

BUY COMPANY UPDATE

Price (13 November 2019)	83p
Rating	BUY
Target Price	170p
Bloomberg/Reuters codes:	ECO LN / ECOE.L
Market cap (£m)	149

Key financials

Year to Mar	2018A	2019A	2020E
Production (kboed)	0.0	0.0	0.0
Sales (C\$m)	1.3	16.9	0.2
PBT adj (C\$m)	(8.4)	4.2	(18.1)
EPS adj (c)	(0.1)	0.0	(0.1)
DPS (c)	0.0	0.0	0.0
Div yield (%)	0.0	0.0	0.0
Sales growth (%)	--	1,170.9	(98.8)
EBITDAX	(5.9)	8.2	(4.4)

Prices are as of 13 November 2019 at 8.28 GMT

All sources unless otherwise stated: Company data, FactSet, Stifel estimates

Update on Guyana discoveries suggests heavy, high sulphur but mobile crude

Summary

Today it was announced the two discoveries, Joe and Jethro, have been assessed and found to be heavy and not light oil, though very mobile (due to high reservoir pressure) and in high quality reservoirs. The high reservoir temperatures, 2600 psi of overpressure and high quality reservoir parameters, are expected to support crude mobility, with further appraisal drilling anticipated in 2020.

Key Points

Today's news that the Joe and Jethro discoveries contain high-sulphur heavy crude is unexpected in that the Exxon-operated Stabroek block immediately outboard is said to contain "high quality" crude, typically shorthand for low sulphur + light/medium gravity. At this early stage of exploration it is difficult to know the precise significance of the observation. We see two possibilities:

- It could be that the Tertiary reservoirs (i.e. Joe/Jethro) contain oils sourced from a different interval to the (principally Cretaceous) discoveries outboard. The implication would then be that the Cretaceous play at Orinduik would produce the same light sweet grades as are found in Stabroek.
- The second possibility is for a geological discontinuity or gradation between near-shore to far-shore environments: high-sulphur oils are generated from carbonate rather than sand/shale source rocks, the former only being found in locations close to land where carbonate rocks can form. It is possible that these influences dominate in the Orinduik block and far-shore, marine source rocks (that typically generate sweet crudes) are prevalent in locations further away from shore such as Stabroek. We would regard this as the more unattractive outcome as this would increase the risk that the Cretaceous reservoirs in the Orinduik block also contain heavier crude.

We also note that heavy oil, especially in productive reservoirs such as have been seen in these discoveries, is commercial - Grane in Norway, Mariner in UK North Sea, Mars in Gulf of Mexico and Peregrino in Brazil are four examples. We estimate that a development scenario based on a \$10/bbl discount to Brent and 25% higher capex than our current estimates still gives a 20% IRR and a PV/I (a measure of value-added) in excess of 2x.

This increases the significance of the Cretaceous play in the Orinduik block in our view, which will likely see exploration drilling next year. This also raises the importance of the read-through from the Carapa well (targeting the Cretaceous) currently being drilled in the Kanuku block to the south by Repsol and Tullow.

Our (unchanged) NAV summary is overleaf.

Figure 1. NAV summary (unchanged)

Country / Region	Asset	NPV Risked net		Unrisked NPV		Risked NPV	
		US\$/boe	mboe	US\$m	p/sh	US\$m	p/sh
	Adjusted net (debt)/cash (YE Mar 2021E)		-	11	6	11	6
	G&A capitalised		-	(8)	(5)	(8)	(5)
	Core NAV		-	3	0	3	0
Guyana	Jethro	7.0	15	209	91	105	46
Guyana	Hammerhead		1	11	5	9	4
	Contingent assets		16	220	96	113	49
Guyana	Joe (drilling 3Q19)	2.5	13	51	22	33	15
Guyana	Jethro extension	7.0	3	45	20	23	10
	Total Miocene exploration		49	537	234	283	123
Guyana	Rappu	2.5	19	185	81	47	20
Guyana	KG	2.5	18	204	89	46	20
Guyana	Kumaka	2.5	19	215	94	48	21
Guyana	IatukD	2.5	18	202	88	45	20
Guyana	KB	2.5	14	121	53	34	15
	Total Cretaceous exploration		88	928	404	220	96
	Total Exploration		104	1025	446	276	120
	Total NAV Core + Contingent + Expln		121	1248	543	392	170

Source: Stifel estimates

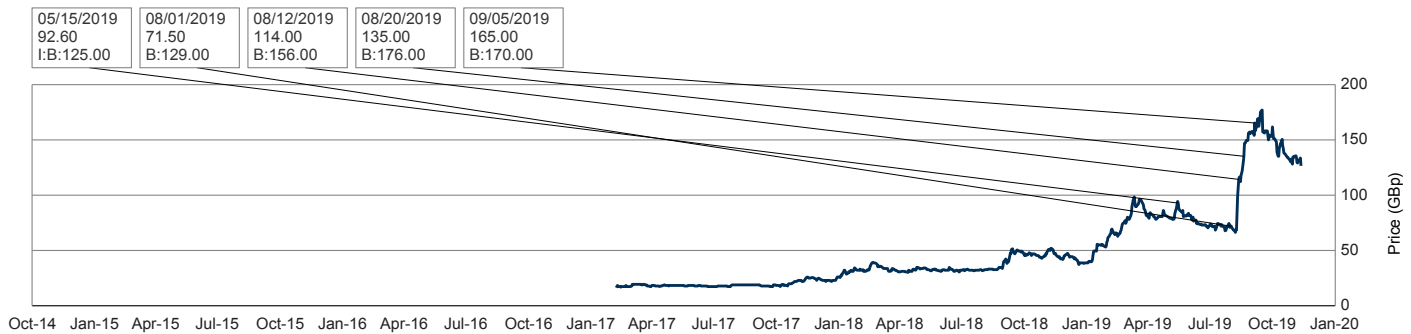
Target price methodology/risks

Our target price is based on a risked net asset value assuming a value per barrel and an assumed chance of success for geological targets in the block. The key risk is unsuccessful or inconclusive drilling results.

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Eco (Atlantic) Oil & Gas Ltd. (ECO.LN) as of November 12, 2019 (in GBp)



*Represents the value(s) that changed.

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