Hurricane Energy

First thoughts: Spirit Energy farm-in

Spirit Energy farm-in

Oil & gas

Spirit Energy has farmed-in to 50% of Hurricane's Lincoln and Warwick licences covering the Greater Warwick Area (GWA). The farm-in is intended to accelerate the de-risking and monetisation of GWA, adding a new leg to the Hurricane business model that will run in parallel with the development of the Greater Lancaster Area (GLA). Under the transaction, Hurricane will retain a 50% working interest in GWA licences in return for a net carry of $137.2m through a two-phase initial work programme and $150–250m contingent carry on net GWA full field development (FFD) expense. Based on company-estimated GWA gross 2P reserves of 500mmbbls expected to be unlocked by the FFD, the combined carry value is $1.2/boe to $1.6/boe. The transaction structure differs materially from our assumed 60% working interest dilution through farm-out for Lincoln (250mmbbl development case) and a post-carry NPV/bbl of $5.0/boe ($2.5/boe risked) in our last published valuation of 81p/share. We expect to revise our risked Lincoln valuation ($241m) to reflect the details of the transaction, which include accelerated production via tie-back to Lancaster, not currently reflected in our valuation. We believe today's deal materially accelerates the de-risking of Hurricane's Rona Ridge asset base both in terms of GWA resource but also the ability to focus Lancaster EPS cash-flows on fast-track appraisal of the GLA resource base.

Year end	Revenue ($m)	PBT ($m)	Operating cash flow ($m)	Capex ($m)	Net cash ($m)
12/16	0.0	(6.4)	(5.6)	(63.5)	101.5
12/17	0.0	(7.0)	(8.1)	(265.7)	158.0
12/18e	0.0	(25.8)	(25.8)	(191.1)	(58.8)
12/19e	115.0	(28.0)	0.4	(101.1)	(159.4)

*Note change in reporting currency to US$ from £. 2016 results re-stated in US$.

GWA farm-in components

Spirit Energy's farm-in to GWA is in three phases. First, starting in 2019 Hurricane is to be carried through its share of a $180.6m gross, three-well programme accelerating the exploration of Warwick and appraisal of Lincoln and preparation works for the tie-in of one or more producers to the Aoka Mizu. A rig has already been contracted, providing visibility on 2019 drilling catalysts. Contingent on phase one success, in 2020 Hurricane will be 50% carried for its share of an estimated $187.5m gross programme to tie-back one GWA well to the Aoka Mizu, including tie-in to the WOSP gas export system: a key requirement for enhancing Aoka Mizu throughput to 40kbod. Finally, there will be a further carry contribution by Spirit Energy of $150–250m for Hurricane's share of GWA FFD costs.

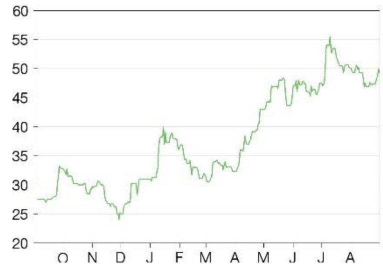
Valuation: Market focus on EPS on track for H119

Our last published valuation stands at a RENAV of 81.0p/share of which Lancaster EPS constitutes 34.7p/share. Our last published valuation is based on $70/bbl long-term (2022) Brent.

3 September 2018

Price	**49.4p**
Market cap	**£968m**
Net cash ($m) at 31 December 2017 including convertible debt	158.0
Shares in issue (ex-convert)	1,959m
Free float	75%
Code	HUR
Primary exchange	AIM
Secondary exchange	N/A

Share price performance



%	1m	3m	12m
Abs	(1.7)	9.0	77.4
Rel (local)	1.8	12.1	76.0
52-week high/low		55.5p	24.0p

Business description

Hurricane Energy is an E&P focused on UKCS fractured basement exploration and development. It owns 100% of the 523mmbbl (RPS 2P reserves plus 2C resources) Lancaster oil discovery, West of Shetland.

Next events

Lancaster EPS first oil	H119

Analysts

Sanjeev Bahl +44 (0)20 3077 5742

Elaine Reynolds +44 (0)20 3077 5713

Carlos Gomes +44 (0)20 3077 5700

oilandgas@edisongroup.com

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