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Considerations on Ophir Energy

14 January 2019

Executive Summary (1/2)

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- Ophir Energy Plc ("Ophir") has a current market cap of $415 million[1] and net debt of an estimated $65 million[2] and is subject to take-over interest by PT Medco Energi Global PTE Ltd ("Medco") at 55p / share
- Following a catastrophic period since selling ½ of its 40% stake in the Tanzania Blocks 1,3 and 4 to Pavilion Energy in 2013 for c. $1.3 billion in cash, Ophir has had a devastating development marked by unsuccessful and costly big-impact exploration spend, the overly expensive acquisition of Salamander Energy in 2014 for a consideration of $828 million, and difficulties progressing the high-impact Fortuna LNG project in Equatorial Guinea ("EG"), where c. $700 million have been spent so far
  - The share price has declined from 510p per January 2013 to 45.15p per today
  - A senior management re-shuffle has taken place with former COO Bill Higgs leaving in July 2017 and CEO Nick Cooper in May 2018 – Alan Booth has taken over as Interim CEO
- Upon pressure from shareholders including Petrus Advisers, Ophir in September 2018 announced a Strategic Review
  - Focus on its producing assets in South East Asia ("SEA")
  - Separate effort to progress and monetize its exploration licenses (Africa, Asia) and its Fortuna development project
  - Decision to massively down-size the London operations with the future headquarter based in SEA region
- Ophir management has since managed to stabilize the SEA operations and in May 2018 announced the acquisition of further producing assets in the region from Santos for a consideration of $205 million in cash
- As a result, the company has been transformed into a highly cash-flow generative player with substantial upside from its legacy development and exploration license portfolio
  - Estimated 2019-2021 free cash flow of c. $220 million[3]
  - Attractive reserves in its producing SEA business of c. 70.4 million barrels (P2)[4]
  - 2C reserves of in excess of 1 billion boe

1) Per 14 January 2018. Assuming $/£ at 1.30.

2) Per 31 December 2018.

3) After development capex, exploration capex and financial interest and before any debt amortization. Petrus Advisers estimate.

4) Per company's presentation from 20 August 2018.

Executive Summary (2/2)

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- On 31 December 2018, Ophir received a notice of expiry of the Fortuna license in EG
  - The remaining c. $300 million of book value will be written-off
  - Negotiations around a potential extension and/or compensation are to be had
- The current Medco offer for the whole company is unlikely to be successful
  - Medco's historical focus has been on SEA with limited success internationally
  - Synergies in SEA are significant with Petrus Advisers estimating $15 million[1] in cost synergies and substantial revenue synergies from optimized development operations in Indonesia worth at least $50-100 million
  - The potential value in Ophir's non-SEA portfolio is significant with the company working on monetizing existing licenses (e.g. in Mexico) and developing the value in Tanzania and EG
  - Our mid estimate sees short-term value of $20 million in the Mexico licenses[1], whereas we see a value range of $50-500 million in EG and $50-250 million in Tanzania
- We therefore demand that Ophir
  - Focus the discussions with Medco on a sale of the SEA operations and only if the price is starting at c. $550 million / 60p per share equivalent[2]
  - Use the proceeds of a sale to return capital to shareholders and continue to realize value from the remaining portfolio with a clear focus on monetization
  - If no sale of the SEA operations materializes, focus on cash generation from those assets, return at least $100 million to shareholders by means of a tax free capital reduction now and target further return of capital subject to progress with Fortuna and Tanzania

1) *Petrus Advisers Mid Case.*
2) *Assuming $/£ at 1.30.*

Ophir Summary Cash Flow Overview

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$m, unless stated otherwise	2019E	2020E	2021E
Working Interest Production (kboe/d)	28.1	26.3	23.5
Brent crude price ($/bbl)	60	60	60
Realisation - Oil ($/bbl)	58	58	58
Realisation - SE Asia Gas ($/Mcf)	5.6	5.8	6.0
Revenues	521	493	446
Free Cash Flow from Ophir SEA[1]	**93**	**84**	**146**
Cumulative Free Cash Flow from Ophir SEA	**93**	**176**	**322**
Free Cash Flow from non-SEA operations[1]	(43)	(35)	(25)
Group Free Cash Flow[1]	**50**	**48**	**121**
Group Free Cash Flow cumulative	**50**	**98**	**219**
Group Free Cash Flow as % of mkt cap.[2]	**12%**	**24%**	**53%**

1) Post development capex, exploration capex, financial interest and all taxes; before any debt amortization.

2) Per 14 January 2018. Assuming $/£ at 1.30.

Note: Assumes the sale of the Mexican license portfolio for $20 million and reduction of $10 million per year of other exploration capex per old guidance. Does not consider oil price hedging of c. 4 kbbl/day in place for 2019. Includes capex of $54 million in 2019/20 for Meliwis. Interest cost related to the Ophir bond allocated to non-SEA with all RBL facility related interest cost allocated to SEA.

Source: Petrus Advisers

Valuation Overview

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$m, unless stated otherwise	Low	Mid	High	Notes
NPV SEA production assets	**624**	**650**	**675**	
Bualuang	298	310	323	Discount rate: 11%/10%/9%
Kerendan	56	63	69	Discount rate: 15%/12%/10%
Sinphuhorm	41	45	48	Discount rate: 15%/12%/10%
Chim Sao & Dua	202	204	206	Discount rate: 11%/10%/9%
Sampang	6	6	6	Discount rate: 11%/10%/9%
Madura	20	21	22	Discount rate: 11%/10%/9%
SEA Exploration commitments	(20)	(20)	(20)	Assumes savings of c. $20m on Santos assets' exploration commitments
Ophir SEA asset value	**604**	**630**	**655**	Assuming no debt is attached to the SEA assets
Ophir SEA asset value / share £	**0.66**	**0.69**	**0.71**	
NPV Medco synergies	**75**	**112**	**150**	
Medco cost synergies	25	37	50	Assumes $10m/$15m/$20m; 3-yr annuity @ 10% WACC
Medco revenue & other synergies	50	75	100	Petrus Advisers assumptions
Total synergies / share £	**0.08**	**0.12**	**0.16**	
Potential value exploration assets	**63**	**173**	**728**	
of which Tanzania	50	100	250	
of which Mexico	10	20	25	
of which EG	50	100	500	
General E&A capex	(47)	(47)	(47)	Assumes $10m savings on the non-SEA exploration capex for 2019-2021
Exploration assets / share £	**0.07**	**0.19**	**0.79**	
Corporate	**(79)**	**(79)**	**(79)**	
Net cash/(debt)	(65)	(65)	(65)	Assumes net debt of $65m per YE18 guidance
Corporate cost	(14)	(14)	(14)	Assumes $10m/annum G&A (post-tax); 2-Yr annuity @ 10% WACC
Total Corporate / share £	(0.09)	(0.09)	(0.09)	
Total ex synergies / share £	**0.64**	**0.79**	**1.42**	
Total inc. synergies / share £	**0.72**	**0.91**	**1.58**	

Note: Assumes long-term Brent oil price of $60 / bbl. Does not assess any value to Ophir's tax losses in the UK of c. $694 million per 31 December 2017.

Source: Petrus Advisers

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