

Gulf Keystone Petroleum

Payments situation improving

Three routes to market

In the update published on 9 July, Gulf Keystone (GKP) announced sound operational performance and an improving situation with payments. Production has been consistently high, with rates of over 40mb/d achieved in June. On the key question of payments and offtake, GKP has received a second payment from the recently announced domestic contract, taking cash received to \$11.6m (gross). Additionally, the company expects to start trucking to Fyshkhabour for injection into the export pipeline to Ceyhan (realising higher netbacks). Should this occur, GKP will have three avenues for offtake, and we expect it to prioritise the methods that will ensure payments. Due to the production outage in Q115 (due to irregular offtake), production guidance for 2015 has fallen to 30-34mb/d, leading to an adjusted core NAV of 55p/share (from 56p/share).

Year end	Revenue (\$m)	PBT (\$m)	Operating cash flow (\$m)	Capex (\$m)	Net (debt)/cash (\$m)
12/13	6.7	(31.8)	(25.1)	(190.9)	(214.8)
12/14	38.6	(246.1)	(0.8)	(197.4)	(439.5)
12/15e	72.6	(113.6)	(19.5)	(35.6)	(508.4)
12/16e	177.7	(42.1)	61.2	(303.2)	(803.1)

Note: *PBT is as reported, including intangible amortisation, exceptional items and share-based payments.

Payments received continue the trend

The key consideration for GKP and its KRG peers is its ability to be paid for its production. Once a regular payments cycle is established, Shaikan production should comfortably pay for the company's bond coupon payments and ongoing G&A, leaving capital spare to start contributing to development of the next phase of Shaikan in time. In this vein, it is encouraging to see a further payment from the June announcement, taking gross receipts from that offtaker to \$11.6m for 2015 production. The cash position has increased from \$68.7m (26 June) to \$72.1m.

Three routes to market

The company is investigating the possibility of injecting crude at Fyshkhabour, 120km from Shaikan. This will likely reduce transport costs and increase the realisations. It will also mean the company has three routes to market, reducing the likelihood of disruption and lost revenues. However, we fully expect GKP to prioritise the route that will maximise the revenues, but guarantee payment.

Valuation: Slight adjustment to 55p/share

Due to the fall in production guidance to 30-34mb/d (from 36mb/d), we have adjusted our core NAV to 55p/share (from 56p/share). We still assume GKP will be able to increase production to 100mb/d by 2019 (and 160mb/d by 2021), which will require investment in further wells and production facilities, and will in turn require a stronger financial position. If we add the value of the upside for Shaikan (for production plateaus of up to 350mb/d), the RENAV moves to 89p/share.

Oil & gas

9 July 2015

Price **32.5p**

Market cap **£318m**

US\$/£0.66

Net debt (\$m) at 9 July 2015 503

Shares in issue 978.1m

Free float 98%

Code GKP

Primary exchange LSE

Secondary exchange ADR OS

Share price performance



% 1m 3m 12m

Abs (9.1) (16.7) (64.5)

Rel (local) (5.0) (11.7) (63.9)

52-week high/low 91.00p 32.25p

Business description

Gulf Keystone Petroleum (GKP) is a Kurdistan-centred exploration and production company. It has interests in four blocks in Kurdistan, including the Shaikan field, which has an estimated 9.2bn bbl of oil in place.

Next events

Ongoing payments 2015

Possible injection into pipeline at Ceyhan H215

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Payments cycle is improving

GKP has received a number of payments in 2015, totalling \$37.6m for crude produced in 2015:

- **Update 25/26 February:** \$26m gross prepayment received for Shaikan crude sales.
- **Update 26 June:** Gross \$9.8m received (split between \$4.9m due for production in 2014 and \$4.9m initial payment for sales to the domestic market and for trucked exports).
- **Update 9 July:** GKP receives \$6.7m (gross) for crude exported in June to the Turkish coast.

NAV tweaked

We have tweaked our model to reflect the lower production expectation in 2015 (we assume the mid-point of the 30-34mb/d range). This reduces the core NAV from 56p/share to 55p/share, while RENAV moves to 89p/share.

Exhibit 1: NAV summary

Asset	Country	Diluted WI (%)	CoS (%)	Incremental recoverable reserves		NPV/boe	Net risked	Value per share
				Gross (mmboe)	Net (mmboe)	Incremental (\$/boe)	Value (\$m)	Risked (p/share)
Shaikan - 1P reserves	Kurdistan	54.4%	90%	193	105	3.4	318	21
Shaikan - 2P reserves	Kurdistan	54.4%	90%	100	55	3.2	158	11
Shaikan - (2P+2C) = 160mb/d flat from 2021-24	Kurdistan	54.4%	75%	701	381	1.6	452	30
Ber Bahr - 2C resources	Kurdistan	40.0%	75%	22	9	4.3	29	2
Sheikh Adi - 2C resources	Kurdistan	80.0%	75%	152	122	2.0	186	13
Net (debt)/cash at end 2014*							(487)	(33)
SG&A							(109)	(7)
Equity raise							39	3
Shaikan - gov't back-in past costs (assumed received in 2016) @ 89% of undiscounted value							59	4
Shaikan - third-party back-in past costs (assumed received in 2016) @ 89% of undiscounted value							75	5
Akri-Bijeel - recovery of development costs (capex spent at 80%, assumed LT WI 54%)							0	0
Recovery of historic revenues (assumed received in 2016) @ 89% of undiscounted value							91	6
Core development NAV							810	55
Contingent extensions								
Shaikan - 250mb/d flat 2019-29	Kurdistan	54.4%	55%	541	294	2.1	333	22
Shaikan - (3P+3C) = 350mb/d flat 2020-29	Kurdistan	54.4%	40%	474	258	1.6	169	11
Full Shaikan development NAV							1,312	89

Source: Edison Investment Research. Note: *Assuming convert of \$325m and bond of \$280m.

Exhibit 2: Financial summary

	\$000s	2012	2013	2014	2015e	2016e	2017e
Dec		IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS							
Revenue		32,190	6,696	38,560	72,625	177,700	415,567
Cost of Sales		(32,190)	(11,950)	(81,845)	(48,147)	(72,529)	(92,390)
Gross Profit		0	(5,254)	(43,285)	24,478	105,171	323,177
EBITDA		(81,404)	(20,299)	(82,319)	(19,522)	61,171	267,177
Operating Profit (before amort. and except.)		(82,137)	(21,097)	(82,319)	(60,919)	10,719	186,107
Intangible Amortisation		0	0	0	0	0	0
Exceptionals		0	0	(144,119)	0	0	0
Other		5,210	(1,186)	73	0	0	0
Operating Profit		(76,927)	(22,283)	(226,365)	(60,919)	10,719	186,107
Net Interest		(3,257)	(9,564)	(19,709)	(52,730)	(52,803)	(36,429)
Profit Before Tax (norm)		(85,394)	(30,661)	(102,028)	(113,648)	(42,085)	149,678
Profit Before Tax (FRS 3)		(80,184)	(31,847)	(246,074)	(113,648)	(42,085)	149,678
Tax		(1,638)	(118)	(2,129)	0	0	0
Profit After Tax (norm)		(81,822)	(31,965)	(104,084)	(113,648)	(42,085)	149,678
Profit After Tax (FRS 3)		(81,822)	(31,965)	(248,203)	(113,648)	(42,085)	149,678
Average Number of Shares Outstanding (m)		851.5	865.5	875.2	956.7	978.1	978.1
EPS - normalised (c)		(9.6)	(3.7)	(11.9)	(11.9)	(4.3)	15.3
EPS - normalised and fully diluted (c)		(9.6)	(3.7)	(11.9)	(11.9)	(4.3)	15.3
EPS - (IFRS) (c)		(9.6)	(3.7)	(28.4)	(11.9)	(4.3)	15.3
Dividend per share (p)		0.0	0.0	0.0	0.0	0.0	0.0
Gross Margin (%)		0.0	-78.5	-112.3	33.7	59.2	77.8
EBITDA Margin (%)		-252.9	-303.2	-213.5	-26.9	34.4	64.3
Operating Margin (before GW and except.) (%)		-255.2	-315.1	-213.5	-83.9	6.0	44.8

BALANCE SHEET

Fixed Assets		555,310	741,080	870,626	864,829	1,117,527	1,236,329
Intangible Assets		546,229	220,963	276,290	257,293	375,341	342,911
Tangible Assets		2,285	516,437	593,604	606,804	741,454	892,686
Investments		6,796	3,680	732	732	732	732
Current Assets		370,589	239,735	135,656	66,804	47,821	47,821
Stocks		19,783	20,654	22,854	22,854	22,854	22,854
Debtors		23,674	34,023	16,380	16,380	16,380	16,380
Cash		253,713	81,972	87,835	18,983	0	0
Other		73,419	103,086	8,587	8,587	8,587	8,587
Current Liabilities		(95,669)	(106,358)	(119,769)	(119,769)	(119,769)	(119,769)
Creditors		(95,669)	(106,358)	(119,769)	(119,769)	(119,769)	(119,769)
Short term borrowings		0	0	0	0	0	0
Long Term Liabilities		(252,539)	(312,090)	(546,908)	(546,908)	(822,707)	(779,831)
Long term borrowings		(243,495)	(296,725)	(527,349)	(527,349)	(803,148)	(760,272)
Other long term liabilities		(9,044)	(15,365)	(19,559)	(19,559)	(19,559)	(19,559)
Net Assets		577,691	562,367	339,605	264,957	222,872	384,550

CASH FLOW

Operating Cash Flow		(58,974)	(25,072)	(760)	(19,522)	61,171	279,177
Net Interest		1,199	(16,360)	(36,460)	(52,730)	(52,803)	(36,429)
Tax		(1,667)	(675)	(210)	0	0	0
Capex		(193,232)	(190,852)	(197,432)	(35,600)	(303,150)	(199,872)
Acquisitions/disposals		20,928	8,600	0	0	0	0
Financing		26,741	4,748	0	39,000	0	0
Dividends		0	0	0	0	0	0
Net Cash Flow		(205,005)	(219,611)	(234,862)	(68,852)	(294,782)	42,876
Opening net debt/(cash)		(208,103)	(10,218)	214,753	439,514	508,366	803,148
HP finance leases initiated		7,120	(1,319)	624	0	0	0
Other		0	(4,041)	9,477	0	0	0
Closing net debt/(cash)		(10,218)	214,753	439,514	508,366	803,148	760,272

Source: Company accounts, Edison Investment Research. Note: Net debt calculated from accounting treatment of the convertible bond and bond.

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