

Simba Energy

Read-across

Premier Oil enters Kenya onshore

Oil & gas

On 15 October, Premier Oil (PMO) announced a farm-in with Taipan Resources to Block 2B, Kenya which is adjacent to Simba's Block 2A. The entry by a respected mid-cap E&P such as PMO should give investors further confidence in the prospectivity of the region (already populated by players such as Tullow, Africa Oil, Marathon and Afren) and, more specifically, the Anza basin. While Pai Pai well results have not been fully declared by Tullow, the move by another E&P to pick up acreage is encouraging for Simba. We leave our NAV unchanged at this stage, and await confirmation by the Kenya government of Simba's own farm-out in Block 2A.

Year end	Revenue (C\$m)	PBT (C\$m)	Net (debt) cash (C\$m)	Capex (C\$m)
06/11	0	(4.9)	1.5	0.2
06/12	0	(2.9)	5.3	1.7
06/13e	0	(4.0)	(0.5)	2.7
06/14e	0	(3.1)	(0.5)	0.0

Source: Company accounts, Edison Investment Research

Farm-in provides lateral read-across

PMO will pay back costs of US\$1m and carry a further US\$13.275m of Taipan's working interest in return for 55%. This values Block 2B at around US\$55m (gross), providing further confirmation of the value of the postcode (Simba's own farm-out valued Block 2A at US\$60m). PMO/Taipan intend to drill in Q314, around the same time as Simba's first well could spud.

Farm-out further illustrates Anza basin potential

Both Block 2A and 2B lie within two basins, the Anza and Mandera. We believe the focus of the PMO farm-in will be the prospectivity of the Anza basin and a prospect that Taipan gravity interpretation indicates overlaps into the Simba block. As a result, this farm-in effectively could provide Simba with a free option on the value of this prospect, allowing it to prioritise other prospects on the block.

Valuation: Leaving valuation unchanged

We leave our valuation unchanged at this point at C\$16c/share, despite updates from the most recent financial statements. The farm-in deal provides another data point on the value of the acreage around Simba and adds a further large oil company to the enviable list already in Kenya. Our RENAV, based on the farm-in valuation for Kenya and nominal valuations for both Chad acreage and Guinea, also assumes the finalisation of the farm-out by the end of the year as Simba is currently low on cash. We still await the Kenyan confirmation of the farm-in deal while we expect negotiations on further farm-out of Simba's assets to be ongoing. Exploration in Kenya includes the AOI/Marathon Bahasi well (currently drilling), while Vanoil is preparing to drill in Block 3A.

16 October 2013

Price **C\$0.06**
Market cap **C\$14m**

C\$/US\$ 1.03

Net (debt) cash (C\$m) December 2013e 1.0

Shares in issue 227m

Free float 96%

Code SMB

Primary exchange TSX-V

Secondary exchange Frankfurt

Share price performance



%	1m	3m	12m
Abs	(7.7)	(25.0)	(61.3)
Rel (local)	(14.7)	(22.5)	(60.7)

52-week high/low C\$0.16 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

Kenyan farm-out 2013

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Farm-in implications

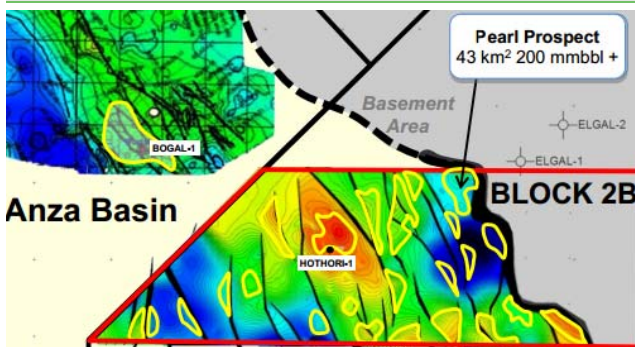
The Premier Oil farm-in is composed of two parts.

- Premier will pay Taipan's working interest share of the cost of drilling and testing the Pearl-1 prospect and future costs on Block 2B up to a cap of US\$13.275m in addition to its working interest share of costs. The total work programme for the First Additional Exploration Period is estimated at US\$29.5m.
- Premier will pay Lion US\$1m as a reimbursement for back costs.

This values the block at US\$55.5m, lower than the US\$60m implied by Simba's May farm-out of its block.

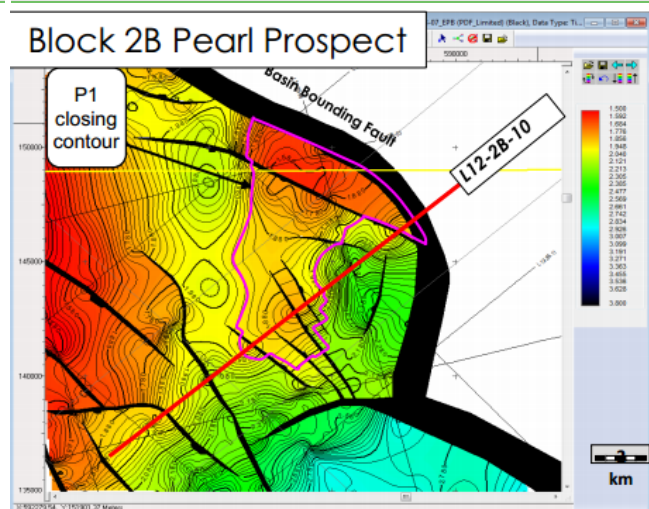
We understand that the carry will include a well (expected by PMO to cost US\$18m or more) plus additional G&G work to fully work up the prospect inventory. According to the Taipan presentation, the Pearl prospect lies in the north of Block 2B and graphics suggest the prospect could extend into Simba's Block 2A. The prospect is currently modelled to be around 126mmbœ, though PMO estimate a lead inventory of more than 500mmbœ.

Exhibit 1: Pearl prospect



Source: Taipan Resources

Exhibit 2: Gravity interpretation of Block 2B



Source: Taipan Resources

Exhibit 3: 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)	(3,956)	(3,069)
Operating Profit (before amort. and except.)		(1,356)	(4,852)	(2,930)	(3,985)	(3,105)
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)	(3,985)	(3,105)
Net Interest		(69)	(5)	(7)	9	(13)
Profit Before Tax (norm)		(1,425)	(4,857)	(2,937)	(3,975)	(3,118)
Profit Before Tax (FRS 3)		(1,425)	(4,857)	(2,937)	(3,975)	(3,118)
Tax		0	0	0	0	0
Profit After Tax (norm)		(1,425)	(4,857)	(2,937)	(3,975)	(3,118)
Profit After Tax (FRS 3)		(1,425)	(4,857)	(2,937)	(3,975)	(3,118)
Average Number of Shares Outstanding (m)		47.6	110.1	162.1	226.5	226.5
EPS - normalised (p)		(3.0)	(4.4)	(1.8)	(1.8)	(1.4)
EPS - normalised and fully diluted (p)		(3.0)	(4.4)	(1.3)	(1.8)	(1.4)
EPS - (IFRS) (p)		(3.0)	(4.4)	(1.8)	(1.8)	(1.4)
Dividend per share (p)		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	6,497	6,460
Intangible Assets		1,968	1,968	3,691	6,295	6,259
Tangible Assets		10	119	123	201	201
Investments		0	0	0	0	0
Current Assets		551	1,644	5,606	375	375
Stocks		0	0	0	0	0
Debtors		10	55	140	212	212
Cash		533	1,516	5,314	0	0
Other		9	73	152	162	162
Current Liabilities		(669)	(492)	(543)	(689)	(689)
Creditors		(651)	(475)	(506)	(621)	(621)
Short term borrowings		(17)	(17)	(37)	(69)	(69)
Long Term Liabilities		0	0	0	(458)	(439)
Long term borrowings		0	0	0	(458)	(439)
Other long term liabilities		0	0	0	0	0
Net Assets		1,861	3,239	8,877	5,724	5,706
CASH FLOW						
Operating Cash Flow		(1,324)	(3,782)	(2,878)	(3,304)	(3,082)
Net Interest		0	0	0	0	0
Tax		0	0	0	0	0
Capex		(660)	(230)	(1,738)	(2,711)	0
Acquisitions/disposals		0	0	0	0	0
Financing		2,831	4,994	8,413	244	3,100
Dividends		0	0	0	0	0
Net Cash Flow		847	983	3,798	(5,771)	18
Opening net debt/(cash)		333	(516)	(1,499)	(5,276)	526
HP finance leases initiated		0	0	0	0	0
Other		2	0	(20)	(31)	0
Closing net debt/(cash)		(516)	(1,499)	(5,276)	526	508

Source: company accounts, Edison Investment Research

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