

Bowleven

Streamlining the business

Bowleven's (BLVN) management and board have changed significantly recently, with only the COO (David Clarkson) surviving from the shakeup since the general meeting in March 2017. The new management has slimmed down the company, reducing the headcount from 18 to five (resulting in monthly G&A costs falling from \$0.6m to \$0.35m), albeit at an immediate cost of \$3-4m. The management continues to engage with the JV and the Cameroon government to seek a development concept at Etinde acceptable to all parties. Following the efficiency programme, we have reviewed our modelling and valuation, with core NAV now at 52p/share.

Year end	Revenues (\$m)	PBT (\$m)	Cash from operations (\$m)	Net cash (\$m)	Capex (\$m)
06/15	0	(90)	(10)	145	35
06/16	0	(129)	(7)	89	48
06/17e	0	(4)	(10)	86	5
06/18e	3	(4)	(3)	77	7

Note: Financials above are on a reported basis.

Changes at company do not alter Etinde's value

Etinde's latent value is unchanged by changes at Bowleven. With NewAge as operator and the potential upside of appraisal wells (probably in 2018), the asset is valuable. It is very likely that the company retains the financial firepower required to develop the asset (though the development concept and therefore costs are still unclear). Given that the development timelines could continue to be dogged by delays, the recent cost-cutting means that Bowleven is well placed to play a patient game to realise this value. The government has (reportedly) accepted that an FLNG scheme is a viable monetisation route for Etinde gas provided that a domestic gas stream is included. A key factor in determining the FLNG development will be the appraisal drilling, which is expected to commence in 2018. For now we continue to assume a fertiliser solution as the reference case in our economics, but will amend modelling when the development solution is clearer.

In house technical knowledge lost for now

The UK headcount is now radically reduced and there is now a limited staff in Cameroon (pending government approval of a farm-out arrangement). A number of technical personnel have therefore left BLVN. The management are clear, however, that technical expertise can be replaced when necessary (either through hiring of staff when required or through third-party consultants).

Valuation: NAV at 52p/share

We have adjusted our modelling to account for the near-term costs of the redundancy programme and lower ongoing G&A. We keep our illustrative development of Etinde starting in 2022 and Bomono starting in 2018. This results in a small tweak to our valuation, resulting in core NAV of 52p/share. The new structure leaves the company in a better position to conserve valuable cash resources but does mean that its internal technical capability has been reduced.

Company structure changes

Oil & gas

11 August 2017

Price **29.00p**

Market cap **£94m**

£0.8/US\$

Net cash (\$m) at March 2017 90

Shares in issue 324.8m

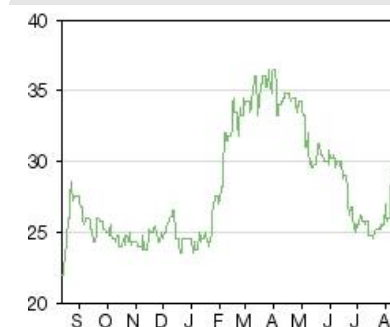
Free float 66%

Code BLVN

Primary exchange AIM

Secondary exchange N/A

Share price performance



% 1m 3m 12m

Abs 13.7 (2.5) 30.3

Rel (local) 13.1 (2.5) 20.1

52-week high/low 36.5p 22.0p

Business description

Bowleven is an AIM-listed, Africa-focused E&P with assets in Cameroon. Its main asset is its 20% net interest in the Etinde development, which holds 290mmboe of 2C contingent resource. It also holds a 20% WI in Bomono (subject to closing of the VOG farm-out).

Next events

Etinde appraisal wells 2018

Development concept chosen 2018

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Valuation

Exhibit 1: NAV summary

Asset			Recoverable reserves		Net risked value				
	Diluted WI	CoS	Gross	Net	NPV	@12.5% DR	DR sensitivity (p/share)		
	%	%	mmboe		\$/boe	\$m p/share	10%	15%	20%
Net cash at December 2016	100%	100%				95 23	23	23	23
G&A NPV of 3 yrs (includes share payments)	100%	100%				(17) (4)	(4)	(4)	(4)
\$25m on FID (assumed early 2018)	100%	83%				21 5	5	5	5
Cost of redundancy programme	100%	100%				(3.5) (1)	(1)	(1)	(1)
VOG shares	100%	100%				0.1 0	0	0	0
Development									
Etinde development	20%	50%	181	36	5.9	106 26	35	19	11
Bomono - VOG farm-out	90%	65%	9	8	2.8	14 4	4	3	2
Core NAV						215 52	63	45	36

Source: Edison Investment Research

Financials

Bowleven remains well funded to see it through the next few years (cash as of end March was c \$90m, together with carried appraisal wells), but the company's share of the capital burden of any eventual development at Etinde is uncertain.

We continue to use the fertiliser plant development as our valuation basis, even though other options (FLNG, gas to power) are currently seen as more likely and simpler to execute. The fertiliser or gas to power solutions would need two plants to be funded, designed and built. The gas to power concept would be simpler, albeit requiring the government to commit to a base load takeoff to underpin the project. Finally, an FLNG solution is perhaps the best one economically and could be the quickest, if an agreement is reached with Equatorial Guinea over taking the gas to existing processing and LNG facilities in its waters.

Each development's capital and technical requirements is different and the results on valuation could be markedly different.

It is significant that the board will not seek to return any cash to shareholders until "the development options as to gas monetisation of both the Etinde and Bomono assets have been determined and costed". Given the importance of the proposed appraisal wells to development (and that these are unlikely to be drilled until H118), it may therefore be some time before this occurs. However, we note that the Cameroonian presidential election in 2018 may give impetus to JV progress.

The company has made progress in reducing its cost base in a structured fashion, first cutting central Edinburgh costs (offices and staff) and then in Cameroon. There is now a small team located at Bomono managing the well sites in preparation for a pending farm-out to VOG's Gaz du Cameroun.

Exhibit 2: Financial summary

Accounts: IFRS, Yr end: June, USD: Thousands		2014	2015	2016	2017e	2018e
Total revenues		0	0	0	0	2,506
Cost of sales		0	0	0	0	(634)
Gross profit		0	0	0	0	1,872
SG&A (expenses)		(9,305)	(9,522)	(7,098)	(10,829)	(4,400)
R&D costs		0	0	0	0	0
Other income/(expense)		0	0	0	0	0
Exceptionals and adjustments	Exceptionals	(2,299)	(77,908)	(135,453)	(816)	(857)
Depreciation and amortisation		(421)	(397)	(655)	(451)	(640)
Reported EBIT		(12,025)	(87,827)	(143,206)	(12,096)	(4,025)
Finance income/(expense)		(1,577)	(2,192)	13,937	7,961	405
Other income/(expense)		0	0	0	0	0
Reported PBT		(13,602)	(90,019)	(129,269)	(4,135)	(3,620)
Income tax expense (includes exceptionals)		0	0	0	0	(593)
Reported net income		(13,602)	(90,019)	(129,269)	(4,135)	(4,213)
Basic average number of shares, m		324	324	325	328	328
Basic EPS (US/share)		(0.0)	(0.3)	(0.4)	(0.0)	(0.0)
Balance sheet						
		2014A	2015A	2016A	2017E	2018E
Property, plant and equipment		701	1,896	853	413	630
Goodwill		0	0	0	0	0
Intangible assets		550,745	304,662	213,669	218,608	224,050
Other non-current assets		0	0	0	0	0
Total non-current assets		551,446	306,558	214,522	219,021	224,680
Cash and equivalents		25,454	145,251	88,526	85,903	76,888
Inventories		10,404	5,370	3,650	3,392	3,392
Trade and other receivables		6,493	6,431	2,955	2,402	2,402
Other current assets		0	54,977	54,688	39,661	39,661
Total current assets		42,351	212,029	149,819	131,358	122,343
Non-current loans and borrowings		0	0	0	0	0
Other non-current liabilities		0	0	0	0	0
Total non-current liabilities		0	0	0	0	0
Trade and other payables		6,274	12,695	2,366	2,775	2,775
Current loans and borrowings		0	0	0	0	0
Other current liabilities		0	0	0	0	0
Total current liabilities		6,274	12,695	2,366	2,775	2,775
Equity attributable to company		586,220	503,452	361,944	347,575	344,219
Non-controlling interest		1,303	2,440	31	29	29
Cashflow statement						
Profit before tax		(13,602)	(90,019)	(129,269)	(4,135)	(3,620)
Depreciation and amortisation		421	397	655	451	1,241
Share based payments		2,299	1,949	1,332	816	857
Other adjustments		1,495	77,744	119,851	(7,982)	(405)
Movements in working capital		811	(509)	490	1,083	0
Income taxes paid		0	0	0	0	(593)
Cash from operations (CFO)		(8,576)	(10,438)	(6,941)	(9,767)	(2,520)
Capex		(18,042)	(35,141)	(48,171)	(4,873)	(6,900)
Acquisitions & disposals net		0	0	0	0	0
Other investing activities		182	330,520	450	15,580	405
Cash used in investing activities (CFIA)		(17,860)	130,379	(47,721)	10,707	(6,495)
Net proceeds from issue of shares		20,924	71	(186)	(3,074)	0
Movements in debt		0	0	0	0	0
Other financing activities		4,482	4,323	0	0	0
Cash from financing activities (CFF)		25,406	4,394	(186)	(3,074)	0
Currency translation differences and other		0	0	0	0	0
Increase/(decrease) in cash and equivalents		(1,030)	124,335	(54,848)	(2,134)	(9,015)
Currency translation differences and other		1,742	(38)	(1,877)	(489)	0
Cash and equivalents at end of period		20,454	144,751	88,026	85,403	76,388
Net (debt) cash		25,454	145,251	88,526	85,903	76,888
Movement in net (debt) cash over period		712	119,797	(56,725)	(2,623)	(9,015)
Source: Edison Investment Research, company accounts						

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