

Simba Energy

Farm-out

Kenya now, Chad and Guinea next

Simba has announced an MoU preceding a farm-out of its Block 2A in Kenya. This definitively funds a projected late-2014 exploration well, gives the market an independent, third party valuation on the block that largely underpins the current share price and will contribute valuable cash for ongoing activities. With Kenya now funded for a well, we look towards Simba's other main interests in Chad and Guinea.

Year end	Revenue (C\$m)	PBT* (C\$m)	Net (debt) cash* (C\$m)	Capex (C\$m)
6/11	0.0	(4.9)	1.5	0.2
6/12	0.0	(2.9)	5.3	1.7
6/13e	0.0	(3.6)	0.3	2.0

Note: *PBT and EPS are normalised, excluding intangible amortisation, exceptional items and share-based payments.

Farm-out details and implications

Ajax Exploration (private) will fully carry Simba on continuing geological and geophysical work and one well (currently valued by Simba at US\$36.5m), and also cover back costs (of \$3.1m). While the company assumes a US\$25m well cost in its release, we note that, importantly, Simba is covered in the event of the well costing more. The definitive farm-out should be finalised in a matter of months and we think Kenyan government approval is likely before the end of the year.

2014 drill secured

Drilling is forecast to begin in late 2014. In the meantime, Simba and Ajax will investigate two areas of interest identified by existing passive seismic work to better identify prospects and drill locations. Many of the neighbouring blocks will first be drilled by Africa Oil, Afren, Taipan Resources and Vanoil, with the potential to de-risk the plays in Block 2A (which contains the Manderia-Lugh and Anza basins). While a late 2014 well is later than we had expected, it gives Simba the luxury to allow others to demonstrate the prospectivity of the basins and to slim down the prospect inventory, giving Simba a better chance of success when it begins drilling.

Valuation: Farm-out underpins share price

In total, the MoU values the exploration carry (and back costs) at US\$39.6m, implying Simba's stake is worth US\$20.4m or C\$0.09/share, underpinning the current price, once confirmed. The farm-out removes the short-term risk of a substantial equity raise in the near term and should give Simba confidence in its negotiations on farm-ins in Chad and Guinea. We note Griffiths Energy/Caracal's proposed IPO should increase investor interest in Chad in the coming months (see our [January note](#) for further details on Chad). Following this announcement we have made adjustments to our NAV, reducing the value of Kenya in line with the farm-in value, but increasing that of Chad, and we introduce Guinea for the first time. Our RENAV, based on farm-in valuations, now lies at C\$0.16/share. Over time, exploration success could increase this value substantially.

Oil & gas

15 May 2013

Price **C\$0.09**
Market cap **C\$20m**

C\$/US\$ 1.01

Net cash (C\$m) as at Dec 2013 1.9

Shares in issue 227m

Free float 96%

Code SMB

Primary exchange TSX-V

Secondary exchange Frankfurt

Share price performance



% 1m 3m 12m

Abs 38.5 (18.2) (37.9)

Rel (local) 36.3 (16.6) (42.1)

52-week high/low C\$0.24 C\$0.05

Business description

Simba Energy is a pan-African oil and gas company focused on onshore projects. It holds a PSC contract for Block 2A in Kenya and has a 60% interest in a PSC for Block 1 and 2 onshore Guinea. It also has assets in Chad, Liberia, Mali and Ghana.

Next events

Definitive farm-out of Block 2A Q313

Farm-outs of Chad and Guinea H213/H114

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Exhibit 1: Financial summary

	C\$000s	2010	2011	2012	2013e	2014e
June		IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS						
Revenue		0	0	0	0	0
Cost of Sales		0	0	0	0	0
Gross Profit		0	0	0	0	0
EBITDA		(1,351)	(4,843)	(2,920)	(3,623)	(3,000)
Operating Profit (before amort. and except.)		(1,356)	(4,852)	(2,930)	(3,632)	(3,009)
Intangible Amortisation		0	0	0	0	0
Exceptionals		0	0	0	0	0
Other		0	0	0	0	0
Operating Profit		(1,356)	(4,852)	(2,930)	(3,632)	(3,009)
Net Interest		(69)	(5)	(7)	(3)	(4)
Profit Before Tax (norm)		(1,425)	(4,857)	(2,937)	(3,635)	(3,013)
Profit Before Tax (FRS 3)		(1,425)	(4,857)	(2,937)	(3,635)	(3,013)
Tax		0	0	0	0	0
Profit After Tax (norm)		(1,425)	(4,857)	(2,937)	(3,635)	(3,013)
Profit After Tax (FRS 3)		(1,425)	(4,857)	(2,937)	(3,635)	(3,013)
Average Number of Shares Outstanding (m)		47.6	110.1	162.1	226.5	226.5
EPS - normalised (c)		(3.0)	(4.4)	(1.8)	(1.6)	(1.3)
EPS - normalised and fully diluted (c)		(3.0)	(4.4)	(1.3)	(1.6)	(1.3)
EPS - (IFRS) (c)		(3.0)	(4.4)	(1.8)	(1.6)	(1.3)
Dividend per share (c)		0.0	0.0	0.0	0.0	0.0
Gross Margin (%)		N/A	N/A	N/A	N/A	N/A
EBITDA Margin (%)		N/A	N/A	N/A	N/A	N/A
Operating Margin (before GW and except.) (%)		N/A	N/A	N/A	N/A	N/A
BALANCE SHEET						
Fixed Assets		1,979	2,087	3,814	5,802	5,793
Intangible Assets		1,968	1,968	3,691	5,671	5,662
Tangible Assets		10	119	123	131	131
Investments		0	0	0	0	0
Current Assets		551	1,644	5,606	657	753
Stocks		0	0	0	0	0
Debtors		10	55	140	168	168
Cash		533	1,516	5,314	343	440
Other		9	73	152	146	146
Current Liabilities		(669)	(492)	(543)	(618)	(618)
Creditors		(651)	(475)	(506)	(593)	(593)
Short term borrowings		(17)	(17)	(37)	(25)	(25)
Long Term Liabilities		0	0	0	0	0
Long term borrowings		0	0	0	0	0
Other long term liabilities		0	0	0	0	0
Net Assets		1,861	3,239	8,877	5,841	5,928
CASH FLOW						
Operating Cash Flow		(1,324)	(3,782)	(2,878)	(3,109)	(3,004)
Net Interest		0	0	0	0	0
Tax		0	0	0	0	0
Capex		(660)	(230)	(1,738)	(1,996)	0
Acquisitions/disposals		0	0	0	0	0
Financing		2,831	4,994	8,413	135	3,100
Dividends		0	0	0	0	0
Net Cash Flow		847	983	3,798	(4,970)	96
Opening net debt/(cash)		333	(516)	(1,499)	(5,276)	(318)
HP finance leases initiated		0	0	0	0	0
Other		2	0	(20)	12	0
Closing net debt/(cash)		(516)	(1,499)	(5,276)	(318)	(414)

Source: Company accounts, Edison Investment Research

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