

# Bowleven

Year-end results

Awaiting resolution on development solution

Oil &amp; gas

Bowleven's year-end results brought few surprises. The company remains in a very strong cash position, with \$99m on the books in October (and a \$40m net drilling carry still outstanding). Reductions in G&A mean it should be able to retain this advantaged position for some time until a resolution is reached on the way in which its key Etinde asset will be developed. In the nearer term, Bomono should provide cash flows once bureaucratic delays are resolved. Discussions between the government and the operator (NewAge) are continuing on the best way to exploit the large gas/liquids resources and we believe this continued uncertainty is a key reason for the shares trading below our new core NAV of 50p/share (from 46p/share).

Year end	Revenue (\$m)	PBT* (\$m)	Operating cash flow (\$m)	Capex (\$m)	Net (debt)/cash (\$m)
06/15	0.0	(14.1)	(10.4)	(35.1)	144.8
06/16	0.0	(7.0)	(6.9)	(48.2)	88.0
06/17e	0.0	(21.7)	(33.2)	(7.5)	75.2
06/18e	6.1	(26.7)	(30.9)	(42.0)	37.0

Note: \*PBT is normalised, excluding amortisation of acquired intangibles, exceptional items and share-based payments.

## Development concept still to be locked down

The government is seeking a 'domestic-first' solution, with gas being processed in country before exportation, while NewAge prefers an 'export-led' solution, with an objective of floating LNG development. The asset should provide substantial value in either scenario, so we are hopeful that a compromise can be reached to benefit all parties, especially given that successful appraisal drilling of the potentially large Intra Isongo could more than provide for both options. For the moment, we retain our base case of a domestic fertiliser plant with LNG option later.

## Etinde appraisal wells may add substantially

The company is keen to get the appraisal wells drilled as soon as possible to provide clarity on the size of the Intra Isongo intervals, which could add materially to the current resources base. The timing of these wells (with a \$40m net carry) seems to be dependent on the NewAge/government discussions, but we assume they will happen in 2017, and could be catalysts for the project and Bowleven.

## Valuation: Core NAV adjusted to 50p/share

We have made minor adjustments to our valuation, lifting the core NAV to 50p/share (from 46p/share). This is clearly above the current share price, which is roughly equal to the current cash balance. Provided that investors can see a path through to the development of Etinde (we think it is very likely in the fullness of time), there is value in the company, irrespective of whether this is a fertiliser, gas-to-power, LNG or other solution. We would expect the heavy discount to asset value to start to unwind once the concept and timing of the exploitation of Etinde is decided. Additional value at Bomono, together with potential value to be unlocked in the event of an acquisition, could contribute further.

21 November 2016

**Price** **25.00p**
**Market cap** **£81m**

US\$/£0.8

Net cash\* (\$m) at 31 October 2016 99  
 \*Includes the \$15m payment in October

Shares in issue 325m

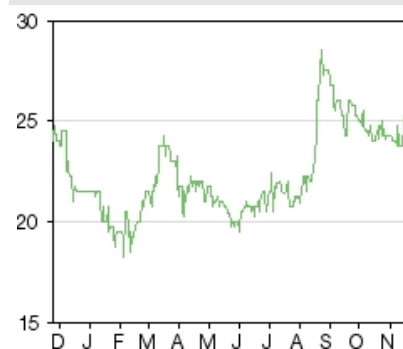
Free float 93%

Code BLVN

Primary exchange AIM

Secondary exchange N/A

### Share price performance



%	1m	3m	12m
Abs	4.2	2.0	2.0
Rel (local)	7.3	3.4	(4.8)

52-week high/low 28.50p 18.20p

### Business description

Bowleven is an AIM-listed, Africa-focused E&P with assets in Cameroon. Its main asset is its 20% net interest in the Etinde development, which holds 290mmboe of 2C contingent resource.

### Next events

Etinde development concept agreement	2016/2017
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Appraisal wells	2017
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## Valuation and sensitivities

We adjust our valuation to account for the year-end cash position, movement in the FX rate and some minor adjustments to field modelling. Our core NAV increases from 46p/share to 50p/share.

### Exhibit 1: NAV summary

Asset	US\$/£0.8		Recoverable reserves		NPV	Net risked value with varying discount rates				
	No. of shares: 325.01m		Gross	Net		\$m	DR sensitivity (p/share)			
	Diluted WI	CoS					mmboe	\$/boe	@12.5% DR	DR sensitivity (p/share)
	%	%					10%	15%	20%	
Net (debt)/cash - June 2016 A	100%	100%				88	22	22	22	22
G&A NPV of three years, (includes share payments)	100%	100%				(27)	(7)	(7)	(7)	(7)
\$25m on FID (assumed early 2018)	100%	83%				21	5	5	5	5
\$15m on appraisal wells (cash now received)	100%	100%				15	4	4	4	4
<b>Development</b>										
Etinde development	20%	50%	181	36	5.9	106	26	36	19	11
<b>Core NAV</b>						<b>203</b>	<b>50</b>	<b>59</b>	<b>43</b>	<b>35</b>
<b>Potential development</b>										
CLNG extension	20%	20%	109	22	6.8	29	7	7	7	7
Bomono - Moambe small scale gas project	90%	50%	11	10	7.7	39	10	11	8	7
<b>Possible development</b>										
Bomono - Zingana Power Supply	90%	10%	27	24	2.1	5	1	2	1	0
Cost of cash shortfall for development	100%	10%				(4)	(1)	(1)	(1)	(1)
<b>Possible exploration NAV</b>						<b>69</b>	<b>17</b>	<b>20</b>	<b>15</b>	<b>13</b>
<b>RENAV</b>						<b>272</b>	<b>67</b>	<b>79</b>	<b>59</b>	<b>48</b>
Rough Intra Isongo value	20%	10%	290	58	2.2	13	3	3	3	3

Source: Edison Investment Research, company accounts

## Valuation sensitivities and risks

It is obvious that Etinde is an asset with strong economics; it is the route to (and timing of) monetisation that is currently unclear. Negotiation between the operator (NewAge) and the government towards a solution that is acceptable to all parties is prolonging development delays, but we are hopeful that the economics will win through – a faster development of the gas resource (of any kind) is better for the country and the contractors than indefinite delays. For the moment, we retain our assumption of a fertiliser plant (with added LNG later) as a base case until a development concept is finalised and announced. First gas in 2022 should be achievable if an agreement is reached in the next 12 months, but there is a risk that changes to the development solution means this may be optimistic. With a 12.5% discount rate assumed, there is material value leakage as a result of any delay.

We use a \$70/bbl long-term oil assumption, to which the project is highly levered. The Etinde project (on an unrisks basis) would shift by around 15% for each \$10/bbl move in oil price. Equally, if we were to apply an increased/decreased discount rate (of 2.5%), the unrisks NAV would decrease/increase by 36/26%.

However, because of the high cash levels and risking of the project, the effect on company core NAV is far more muted, as seen below.

### Exhibit 2: Oil price and discount rate sensitivity (for company NAV)

Oil price (\$/bbl)		50	60	70	80
Discount rate	7.50%	19%	32%	46%	59%
	10.0%	(2%)	9%	19%	29%
	12.5%	(16%)	(8%)	0%	8%
	15.0%	(26%)	(20%)	(13%)	(7%)
	17.5%	(33%)	(28%)	(23%)	(18%)

Source: Edison Investment Research

The small-scale Bomono project has the potential to provide useful incremental power to the Douala area and meaningful (if relatively modest) cash flows to Bowleven, once up and running. The tests of the exploration wells showed that commercial rates of 4-6mmcf could be sustained and this should be enough to supply gas to mobile gas power units. Cash flows from the project will help offset the company's G&A bill and contribute in future to any further development of Bomono (possibly of deeper horizons) or the Etinde development. The faster the delays are resolved, the quicker the company will see returns from its investment.

## **Financials**

Part of Bowleven's differentiation vs many others is its strong balance sheet. It held \$88m as of the end of June, which was bolstered in October by the receipt of \$15m (31 October cash balance \$99m, and no debt). This leaves it well capitalised to survive the current lower oil price environment, invest in its assets and enables the management to makes judicious acquisitions where appropriate.

Given the net carry of \$40m in the appraisal wells, we expect limited capex spend in Etinde in 2017, while Bomono development will depend on approvals and a possible partnering process. Neither project has outstanding work commitments giving the company more control over its near term cash position.

We expect spend to increase in 2018 as Etinde and Bomono are developed.

**Exhibit 3: Financial summary**

	US\$000s	2013	2014	2015	2016	2017e	2018e
Year end June		IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
Revenue		0	0	0	0	0	6,124
Cost of Sales		0	0	0	0	0	(3,285)
Gross Profit		0	0	0	0	0	2,839
EBITDA		(10,592)	(11,604)	(11,471)	(20,246)	(34,032)	(31,713)
Operating Profit (before GW and except.)		(11,088)	(12,025)	(11,868)	(20,901)	(34,672)	(36,320)
Exceptionals		0	0	(75,959)	(122,305)	15,000	25,000
Goodwill and intangible amortisation		0	0	0	0	0	0
Operating Profit		(11,088)	(12,025)	(87,827)	(143,206)	(19,672)	(11,320)
Net foreign exchange gain/(loss)		0	0	0	0	0	0
Net Interest		7	(1,577)	(2,192)	13,937	12,955	9,586
Profit Before Tax (norm)		(11,081)	(13,602)	(14,060)	(6,964)	(21,717)	(26,734)
Profit Before Tax (FRS 3)		(11,081)	(13,602)	(90,019)	(129,269)	(6,717)	(1,734)
Tax		0	0	0	0	0	0
Profit After Tax (norm)		(11,081)	(13,602)	(14,060)	(6,964)	(21,717)	(26,734)
Profit After Tax (FRS 3)		(11,081)	(13,602)	(90,019)	(129,269)	(6,717)	(1,734)
Average Number of Shares Outstanding (m)		295	324.3	324.3	325.0	325.0	325.0
EPS - normalised (c)		(3.8)	(4.2)	(4.3)	(2.1)	(6.7)	(8.2)
EPS - FRS 3 (c)		(3.8)	(4.2)	(27.8)	(39.8)	(2.1)	(0.5)
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	46%
EBITDA Margin (%)		N/A	N/A	N/A	N/A	N/A	-518%
Operating Margin (before GW and except.) (%)		N/A	N/A	N/A	N/A	N/A	-593%
<b>BALANCE SHEET</b>							
Fixed Assets		533,437	551,446	306,558	214,522	221,382	258,775
Intangible Assets		532,507	550,745	304,662	213,669	214,529	218,322
Tangible Assets		930	701	1,896	853	6,853	40,453
Investments		0	0	0	0	0	0
Current Assets		52,150	42,351	212,029	149,819	137,042	98,755
Stocks		11,023	10,404	5,370	3,650	3,650	3,650
Debtors		16,385	6,493	6,431	2,955	2,955	2,955
Cash		19,742	20,454	144,751	88,026	75,249	36,962
Other receivables		5,000	5,000	55,477	55,188	55,188	55,188
Current Liabilities		(15,568)	(6,274)	(12,695)	(2,366)	(2,366)	(2,366)
Creditors		(15,568)	(6,274)	(12,695)	(2,366)	(2,366)	(2,366)
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		570,019	587,523	505,892	361,975	356,058	355,163
<b>CASH FLOW</b>							
Operating Cash Flow		(8,404)	(8,576)	(10,438)	(6,941)	(33,232)	(30,873)
Net Interest		556	177	139	450	12,955	9,586
Tax		0	0	0	0	0	0
Capex		(114,381)	(18,037)	(35,141)	(48,171)	(7,500)	(42,000)
Acquisitions/disposals		0	0	160,688	0	0	0
Financing		76	20,924	71	(186)	0	0
Other		0	4,482	9,016	0	15,000	25,000
Net Cash Flow		(122,153)	(1,030)	124,335	(54,848)	(12,777)	(38,287)
Opening net debt/(cash)		(142,481)	(19,742)	(20,454)	(144,751)	(88,026)	(75,249)
Effect of FX changes		(586)	1,742	(38)	(1,877)	0	0
Other		0	0	0	0	(0)	0
Closing net debt/(cash)		(19,742)	(20,454)	(144,751)	(88,026)	(75,249)	(36,962)

Source: Edison Investment Research, company accounts

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