

Rockhopper Exploration

Deal re-started

Egypt hops from Beach to Rocks

Oil & gas

Rockhopper (RKH) has announced it is to purchase a stake in the Abu Sennan asset from Beach Energy. This is a rekindling of the deal first announced in August 2015 (then cancelled due to pre-emption). The deal agreed has better headline prices (\$11.9m/\$2.7/boe 2P+2C vs \$22m/\$4.5/boe) and, despite the lower commodity prices, returns metrics (IRR of 23% vs 22%). The acquisition gives Rockhopper valuable low-cost production and exposure to appraisal and exploration at Abu Sennan and El Qa'a Plain. Until closing, we do not include the proposed deal in the NAV, but our modelling indicates that it would add \$15m or 2.3p/share. We have remodelled Sea Lion to account for larger volumes indicated by Premier, which increases the core NAV to 90p/share. This indicates notable upside for investors with a long-term outlook.

Year end	Revenue (\$m)	PBT* (\$m)	Operating cash flow (\$m)	Net (debt)/cash (\$m)	Capex (\$m)
12/14	1.9	(7.4)	(11.2)	199.7	(10.6)
12/15	4.0	(39.9)	(6.9)	110.4	(80.3)
12/16e	10.3	(9.4)	1.2	64.9	(37.4)
12/17e	13.9	(16.8)	0.2	50.4	(14.7)

Note: *PBT is normalised, excluding amortisation of acquired intangibles, exceptional items and share-based payments. Financials assume closure of the acquisition in mid-2016.

Beach assets

The acquisition is dominated by the production assets at Abu Sennan (90% oil), operated by Kuwait Energy. It started commercial production in 2012, and will contribute 1mboe/d (net) to RKH and 3.5mmbbl net 2P+2C reserves. Rockhopper points to substantial upside in exploration with near-term drilling programme. Additionally, Qa'a Plain (25% WI) should drill by the end of 2017.

Remodelling of Sea Lion – 500+mmbbl field

We have remodelled the Sea Lion development to be in line with PMO's declaration of a 300mmbbl Phase 2 (we had previously had this spread across a number of intervals, totalling 267mmbbls). We continue to model first oil in 2021 for Phase 1a, but note that delays (a new partner could easily require more time to sign-off on a development concept/budget) are a key risk. The longer that the oil price remains both low and volatile, the longer a farm-out/FID is likely to take.

Valuation: NAV increases, long-term upside

We have adjusted our NAV to reflect the new phasing of Sea Lion, increasing Phase 2 volumes to 300mmbbls (Phase 1a volumes remain at 220mmbbls). This results in an increase in the core NAV to 90p/share and RENAV to 103p/share. Until the deal closes (expected mid-2016), we exclude the value of the Egyptian producing assets, though note that initial modelling indicates that the NPV₁₂ would be \$15m (2.3p/share). We note that the working interest/value that RKH may retain in any farm-down deal is a material uncertainty.

21 April 2016

Price 30.75p
Market cap £140m

US\$/£0.7

Net cash (\$m) at end December 2015	110
Shares in issue	456.5m
Free float	99%
Code	RKH
Primary exchange	AIM
Secondary exchange	N/A

Share price performance



%	1m	3m	12m
Abs	0.0	9.8	(52.1)
Rel (local)	(3)	(2.1)	(48)
52-week high/low		79.5p	24.2p

Business description

Rockhopper is a London-listed E&P with fully funded development of Sea Lion, a 500+mmbbl field in the Falklands. The Isobel Deep/Elaine complex could add a further 500mmbbl (or more). It also holds assets in the Mediterranean and has an Egyptian asset deal pending.

Next events

CPR	Q216
Egypt acquisition close	Mid-2016

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Beach Energy deal resurrected

Exhibit 1: Headline metrics

Headline consideration	\$11.9m for 22%, \$9.1m for 17% (if sold on to Dover). There is an agreement (LOI signed) to sell 5% of the acquisition to Dover once the asset has been acquired from Beach. RKH will retain the full 25% WI in Qa'a Plain concession
Cash/equity	All cash
Estimated 2015 Egypt production	1,000boe/d (assuming 17% interest)
Estimated Rockhopper production (post-closing)	1,500-1,800boe/d
2P+2C resources (net to RKH)	3.5mmboe (assuming 17% interest)
Implied acquisition cost	\$2.7 per boe (2P+2C)
Payback period from completion	Around 3 years (Edison estimate, using 2016-2018 Brent prices of \$40, \$50 and \$63/bbl respectively)
Edison modelled IRR (excludes working capital movements)	23%
Completion date expected	Mid-2016 (in our modelling we assume start Q316)

Source: Rockhopper Exploration, Edison Investment Research

The resurrection of the deal sees Rockhopper paying substantially less than was originally announced (\$22m in cash and shares) in August 2015. As a result, the \$/boe (2P+2C) figure has fallen from \$4.5/boe to \$2.7/boe. While the oil price has fallen, the asset is cash generative even at oil prices of \$35/bbl (opex is \$8/boe) and the deal provides better returns.

Our modelling of the asset in September 2015 indicated an IRR of 22% (on the then oil price assumptions of \$60/bbl in 2016 and \$70/bbl in 2017) while the new deal sees an IRR of 23%. We expect a payback in around three years.

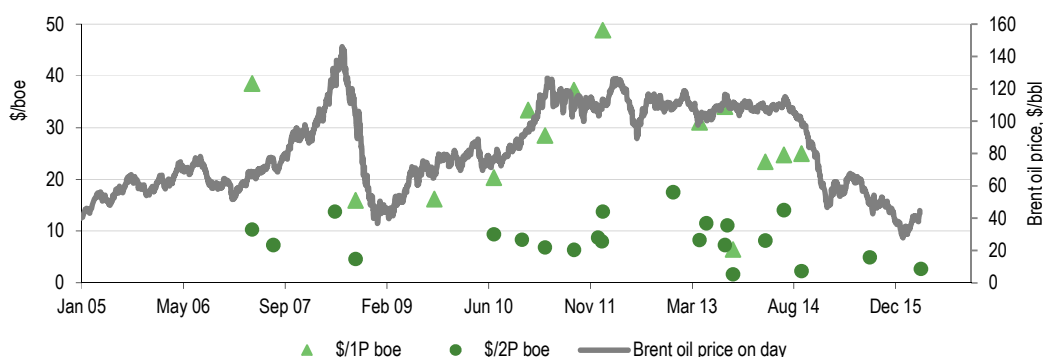
Working capital adjustments

Rockhopper will take on the receivables value of Beach Energy, passing on the receivables paid until the sum of \$8.6m is paid. Alternatively, Beach can elect to receive 25% of the outstanding amount one year after completion in full and final settlement. We believe that the receivables have built (from \$3m in August 2015 to \$8.6m in January) as a result of Egypt de-prioritising payments given the sale of the asset. We would expect this to start to rebalance after the close of the deal.

Metrics

As seen below, the implied \$/2P boe is very competitive vs past deals – this is not surprising given the collapse in the oil price.

Exhibit 2: Deal metrics for Algeria, Libya, Egypt and Tunisia



Source: 1Derrick, Edison Investment Research

History of Abu Sennan under Beach Energy

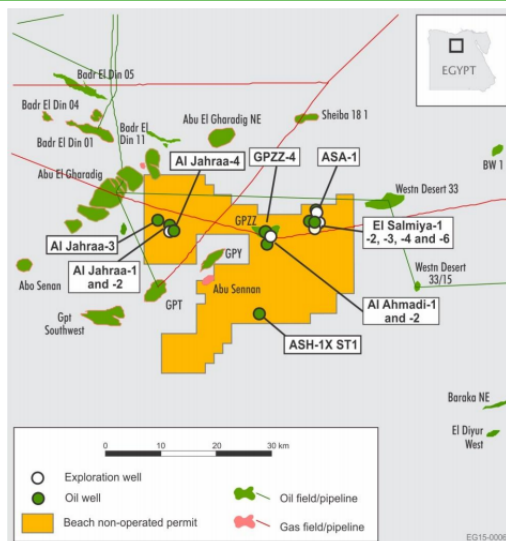
In December 2010, Beach (22%) and partners started a six-well exploration programme on the Abu Sennan in the Western Desert, Egypt. The first well (GPZZ-4) encountered hydrocarbons and was appraised and tested, and followed by three discoveries, flowing oil, gas and condensate at a combined rate of 12mboe/d (gross).

Development leases over the discoveries were granted in 2012, and the fields started production in February 2013, delivering Beach a total of 130mmbbls in the year. A further three exploration/appraisal wells and one development well were drilled. Two had hydrocarbon shows. In August 2013, the operator (Kuwait Energy) estimated gross 2P of 18.5mmbbls and 142bcf in the Kharita formation only. In total, 20 wells have been drilled, with 16 successful.

Gross production was 663mmbbls (and 61mmbbls net entitlement) for the year ended June 2014. Gross 2P reserves were estimated at 13.1mmbbls and 21.2bcf. For the half year ended 31 December 2014, production increased by 66% to 50mmbbls, while production increased further by June 2015 as a gas pipeline from the El Salmiya field was commissioned. At the time of the first acquisition announcement in August 2015, Rockhopper gave estimates of future production, which we have assumed in our modelling. However, we note that the fields suffer from relatively high decline rates, so will require in-fill wells (gross costs of around \$5m per well) to keep production at current levels.

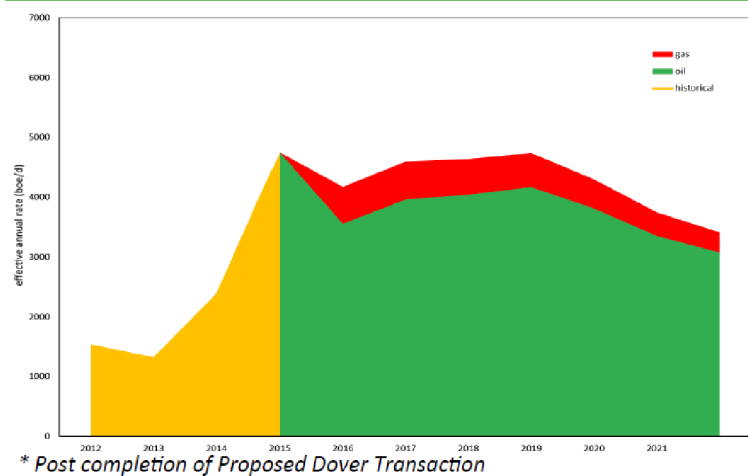
The 2P and 2C resources given by Rockhopper are 3.5mmboe (across four fields), suggesting a 2P+2C reserve life of 12.8 years (assuming an average 2016 production of 4.4mboe/d).

Exhibit 3: Abu Sennan permit



Source: Beach Energy

Exhibit 4: Effective annual rate (boe/d) – Abu Sennan concession



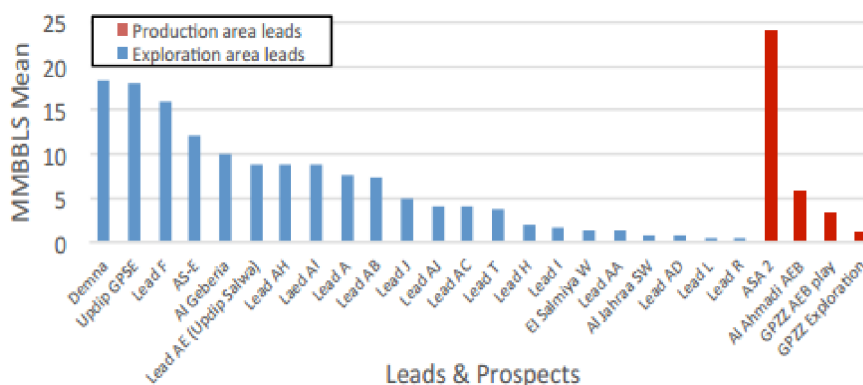
Source: Rockhopper Exploration

Other opportunities

In 2015, Rockhopper pointed to substantial prospectivity in the licence – in excess of 100mmboe (gross) across a number of prospects – this is still the case. We do not believe that all of these will be drilled, and would expect that if initial wells planned are unsuccessful, no further wells will be drilled. At the moment, we do not know which will be drilled, but one could assume that the company will initially focus on those in the exploration areas (as opposed to the production areas) given the desire to convert the exploration areas into production areas. Of the leads/prospects in exploration areas (identified in 2015 but not yet in 2016), the top two contain 32mmboe, and the top

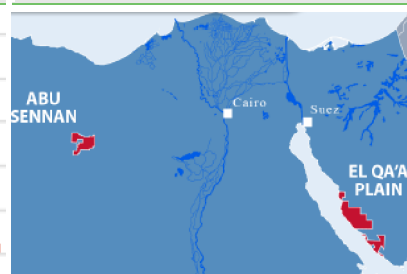
four contain around 65mmboe, still substantial volumes. Some changes may have been made since 2015, but we would imagine that the top targets could be of similar size.

Exhibit 5: Leads and prospects (gross) for Abu Sennan



Source: Rockhopper Exploration (August 2015)

Exhibit 6: El Qa'a Plain concession



Source: Rockhopper Exploration

Other assets in Egypt

We assume that Rockhopper's interest in the acquisition is predominantly in Abu Sennan. While the El Qa'a Plain is a larger acreage position (and Rockhopper will hold a larger WI at 25%), exploration is currently not valued by the market (or much by industry) and so we would see this entirely as an option (albeit one that will require some limited expenditure).

Further, we note that a partner in the block (Petroceltic, 37.5%) is in examinership in Ireland and may not be able to fund its portion of any wells (although we believe it may have ample Egyptian currency working capital, the group-level financial situation is poor). How this affects the block's exploration activities is therefore uncertain, we think. Should Petroceltic default on this well, there is the possibility that Rockhopper will increase its working interest, and therefore net exposure to the well (costs and net risked value). If the PCI stake is apportioned according to current working interest, RKH's interest may increase to 40%. We estimate current net drilling costs at \$2-2.5m for the committed exploration well in 2016/17 (assuming WI of 25%).

Rockhopper indicates prospect sizes of potentially 50-100mmbbls in fault assisted traps, although the leads and prospects will benefit from the 2D/3D seismic being processed. We expect to more fully model the financial impact once this is better known. For now, we include the exploration costs in 2017 financials, but explicitly do not value any benefit from this drilling (even on a risked basis).

Valuation

We make a number of changes, including remodelling of the Sea Lion Phase 2 to 300mmbbls (in line with PMO disclosure). We also make the broad assumption that these volumes are split equally between PL04 and PL32, although we note that as no guidance has been released about this split it is subject to revision over time. We assume first oil in 2021 (Phase 1) and 2025 (Phase 2).

As a result, our valuation increases. Our NAV increases to 90p/share, with RENAV moving to 103p/share. We have valued the producing assets at Abu Sennan at NPV₁₂ of \$15m, or 2.3p/share. We do not formally include the acquisition in NAV yet – we will wait until the deal closes. However, we do include the numbers in our financial forecasts to give investors an idea of the cash flow implications. Further value for exploration/appraisal will be given once the deal closes and the timing of drilling and size of targets are known. We note that the producing assets are valued at \$4.4/boe in our modelling, well above the purchase metrics.

Exhibit 7: NAV summary

Asset	£/US\$1.4				Recoverable reserves							
	Shares: 457m		WI	CoS	Gross	Net	NPV	Net risked value				
	Country		%		mmboe		\$/boe	\$m	/share	10%	15%	20%
Net (debt)/cash - December 2015								110	17	17	17	17
G&A (NPV10 of three years G&A)								(25)	(4)	(4)	(4)	(4)
2016 Exploration								(8)	(1)	(1)	(1)	(1)
Production												
Guendalina	Italy	20%	100%		3.2	0.6	14.8	10	1.5	1.5	1.5	1.5
Civita	Italy	100%	100%		0.2	0.2	6.7	1	0.2	0.2	0.2	0.2
Development												
SeaLion 1a	Falkland Islands	40%	45%		220	88	6.8	269	41	51	30	19
SeaLion Phase 2 in PL32 (50% assumed)	Falkland Islands	40%	45%		150	60	3.3	89	14	20	8	2
SeaLion Phase 2 in PL04 (50% assumed)	Falkland Islands	64%	45%		150	96	3.3	143	22	31	12	4
Core NAV								590	90	115	63	38
Isobel Deep	Falkland Islands	64%	23%		500	320	1.2	89	14	27	2	0
RENAV								679	103	142	66	38
Abu Sennan	Egypt	17%	100%		20	3.5	4.4	15	2.3	2.7	1.9	1.4
Cash component of acquisition of Egyptian assets		100%	100%					(9)	(1.4)	(1)	(1)	(1)

Source: Edison Investment Research

Financials

Rockhopper remains well capitalised, with \$110m of cash at the end of 2015 (excluding \$2m of restricted cash). The Beach Energy acquisition is an example of where a well-funded, patient buyer can make returns above the costs of capital in this low environment. With pro rata volumes (post-closing) of 1,500-1,800boe/d, the acquisition should provide valuable cash flows to offset G&A going forwards, as well as exposure to upside from appraisal/exploration.

As the service costs fall, the committed carry from Premier covers more and more of the capital required pre-first oil at Sea Lion, reducing the requirement for Rockhopper to seek more expensive financing from either the debt facility or external funding.

Exhibit 8: Financial summary

	\$'000s	2012	2013	2014	2015	2016e	2017e
Dec		IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS							
Revenue		0	0	1,910	3,966	10,336	13,898
Cost of Sales		0	0	(3,970)	(11,049)	(2,936)	(3,901)
Gross Profit		0	0	(2,060)	(7,083)	7,399	9,997
EBITDA		(12,924)	(16,948)	(5,845)	(38,178)	(2,710)	(3,365)
Operating Profit (before amort. and except.)		(13,191)	(17,230)	(8,031)	(40,922)	(9,965)	(16,827)
Intangible Amortisation		0	0	0	0	0	0
Exceptionals		58,668	0	0	0	0	0
Other		0	0	0	0	0	0
Operating Profit		45,477	(17,230)	(8,031)	(40,922)	(9,965)	(16,827)
Net Interest		1,640	1,499	657	975	543	32
Profit Before Tax (norm)		(11,551)	(15,731)	(7,374)	(39,947)	(9,422)	(16,795)
Profit Before Tax (FRS 3)		47,117	(15,731)	(7,374)	(39,947)	(9,422)	(16,795)
Tax		(122,359)	(62,542)	(5)	55,395	1,281	1,389
Profit After Tax (norm)		(133,910)	(78,273)	(7,379)	15,448	(8,140)	(15,406)
Profit After Tax (FRS 3)		(75,242)	(78,273)	(7,379)	15,448	(8,140)	(15,406)
Average Number of Shares Outstanding (m)		284.2	284.3	292.6	293.4	456.5	456.5
EPS - normalised (p)		(47.1)	(27.5)	(2.5)	5.3	(1.8)	(3.4)
EPS - normalised and fully diluted (p)		(47.1)	(27.5)	(2.5)	5.3	(1.8)	(3.4)
EPS - (IFRS) (p)		(26.5)	(27.5)	(2.5)	5.3	(1.8)	(3.4)
Dividend per share (p)		0.0	0.0	0.0	0.0	0.0	0.0
Gross Margin (%)				-107.9	-178.6	71.6	71.9
EBITDA Margin (%)				-306.0	-962.6	-26.2	-24.2
Operating Margin (before GW and except.) (%)				-420.5	-1031.8	-96.4	-121.1
BALANCE SHEET							
Fixed Assets		152,540	154,009	227,816	279,098	318,586	319,854
Intangible Assets		151,957	153,656	204,164	256,658	292,229	293,497
Tangible Assets		583	353	12,146	12,637	16,554	16,554
Investments		0	0	11,506	9,803	9,803	9,803
Current Assets		299,582	249,723	207,979	120,495	74,976	70,061
Stocks		0	0	2,188	1,670	1,670	1,670
Debtors		1,559	1,932	4,681	6,199	6,199	6,199
Cash		297,741	247,482	199,726	110,434	64,915	60,000
Other		282	309	1,384	2,192	2,192	2,192
Current Liabilities		(34,921)	(110,140)	(119,797)	(30,466)	(30,466)	(30,466)
Creditors		(34,921)	(110,140)	(119,797)	(30,466)	(30,466)	(30,466)
Short term borrowings		0	0	0	0	0	0
Long Term Liabilities		(85,304)	(39,137)	(60,960)	(106,893)	(106,893)	(116,490)
Long term borrowings		0	0	0	0	0	(9,597)
Other long term liabilities		(85,304)	(39,137)	(60,960)	(106,893)	(106,893)	(106,893)
Net Assets		331,897	254,455	255,038	262,234	256,203	242,959
CASH FLOW							
Operating Cash Flow		(14,029)	(12,834)	(11,237)	(6,856)	1,224	219
Net Interest		0	0	0	0	0	0
Tax		0	0	0	0	0	0
Capex		208,792	(41,312)	(10,588)	(80,302)	(37,443)	(14,730)
Acquisitions/disposals		0	0	(24,037)	0	(9,300)	0
Financing		535	34	(739)	(1,340)	0	0
Dividends		(3,918)	3,853	(1,155)	(794)	0	0
Net Cash Flow		191,380	(50,259)	(47,756)	(89,292)	(45,519)	(14,511)
Opening net debt/(cash)		(103,263)	(297,741)	(247,482)	(199,726)	(110,434)	(64,915)
HP finance leases initiated		0	0	0	0	0	0
Other		3,098	0	0	0	0	0
Closing net debt/(cash)		(297,741)	(247,482)	(199,726)	(110,434)	(64,915)	(50,403)

Source: Edison Investment Research, company accounts. Note: The financial forecasts here include the Egyptian acquisition.

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