Valuation: Core NAV falls slightly to 73p/share

We have nudged the timing to the Etinde development back by six months. Together with adjustments to our oil price assumptions and a move to a 1 January 2015 value date, our core NAV has moved from 75p to 73p/share. Following BLVN's prelims update on estimated volumes at Bomono, we have reduced their value, but the company is still participating in four material wells in 2015. Hence our reduced RENAV of 96p/share still has potential to increase in the next 12 months.

Oil & gas

8 December 2014

Price **29.3p**

Market cap **£95m**

US\$ 1.6: £

Net cash (\$m) December 2014e 1.9
(assume farm-down cash is received in 2015)

Shares in issue 324.3m

Free float 93%

Code BLVN

Primary exchange AIM

Secondary exchange N/A

Share price performance



% 1m 3m 12m

Abs (4.1) (21.5) (23.5)

Rel (local) (6.9) (20.4) (26.4)

52-week high/low 43.8p 27.0p

Business description

Bowleven is an AIM-listed, Africa-focused E&P with assets in Cameroon, Kenya and Zambia. Post the farm-out transaction its main asset is its 20% net interest in the Etinde development, which will provide gas to a fertiliser plant for 20 years. Its partners are NewAge and Lukoil.

Next events

Farm-down close Q414

Bomono – Zingana well spud/result Q115

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Etinde development is key

The farm-down completion may have been delayed, but the partners remain keen to proceed, according to the company (all have agreed on extensions to the long-stop date from August to end December). Progress is dependent on the dual-development of both the Etinde assets and the fertiliser plant. As a result of the delay in completion of the farm-down, we have pushed out our assumed start-up by around six months. This has a minor effect on value, but is insignificant in comparison with the value created by the project (net to Bowleven).

Management has sensibly agreed a \$30m financing facility with Macquarie to be used as required, as a contingency in the event of a delay to farm-out completion.

We are very encouraged by the provisional allocation of 200mmscfd discussed between GDF, project operator and Bowleven as part of the Cameroon LNG project. This is a significant amount of gas (we model that the fertiliser plant takes 70mmscfd), and shows the confidence of the partners in the resources and prospects in Etinde. Our previous modelling assumed 200mmscfd for the LNG offtake, so we leave this unchanged. Pricing will be another key factor (we assume a small premium to the fertiliser plant realisations for now), although the real value is in liquids co-produced with the gas.

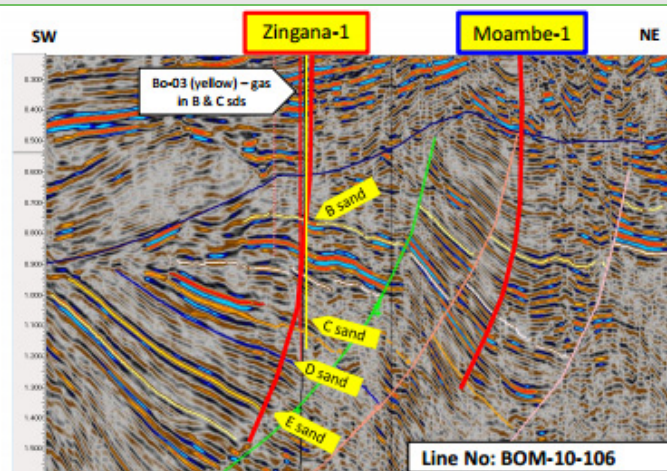
The long-stop date for the farm-down has been extended to the end of the year. For clarity, if the farm-in deal does not proceed, management believes the previous agreement with Petrofac would stand, reducing downside potential for Bowleven in this event.

Bomono

Following the prelim results update of volumes targeted at Bomono, we have reduced our field size estimates – we now model each target as holding around 45mmboe. They are modelled as predominately oil fields.

We expect the first of the Bomono wells to spud towards year end, each taking around 45 days (ex-testing duration). Bomono has active oil seeps and management believes the primary risks are less the geological presence of hydrocarbons, but rather the make-up and size and any accumulations. Oil would obviously be preferable, though the company believes gas could be commercialised via local power plants. These markets are growing steadily, but given the travails of Victoria Oil and Gas to generate sales in central Douala, we are more cautious on the markets for gas at this point.

Exhibit 1: Bomono targets



Source: Bowleven

Zambia and Kenya

The company is making progress on the other, longer-term, assets. In Kenya, FTG has been acquired and seismic is ongoing, while the licence has been extended to enable enough time for analysis before the decision to move to the second phase is made. In Zambia, Bowleven is awaiting decisions on two block applications to add to the existing three blocks.

Valuation tweaked

We value oil companies with an asset-by-asset NAV derived from detailed DCF modelling. Our valuation includes production, development and contingent resources, while exploration is valued only if the company has a plan and resources to drill in the next 18 months. For further details of our valuation techniques and assumptions, please see [our initiation note](#). As a summary, we assume \$80/bbl long-term inflated for Brent, and \$3.5/mcf in Cameroon, growing in line with oil prices over the period. We assume LNG pricing will be higher, (conservatively just \$0.5/mcf higher for the moment). In Kenya, we assume a lower price.

Following the updates of volumes targeted at Bomono at the preliminary results we have reduced our field size estimates, with both Zingana and Moambe now modelled as 45mmboe fields (down from our previous estimates of 158mmboe and 91mmboe respectively). We also now model them as predominantly oil fields (c 80%), which has the effect of increasing the \$/bbl valuation, partially offsetting the reduction in gross volumes.

Exhibit 2: NAV summary

Asset	Country	Diluted WI %	CoS %	Recoverable reserves		NPV/boe \$/boe	Net risked value \$m	Value per share Risked /share
				Gross mmboe	Net mmboe			
Net (Debt) Cash (Dec 2014 estimate)		100%	100%				10	2
SG&A (NPV of 2 yrs)		100%	100%				(21)	(4)
\$170m cash from Lukoil on closing (assumed early 2015)		100%	100%				170	33
\$9m penalty fee to PFC		100%	100%				(9)	(2)
\$25m on FID (assumed mid-2015)		100%	65%				16	3
\$15m on appraisal wells (discounted by 1.5 years)		100%	86%				13	2
2014 Exploration		100%	100%				0	0
Development								
Etinde development	Cameroon	20%	65%	181	36	8.4	199	38
Core NAV							378	73
Potential development								
CLNG extension	Cameroon	20%	20%	100	20	16.9	67	13
Possible exploration								
Bomono - Zingana	Cameroon	72%	10%	45	32	8.0	26	5
Bomono - Moambe	Cameroon	72%	10%	45	32	8.0	26	5
RENAV							497	96

Source: Edison Investment Research. Note: We assume government back-in of 20% at Etinde and 10% at Bomono. We do not include the possible upside for appraisal wells in 2015, as although we believe these will be drilled, the timing and targets have not yet been confirmed; we await these to include them in our NAV (we also note that any upside success could be used to provide CLNG volumes, which are already in our NAV). We assume a US\$/£ rate of 1.6.

We note that by buying 50% of Etinde for \$250m (around 48p/share at current FX rates), Lukoil and NewAge have effectively valued the remaining 25% at \$125m or 24p/share.

Financials

The company held \$20m in cash at end-June 2014; without the cash inflow from Lukoil/NewAge, the company will run short of cash within a few months. Management has sensibly agreed a \$30m financing facility with Macquarie to be used as required, as a contingency in the event of a delay to

farm-out completion. After that the capex spend in 2015 is dominated by Bomono drilling capex as we expect the appraisal wells in Etinde to be covered by the farm-down partners.

Once the farm-down is complete, this cash balance will increase materially with the additional \$170m due from Lukoil/NewAge.

Exhibit 3: Financial summary

	US\$000s	2011	2012	2013	2014	2015e	2016e
Year end June		IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
Revenue		0	0	0	0	0	0
Cost of Sales		0	0	0	0	0	0
Gross Profit		0	0	0	0	0	0
EBITDA		(54,460)	(15,705)	(10,592)	(11,604)	(12,738)	(12,738)
Operating Profit (before GW and except.)		(54,460)	(15,705)	(10,592)	(11,604)	(12,738)	(12,738)
Exceptionals		0	0	0	0	0	0
Goodwill and intangible amortisation		0	0	0	0	0	0
Operating Profit		(54,460)	(15,705)	(10,592)	(11,604)	(12,738)	(12,738)
Net foreign exchange gain/(loss)		0	0	0	0	0	0
Net Interest		(21,894)	3,132	7	(1,577)	(436)	(440)
Profit Before Tax (norm)		(76,354)	(12,573)	(10,585)	(13,181)	(13,174)	(13,178)
Profit Before Tax (FRS 3)		(76,354)	(12,573)	(10,585)	(13,181)	(13,174)	(13,178)
Tax		0	0	0	0	0	0
Profit After Tax (norm)		(76,354)	(12,573)	(10,585)	(13,181)	(13,174)	(13,178)
Profit After Tax (FRS 3)		(76,354)	(12,573)	(10,585)	(13,181)	(13,174)	(13,178)
Average Number of Shares Outstanding (m)		216	295	295	324	324	324
EPS - normalised (c)		(35.4)	(4.3)	(3.6)	(4.1)	(4.1)	(4.1)
EPS - FRS 3 (c)		(35.4)	(4.3)	(3.6)	(4.1)	(4.1)	(4.1)
Dividend per share (c)		0.0	0.0	0.0	0.0	0.0	0.0
Gross Margin (%)		N/A	N/A	N/A	N/A	N/A	N/A
EBITDA Margin (%)		N/A	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	N/A
BALANCE SHEET							
Fixed Assets		383,063	426,665	533,437	551,446	388,346	455,646
Intangible Assets		340,637	425,414	532,507	550,745	385,645	445,445
Tangible Assets		802	1,251	930	701	2,701	10,201
Investments		41,624	0	0	0	0	0
Current Assets		129,191	161,341	52,150	42,351	172,301	126,247
Stocks		8,180	11,638	11,023	10,404	10,404	10,404
Debtors		24,390	7,222	16,385	6,493	6,493	6,493
Cash		96,621	142,481	19,742	20,454	150,404	104,350
Other receivables		0	0	5,000	5,000	5,000	5,000
Current Liabilities		(39,261)	(8,575)	(15,568)	(6,274)	(6,274)	(6,274)
Creditors		(39,261)	(8,575)	(15,568)	(6,274)	(6,274)	(6,274)
Short term borrowings		0	0	0	0	0	0
Long Term Liabilities		0	0	0	0	0	0
Long term borrowings		0	0	0	0	0	0
Other long term liabilities		0	0	0	0	0	0
Net Assets		472,993	579,431	570,019	587,523	554,373	575,619
CASH FLOW							
Operating Cash Flow		(11,808)	(16,433)	(8,404)	(8,576)	(10,614)	(10,614)
Net Interest		732	821	556	177	(436)	(440)
Tax		0	0	0	0	0	0
Capex		(85,706)	(58,721)	(114,381)	(18,037)	(20,000)	(35,000)
Acquisitions/disposals		0	0	0	0	161,000	0
Financing		112,792	122,905	76	20,924	0	0
Other		0	(2,672)	0	4,482	0	0
Other		0	(2,672)	0	4,482	0	0
Net Cash Flow		16,010	45,900	(122,153)	(1,030)	129,950	(46,054)
Opening net debt/(cash)		(79,152)	(96,621)	(142,481)	(19,742)	(20,454)	(150,404)
Effect of FX changes		1,511	(92)	(586)	1,742	0	0
Other		(52)	52	0	0	0	(0)
Closing net debt/(cash)		(96,621)	(142,481)	(19,742)	(20,454)	(150,404)	(104,350)

Source: Edison Investment Research, Bowleven accounts. Note: Excludes Bomono, Kenya and Zambia development capex, but assumes the Lukoil/NewAge farm-in deal in and arbitrary exploration spend in coming years. We do not model impairment following the Lukoil/NewAge deal, though we accept this could be possible in future. Our net debt figure does not include \$5m of bank deposits held by BLVN in 2014/2015e.

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