

# Rockhopper Exploration

Asset sale

## Disposing Civita makes sense

Rockhopper Exploration (RKH) has announced the disposal of its Civita gas field (and a collection of other properties) to Northern Petroleum. The deal is good for RKH, as it reduces future abandonment liabilities on a number of licences in exchange for limited reduction in production cash flows (estimated gross profit of €0.7m in 2016) and a small consideration of \$1.6m. It will likely reduce G&A costs going forward and allow RKH to concentrate on its three main assets in Italy (Monte Grosso, Ombrina Mare and Guendalina). The bulk of RKH's value remains in its Sea Lion development and we hope progress is made in 2017 towards project sanction. We have adjusted our valuation for RKH to account for the deal, which reduces our NAV slightly to 72p/share.

Year end	Revenue (US\$m)	Reported PBT (US\$m)	Cash from operations (US\$m)	Net (debt)/cash (US\$m)	Capex (US\$m)
12/15	4.0	(44.7)	(6.9)	110.4	(80.9)
12/16	7.4	98.0	(21.2)	81.0	(40.2)
12/17e	9.6	(11.9)	(1.0)	50.4	(13.0)
12/18e	9.1	(20.8)	(1.9)	33.1	(15.4)

Note: Historical financials are as reported.

## Disposal of Civita reduces EBITDA and G&A

Civita is a relatively small asset, with production of 130boe/d, producing revenues of €1.1m and EBITDA of around €0.2m. The disposal of the asset (alongside five others), with RKH paying Northern Petroleum \$1.6m, relieves the company of material future abandonment costs at the six sites – RKH estimates plugging and abandonment liabilities to be €8.5m. Additionally, the company should be able to reduce G&A costs in Italy, which we have accounted for in small changes to our forecasts.

## Other Italian assets remain core and valuable

The company remains committed to the remaining assets: the producing asset of Guendalina, the exploration opportunity at Monte Grosso and the possibility of recovering damages from the lost development opportunity at Ombrina Mare. We do not currently include any value for exploration at Monte Grosso, but note that RKH estimates it to contain c 250mmbbl with a 23% chance of success.

## Valuation: NAV falls to 72p/share

We have adjusted our valuation and forecasts for RKH following the deal, with our NAV falling from 73p to 72p/share. Although the deal is good for the company, our NAV falls because we had not fully accounted for the extent of abandonment liabilities at the other licences transferred to Northern Petroleum. RKH continues to trade at a material discount to our NAV, which is dominated by the latent value of its holdings in the Falkland Islands development at Sea Lion (and possibly Isobel Deep/Elaine).

Oil &amp; gas

8 June 2017

**Price** **20.25p**
**Market cap** **£93m**

£/US\$1.3

Net cash (\$m) at end December 2016 (excluding adjustments) 81

Shares in issue 456.9m

Free float 93%

Code RKH

Primary exchange AIM

Secondary exchange N/A

### Share price performance



%	1m	3m	12m
Abs	(4.7)	(9.0)	(46.0)
Rel (local)	(6.6)	(11.1)	(54.4)

52-week high/low	39.0p	19.2p
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### Business description

Rockhopper is an AIM-listed E&P with assets in the Falkland Islands, Egypt and Italy. Its main asset is the Sea Lion development project in the Falklands.

### Next events

Ombrina Mare arbitration	2017/18
Egyptian drilling	Mid-2017

### Analysts

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## Valuation

<b>Exhibit 1: NAV summary</b>												
Asset	FX: £/US\$1.3				Recoverable reserves			Net risked value				
	Shares: 457m		WI	CoS	Gross	Net	NPV	at WACC of 12.5%		at WACC of		
	Country	First production	%		mmboe		\$/boe	\$m	/share	10%	15%	20%
Net (debt)/cash - Dec 2016e							81	14	14	14	14	
G&A (NPV <sub>10</sub> of five years)							(44)	(8)	(8)	(8)	(8)	
2017 Exploration							(2)	(0)	(0)	(0)	(0)	
Remaining payments for Falkland exploration (from 2016, paid in 2017)							(18)	(3)	(3)	(3)	(3)	
Cash consideration for sale of Civita assets							(2)	(0)	(0)	(0)	(0)	
<b>Production</b>												
Guendalina	Italy		20%	100%	2.0	0.4	11.8	5	1	1	1	
Abu Sennan	Egypt		22%	100%	19	4.1	3.1	13	2	3	2	
<b>Development</b>												
Sea Lion Phase 1	Falkland Islands	2022	40%	20%	220	88	10.8	191	33	43	26	17
Sea Lion Phase 2 in PL32	Falkland Islands	2026	40%	16%	88	35	5.7	32	6	8	4	2
Sea Lion Phase 2 in PL04	Falkland Islands	2026	64%	16%	215	137	5.7	124	22	32	15	7
Ombrina Mare - under arbitration	Italy		100%	15%	25	25	8.1	30	5	5	5	5
<b>Core NAV</b>					<b>569</b>	<b>290</b>		<b>410</b>	<b>72</b>	<b>95</b>	<b>56</b>	<b>36</b>
Isobel Elaine	Falkland Islands		64%	10%	472	302	2.1	65	11	23	5	0
Isobel Elaine (CPR volumes)	Falkland Islands		64%	10%	140	90	2.1	19	3	7	1	0

Source: Edison Investment Research

**Exhibit 2: Financial summary**

Accounts: IFRS, Year-end: 31 December, US\$000s	2015	2016	2017e	2018e
Total revenues	3,966	7,417	9,566	9,068
Cost of sales	(11,049)	(7,667)	(10,183)	(11,526)
<b>Gross profit</b>	<b>(7,083)</b>	<b>(250)</b>	<b>(617)</b>	<b>(2,457)</b>
SG&A (expenses)	(10,895)	(9,970)	(8,700)	(9,635)
Other income/(expense)	(22,934)	(8,237)	0	0
Exceptionals and adjustments	(10)	116,527	2,910	(2,400)
<b>Reported EBIT</b>	<b>(40,922)</b>	<b>98,070</b>	<b>(6,407)</b>	<b>(14,492)</b>
Finance income/(expense)	975	307	0	0
Other income/(expense)	(4,750)	(333)	(5,523)	(6,352)
<b>Reported PBT</b>	<b>(44,697)</b>	<b>98,044</b>	<b>(11,930)</b>	<b>(20,844)</b>
Income tax expense (includes exceptionals)	55,395	0	(634)	(236)
Reported net income	10,698	98,044	(12,564)	(21,080)
Basic average number of shares, m	293	446	457	457
Basic reported EPS (c)	3.7	22.0	(27.5)	(46.1)

**Balance sheet**

Property, plant and equipment	12,637	18,025	19,035	22,880
Intangible assets	256,658	426,419	426,990	428,075
Other non-current assets	9,803	9,439	9,439	9,439
<b>Total non-current assets</b>	<b>279,098</b>	<b>453,883</b>	<b>455,465</b>	<b>460,394</b>
Cash and equivalents	110,434	81,019	50,386	33,128
Inventories	1,670	1,608	1,608	1,608
Trade and other receivables	6,199	17,184	17,184	17,184
Other current assets	2,192	495	495	495
<b>Total current assets</b>	<b>120,495</b>	<b>100,306</b>	<b>69,673</b>	<b>52,415</b>
Non-current loans and borrowings	0	0	0	0
Other non-current liabilities	106,893	93,174	89,697	96,049
<b>Total non-current liabilities</b>	<b>106,893</b>	<b>93,174</b>	<b>89,697</b>	<b>96,049</b>
Trade and other payables	30,457	34,012	34,012	34,012
Current loans and borrowings	0	0	0	0
Other current liabilities	9	9	9	9
<b>Total current liabilities</b>	<b>30,466</b>	<b>34,021</b>	<b>34,021</b>	<b>34,021</b>
Equity attributable to company	262,234	426,994	401,420	382,740
Non-controlling interest	0	0	0	0

**Cash flow statement**

Profit for the year	(44,697)	98,044	(12,564)	(21,080)
Taxation expenses	0	0	(634)	(236)
Net finance expenses	3,942	16	5,523	6,352
Depreciation and amortisation	2,744	4,725	8,919	10,451
Share based payments	1,937	994	1,990	2,400
Other adjustments (impairments)	26,075	(115,546)	(4,900)	0
Movements in working capital	3,143	(9,433)	0	0
<b>Cash from operations (CFO)</b>	<b>(6,856)</b>	<b>(21,200)</b>	<b>(1,032)</b>	<b>(1,878)</b>
Capex	(80,919)	(40,203)	(13,001)	(15,380)
Acquisitions & disposals net	0	(13,527)	(1,600)	0
Other investing activities	39,791	77,755	(15,000)	0
<b>Cash used in investing activities (CFIA)</b>	<b>(41,128)</b>	<b>24,025</b>	<b>(29,601)</b>	<b>(15,380)</b>
Net proceeds from issue of shares	(2,733)	0	0	0
Movements in debt	0	0	0	0
Other financing activities (includes rig settlement)	2,219	(2)	0	0
<b>Cash from financing activities (CFF)</b>	<b>(514)</b>	<b>(2)</b>	<b>0</b>	<b>0</b>
Increase/(decrease) in cash	(48,498)	2,823	(30,633)	(17,258)
Currency translation differences and other	(794)	(2,238)	0	0
<b>Cash at end of period</b>	<b>50,434</b>	<b>51,019</b>	<b>20,386</b>	<b>3,128</b>
<b>Net (debt) cash</b>	<b>110,434</b>	<b>81,019</b>	<b>50,386</b>	<b>33,128</b>
Movement in net (debt) cash over period	(89,292)	(29,415)	(30,633)	(17,258)

Source: Edison Investment Research, company accounts

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