

Faroe Petroleum

Well result

Agar/Plantain discovery

Oil & gas

15 November 2018

Price 127p
Market cap £479m

Net cash (£m) at 30 June 2018 83
Shares in issue 372.9m
Free float 63%
Code FPM
Primary exchange AIM
Secondary exchange N/A

Share price performance



Business description

Faroe Petroleum is an AIM-listed E&P with operations in Norway, the UK and Ireland. Production in FY18 is expected to be 12–14kboed from an end-2017 reserve base of 98mmboe.

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Faroe Petroleum has announced the results of the Agar/Plantain exploration/appraisal well in licence P1763 (Faroe has a 25% interest in Agar/Plantain and 12.5% in the wider licence). The well encountered 20m of gross hydrocarbon-bearing reservoir with high net to gross ratio. Operator Azinor Catalyst estimates gross recoverable resources at 15–50mmboe, a volume expected to be commercial given available infrastructure. Assuming the partial de-risking of Agar/Plantain at mid-case 32.5mmboe (down from our pre-drill estimate of 79mmboe) to a 70% chance of commercial success would leave our RENAV broadly unchanged, but provides validation of our approach of including risked value for Faroe's exploration programme, which made up 32.6p/share of our 185.2p/share RENAV in our recent initiation.

Year end	Revenue (£m)	PBT* (£m)	Cash from operations (£m)	Net debt/ (cash) (£m)	Capex (£m)
12/16	94.8	(61.6)	55.4	(60.9)	(79.4)
12/17	152.9	(21.0)	133.9	(43.3)	(144.2)
12/18e	236.3	62.3	173.6	(43.8)	(225.7)
12/19e	225.0	37.7	173.7	44.7	(263.8)

Note: *PBT and EPS are normalised, excluding amortisation of acquired intangibles, share-based payments.

The 09/14a-17B well bore targeted the Plantain prospect encountering a thin oil column in a high-quality sandstone. The partnership then elected to appraise the up-dip Agar oil discovery, encountering the Upper Frigg Formation at 1,763m penetrating a gross reservoir interval of 20m. The reservoir zone had high net to gross and average porosity of c 30%, and no oil water contact was observed. The Agar/Plantain discovery is located close to existing infrastructure around 12km from the Apache-operated Beryl Bravo and 14m from the Alvhheim FPSO, making it a commercial discovery and economically attractive after considering the potential to accelerate usage of Faroe's UK tax losses.

As discussed in our [flash note](#) yesterday, removal of the Rungne exploration well from our last published RENAV of 185.2p/share would reduce it by 5.9p/share. Further details of our valuation can be found in our [recent initiation report](#).

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