

Sterling Energy

Company snapshot

Sterling Energy's \$117m cash appears markedly under-represented in its market cap of £39m (\$62m). Against this cash the group has \$30m (£19m) of commitments, a \$22.7m (£14.19m) abandonment liability for the Chinguetti field in Mauritania, and a further \$8m (£5m) of potential staged payments in Somaliland. Post these commitments, the stock remains at a discount to cash, with no value ascribed to the current asset portfolio, or indeed, any 'option value', as management has the cash to carry out deals in what most see as a buyers' market.

Mauritania (Chinguetti, Block C-3, Block C-10)

Sterling holds an 8% economic interest in Chinguetti. In 2014, this interest resulted in 432bo/d production net to Sterling (\$6.9m cash flow).

In February 2015, Sterling acquired (pending approval) a 40.5% working interest in block C-3 from Tullow for \$2.5m in back costs. C-3 is a shallow water exploration block running along the coast of Mauritania. A 1600km² 2D survey was acquired in late 2014 and is currently in-house and under interpretation; a 'drill or drop' decision is expected by the first half of 2016.

In June, Sterling acquired (pending approval) a 13.5% interest in block C-10 in exchange for \$50,000 of back costs. C-10 is an offshore block covering 10,725km² with water-depth varying from 50 to 2,400m. Tullow has identified a drill-ready prospect within a multitude of additional prospects and leads. Current technical work focuses on maturation of the prospect inventory following the receipt of the recently reprocessed 3D survey covering the area. Tullow expects to drill an exploration well in 2016 at an anticipated cost of \$77m (\$11.55m net to SEMI).

Madagascar, Ambilobe block (50% WI)

Ambilobe is an offshore block covering 17,650km² in 0-3,000m water depth. Pura Vida recently farmed-in to Ambilobe, taking 50% WI in exchange for funding a 3D seismic survey, to be completed in mid-2015. CGG, which carried out the survey, expect interpretation, resulting in a worked-up series of prospects, to be completed by early 2016. Phase III exploration involves drilling a commitment well, potentially in H117.

Cameroon (border dispute) & Somaliland (force majeure)

Sterling holds a 40% WI in the Odewayne PSC, Somaliland. The onshore block covers 22,840km² and exploration is on hold due to security issues. In Cameroon, Sterling holds 100% WI in the Ntem concession. Ntem is in force majeure due to overlapping maritime border claims by Cameroon and Equatorial Guinea.

Historical financials

Year end	Revenue (\$m)	PBT (\$m)	EPS (c)	DPS (c)	P/E (x)	Yield (%)
12/13	18.4	7.3	3.3	0.0	8.3	N/A
12/14	16.0	12.3	(5.6)	0.0	N/A	N/A

Source: Sterling Energy annual reports

Oil & gas

1 July 2015

Price 17.5p

Market cap £39m

US\$1.56619/£

Share price graph



Share details

Code	SEY
Listing	AIM
Shares in issue	220.1m

Business description

Sterling Energy is an AIM-listed upstream oil & gas company. The group is an experienced operator of international licences and is currently focused on projects in Africa. Sterling has interests in high-potential exploration projects in Cameroon, Madagascar, Mauritania and Somaliland.

Bull

- Strong balance sheet; \$117m cash plus no debt.
- Low-cost core position built in Mauritania.
- Experienced management and board adept at gaining project interests and carries.

Bear

- Oil price leverage.
- Exploration-focused.
- Share liquidity limited.

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