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Canacol Energy

Oil & gas

8 May 2017

Positioned to sustain growth in 2017

2016 was a strong year for Canacol (CNE), generating US$135.5m of EBITDAX (+101%) and a 43% increase in adjusted revenues to US$173m. Management guidance for 2017 implies another step-up in both production and cash generation. Primary targets include: 1) the delivery of an exit rate of 130mmscfd via the construction of a new, privately owned gas pipeline; 2) the drilling of three additional gas exploration wells in order to add behind-pipe resource; and 3) the drilling of two oil exploration wells. Consensus expects US$177m EBITDA in 2017; Canacol continues to trade at a meaningful discount to its disclosed post-tax NPV10 of US$945m 2P (C$5.82/share) based on contracted gas prices – this excludes the EMV of prospective gas resource recently estimated at US$789m by Gaffney Cline.

Realisations and low opex drive peer-leading returns

Canacol's low-cost onshore gas operations combined with contracted gas realisations enable the company to realise operating margins and well-pad returns significantly above its US onshore peers. Opex costs are US$0.40/mcf and netbacks including royalties c US$4/mcf. Canacol is looking to accelerate monetisation of its onshore gas resource through the addition of sales pipeline capacity and to extend plateau production through low risk exploration (PDP reserves increased by 49% in 2016).

Financing in place to fund expansion

In 2017, Canacol expects to add a further 40mmscfd of gas transport capacity from the Jobo gas processing facility to the Promigas pipeline, 80kms to the north. An SPV is now in place to acquire the rights and funding for the 80km pipeline which is expected to be in operation by 1 December 2017. Canacol remains well capitalised and anticipates funding the US$86m 2017 capital programme through existing working capital and cash flow. The company's debt (net debt US$190m YE16) has been refinanced with a US$265m senior secured term loan now maturing in 2022 (Libor plus 5.5%), with an additional US$40m greenshoe available in early 2018. Canacol remains well funded with production ramp-up to 230mmscfd expected before debt amortisation commencing in March 2019.

43% increase in net exploration acreage

Recent success at Mono Capuchino-1 ST well (Lisama sandstone) demonstrates Canacol's ability to add oil to its production mix as prices recover. Exploration acreage was recently augmented with the acquisition of the SSN7 contract in the Lower Magdalena Basin, adding 43% to group net exploration acreage.

Consensus estimates

Year end	Revenue* (US$m)	EBITDA (US$m)	Net income (US$m)	Capex (US$m)	FCF (US$m)
06/15	149	56	(106)	(191)	(126)
12/16	148	82	24	(87)	(13)
12/17e	222	177	58	(102)	(12)
12/18e	297	237	81	(132)	32

Source: Bloomberg. Note: Year end has changed from June to December. *Unadjusted.

Price	C$4.00
Market cap	C$697m
	C$/US$0.76

Share price graph



Share details

Code	CNE
Listing	TSX
Shares in issue	174.3m

Business description

Canacol Energy has secured 2.5m net acres of prospective acreage across Colombia and Ecuador. 2P reserves stand at 85mmboe, 85% gas. Gas production is ramping up to meet domestic demand; the company forecasts 18-19kboed of net production in 2017.

Bull

- High, sustainable netbacks.
- Growing resource base supported by 64% five-year exploration success rate.
- Option on high-impact oil/shale oil as crude prices recover.

Bear

- Currently reliant on third-party operated pipeline infrastructure for gas transport.
- Shale oil exploration remains early stage.
- Step-change in gas production contingent upon new pipeline infrastructure.

Analysts

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