

Cap Energy

Second Senegal discovery

Company update

Oil & gas

Cairn Energy's second well offshore Senegal, SNE-1, has discovered oil in the first of two target reservoirs and in quantities that are estimated to be significantly higher than in pre-drill estimates. Coming hot on the heels of last month's FAN-1 discovery, the results indicate the presence of a previously untapped oil province. SNE-1 is the more relevant of the two discoveries for Cap Energy, since it is more geologically analogous to its future prospects in Senegal. As such, the increased resource estimate, together with the good-quality reservoir and light oil reported, bodes well for Cap's Senegalese portfolio. Meanwhile, a 3D survey has begun across Cap's Guinea-Bissau acreage where the deepwater prospects are believed to be analogous to the FAN-1 well.

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.

SNE-1 significant for Senegal and Cap

The discovery of oil in SNE-1 is particularly positive for Cap, given that the shelf-edge prospect is geologically analogous to those in Cap's Djiffere block immediately to the east. The well has proved not only the presence of hydrocarbons on the shelf edge, but also a good-quality reservoir and high-quality oil. Resource estimates are now at 330mmbbls for SNE-1 (compared to a pre-drill estimate of 182mmbbls), so this commercial discovery could be transformational in opening up a new oil province, with Cap well placed to benefit. We now await the results of the deeper carbonate target, expected around the end of November. Analysis of Cap's 2014 2D seismic survey is ongoing; results are expected by the end of the year, with a view to identifying a potential drill prospect.

Seismic underway in Guinea-Bissau

In Guinea-Bissau, Cap commenced a 2,673km² 3D seismic survey across Block 5B in November 2014. The survey is expected to delineate the leads and prospects identified from the existing 2D surveys. Cairn's FAN-1 well has highlighted the potential of deepwater fans in the region, and Cap hopes to find similar prospects in its analogous deepwater geology in Block 5B.

Financials: Funding required for full 3D seismic

Cap remains at too early a stage to assign a RENAV valuation. We await details of how the company plans to fund the remainder of the full 3D programme in Guinea-Bissau and possibly in Senegal. Cap management has received assurances of the availability of funding from its major shareholders, while a farm-out also remains a possibility.

13 November 2014

Price **145.00p**

Market cap **£42m**

US\$1.6/£

Net cash (£m) at 30 June 2014 0.01

Shares in issue 29m

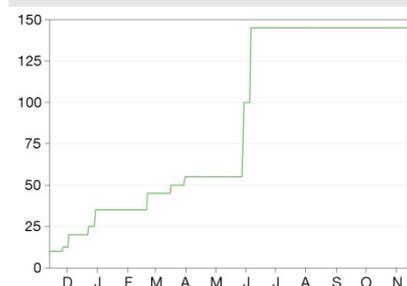
Free float 12.2%

Code CAPP

Primary exchange ISDX

Secondary exchange N/A

Share price performance



% 1m 3m 12m

Abs 0.0 0.0 1350.0

Rel (local) (4.4) 0.2 1368.3

52-week high/low 145.00p 10.00p

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

SNE-1 drilling Q414

Senegal 2D analysis Q414

Blah G-B 3D analysis Q115

Analysts

Elaine Reynolds +44 (0)20 3077 5713

Will Forbes +44 (0)20 3077 5749

Ian McLelland +44 (0)20 3077 5756

oilandgas@edisongroup.com

[Edison profile page](#)

Second discovery boosts Cap's potential

Cairn Energy has announced the discovery of oil in its SNE-1 well, approximately 100km offshore Senegal in around 1,100m water. The well encountered 32° API oil in 36m of net oil pay in the Albian Cretaceous sandstone and the reservoir quality was reported to be excellent. The Cretaceous objective is of similar age to the oil-bearing sands found approximately 24km away in Cairn's first discovery well, FAN-1. Pre-drill, the reservoir in SNE-1 was estimated to contain mean unrisked prospective resources of 182mmbbls, although Cairn is now reporting significantly greater unrisked contingent resources of 330mmbbls. The company has previously indicated that a discovery greater than 250mmbbls is likely to be commercial, so SNE-1 has the potential to be a standalone development. Cairn is now preparing to drill ahead to the deeper Aptian carbonate interval, which is targeting a further 256mmbbls of gross mean unrisked prospective resources. We expect the well to reach total depth in late November if there are no drilling issues.

Exhibit 1: Cap acreage in relation to Cairn wells



Source: Cap Energy

SNE-1 is a shelf-edge prospect and closely analogous to Cap's Djiffere block prospectivity, all of which is located on the shelf edge. Cairn's drilling campaign has now proved the presence of a working petroleum system in the region, but SNE-1 further demonstrates that hydrocarbons have migrated to the shelf area, with a positive read-across for Cap. Meanwhile, the good-quality reservoir encountered and the presence of high-quality oil found in SNE-1 should also further de-risk Cap's prospect portfolio. Having carried out a 3,700km 2D seismic survey earlier in 2014, Cap is now expecting to have interpreted the data by the end of the year. Results from FAN-1 and SNE-1 will be incorporated into the interpretation with a view to identifying a suitable prospect to be drilled in 2015. The seismic data will also undergo a Virtual Drilling analysis, a technology exclusive to Cap's partner TAOL, which looks to predict the presence (or absence) of hydrocarbons, thereby de-risking potential prospects.

Valuation and financials

Cap remains at too early a stage to assign a RENAV valuation. The financials remain unchanged from our [update note](#) published on 21 October 2014.

Exhibit 2: 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.