

GED

BLOOMBERG: GED LN EQUITY

And so delivery begins...

GED's 1H results have highlighted the focus on cash generation, but more importantly that the company is continuing to direct its resources towards its 3-year plan aimed at monetising its reserves. Reiterate Buy and 310p price target.

- ❖ **Management has renewed its focus on valorising its reserves base:** In our note of the 25th of August we outlined that delivery is the key to unlocking the value within GED's portfolio. The combination of news that the company has applied to adjust the existing obligatory work programme in Tilodiran and that it intends to invest its available funds in valorising assets elsewhere in its portfolio, is the indication that we were seeking that management is as focused on valorising its reserves as they were prior to the bid that never was.
- ❖ **Bretana will be the key catalyst in the next 12 months:** while the improvements in cash flow are vital, news that this cash flow will be reinvested at the drill bit is pleasing; we believe that this is the start of the 3-year plan in earnest. Nevertheless, Bretana will be the key catalysts in revaluing the company; we believe that 2H'11 will see more concrete news about timing.
- ❖ **Operational performance has improved too:** 1H'11 production +16% to 212m bbl, revenues up +52% (higher sales volumes and prices). However, this was offset to some extent by the 16% increase in costs, in line with production. The current run-rate indicates production of 650m bbl, versus our estimate of 570m bbl, however, at this stage, we are maintaining our estimates.
- ❖ **We are reiterating our Buy recommendation and 310p price target:** This announcement has underscored management's commitment to maximising the value of its reserves. Focusing on cash generation and valorisation of resources will continue to drive the Company's revaluation. Our NAV summary is shown overleaf.

Financial highlights

Year End: 31 Dec	FY09A	FY10A	FY11E	FY12E	FY13E
Revenue (US\$ mn)	22	24	50	87	218
EBITDA (US\$ mn)	10	5	27	47	117
Net Profit (adj) (US\$ mn)	1	(2)	11	19	41
EPS (adj) (US\$)	1.97	(5.81)	30.27	33.91	39.76
EV/Sales (x)	1.20	1.70	1.44	1.16	0.70
EV/EBITDA (x)	2.8	8.7	2.7	2.2	1.3
P/E (x)	0.2	n.m.	0.1	0.0	0.0
P/E (recurring) (x)	0.2	n.m.	0.0	0.0	0.0
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0
Free Cash yield (%)	n.m.	12.6	n.m.	n.m.	n.m.
ROCE (post-tax) (%)	0.0	0.0	0.0	0.0	0.0

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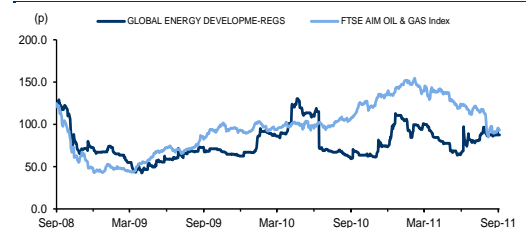
Valuation & Recommendation

Share Price	88 p
12 month target	310 p
Previous target	310 p
Rating	Buy
Previous	Buy
% Upside / (Downside)	254.3%
+ Dividend yield	0.0%
Total return	254.3%

Company data

Market	AIM
Market cap (£ mn / US\$ mn)	31 / 50
EV (£ mn / US\$ mn)	45 / 72
Shares in issue (mn)	35
Free float (%)	41
3-month average daily value (£ mn)	0.10
52 Week high / low (p)	113 / 60

Share Price



Share Price Performance

	1 month	3 month	12 month
Absolute	1.2	30.6	47.1
Relative*	(2.8)	55.1	60.9

* Relative to FTSE AIM OIL & GAS Index



Fig 1 - NAV Valuation Summary

Area	Hydrocarbon (mm boe)				NAV
	Base	Adjusted	(\$mm)	(\$/boe)	(p/share)
Core					
Existing Production	47.0	25.5	182.1	7.1	315.0
Balance Sheet Items			(3.1)	(0.1)	(5.6)
Core NAV	47.0	25.5	179.0	-	309.4
Development					
Bretana (P2)	3.7	1.3	4.5	3.5	7.9
Bolivar (P2)	9.2	3.2	21.4	6.7	37.8
Bocachico (P2)	63.1	22.1	192.0	8.7	338.6
Rio Verde (P2)	1.9	0.7	1.9	2.8	3.3
Alcaravan (P2)	2.9	1.0	8.2	8.1	14.5
Development NAV	80.8	28.3	228.0	8.1	402.1
Exploration & Appraisal					
Bretana (P3)	17.1	3.4	8.4	2.5	14.9
Bolivar (P3)	11.3	2.3	11.9	5.3	21.0
Bocachico (P3)	62.3	12.5	87.0	7.0	153.5
Rio Verde (P3)	4.8	1.0	3.8	4.0	6.7
Alcaravan (P3)	4.7	0.9	2.8	3.0	5.0
Exploration & Appraisal NAV	100.2	20.0	114.0	5.7	201.1
Total NAV	228.0	73.9	517.5	7.0	912.6

Source: Company & Religare

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