

Rockhopper Exploration

Looking to 2017

End-year update

Oil & gas

We expect 2017 to be a year of increasing clarity on the direction of the Falkland Island assets, and one in which Rockhopper (RKH) starts to make headway in its Mediterranean portfolio with a full year of stewardship of its Egyptian production and exploration assets. The 20 December update brings little new news on its core asset (Sea Lion), but provides for a higher cash figure than we had previously modelled (due to a higher than expected insurance settlement). Our thoughts on Sea Lion remain unchanged, leaving our core NAV unchanged at 74p/share.

Year end	Revenue (\$m)	PBT* (\$m)	Operating cash flow (\$m)	Net (debt)/cash (\$m)	Capex (\$m)
12/14	1.9	(7.6)	(11.2)	199.7	(10.6)
12/15	4.0	(44.7)	(6.9)	110.4	(80.3)
12/16e	7.8	122.5	(23.7)	80.5	(34.0)
12/17e	11.7	(17.6)	(0.7)	62.6	(17.2)

Note: *PBT is adjusted, excluding exceptional items and share-based payments.

Egyptian production bases

The company has slightly reduced its guidance for yearly production to 1,350boe/d (from 1,500boe/d) net. With the Italian assets outperforming slightly, this means that the Egyptian production has underperformed. We believe some of this may be due to lower drilling intensity given recent lower oil prices, which could be balanced by the recent drilling as well as 2017 plans (including committed exploration wells over the next 36 months).

Sea Lion still the core asset

Helped by the deflation in the service environment, work in 2016 by Premier Oil (PMO) and RKH has reduced the life of field costs to \$35/bbl for Phase 1, while NPV₁₀ break-even is \$45/bbl, driven by a capex to first oil of \$1.5bn (gross). This has made the project more attractive, especially as the oil price has recently strengthened. Sea Lion is a material asset for RKH, but under the current financing structure (and given PMO's financial position) there is a risk of delays to reaching FID, while RKH may see its working interest reduce should a farm-out of the asset be executed. Any loss of working interest should be compensated for by a greater certainty of reaching FID.

Valuation: Unchanged at 74p/share

After the update, we have nudged our production estimates down (primarily in Egypt), but increased our year-end net cash figure, with the net effect of leaving the valuation unchanged at 74p/share. This is made up of the large cash pile (standing at \$80m at year end) and the latent value of the Sea Lion development. Elsewhere, the company is examining its options on the Ombrina Mare licence, and we expect further details on this in Q117.

21 December 2016

Price 22.25p

Market cap £102m

US\$1.3/£

Net cash (\$m) at end 2016e 80

Shares in issue 456.5m

Free float 99%

Code RKH

Primary exchange AIM

Secondary exchange N/A

Share price performance



% 1m 3m 12m

Abs (6.3) (23.9) (19.1)

Rel (local) (9.4) (25.8) (29.1)

52-week high/low 39.0p 19.2p

Business description

Rockhopper Exploration is a London-listed E&P with fully funded development of Sea Lion, a 500mmbbl+ field in the Falklands. The Isobel Elaine complex could add further significant resources. Rockhopper also holds production and exploration assets in the Mediterranean and Egypt.

Next events

Completion of Sea Lion Phase 1 FEED H117

Ombrina Mare arbitration update Q117

Exploration drilling in Egypt 2017

Analysts

Will Forbes +44 (0)20 3077 5749

Elaine Reynolds +44 (0)20 3077 5713

oilandgas@edisongroup.com

[Edison profile page](#)

**Rockhopper Exploration is a
research client of Edison
Investment Research Limited**

Valuation

Higher year-end net cash of c \$80m is balanced by other changes (a payable for 2016 drilling still due and marginally lower production expectation in Egypt). This leaves only marginal changes to the valuation, with core NAV remaining 74p/share. The main uncertainty is the value of the Falkland portfolio – under PMO's current financial position it may be some time before it is ready to fund development, while a farm-out to enable faster development may see RKH sacrifice some WI/value vs current position. To some extent this is mitigated by the relatively low risking we apply for an asset so well appraised, but we flag to investors that these components may move in time.

Exhibit 1: NAV summary

Asset	FX £/US\$ = 1.3 Shares: 457m		WI %	CoS %	Recoverable reserves, mmboe		NPV \$/boe	Net risked value, at WACC of 12.5%		Value at varying discount rates, p/share	
	Country	First production			Gross	Net		\$m	p/share	10%	15%
Net cash – December 2016e								80	14	14	14
G&A (NPV ₁₀ of five years)								(41)	(7)	(7)	(7)
2017 Exploration								(1)	(1)	(1)	(1)
Remaining payments for Falkland exploration (from 2016, paid in 2017)								(10)	(2)	(2)	(2)
Production											
Guendalina	Italy		20%	100%	2.0	0.4	11.7	5	1	1	1
Civita	Italy		100%	100%	0.2	0.2	3.1	0	0	0	0
Abu Sennan	Egypt		22%	100%	19	4.2	3.8	16	3	3	2
Development											
Sea Lion Phase 1	Falkland Islands	2022	40%	25%	220	88	9.4	208	36	47	29
Sea Lion Phase 2 in PL32	Falkland Islands	2026	40%	20%	88	35	4.9	35	6	9	4
Sea Lion Phase 2 in PL04	Falkland Islands	2026	64%	20%	215	137	4.9	135	24	36	16
Core NAV					544	265		426	74	100	56
Isobel Elaine			64%	13%	472	302	2.1	81	14	29	6
Isobel Elaine (CPR volumes)			64%	13%	140	90	2.1	24	4	8	2

Source: Edison Investment Research, Rockhopper Exploration accounts

Financials

Rockhopper remains in good financial health, with approximately \$80m of estimated year end cash and production assets that go some way to offset G&A cash burn (subject to commodities prices and production). The longer-term funding position has not changed, with the current PMO farm-out deal substantially funding the development of Sea Lion phase I.

Exhibit 2: Financial summary

	\$000s	2012	2013	2014	2015	2016e	2017e
Year end 31 December		IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS							
Revenue		0	0	1,910	3,966	7,823	11,658
Cost of Sales (incl. depreciation of production assets)		0	0	(3,970)	(11,049)	(7,593)	(12,460)
Gross Profit		0	0	(2,060)	(7,083)	230	(801)
EBITDA		(12,924)	(16,948)	(8,031)	(32,824)	134,033	(3,545)
Clean EBITDAX		(6,966)	(15,487)	(6,249)	(9,890)	(3,172)	(3,545)
Operating Profit (before amort. and except.)		(13,191)	(17,230)	(8,031)	(40,922)	129,089	(12,327)
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)	129,089	(12,327)
Net Interest		1,640	1,499	448	(3,775)	(6,574)	(5,278)
Profit Before Tax (norm)		(11,551)	(15,731)	(7,583)	(44,697)	122,515	(17,605)
Profit Before Tax (FRS 3)		47,117	(15,731)	(7,583)	(44,697)	122,515	(17,605)
Tax		(122,359)	(62,542)	(5)	55,395	530	634
Profit After Tax (norm)		(133,910)	(78,273)	(7,588)	10,698	123,045	(16,971)
Profit After Tax (FRS 3)		(75,242)	(78,273)	(7,588)	10,698	123,045	(16,971)
Average Number of Shares Outstanding (m)		284.2	284.3	292.6	293.4	456.5	456.5
EPS - normalised (c)		(47.1)	(27.5)	(2.6)	3.6	27.0	(3.7)
EPS - normalised and fully diluted (c)		(47.1)	(27.5)	(2.6)	3.6	27.0	(3.7)
EPS - (IFRS) (c)		(26.5)	(27.5)	(2.6)	3.6	27.0	(3.7)
Dividend per share (c)		0.0	0.0	0.0	0.0	0.0	0.0
BALANCE SHEET							
Fixed Assets		152,540	154,009	227,816	279,098	489,068	497,485
Intangible Assets		151,957	153,656	204,164	256,658	460,944	465,061
Tangible Assets		583	353	12,146	12,637	18,120	22,420
Goodwill / Other		0	0	11,506	9,803	10,004	10,004
Current Assets		299,582	249,723	207,979	120,495	105,993	88,118
Stocks		0	0	2,188	1,670	1,866	1,866
Debtors		1,559	1,932	4,681	6,199	22,000	22,000
Cash		297,741	247,482	199,726	110,434	80,470	62,595
Other		282	309	1,384	2,192	1,657	1,657
Current Liabilities		(34,921)	(110,140)	(119,797)	(30,466)	(30,009)	(30,009)
Creditors		(34,921)	(110,140)	(119,797)	(30,466)	(30,009)	(30,009)
Short term borrowings		0	0	0	0	0	0
Long Term Liabilities		(85,304)	(39,137)	(60,960)	(106,893)	(142,062)	(147,585)
Long term borrowings		0	0	0	0	0	0
Other long term liabilities		(85,304)	(39,137)	(60,960)	(106,893)	(142,062)	(147,585)
Net Assets		331,897	254,455	255,038	262,234	422,990	408,009
CASH FLOW							
Operating Cash Flow		(14,029)	(12,834)	(11,237)	(6,856)	(23,726)	(675)
Net Interest		0	0	0	0	0	0
Tax		0	0	0	0	0	0
Capex		208,792	(41,312)	(10,588)	(80,302)	(33,988)	(17,200)
Acquisitions/disposals		0	0	(24,037)	0	(4,688)	0
Equity financing injection (and insurance proceeds in 2016)		(3,383)	3,887	(1,894)	(2,134)	0	0
Insurance proceeds in 2016		0	0	0	0	32,438	0
Dividends		0	0	0	0	0	0
Net Cash Flow		191,380	(50,259)	(47,756)	(89,292)	(29,964)	(17,875)
Opening net debt/(cash)		(103,263)	(297,741)	(247,482)	(199,726)	(110,434)	(80,470)
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)	(80,470)	(62,595)

Source: Edison Investment Research, Rockhopper Exploration accounts

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](#). 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 2016 Edison Investment Research Limited. All rights reserved. This report has been commissioned by Rockhopper Exploration 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 2016. "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.