

BAHAMAS PETROLEUM COMPANY PLC (AIM: BPC)

Share price: 0.40p

Target: 1.20p

April 27, 2021

Pressing the reset button

- BPC announced important management changes with Eytan Uliel becoming CEO and Simon Potter transitioning to a NED role. The company will also change its name to Challenger Energy plc.
- The strategic focus has not changed with two imminent key appraisal wells due to be drilled in Trinidad and Suriname at a total initial cost of <US\$4 mm.
- Success at the US\$3 mm Saffron#2 well in Trinidad derisks 11 mmbbl resources and adds 200-300 bbl/d production. It also allows the company to sanction a US\$7-12 mm 5-9 well programme in 2H21 to reach 1,000-1,500 bbl/d production from the field at YE21.
- Success at the EWT project in Suriname (US\$0.7 mm capex) would derisk 1.1-3.5 mmbbl of resources and allow BPC to sanction a US\$2 mm four well programme to take Suriname production to 100 bbl/d by YE21.
- The company is also boosting its balance sheet with a £6.9 mm equity raise priced at 0.35p per share and £2.5 mm out of £3 mm drawn on a convertible loan will be converted into equity at the same price, simplifying the capital structure. The shares will be consolidated on a 1:10 basis.
- We have set our new target price at 1.20p (pre consolidation) in line with our new ReNAV.

Rating & target	Old	New	
Target	1.90p	1.20p	
Yield		0%	
Implied total return		200%	
Share data	2019	2020e	2021e
Shares dil., mm	1,926	4,968	8,362
Mkt cap, US\$mm	\$56	\$26	\$44
EV, US\$mm	\$45	(\$3)	\$66
Financial Data	2019	2020e	2021e
Gas, mmcf/d	0.0	0.0	0.0
Liquids, bbl/d	0	450	966
Total boe/d (6:1)	0	450	966
CFO, US\$mm	(\$3)	(\$2)	\$3
Net capex, US\$mm	\$1	\$8	(\$62)
Net debt, US\$mm	(\$11)	(\$28)	\$22
CFPS dil., US\$/shr	n.a.	n.a.	\$0.00
EPS dil., US\$/shr	(\$0.00)	(\$0.00)	(\$0.00)
Valuation	2019	2020e	2021e
Share price, p/shr	2.30p	0.40p	0.40p
EV/DACF	n.a.	n.a.	13.6x
EV per boe/d (US\$)	n.a.	n.a.	\$68,398
Net asset value			
CNAV, p/shr			1.00p
RENAV, p/shr			1.22p
Unrisked NAV, p/shr			1.64p
P/CNAV			0.4x
P/RENAV			0.3x
P/ENAV			0.2x

All figures in US\$ unless otherwise noted

Balance sheet considerations - what has changed

The company has ~US\$10 mm in cash (including ~US\$3 mm from the convertible committed but yet to be received). The equity raise would add almost US\$10 mm. This, along with cash generation from production in 2021 of ~US\$3 mm, results in total cash resources of US\$23 mm. This is enough to fund the firm activity programme (Saffron #2 and Suriname) of <US\$4 mm, the current financial liabilities of US\$10-14 mm for the residual invoices associated with the Bahamas exploration well (which is higher than our earlier expectations of US\$8-9 mm) and US\$4 mm to Lombard Odier.

In a success case at Saffron #2 and Suriname, BPC will probably be able to draw the remaining £10 mm/US\$14 mm of its convertible facility and access further debt to fund a US\$9-14 mm follow-on development programme. The exact amount of funding will drive the size of the programme that could include further exploration drilling on the SW peninsula (US\$6 mm for two wells) and further development drilling at the producing assets.

Valuation update

We have reduced our Core NAV and ReNAV from respectively ~1.50p and 1.90p to 1.00p and 1.20p as we incorporate the impact of the equity issuance. Our Core NAV is >2x the current share price. Importantly our unrisked NAVs for Saffron #2 and Suriname are respectively ~0.60p (150% of current share price) and ~0.30p (75% of current share price).

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Figure 1. Financial & operating information
Bahamas Petroleum Company plc (BPC LN)

Financial & Operating Information		2019	2020e	2021e	2022e	2023e	2024e
Commodity Prices							
Brent	US\$/bbl	\$71.65	\$41.23	\$57.48	\$57.52	\$60.00	\$60.00
UK NBP	US\$/mcf	\$4.56	\$5.41	\$5.92	\$6.04	\$6.08	\$6.09
USD/CAD	US\$/C\$	\$0.77	\$0.78	\$0.78	\$0.78	\$0.78	\$0.75
USD / GBP	US\$/£	\$1.28	\$1.30	\$1.31	\$1.32	\$1.32	\$1.33
Production							
Oil and Liquids	bbl/d	0	450	966	2,378	2,914	3,852
Natural Gas	mmcf/d	0.0	0.0	0.0	0.0	0.0	0.0
Total (6 mcf = 1 boe)	boe/d	0	450	966	2,378	2,914	3,852
% Oil and Liquids	%	0%	100%	100%	100%	100%	100%
Netbacks							
Realized Price	US\$/boe	\$0.00	\$32.99	\$48.80	\$52.49	\$54.80	\$55.10
Royalties	US\$/boe	\$0.00	\$0.00	\$11.76	\$11.17	\$11.00	\$10.90
Production & Transport Costs	US\$/boe	\$0.00	\$22.48	\$18.41	\$18.63	\$19.25	\$19.22
Operating Netback	US\$/boe	\$0.00	\$10.51	\$18.64	\$22.69	\$24.56	\$24.98
Taxes	US\$/boe	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Cash Flow Netback	US\$/boe	n.a.	(\$13.84)	\$7.30	\$18.08	\$20.80	\$22.13
Government Take	%	n.a.	0%	0%	0%	0%	0%
Financials							
Cash Flow (CFO)	US\$m	(\$3)	(\$2)	\$3	\$16	\$22	\$31
CFPS - diluted	US\$/shr	n.a.	n.a.	\$0.00	\$0.00	\$0.00	\$0.00
EBITDAX	US\$m	(\$4)	(\$2)	\$3	\$16	\$22	\$31
E&D Capex	US\$m	\$1	\$8	\$62	\$9	\$9	\$6
A&D Capex, Net	US\$m	\$0	\$0	\$0	\$0	\$0	\$0
Total Net Capex	US\$m	\$1	\$8	(\$62)	(\$9)	(\$9)	(\$6)
Total Net Capex/CFO	x	-0.3x	-3.5x	-24.0x	-0.6x	-0.4x	-0.2x
Leverage							
Net Debt	US\$m	(\$11)	(\$28)	\$22	\$19	\$9	(\$14)
Net debt/CFO (Trailing)	x	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Entry Net Debt/CFO	x	n.a.	n.a.	n.a.	1.4x	0.9x	0.3x
Capital Structure							
Basic Shares o/s @ YE	mm	1725	4503	7897	7897	7897	7897
Diluted Shares o/s @ YE	mm	1926	4968	8362	8362	8362	8362
Market Capitalization	US\$m	\$56	\$26	\$44	\$44	\$44	\$44
Enterprise Value	US\$m	\$45	(\$3)	\$66	\$63	\$53	\$31
Dividends & Sustainability							
Dividends	US\$m	\$0	\$0	\$0	\$0	\$0	\$0
Dividends	\$/shr	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Dividend Yield	%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Free Cash Flow	US\$m	(\$4)	(\$10)	(\$59)	\$7	\$13	\$26
Cash Use/CFO	%	-3.2%	-35.2%	-240.2%	-5.7%	-4.0%	-1.8%
Performance							
Prod. Per Shr Growth (Y/Y) - dil.	%	n.a.	n.a.	10%	96%	23%	32%
PPS Growth (Y/Y) DDA - dil.	%	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
CFPS Growth (Y/Y) - dil.	%	n.a.	n.a.	n.a.	385%	41%	41%
CFPS Growth (Y/Y) DDA - dil.	%	n.a.	n.a.	n.a.	283%	41%	41%
ROCE	%	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Net Asset Value							
CNAV (Atax) - diluted	p/shr	1.00p					
RENAV (Atax) - diluted	p/shr	1.22p					
Unrisked NAV (Atax) - diluted	p/shr	1.64p					
P/CNAV	x	0.4x					
P/RENAV	x	0.3x					
P/Unrisked NAV	x	0.2x					
Valuation		2019	2020e	2021e	2022e	2023e	2024e
Share Price, YE/Current	p/shr	0.40p	0.40p	0.40p	0.40p	0.40p	0.40p
P/CF	x	n.a.	n.a.	13.4x	2.8x	2.0x	1.4x
EV/DACF	x	n.a.	n.a.	13.6x	3.3x	2.1x	0.9x
Target EV/DACF	x	n.a.	n.a.	31.3x	7.8x	5.5x	3.4x
EV per boe/d	\$/boepd	n.a.	(\$5,853)	\$68,398	\$26,435	\$18,184	\$7,969
EV per 2P boe	US\$/boe	\$4.53	(\$0.24)	\$6.21	\$6.43	\$6.08	\$0.00
EV per 2P boe, with FDC	US\$/boe	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

a) EBITDAX = Pre-Int. & Pre-Tax Cash Flow; b) DDA = Debt-and-Dividend-Adjusted

c) CNAV incl. 2P reserves, RENAV incl. 2P reserves + Risked LT inventory upside, ENAV incl. 2P reserves + Unrisked LT inventory upside

Source: Auctus Advisors, Company Disclosures

**Futures strip as of 26-Apr-21

Capex and funding

The company has ~US\$10 mm in cash (including ~US\$3 mm from the convertible committed but yet to be received). The equity raise would add almost US\$10 mm. This, along with cash generation from production in 2021 of ~US\$3 mm, results in total potential cash resources of US\$23 mm. This is enough to fund the base activity programme and repay the near-term financial commitments.

The minimum activity programme consists of (1) drilling/completing and testing Saffron #2 for US\$3 mm and (2) the EWT programme in Suriname (US\$0.7 mm).

The current financial liabilities consist of US\$14 mm for the residual invoices associated with the Bahamas exploration well that BPC expects to negotiate down to US\$10 mm and US\$4 mm to Lombard Odier.

In a success case at Saffron #2, we expect BPC will be able to access further funding including the remaining £10 mm/US\$14 mm of its convertible facility and more debt. Drawing the entire residual amount of the existing convertible loan would fund the US\$9-14 mm follow-on development programme, being:

- US\$7-12 mm for a 5-9 well programme in 2H21 to reach 1,000-1,500 bbl/d production from the field at YE21; and
- US\$2 mm for a 4 well programme to take Suriname production to 100 bbl/d by YE21.

Additional further funding unlocked by a success at Saffron would fund additional activities including:

- Drilling two exploration wells on the SWT peninsula in Trinidad; and
- Drilling infill wells on the producing fields in Trinidad.

Figure 2. Activities, capex, liabilities and funding

	Activities/Financial liabilities	Cost (US\$ mm)	Impact	Unrisked Value (p per share)	Funding
Base programme	Saffron #2 well	3.0	Derisk 11 mmbbl / add 300 bbl/d	0.60	US\$10 mm in cash + US\$3 mm cash flow + US\$10 mm equity raise
	EWT in Suriname	0.7	Derisk 2.5 mmbbl	0.30	
	SWT Seismic	0.3	Define exploration drilling target		
Current financial liabilities	Perseverance #1	10.0-14.0			
	Lombard Odier	4.0			
Total		18.0-22.0		0.90	23.0
Follow-on programme	Saffron 5-9 wells by YE21	7.0-12.0	Grow production to 1.0-1.5 mbbbl/d by YE21		£10 mm/US\$14 mm convertible
	Suriname 4 wells	2.0	Grow production to 100 bbl/d		
	Total		9.0-14.0		
	Infill drilling on Trinidad producing assets	6.0			Further funding
	2 exploration well on the SWT	6.0	Derisk 20 mmbbl	1.20	
Total		12.0		1.20	

Source: Auctus

Capital structure and share count

BPC plans to issue £6.9 mm of new equity priced at 0.35p per share. In addition £2.5 mm of existing loans will be converted into equity at the same price. The company will also pay some fees in shares (issuing 340.5 mm in shares in two tranches). We estimate that on completion of all these transactions there will be 7.9 bn shares in issue (pre consolidation).

At the end of the base programme, BPC will only hold £2.5 mm convertible (£2.0 mm newly drawn + £0.5 mm of legacy).

Further valuation consideration

Our new NAV only assumes a programme for which we have visibility on the funding. We have therefore assumed that the two SWT exploration wells will not be drilled in 2021.

Figure 3. NAV Table

Asset Valuation	2P/2C/P50 (mmboe)	CoS (%)	Unrisked (US\$ mm)	EMV (US\$ mm)	Risked p/Share	Unrisked p/Share	% Total
Net Cash at 30/06/2021			-4	-4	-0.04	-0.04	-3%
G&A			-27	-27	-0.26	-0.26	-22%
Trinidad Production - Goudron	2	100%	12	12	0.12	0.12	10%
Trinidad Production - Inniss Trinity	5	100%	30	30	0.29	0.29	24%
Trinidad Production - South Erin	1	100%	7	7	0.06	0.06	5%
Trinidad Production - Icacos, Cedros & Bonasse	1	100%	4	4	0.03	0.03	3%
Trinidad Saffron Appraisal	11	80%	66	53	0.51	0.64	43%
Suriname Weg Naar Zee Appraisal	3	75%	33	25	0.24	0.32	20%
Total Core NAV			121	99	0.97	1.17	81%
Trinidad Goudron upside	8	50%	48	24	0.23	0.47	19%
Trinidad 2xSWP Exploration prospect	20	30%	0	0	0.00	0.00	0%
Total Risked Exploration			48	24	0.23	0.47	19%
Total NAV			169	123	1.20	1.64	100%
P/Core NAV							49%
P/NAV							39%
P/Unrisked NAV							29%

Source: Auctus Advisors, Company Disclosures

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