NB: This document is only intended for individuals in jurisdictions where the distribution of this type of information is unrestricted. Not for distribution in the US. The author is biased and holds long positions in Africa Oil, Africa Energy and Eco Atlantic. Shares are risky securities and can both rise and fall in value. Do not buy shares based on individual tips, buying advice or rumors. Do your own due diligence. The author reserves the right for factual and writing errors.

Join the Facebook group Africa Oil investor group: https://www.facebook.com/groups/1406968422792469/

New to Africa Oil? Read the crash course to Africa Oil: https://bizter.se/files/crashcourse_africa_oil_5feb2020_eng.pdf

Q1 REPORT AND PRIME'S ANNUAL REPORT

It has been a hectic week for Africa Oil, with both the company's first quarterly report with production and a press release on this year's third dividend from Prime (25 MUSD) which AOI bought 50% of from Petrobras at the beginning of the year. The quarterly report straightened out some question marks that were discussed among small investors. The ambition of this document is to shed light on the key takeaways from the quarterly report and analyze them combining them with the 2019 Annual Report from Prime (POGBV).

Kenya

Africa Oil wrote down the value of the Kenya blocks by $ 215.6 million. Given the market situation, the Tullow operator with cash problems and the eternal delays, this was expected. Consequently, this affected Q1 earnings.

Nigeria

With Prime's production field in Nigeria, Africa Oil has finally become an oil-producing company. The figures presented in the report:

	Q1 2020	Guidelines 2020
Working interest, boepd	33500	30-33000
Economic entitlement production, boepd	43000	35-38000
Operating cost per barrel, USD	5,8	
Received dividends	87,5	
Bridge loan amortisation	45,2	
Prime sales revenue AOI 50%	179,5	
EBITDA	198,3	
Cash flow from operations	196	630-680
Writedown of Kenya intang. assets	-215,6	
Capital investments		<60
Sales revenue based on 5 cargo lift iso 6		

What we can read is that production for Q1 is above expected average production for the year. It is reasonable to assume that the first quarter's production will be at par or higher than the next quarters. The operating costs per barrel were also slightly lower than assumed, which is of course positive. The ambition to pay off the bridge loan with the dividends from Prime also seems to be in progress. The note that six cargo lifts were not really achieved in the quarter is interpreted as being able to have a positive effect on sales in the later quarter.

Prime Annual Report 2019

I have reviewed the Primes (POGBV) annual report where earnings, balance and cash flow are presented below in the first two columns below. In addition, for illustration, I have made a rough estimate of what the outcome for 2020 might look like if Africa Oil's guidelines are met. View this column primarily as inspiration for your own calculations. At the very bottom of the table I have picked out some important points from the text in the annual report.

		Prime 2018	Prime 2019	2020E guesstimate
1	**INCOME STATEMENT**			
2	Turnover revenue	919	1720	1800
3	Cost of sales	-423	-552	-578
4	*Whereof Depreciation*	*-237*	*-403*	*-420*
5	**Gross profit**	**496**	**1167**	**1222**
6	Other operating income and expenses	-41	12	12
7	**Operating Profit**	**455**	**1179**	**1234**
8	Finance income	6	16	10
9	Finance cost	-72	-142	-110
10	*Whereof paid interest RBL*	*-65*	*-112*	*-110*
11	*Whereof RBL amort on cap trans fees of amended RBL + add rate*	*0*	*-28*	*0*
12	**Profit before tax**	**389**	**1052**	**1134**
13	Income tax expense	-255	-530	-567
14	**Profit of the year**	**133**	**522**	**567**
15				
16	EBITDA	686	1593	1664
17				
18	**FINANCIAL POSITION**			
19	**Total assets**	**4494**	**4283**	**4000**
20	*Non current assets*	*3934*	*3779*	*3496*
21	*Current assets*	*560*	*504*	*504*
22				
23	**Total equity**	**1068**	**510**	**510**
24				
25	**Total liabilities**	**3426**	**3773**	**3263**
26	*Non current loans*	*1760*	*1191*	*1191*
27	*Decommissioning liabilities*	*202*	*254*	*254*
28	*Deferred income tax liabilities*	*1169*	*1452*	*1452*
29	*Current loans*	*0*	*621*	111
30	*Trade and other payables*	*269*	*231*	*231*
31	*Other liabilities*	*26*	*24*	*24*
32				
33	**CASH FLOW**			
34	Cash beginning of year	338	302	140
35	Cash flows from operating activities	489	1075	1310
36	Cash flows after investing activities	14	875	1190
37	Cash flows after financing activites	-37	-161	?
38	Cash end of year	302	140	?
39				
40	**DIVIDENDS**	**2018**	**2019**	**2020 YTD**
41	January	100	0	0
42	February	0	75	125
43	March	300	75	50
44	April	0	50	0
45	May	0	100	50

46	June	100	100	
47	July	0	100	
48	August	0	100	
49	September	0	100	*~49/mth*
50	October	0	200	
51	November	0	160	
52	December	500	0	
53	**Year total**	**1000**	**1060**	**567**
54				
55	Expected capital expenditure 2020-2024	500-600		
56	Expected capital expenditure 2020	120		
57	Number of cargos to be lifted during 2020	22		
58	Number of cargos lifted Q1 2020	5		
59	Start of utilising fixed forward contracts	March 2015		
60	Average price per barrel USD 2018-2020	57	70	66 (>90%)
61	RBL loan interest rate	Libor +3.75		
62	RBL loan amortisation plan	Quarterly repayments Q1 2020-Q2 2024		
63	Increase of RBL loan dec 2018-Feb 2019	580		

1-16 Income statement: Prime made a profit after tax of USD 522 million in 2019. In practice, Africa Oil paid USD 519.5 million (lockbox excluded) for 50% of this company. The simplest way to make an estimate for 2020 is to assume that 2020 will be close to 2019 earnings. A fully producing Egina field increases production while the average price will be lower than during 2019 (70 vs 66 USD (as well as price not hedged sales)). A simple assumption is that these two effects are netting each other out. In the 2020 estimate, I have instead tried to derive figures from Africa Oil's guidelines (on average). This would mean a slightly higher turnover in 2020 and correspondingly higher result.

If you play with the idea that in January 2020, Africa Oil consisted only of a cash and a bridge loan of MUSD 250 (ie no Kenya, no portfolio companies). For these MUSD 520 they bought 50% of Prime, depleting the cash to zero. 50% of Prime plus a bridge loan of MUSD 250 remains. For the sake of simplicity we assume that the bridge loan costs 10% interest no matter if the loan is amortised or not. Let's say no other costs. If we use 2019 earnings in Prime as a proxy for the 2020 outcome, $ 522 million, Africa Oil's share is $ 261 million. From 261, we deduct the cost of the loan, 25 MUSD. Remains $ 236 million in net profit for Africa Oil. With a share price of SEK 8.00, USD / SEK 9.77 and 472" shares, there will be a profit per share of 4.89 and a **P/E ratio of 1.6**. If we instead use the result from the estimate column above, MUSD 567, ie MUSD 284 net to Africa Oil, and that the mortgage loan rate is set by the average mortgage during the year (250 at the beginning, repaid at the end of 2020) we end up with a P/E figure of 1.4 . It may well be considered a fairly cautious multiple. Especially considering that you also get Kenya and holdings in the portfolio companies Eco Atlantic, Africa Energy and Impact for free.

18-31 Balance sheet: In the estimate, I adjusted the fixed assets due to production related depletion, added expected investments (60 MUSDx2) and deducted expected repayments on the RBL loan (255 MUSDx2). The profit for the year is distributed as dividends. If 510 MUSD is amortised from the RBL loan, MUSD 1315 remains at the end of the year.

33-38 Cash flow analysis: This section has been left open for you to work with the figures yourself.

40-53 Dividends: This section provides a historical overview of dividends during the years for the deal lockbox. It is worth noting that the dividend during these years has been financed by an increase in the RBL loan of MUSD 580 and a reduction in equity in 2019 by close to MUSD 550. This was a way for the POGBV deal to "finance itself".

The guidelines from Africa Oil would, in the average case, mean that USD 285 million could be distributed to Africa Oil, ie dividends from Prime totalling 570 MUSD. It is close to the net profit of $ 567 million, assuming that the net profit is distributed, one would expect monthly dividends of 50 MUSD, ie 25 MUSD net to Africa Oil, or equivalent for the remainder of the year. Africa Oil has communicated that historical dividends don't say anything about the frequency nor size of future dividends.

55-63 Other information: Finally, some interesting points were drawn from the text of the Primes annual report, in some cases compared to other sources. Most important here are probably the terms of the RBL loan - interest rate and repayment plan.

Risks

The most imminent concern in the short term is whether Prime is affected by OPEC's production cuts. Historically, these fields have been defined as condensate fields and have not been included in production that OPEC adjusts. Whether this would be the case going forward is not settled. If the production cut is imposed it would be 23% in May and June and 16% in July-December. For a fully linear annual production, this would result in a 12% reduction. If Prime has the ability to steer the 12% cut to affect the non-hedged production first, sales need not decrease more than single-digit in percentage terms.

In the long run, the biggest risk is the oil price after Q1 2021. The sentiment among analysts seems to be positive, example:

https://energy.economictimes.indiatimes.com/news/oil-and-gas/goldman-sachs-says-it-remains-bullish-on-oil-prices-in-2021/75529016

What do you think?

Comment in the Africa Oil investor Facebook group: https://www.facebook.com/groups/1406968422792469

Lastly

New to Africa Oil? Read the crash course to Africa Oil: https://bizter.se/files/crashcourse_africa_oil_5feb2020_eng.pdf
Listen to Africa Oil CEO Keith Hill: https://youtu.be/1c-i20PG5LI
Listen to Africa Energy CEO Garrett Soden: https://youtu.be/liojJmz6OiA
Listen to Eco Atlantic CEO Gil Holzman: https://youtu.be/a2q62-vsC0E
Follow Jonas Wander-Levin on LinkedIn https://www.linkedin.com/in/cayoma/ or on Twitter https://twitter.com/ekp95jma

About the writer:
Jonas Wander-Levin has been professionally active in investment management systems for almost 20 years and has worked as a consultant with major asset managers such as the Norwegian Oil Fund, Abu Dhabi Investment Authority, Deutsche Bank, Swiss Life and ATP. Jonas holds a Master's degree in Financial Economics.