

Canacol Energy

Ramping up to 230mmscfd by end 2018

Canacol recently provided market guidance for 2018 with capex and production guidance broadly in line with market expectations. Capex guidance is set at US\$80m, realised contractual gas sales at 114-129mmscfd and oil sales at an average 1,700bod. Primary objectives for 2018 include: 1) investments in drilling, facilities and flowlines to underpin production capacity in excess of 230mmscfd by 1 December 2018; 2) a four-well, gas-focused E&A programme; and 3) divestment of legacy conventional oil assets to complete the transition to a pure-play, gas-focused Colombian E&P. Consensus expects US\$177m EBITDA in 2018 and 122mmscfd of realised gas sales.

2018 capital programme set at US\$80m

Canacol's 2018 capital budget is to be funded from existing cash resources (Q317 cash and restricted cash US\$90.8m, net debt US\$203.9m) and cash flow. Highlights include: 1) drilling four E&A wells and three development wells at a total cost of US\$33m; 2) facilities expansion and equipment at US\$17m; and 3) seismic, workovers and other costs at US\$30m. 97% of forecast spend is to be directed to the group's gas assets, with complete divestiture of the company's Colombian oil portfolio expected in 2018.

Pure-play Colombian gas E&P

Realised gas sales are expected to be in the 114-129mmscfd range in 2018, with the upper end assuming that the Promigas pipeline expansion (100mmscfd of transportation capacity) is delivered on 1 December 2018. The lower end assumes a delay into 2019. Canacol's current portfolio of 2018 gas contracts, net of transportation costs, is approximately US\$4.75/mcf. 2017 was a successful year for gas exploration and we expect a material increase in 2P gas reserves, which should push 2P gas reserve life beyond the current c 8 years based on 2018 production.

Valuation: Positive FCF in 2018

Consensus is currently expecting an increase in EBITDA of 42% in 2018 from US\$125m to US\$177m, and the company to report 2018 FCF (post capex) of US\$48.1m. Canacol continues to trade at a meaningful discount to its last disclosed post-tax NPV₁₀ of US\$945m 2P (C\$5.36/share on deduction of year-end 2016 net debt) based on contracted gas prices – this excludes the EMV of prospective gas resource estimated at US\$789m by Gaffney Cline.

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	188	125	27	(100)	(28.4)
12/18e	254	177	59	(89)	48.1

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

Oil & gas

10 January 2018

Price **C\$4.51**

Market cap **C\$794m**

C\$/US\$0.8

Share price graph



Share details

Code	CNE
Listing	TSX
Shares in issue	176m

Business description

Canacol Energy's last reported 2P reserves stand at 85mmboe, 85% gas onshore Colombia. Gas production is ramping up to meet Colombian domestic demand with productive capacity expected to be greater than 230mmscfd by end 2018.

Bull

- High, sustainable netbacks.
- Growing resource base supported by 70%+, five-year exploration success rate.
- Transition underway to pure-play clean natural gas business.

Bear

- Currently reliant on third-party operated pipeline infrastructure for gas transport.
- Low leverage to oil price could be viewed as a negative in a rising price environment.
- Step change in gas production contingent on new pipeline infrastructure.

Analysts

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