

Rockhopper Exploration

Chatham well deferred

Rig contract cancelled

Oil & gas

Rockhopper has announced that following a number of operational issues with the rig, its Chatham well has been deferred - it will now be explored during the pre-development drilling at Sea Lion. Although unfortunate, the well deferral does not affect the planning or timetable for Sea Lion phase 1a, where the FEED contract for SURF transport and installation was awarded to Subsea7 on 11 February. The Sea Lion field development should create material value, and the recent discovery of the Isobel Deep/Elaine complex holds potential of over 500mmboe. Moving to our new, lower oil price assumptions, and accounting for the deferral of Chatham, lowers our core NAV to 80p/share (RENAV is 94p/share), which still represents notable upside from the current share price. We note that the recent news on Ombrina Mare (where drilling is now not possible due to a change in Italian regulations) is a blow to longer-term potential but is outside the timescale of our 18-month RENAV.

Year end	Revenue (\$m)	PBT* (\$m)	Operating cash flow (\$m)	Net (debt)/cash (\$m)	Capex (\$m)
12/13	0.0	(15.7)	(12.8)	247.5	(41.3)
12/14	1.9	(7.4)	(11.2)	199.7	(10.6)
12/15e	3.5	(11.6)	(8.6)	111.4	(79.7)
12/16e	8.6	(8.5)	0.2	71.1	(40.4)

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

Deferral of Chatham a minor disappointment

Drilling Chatham would have potentially de-risked another aspect within the Sea Lion development, with the well designed to test for the presence/absence of a gas cap. A deeper target could also open a play for other northerly fan systems. However, the deferral is not a great issue for Phase 1a, as Chatham is likely to be drained in Phase 1b. We had valued Chatham at only 2p/share (risky).

Falkland Island portfolio activity continues

Progress in the Falkland portfolio continues and the award of the SURF FEED was made on 11 February. The resources of the Isobel Deep/Elaine discovery will be included in a CPR that should give investors an independent view on the potential of this system, which management believes could contain more than 500mmboe. Given the need for further appraisal drilling we expect volume estimates in a CPR to be considerably more conservative.

Valuation: NAV falls due to oil price reduction

We have recently adjusted our near and long-term oil price assumptions (\$40/bbl in 2016, \$50/bbl in 2017 moving to \$70/bbl long term). This has the effect of reducing our NAV to 80p/share from 104p/share (and RENAV to 94p/share from 133p/share with the removal of Chatham's value). Despite this fall, the value of Sea Lion should provide a solid footing in coming years as and when the project is sanctioned.

16 February 2016

Price **26.75p**

Market cap **£122m**

£0.67/US\$

Est net cash (\$m) at end 2015 (including short-term instruments) 111

Shares in issue 456m

Free float 88%

Code RKH

Primary exchange AIM

Secondary exchange N/A

Share price performance



% 1m 3m 12m

Abs 7.8 (24.7) (55.5)

Rel (local) (7.5) (20.6) (48.2)

52-week high/low 79.50p 24.25p

Business description

Rockhopper is a London-listed E&P with fully-funded development of Sea Lion, a 400mmbl field in the Falklands. The Isobel Deep/Elaine complex could add a further 500mmbl or more. It also holds production, development and exploration assets in the Mediterranean.

Next event

CPR H116

SPS FEED award Q116

Analysts

Will Forbes +44 (0)20 3077 5749

Elaine Reynolds +44 (0)20 3077 5713

Ian McLelland +44 (0)20 3077 5756

oilandgas@edisongroup.com

[Edison profile page](#)

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Valuation: Core NAV falls due to oil price

We have recently introduced new, lower, oil price assumptions that account for the fall in NAV. The removal of Chatham reduces our RENAV slightly, although even at higher oil prices, we had valued Chatham at only 2p/share.

Exhibit 1: NAV summary

Asset	FX £/US\$= 1.4			Recoverable reserves				
	Shares: 456m	WI	CoS	Gross	Net	NPV/boe	Net risked value	
	Country		%	mmboe		\$/boe	\$m	/share
Net (Debt) Cash - December 2015e							111	17
G&A (NPV10 of three years G&A)							(24)	(4)
2016 Exploration							(8)	(1)
Production								
Guendalina	Italy	20%	100%	2.6	0.5	15.1	8	1.2
Civita	Italy	100%	100%	0.2	0.2	3.4	1	0.1
Development								
SeaLion 1a	Falkland Islands	40%	45%	220	88	6.8	269	41
SeaLion 1b	Falkland Islands	40%	45%	130	52	4.8	112	17
SeaLion 2	Falkland Islands	64%	45%	50	32	2.0	29	4
SeaLion 2+ (Zebedee)	Falkland Islands	64%	23%	87	56	2.1	26	4
Core NAV							524	80
Isobel Deep	Falkland Islands	64%	23%	500	320	1.2	91	14
RENAV							615	94
Source: Edison Investment Research								

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Financials

Rockhopper remains in a strong financial position, holding (an estimated) \$111m in cash at year end. Management forecasts its year-end 2016 cash position will be \$70-80m, which together with the carry from the Premier farm-down, should provide enough funds for continuing development of the Sea Lion and appraisal of Isobel Deep.

We believe that Premier is seeking a partner for the Falkland Islands portfolio to reduce risk and carry development expenditure. In order to facilitate a farm-out, Rockhopper may see its working interests fall, but benefit from the development de-risking and strong partners.

Exhibit 2: Financial summary

	\$000s	2011	2012	2013	2014	2015e	2016e	2017e
Year-end 31 Dec		IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS								
Revenue		0	0	0	1,910	3,502	8,645	5,522
Cost of Sales		0	0	0	(3,970)	(1,658)	(2,004)	(1,699)
Gross Profit		0	0	0	(2,060)	1,844	6,640	3,823
EBITDA		(55,123)	(12,924)	(16,948)	(5,845)	(10,849)	(3,221)	(9,285)
Operating Profit (before amort. and except.)		(55,278)	(13,191)	(17,230)	(8,031)	(12,245)	(8,769)	(12,884)
Intangible Amortisation		0	0	0	0	0	0	0
Exceptionals		0	58,668	0	0	0	0	0
Other		0	0	0	0	0	0	0
Operating Profit		(55,278)	45,477	(17,230)	(8,031)	(12,245)	(8,769)	(12,884)
Net Interest		1,496	1,640	1,499	657	634	203	134
Profit Before Tax (norm)		(53,782)	(11,551)	(15,731)	(7,374)	(11,612)	(8,566)	(12,750)
Profit Before Tax (FRS 3)		(53,782)	47,117	(15,731)	(7,374)	(11,612)	(8,566)	(12,750)
Tax		0	(122,359)	(62,542)	(5)	47,515	1,203	686
Profit After Tax (norm)		(53,782)	(133,910)	(78,273)	(7,379)	35,903	(7,364)	(12,064)
Profit After Tax (FRS 3)		(53,782)	(75,242)	(78,273)	(7,379)	35,903	(7,364)	(12,064)
Average Number of Shares Outstanding (m)		284.2	284.2	284.3	292.6	296.5	456.1	456.1
EPS - normalised (p)		(18.9)	(47.1)	(27.5)	(2.5)	12.1	(1.6)	(2.6)
EPS - normalised and fully diluted (p)		(18.9)	(47.1)	(27.5)	(2.5)	12.1	(1.6)	(2.6)
EPS - (IFRS) (p)		(18.9)	(26.5)	(27.5)	(2.5)	12.1	(1.6)	(2.6)
Dividend per share (p)		0.0	0.0	0.0	0.0	0.0	0.0	0.0
Gross Margin (%)					-107.9	52.7	76.8	69.2
EBITDA Margin (%)					-306.0	-309.7	-37.3	-168.1
Operating Margin (before GW and except.) (%)					-420.5	-349.6	-101.4	-233.3
BALANCE SHEET								
Fixed Assets		303,684	152,540	154,009	227,816	312,473	347,325	353,726
Intangible Assets		303,296	151,957	153,656	204,164	285,893	324,273	330,674
Tangible Assets		388	583	353	12,146	16,034	12,506	12,506
Investments		0	0	0	11,506	10,546	10,546	10,546
Current Assets		108,944	299,582	249,723	207,979	117,343	76,989	60,432
Stocks		0	0	0	2,188	1,708	1,708	1,708
Debtors		1,787	1,559	1,932	4,681	2,891	2,891	2,891
Cash		103,263	297,741	247,482	199,726	111,371	71,017	54,460
Other		3,894	282	309	1,384	1,373	1,373	1,373
Current Liabilities		(6,419)	(34,921)	(110,140)	(119,797)	(27,395)	(27,395)	(27,395)
Creditors		(6,419)	(34,921)	(110,140)	(119,797)	(27,395)	(27,395)	(27,395)
Short term borrowings		0	0	0	0	0	0	0
Long Term Liabilities		0	(85,304)	(39,137)	(60,960)	(113,617)	(113,617)	(113,617)
Long term borrowings		0	0	0	0	0	0	0
Other long term liabilities		0	(85,304)	(39,137)	(60,960)	(113,617)	(113,617)	(113,617)
Net Assets		406,209	331,897	254,455	255,038	288,804	283,302	273,146
CASH FLOW								
Operating Cash Flow		(30,827)	(14,029)	(12,834)	(11,237)	(8,566)	46	(6,557)
Net Interest		0	0	0	0	0	0	0
Tax		0	0	0	0	0	0	0
Capex		(238,521)	208,792	(41,312)	(10,588)	(79,746)	(40,400)	(10,000)
Acquisitions/disposals		0	0	0	(24,037)	0	0	0
Financing		70,632	24	34	234	(500)	0	0
Dividends		1,191	(3,918)	3,853	(1,155)	488	0	0
Net Cash Flow		(197,525)	190,869	(50,259)	(46,783)	(88,324)	(40,354)	(16,557)
Opening net debt/(cash)		(268,757)	(103,263)	(297,741)	(247,482)	(199,726)	(111,371)	(71,017)
HP finance leases initiated		0	0	0	0	0	0	0
Other		32,031	3,609	0	(973)	(31)	0	0
Closing net debt/(cash)		(103,263)	(297,741)	(247,482)	(199,726)	(111,371)	(71,017)	(54,460)

Source: Edison Investment Research, company accounts

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