

Canacol Energy

Q319 results

Returning value to shareholders through dividend

Canacol Energy presented a 22% increase in natural gas production compared to Q219 following the achievement of one of its 2019 milestones – the Jobo to Cartagena 100mmscfd pipeline. 2019 is proving to be a transformational year for the company, with an increase in production to 215mmscfd and advanced negotiations to expand export capacity to 315mmscfd by the end of 2023. Given the forecast of stable free cash flows for the coming years, Canacol's board of directors decided to declare a recurring quarterly dividend, starting in Q419 at US\$7m. Our 2P + risked exploration NAV is in line with our previous note at C\$6.35/share, a 1% decrease, reflecting a 4% decrease in our 2019 production estimate.

Year-end	Revenue* (US\$m)	Adj EBITDAX** (US\$m)	Cash from operations (US\$m)	Net debt*** (US\$m)	Capex**** (US\$m)	Yield (%)
12/17	156.6	130.2	65.3	255.5	(106.0)	N/A
12/18	204.5	138.6	94.0	288.1	(75.5)	N/A
12/19e	218.5	178.2	154.5	285.3	(119.0)	1.1
12/20e	321.8	273.0	230.8	140.1	(27.8)	4.3

Note: *Revenue net of transport expense and royalty. **Adjusted EBITDAX is before non-recurring or non-cash charges and exploration expense. ***Cash and equivalents minus short- and long-term debt. ****Forecasts based on 2P production profile.

Production ramp-up to 215mmscfd

Following completion of the Jobo to Cartagena pipeline in July 2019, Canacol's Q319 natural gas production increased to 215mmscfd, resulting in average natural gas production for the quarter of 147.6mmscfd, slightly below our last estimate of 161mmscfd. Natural gas operating netbacks remained in line with Q219 at US\$3.86/mcf. The company achieved a 23% decrease in operating expenses through operational synergies; however, these were offset by a decrease in realised natural gas prices. Negotiations are ongoing for an additional 100mmscfd pipeline export capacity to Medellin, and the company is close to finalising the related gas sales agreement for half of the pipeline capacity with a major Colombian utility.

US\$7m cash dividend for Q419

Canacol's board of directors approved a US\$7m quarterly dividend to be distributed to shareholders, representing c C\$0.052/share or an annualised yield of 4.4%. In our [previous note](#), we tested the company's ability to distribute a sustainable cash dividend looking at the company's free cash flow (FCF) generation and dividend-paying peers. Our analysis showed that a yearly cash dividend at c US\$30m is sustainable at least until 2025, which is in line with the announced dividend, which corresponds to an annualised cash dividend of US\$28m.

Valuation: Broadly unchanged at C\$6.35/share

Our base case valuation of Canacol stands at C\$6.35/share. The company currently trades at an FY20 P/CF of 4.2x, versus its Canadian peers on 2.0x, and its peer group of North American E&Ps with South American operations on 2.5x. We believe this premium is driven by certainty of price realisations and a strong free cash flow yield relative to peers. Key risks remain around the ability to replace reserves, somewhat mitigated by its strong track record of exploration success.

Oil & gas

20 November 2019

Price **C\$4.76**

Market cap **C\$852m**

C\$1.32/US\$

Net debt (US\$m) at 30 September 2019 340.4

Shares in issue 178.9m

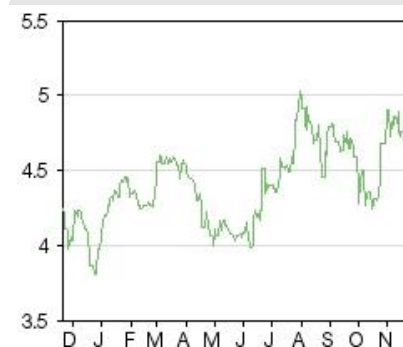
Free float 80%

Code CNE

Primary exchange TSX

Secondary exchange BVC

Share price performance



% 1m 3m 12m

Abs 7.7 (3.3) 8.4

Rel (local) 3.6 (7.4) (4.0)

52-week high/low C\$5.03 C\$3.81

Business description

Canacol Energy is a natural gas exploration and production company primarily focused in Colombia.

Next events

Medellin GSA November 2019

FY19 results Q120

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Canacol Energy is a research client of Edison Investment Research Limited

Increasing sales gas in Q319

As estimated in our previous note, Canacol announced an increase in natural gas production in Q319 following the completion of the Jobo to Cartagena pipeline in July 2019, which resulted in a rise of 100mmscfd of export capacity for Canacol to 215mmscfd. The Jobo 3 natural gas processing facility also commenced operating in Q319, increasing Canacol's natural gas treatment capacity from 200mmscfd to 330mmscfd.

Average natural gas production increased 22% from 121.5mmscfd in Q219 to 147.6mmscfd in Q319, resulting in natural gas revenues, net of royalties and transportation costs, of US\$55.1m. We had previously estimated Q319 at c 161mmscfd; however, production in the quarter was slightly lower due to commissioning and integration downtime events. The company's natural gas operating netbacks remained relatively in line (down 1%) with Q219 at US\$3.86/mcf. Canacol achieved a 23% decrease in operating expenses through operational synergies and automation; however, these were offset by a decrease in realised natural gas prices. Q319 capex was US\$30.8m (9M US\$79m).

Negotiations ongoing for additional 100mmscfd export capacity

In July 2019, Canacol achieved an important milestone it had set for 2019 in completing the 100mmscfd capacity Jobo to Cartagena pipeline, and bringing Canacol's natural gas production to a level of 215mmscfd in August 2019.

Concurrently, Canacol initiated negotiations for an additional export route, towards the south. A further 100mmscfd capacity pipeline towards Medellin is expected to be online by the end of 2023, according to management plans. Meanwhile, Canacol expects the imminent closing (November 2019) of a 12-year take-or-pay sales contract with a Colombian utility for half of the pipeline capacity. The next stage will be the formation of a consortium, expected by the end of 2019, which will be responsible for building and operating the Jobo to Medellin pipeline.

4.4% dividend yield announced

In our [previous note](#), we tested Canacol's financial capability relative to a possible dividend distribution to shareholders. We looked at FCF generation under our 2P development scenario, and also what shareholder returns could potentially look like if management were to move to returning FCF to shareholders, and assuming an estimated cash yield in line with dividend-paying peers. Our analysis showed that a yearly cash dividend at c US\$30m is sustainable at least until 2025, even in our 2P scenario. In Q319 Canacol announced a US\$7m dividend for the final quarter of 2019, which, annualised, would result in a US\$28m cash dividend, in line with our estimate of a sustainable dividend for the company. This amount represents c C\$0.052/share or a yield of approximately 4.4% annually at the current share price.

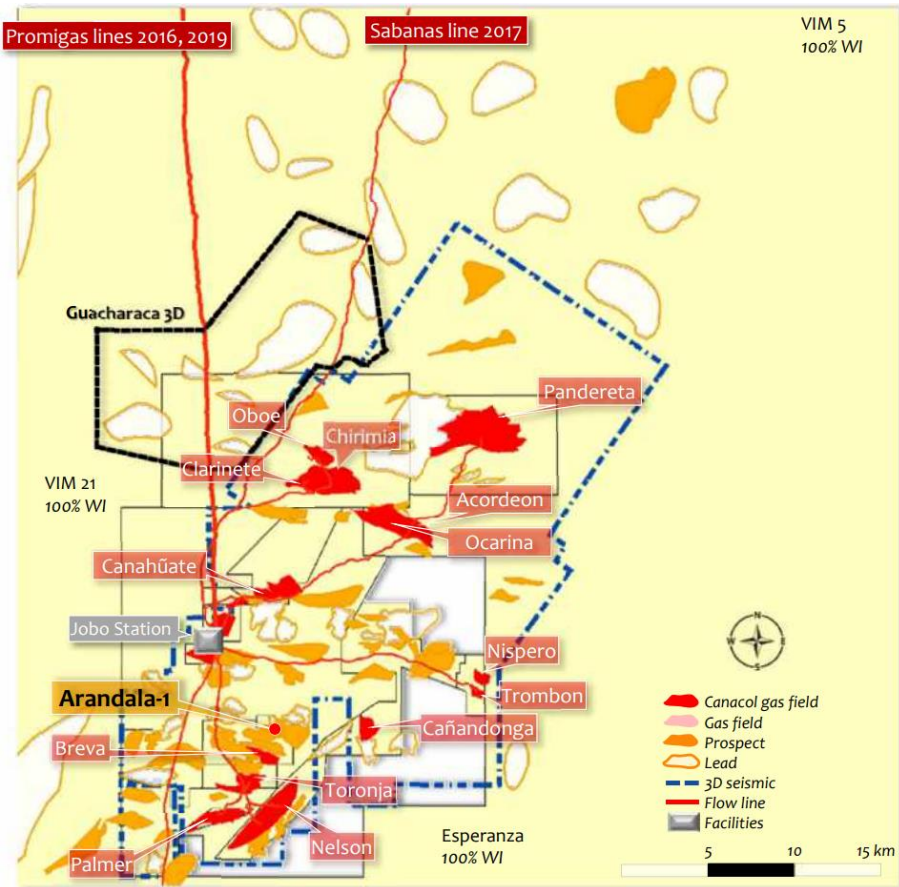
Exploration and appraisal success remains high at 85%

Canacol's drilling success rate has continued in 2019, with discoveries in Ocarina-1 and Acordeon-1 and three development wells, Palmer-2, Nelson-7 and Clarinete-4. Since our September [update note](#), the final well in the programme, exploration well Arandala-1, has been drilled, cased and completed, but test results have yet to be released. This is the only well in the programme targeting

the shallower, lower pressured Porquero sandstone, with the majority of the company's wells producing from the Cienago de Oro (CDO) sandstone.

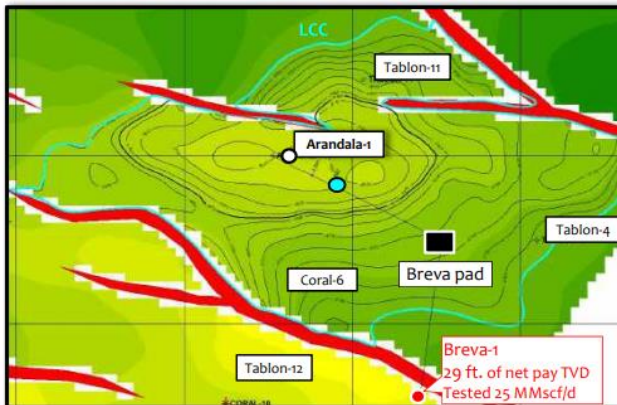
Canacol has also provided test data for Clarinete-4, which flowed at a 40mmscfd and has now been tied into the new Clarinete to Jobo pipeline. The Pandereta-5 appraisal well was designed to target an increase in the Pandereta field 2P resources of 100bcf, by assessing an area outside the three-way closure tested by Pandereta-3. Pandereta-5 did not encounter commercial quantities of gas, but this will have limited impact on the field's current gas reserves. We expect a similar number of wells to be drilled in 2020, and details of this programme are expected to be released by January 2020.

Exhibit 1: Canacol existing gas fields, prospects and leads

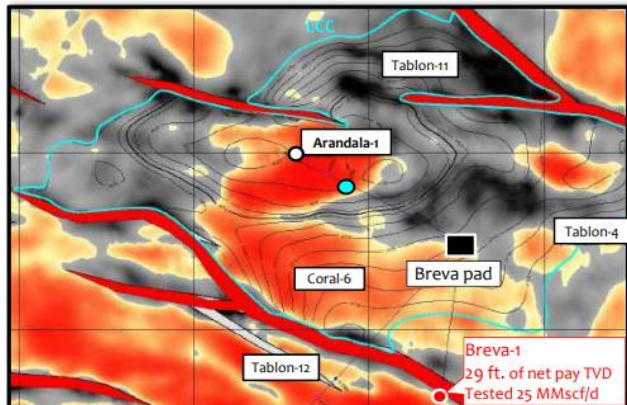


Source: Canacol Energy

The programme has confirmed Canacol's strong successful exploration and appraisal track record, with 85% of these wells successfully drilled to date. The company utilises AVO methodology on seismic to distinguish between gas bearing and water bearing sandstones to support its high success rate in the Lower Magdalena Valley basin.

Exhibit 2: Arandala-1 depth structure map at Middle Porquero


Source: Canacol Energy

Exhibit 3: Arandala-1 fluid factor at Middle Porquero


Source: Canacol Energy

Valuation

Our 2P valuation incorporates discounted cash flows reflecting the monetisation of the company's existing reserve base, adjusting for overheads, net debt and decommissioning provisions to arrive at an NAV. We also look at two additional valuation scenarios that include incremental reserves over and above 2P; here we include 'maintenance' capex (largely 3D seismic, exploration wells and tie-in costs) required to add reserves to sustain production plateau. Our DCFs utilise a standardised discount rate of 12.5%, but we provide sensitivities to this key assumption later in this note. Key model inputs for our valuation scenarios can be found in our [initiation note](#).

In our 2P valuation case, we use reported year-end 2018 reserves of 559bcf, reflecting a relatively short production plateau of 215mmscfd sales prior to terminal decline, assuming minimal incremental drilling beyond planned development wells and zero value for acreage and prospective resource.

We now update our estimates based on Q319 results and management's new production guidance for FY19. We also reflect the production ramp-up in H219 and take into consideration the lower than estimated Q319 production of 147.6mmscfd versus our previous estimate of 160.6mmscfd. We also update our G&A estimates to reflect the reduction reported in January to September 2019. Our currency exchange assumption is updated from C\$1.33/US\$ to C\$1.32/US\$. Edison's currency exchange figure is based on the average exchange rate for the last six months before the current quarter in order to avoid big fluctuations between notes.

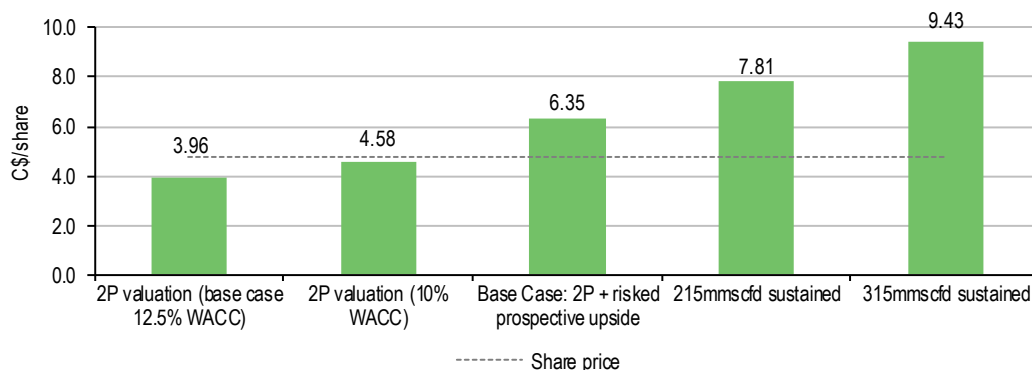
Our base case valuation currently stands at C\$6.35/share (-1%), broadly in line with our previous valuation, which was C\$6.40/share.

Exhibit 4: Base case NAV breakdown

Asset	Country	Diluted WI %	CoS %	Recoverable reserves		Net risked value @12.5%		
				Gross	Net	NPV per mcf	NPV	Risked
				bcf	bcf	US\$/mcf	US\$m	C\$/share
Net debt end 2018							(288.1)	(1.96)
SG&A – NPV of 5 years							(87.7)	(0.60)
Decomm provisions							(22.9)	(0.16)
Cash from assumed exercise of options							64.8	0.44
Producing assets								
Esperanza	Colombia	100%	100%	255.2	255.2	1.72	438.5	2.98
VIM-21	Colombia	100%	100%	47.9	47.9	2.06	98.7	0.67
VIM-5	Colombia	100%	100%	253.2	253.2	1.50	379.5	2.58
Core NAV				556.4	556.4		583.0	3.96
Exploration / Development upside								
Five-year programme (800bcf gross)		100%	45%	800.0	800.0	0.98	352.8	2.40
Total NAV				1,356.4	1,356.4		935.8	6.35

Source: Edison Investment Research. Note: Number of shares = 194.5m (includes dilution from all share options).

The market appears to be fully valuing Canacol's 2P reserve base but undervaluing prospective resource despite historically high E&A success rates, currently at 85%. We estimate a market-implied exploration success rate of just 80% based on 2.6tcf of net unrisked prospective resource (Gaffney Cline estimated Pmean). Below, in Exhibit 5, it is possible to see the impact of Edison's different valuation scenarios versus the current share price.

Exhibit 5: Edison valuation scenarios versus share price (base case at 12.5% WACC)


Source: Edison Investment Research. Note: Priced at 14 November 2019.

Discount rate sensitivity

We have used a generic discount rate of 12.5% in our valuation; this is in line with that used for funded, cash-generative E&Ps with operations in emerging markets, resulting in a valuation of C\$6.35/share. At a 10% discount rate this would be increased to C\$6.98/share. We provide a sensitivity to this key input below.

Exhibit 6: 2P and risked exploration NAV sensitivity (C\$/share) to WACC

	8.0%	10.0%	12.5%	15.0%
2P NAV	5.16	4.58	3.96	3.42
Risked NAV (800bcf risked @ 45%)	7.55	6.98	6.35	5.82

Source: Edison Investment Research

Relative valuation

Canacol currently trades at a premium to our NPV_{12.5} valuation of the company's 2P reserve base, reflecting its ability to continue to replace production and grow its reserve base. Relative to Canacol's peer group, the free cash flow yield post FY20 (based on 215mmscfd plateau production

and after maintenance capex) is high at 20.3%. This supports shareholder cash returns. Canacol trades at a P/CF multiple of 6.8x in FY19 and 4.2x in FY20, compared to its Canadian E&P peers on 2.1x and 2.0x, and its North American E&P peers with South American operations on 3.8x and 2.5x, respectively.

We feel this is justified given the company's historical exploration and appraisal success rates as well as installed infrastructure capable of supporting plateau production well beyond that implied by current reserves. Other supporting factors include limited exposure to commodity price volatility, low levels of debt and high netbacks, which could help justify a lower cost of capital than our assumed 12.5%. We provide a sensitivity to this driver in Exhibit 6.

North American E&P peers with South American operations include Frontera Energy, Gran Tierra, Parex Resources, PetroTal and Geopark. The latter recently announced the acquisition of Amerisur, an oil player in Colombia, for US\$315m reflecting a renewed merger and acquisition appetite in the region.



Exhibit 7: Peer group valuation table

Company	Mrk Cap (US\$m)	EV (US\$m)	EV/EBITDA FY19e	EV/EBITDA FY20e	FCF Yield FY19e	FCF Yield FY20e	P/CF FY19e	P/CF FY20e	ND/EBITDA FY18	Div yield FY19e	EV/1P FY18	EV/kboed FY19e	Prod FY19e	Prod growth FY19e	Netback \$/boe FY18
Edison forecast	637	1,214	7.80	4.86	0.7%	20.3%	6.83	4.24	3.34	-0.8%	23.1	46.4	26.2	31.0%	25.8
Canada	637	1,214	7.80	4.86	0.7%	20.3%	6.83	4.24	3.34	-0.8%	23.1	46.4	26.2	31.0%	25.8
Canacol Energy	637	1,214	7.80	4.86	0.7%	20.3%	6.83	4.24	3.34	-0.8%	23.1	46.4	26.2	31.0%	25.8
Canacol peer group	935	1,079	2.87	2.04	1.3%	11.3%	3.81	2.47	0.03	0.1%	10.8	83.8	40.0	11.4%	36.6
South American operations	935	1,079	2.87	2.04	1.3%	11.3%	3.81	2.47	0.03	0.1%	10.8	83.8	40.0	11.4%	36.6
Frontera Energy Corp	781	932	1.61	1.68	17.1%	11.6%	1.58	1.92	(0.16)	0.1%	8.1	37.2	68.7	-3.3%	27.3
Geopark Ltd	1,120	1,486	3.91	3.49	12.2%	10.0%	4.37	3.67	0.87	0.2%	13.1	101.6	40.1	11.3%	32.5
Gran Tierra Energy Inc	380	964	1.73	1.59	-16.3%	4.9%	1.34	1.31	0.79	0.0%	17.8	77.4	34.1	18.8%	45.1
Parex Resources Inc	2,194	1,846	2.59	2.56	13.2%	12.2%	4.23	3.88	(0.65)	0.0%	15.2	96.0	52.7	18.7%	41.5
PetroTal Corp	198	165	4.53	0.90	-19.6%	17.7%	7.55	1.57	(0.72)	0.0%	-	107.0	4.2	0.0%	-
Canada	1,613	2,834	4.04	4.02	16.9%	6.7%	2.17	2.03	2.13	2.4%	5.2	56.2	101.0	5.8%	18.6
Junior E&P <30kboed	171	387	4.06	3.80	28.9%	15.8%	2.09	1.76	2.36	2.4%	5.1	51.7	19.5	5.0%	19.5
Bonterra Energy Corp	78	292	4.42	4.88	37.0%	34.0%	1.04	1.11	3.53	3.9%	3.6	64.3	12.4	-6.0%	26.3
Canacol Energy Ltd	637	967	6.06	4.30	4.1%	9.6%	4.67	3.76	1.80	1.4%	15.3	99.3	26.7	25.0%	25.8
Cardinal Energy Ltd	180	365	3.78	4.02	22.5%	23.9%	1.94	2.04	1.97	8.5%	4.4	48.9	20.4	-2.0%	15.4
Crew Energy Inc	56	324	3.80	4.34	-39.1%	4.3%	0.85	0.97	3.15	0.0%	1.9	38.7	22.9	-4.0%	11.1
Delphi Energy Corp	8	150	2.49	3.31	113.8%	-15.0%	0.25	0.61	2.33	0.0%	5.6	48.3	8.5	-12.9%	15.2
Journey Energy Inc	57	150	5.45	5.21	10.1%	9.7%	2.45	2.47	3.40	0.0%	4.0	44.2	9.3	0.0%	-
Obsidian Energy Ltd	43	485	2.71	3.12	43.4%	17.3%	0.43	0.49	2.38	0.0%	5.3	49.0	27.1	-6.4%	15.3
PENGROWTH ENERGY LTD	21	600	5.40	6.32	232.1%	119.0%	0.34	0.34	5.21	0.0%	3.1	73.5	22.4	1.5%	38.1
Pine Cliff Energy Ltd	35	70	9.66	4.89	-2.2%	15.3%	7.78	3.68	5.07	0.0%	1.5	10.1	19.1	-3.0%	2.0
Storm Resources Ltd	122	189	3.50	2.61	-30.8%	1.2%	2.75	1.91	1.22	0.0%	-	25.3	20.4	-0.6%	13.4
Surge Energy Inc	249	572	3.92	4.25	9.7%	3.8%	1.86	2.10	2.26	9.8%	7.1	73.3	21.4	18.2%	17.3
Tamarack Valley Energy Ltd	313	473	2.54	2.53	8.8%	8.2%	1.91	1.94	0.71	0.0%	8.5	53.9	24.0	-0.8%	22.6
TORC Oil & Gas Ltd	615	843	3.69	4.03	12.0%	5.7%	2.73	3.00	1.07	7.8%	9.3	81.6	28.3	11.7%	25.8
TransGlobe Energy Corp	85	104	1.32	1.17	24.7%	17.0%	1.31	1.09	0.01	4.7%	3.9	17.7	16.1	11.6%	23.3
Yangarra Resources Ltd	72	220	2.14	1.99	-12.2%	-16.5%	0.99	0.91	1.25	0.0%	2.9	46.7	12.9	36.9%	21.3
Intermediate E&P>30kboed	597	1,225	3.96	4.16	11.1%	-2.0%	1.95	1.92	2.30	1.4%	4.3	53.3	60.6	3.7%	17.4
Advantage Oil & Gas Ltd	340	547	4.41	3.68	-6.5%	-7.3%	2.97	2.49	1.63	0.0%	1.7	34.1	44.0	5.5%	7.0
Athabasca Oil Corp	150	405	3.15	3.86	47.8%	-7.9%	1.21	1.53	2.27	0.0%	0.9	30.5	36.3	-7.3%	6.2
Baytex Energy Corp	690	2,150	3.05	3.66	32.6%	12.1%	1.07	1.30	2.13	0.0%	6.8	60.4	97.5	21.2%	17.9
Bellatrix Exploration Ltd	11	208	4.61	7.23	11.9%	-103.8%	0.33	0.62	4.45	0.0%	1.1	16.2	35.1	-1.5%	4.3
Birchcliff Energy Ltd	439	960	3.68	3.52	10.8%	11.8%	1.77	1.83	1.87	5.0%	1.4	33.6	78.2	1.5%	10.2
Bonavista Energy Corp	109	692	4.60	4.75	30.1%	16.9%	0.83	0.89	3.92	1.9%	2.4	30.0	63.1	-8.7%	9.0
Frontera Energy Corp	781	932	1.61	1.68	17.1%	11.6%	1.58	1.92	(0.16)	0.1%	8.1	37.2	68.7	-3.3%	27.3
Gran Tierra Energy Inc	380	964	1.73	1.59	-16.3%	4.9%	1.34	1.31	0.79	0.0%	17.8	77.4	34.1	18.8%	45.1
Kelt Exploration Ltd	478	756	4.15	3.54	-16.5%	0.2%	3.35	2.69	1.14	0.0%	-	66.6	31.1	15.1%	17.6
MEG Energy Corp	1,232	3,793	4.82	6.18	33.3%	21.2%	2.26	2.65	3.27	0.0%	2.8	112.0	92.8	5.7%	22.7
NuVista Energy Ltd	408	1,020	3.38	2.92	-5.3%	0.3%	1.99	1.73	1.57	0.0%	-	54.5	51.3	27.1%	18.0
Painted Pony Energy Ltd	75	706	8.17	8.25	-2.3%	-4.2%	1.30	1.34	7.31	0.0%	1.4	38.9	49.7	-14.1%	8.4
Paramount Resources Ltd	606	1,168	4.93	4.25	-13.5%	-25.6%	2.81	2.24	2.45	0.0%	3.0	38.4	83.2	-3.2%	10.1
Parex Resources Inc	2,194	1,846	2.59	2.56	13.2%	12.2%	4.23	3.88	(0.65)	0.0%	15.2	96.0	52.7	18.7%	41.5
Peyto Exploration & Development Corp	378	1,238	4.37	4.65	27.6%	14.1%	1.52	1.49	3.04	7.9%	-	41.6	81.6	-11.4%	8.5
Whitecap Resources Inc	1,288	2,224	4.09	4.23	13.7%	12.1%	2.59	2.74	1.73	8.1%	6.3	85.8	71.0	-4.6%	24.2
Large E&P>100kboed	6,347	10,637	4.18	4.16	6.1%	6.9%	2.78	2.77	1.38	4.4%	7.2	70.3	334.7	11.3%	19.4
ARC Resources Ltd	1,722	2,390	4.65	3.77	-3.8%	3.6%	3.22	3.02	1.03	9.3%	4.7	47.1	138.9	4.7%	12.9
Canadian Natural Resources Ltd	32,843	50,665	5.56	5.80	8.9%	11.8%	4.26	4.38	1.75	4.0%	5.1	124.9	1,111.5	3.0%	19.7
Crescent Point Energy Corp	2,145	4,906	4.01	4.39	18.3%	11.8%	1.59	1.87	2.41	0.8%	7.9	83.0	162.0	-9.1%	26.8
Encana Corp	5,739	13,908	4.12	3.92	4.2%	1.9%	2.03	1.94	0.93	1.8%	11.4	67.2	566.7	56.9%	19.8
Enerplus Corp	1,443	1,880	3.14	3.08	4.5%	4.1%	2.88	2.72	0.47	1.4%	6.3	51.4	100.3	7.6%	18.7
Seven Generations Energy Ltd	2,041	3,605	3.19	3.52	4.4%	4.9%	2.03	2.16	1.37	0.0%	4.2	48.7	202.9	0.1%	23.1
Tourmaline Oil Corp	2,574	3,935	3.94	3.73	1.8%	8.9%	2.86	2.56	1.19	3.6%	4.7	36.6	294.6	11.2%	7.5
Vermilion Energy Inc	2,266	3,808	4.81	5.10	10.4%	8.1%	3.34	3.48	1.86	14.2%	12.8	103.3	101.0	15.7%	26.4
US	6,793	11,300	4.38	4.02	0.0%	0.0%	2.78	2.57	1.96	0.8%	9.4	92.4	257.3	13.5%	27.1
Intermediate/Large E&P >30kboed	6,793	11,300	4.38	4.02	0.0%	0.0%	2.78	2.57	1.96	0.8%	9.4	92.4	257.3	13.5%	27.1
RoW	15,511	17,808	5.40	4.76	2.3%	4.4%	5.47	4.95	1.07	3.5%	15.1	168.9	2,680.0	1469.6%	40.6
Intermediate/Large E&P >30kboed	15,511	17,808	5.40	4.76	2.3%	4.4%	5.47	4.95	1.07	3.5%	15.1	168.9	2,680.0	1469.6%	40.6
Grand Total	5,694	8,440	4.35	4.03	0.0%	0.0%	2.98	2.68	1.83	1.7%	8.8	88.6	496.1	197.9%	25.8

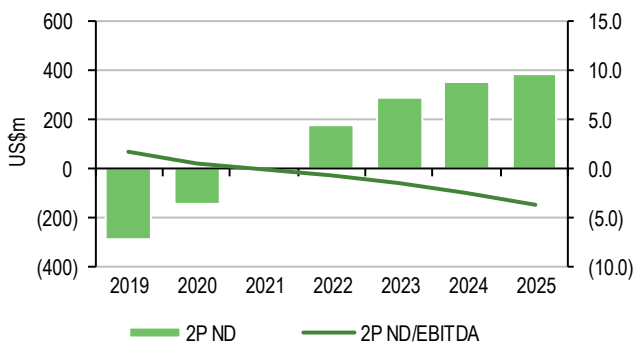
Source: Edison Investment Research. Note: Priced at 14 November 2019.

Financials

Canacol's first nine months of 2019 netbacks per unit of production increased 3% from a reported full year FY18 US\$3.80/mcf pre-tax, to US\$3.92/mcf, resulting in a realised EBITDAX of US\$122.9m for the period, compared to US\$105.2m in the first nine months of 2018. The increases are mainly attributable to a reduction in operating expenses. With the production ramp-up to 215mmscfd, we forecast EBITDAX of US\$178.2m in FY19 and US\$273.0m in FY20, which will account for a full year at plateau production.

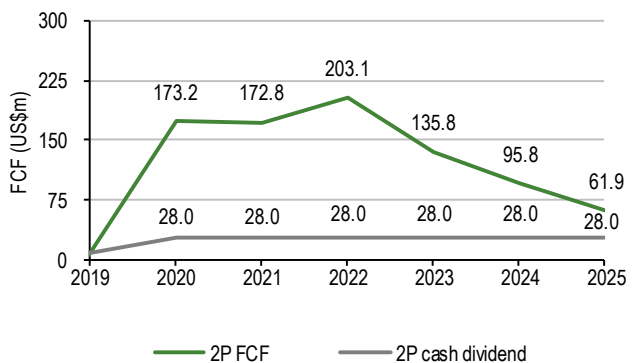
Canacol announced a US\$7m dividend for Q419 in line with our previous estimates of this being a sustainable distribution. With the distribution of a cash dividend, our forecast reduction in net debt and gearing is now expected to be slightly slower. Nonetheless, we estimate that Canacol's balance sheet will turn to positive net cash in 2021. Excess cash is, in our view, likely to be directed to expanding the company's footprint through the drill bit considering the extensive acreage the company owns around its producing facilities. The excess cash will also offer significant capacity for returns to shareholders.

Exhibit 8: Gearing and net debt/EBITDA (2P scenario)



Source: Edison Investment Research

Exhibit 9: FCF forecasts



Source: Edison Investment Research

Exhibit 8 looks at FCF generation under our 2P development scenario, and shareholder returns taking into account the announced dividend and assuming it remains constant in the foreseeable future, and we can see that a yearly cash dividend at US\$28m is sustainable at least until 2025, even in our 2P scenario.

Exhibit 10: Financial summary

	US\$m	2017	2018	2019e	2020e	2021e
Year-end 31 December		IFRS	IFRS	IFRS	IFRS	IFRS
Profit & Loss						
Revenue net of royalty and transport expense*		156.6	204.5	218.5	321.8	329.9
Cost of sales (opex)		(25.0)	(28.9)	(16.7)	(24.7)	(25.3)
Gross profit		131.6	175.6	201.8	297.2	304.6
General & admin		(26.5)	(28.2)	(23.6)	(24.2)	(24.8)
Share based payments		(11.6)	(8.5)	(8.7)	(8.9)	(9.1)
Exploration expense		(27.1)	(13.7)	(14.0)	(14.4)	(14.7)
EBITDA		(54.3)	86.1	155.5	249.7	256.0
Adjusted EBITDAX (before non-cash items, exploration expense, one-offs)		130.2	138.6	178.2	273.0	279.8
Depreciation		(35.8)	(44.2)	(53.2)	(76.7)	(76.7)
Operating Profit (before amort. and except.)		(90.0)	41.9	102.3	173.0	179.2
Intangible amortisation		-	-	-	-	-
Exceptionals		-	-	-	-	-
Other		-	-	-	-	-
EBIT		(90.0)	41.9	102.3	173.0	179.2
Net interest		(26.3)	(34.5)	(28.9)	(29.0)	(26.7)
Profit Before Tax (norm)		(116.4)	7.3	73.3	144.0	152.5
Profit Before Tax (FRS 3)		(116.4)	7.3	73.3	144.0	152.5
Tax		(32.4)	(29.2)	(24.5)	(43.0)	(47.9)
Profit After Tax (norm)		(148.8)	(21.8)	48.8	101.0	104.7
Profit After Tax (FRS 3)		(148.8)	(21.8)	48.8	101.0	104.7
Average Number of Shares Outstanding (m)		175.2	177.2	178.9	178.9	178.9
EPS - normalised (c)		(84.95)	(12.32)	27.29	56.48	58.52
EPS - normalised fully diluted (c)		(84.95)	(12.32)	27.29	56.48	58.52
EPS - (IFRS) (US\$)		(0.85)	(0.12)	0.27	0.56	0.59
Dividend per share (c)		-	-	-	-	-
Gross margin (%)		84.01	85.87	92.36	92.34	92.34
EBITDA margin (%)		84.01	85.87	92.36	92.34	92.34
Operating margin (before GW and except.) (%)		(57.49)	20.48	46.81	53.76	54.34
Balance Sheet						
Non-current assets		499.8	580.3	632.0	568.7	509.8
Intangible assets		43.9	39.6	85.5	71.2	56.4
Tangible assets		383.4	480.4	486.2	437.3	393.0
Investments		72.5	60.3	60.3	60.3	60.3
Current assets		196.7	124.7	127.5	272.7	417.5
Stocks		0.6	0.3	0.3	0.3	0.3
Debtors		50.4	68.2	68.2	68.2	68.2
Cash		39.1	51.6	54.4	199.6	344.4
Other/ restricted cash		106.6	4.6	4.6	4.6	4.6
Current liabilities		(86.3)	(69.3)	(69.3)	(69.3)	(69.3)
Creditors		(86.3)	(69.3)	(69.3)	(69.3)	(69.3)
Short-term borrowings		-	-	-	-	-
Long-term liabilities		(371.0)	(430.3)	(430.3)	(430.3)	(430.3)
Long-term borrowings		(294.6)	(339.7)	(339.7)	(339.7)	(339.7)
Other long-term liabilities (inc. decomm.)		(76.4)	(90.6)	(90.6)	(90.6)	(90.6)
Net assets		239.1	205.4	259.9	341.9	427.7
Cash Flow						
Operating cash flow		65.3	94.0	154.5	230.8	235.0
Capex inc acquisitions**		(106.0)	(75.5)	(119.0)	(27.8)	(32.5)
Financing expenses		(21.2)	(36.0)	(29.7)	(29.8)	(29.7)
Equity issued		(1.9)	(3.7)	4.0	-	-
Dividends		-	-	(7.0)	(28.0)	(28.0)
Net cash flow		(63.8)	(21.2)	2.7	145.2	144.8
Opening net debt/(cash)		184.4	255.5	288.1	285.3	140.1
HP finance leases initiated		-	-	-	-	-
Other		(7.4)	(11.4)	0.0	-	-
Closing net debt/(cash)		255.5	288.1	285.3	140.1	(4.7)

Source: Edison Investment Research, Canacol Energy accounts. Note: *Edison revenue forecast net of royalties and transport expenses; Canacol reports revenues net of royalties before transport expenses. **215mmscfd and 315mmscfd plateau scenarios include materially higher capex.

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