

# Amerisur Resources

13:25 15 Nov 2019

## Oil price, Savannah, Amerisur, DGO - And finally...

WTI \$56.77 -35c, Brent \$62.28, Diff -\$5.51 +26c, NG \$2.65 +5c

### Oil price

Oil will likely end the week around the same as it started, all the news is about the same, the trade deal is uncertain, inventories have risen and the Opec Secretary General still feels that there will be a downward revision of supply next year. Later we will find out if the rig count is down again although gasoline demand remains at very high levels.

### Savannah Petroleum

Savannah has announced that the Seven Energy Transaction has completed, a fantastic achievement and I think when the market comes to truly appreciate what CEO Andrew Knott and his team have achieved here the timing of the transaction will be put into perspective.

SAVP now own 80% of Seven Uquo Gas Ltd (SUGL) which holds a 40% participating interest in the Uquo field in South East Nigeria, a 51% interest in the Stubb Creek field, also in SE Nigeria and an 80% interest in the Accugas midstream business. This comprises a 200 mmcf/d gas processing facility, a 260km pipeline network and long term GSA's with downstream customers. With partner AIIM taking 20% of SUGL and Accugas for cash of \$54m, now paid to SAVP the deal is complete.

CEO Andrew Knott said 'the deal transforms Savannah into a full cycle E&P company in West Africa and makes the start of a very exciting time for us. It is a strong set of exploration, appraisal, development and production assets which are expected to be highly cash flow generative to the company.'

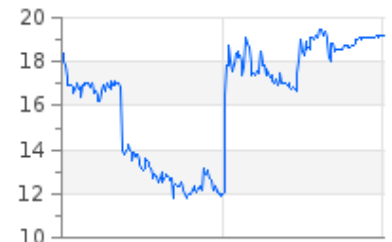
Savannah has a very experienced and professional board and management team running the new business, which remember has already had significant capital investment and should be straightforward for a team with experience of big projects. With this completed, the company can return to Niger when in 2018 they had a 5 from five success rate on that exploration programme which can be tested and hopefully start delivering. At that stage of course crude sales were expected to be trucked to the local Zinder refinery which will still happen but since then the signing of the deal for the pipeline to the coast at Benin will encourage the company to greater potential volumes.

Whilst it has taken time, SAVP has now become a leading international, London listed full cycle E&P company that sells gas to power stations which power around 10% of Nigeria's power generation. Whilst these gas contracts are already in place it would probably be right to assume that more could be signed thus offering further growth to the business at minimum cost, the economics of such a model look very pleasing indeed. It has been difficult to put a realistic target price on Savannah whilst uncertainty continued but for what will be a unique investment opportunity I believe that 75p per share is eminently achievable, perhaps more when the proof of the pudding has been eaten.

**Price:** 19.18

**Market Cap:** £241.31 m

### 1 Year Share Price Graph



January 2019 July 2019 January 2020

### Share Information

**Code:** AMER

**Listing:** AIM

52 week	High	Low
	20	11.58

**Sector:** Energy

**Website:** [www.amerisurresources.com](http://www.amerisurresources.com)

### Company Synopsis:

*Amerisur Resources plc is an independent full-cycle exploration and production oil and gas company focused on South America, with an extensive portfolio of assets in Colombia and Paraguay. Amerisur is listed on the AIM market of the London Stock Exchange. The Company's headquarters are located in Wales, Great Britain with operational offices in Bogota, Colombia and Paraguay.*

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I managed to get an interview with CEO Andrew Knott in which he detailed how the Seven Energy Transaction will transform Savannah, the link is below.

Core CEO Interview: Andrew Knott of Savannah Petroleum

### Amerisur Resources

Takeover bids offer no time for what ifs and ever since M&P put what seemed like a derisory bid on the table the Amerisur board has been assessing all the potential opportunities for shareholders. The result is a recommended cash offer of 19.21p from Geopark whom of all people should know the price of assets in the region.

The premium pretty much whichever way you look at it is something over 50% based on VWAP's so the company can't really be accused of selling the company on the cheap however much it looks that way. I guess that some of us were just wrong about what level AMER should have been trading at before the bid and we are assured that the management saw all the main contenders.

There is little doubt that this is another sign of, mainly institutional, shareholders wanting short term cash in hand against longer term uncertainty, perfectly acceptable in the circumstances but rather like betting on horses in-running. It was made perfectly clear to me this morning that those shareholders 'preferred outcome' was a cash offer for the whole business and sooner rather than later. That route of course meant that those of us who thought that value would be better found by dividing the company and say, farming out CPO-5 were always barking up the wrong tree.

Amerisur is a good quality business and it hasn't been easy delivering the goods in recent years in the area, management deserve credit for what they have achieved, the only shame is that just as the company started to look like the real deal then in come the vultures, at least Dick Turpin wore a mask....

### Diversified Gas & Oil

The DGO announcements came out slightly late yesterday morning and after I had written the blog, they showed a continuing improvement in metrics making the company very much worth investing in. 3Q net production was 91.1 kboed, up 10% on 2Q and with September at 94.4 kboed up 5% on the June number. In that time the company has integrated the EdgeMarc Energy wells as well as two separate packages of midstream assets including re-selling some \$10m worth of the former.

This all gave EBITDA of \$64m which is a highly creditable increase of 28% v 3Q 2018. In the quarter they paid a \$51m dividend which gives the shares a very attractive yield of over 10%. The board continue to target higher reserves and lower costs and falling base lease costs as well as total cash opex also fell year on year with significant contribution from the Smarter Well Management system kicking in. The new securitisation lowers debt costs and reads across the portfolio better giving further encouragement that the company is being well managed.

CEO Rusty Hutson was upbeat, 'making additional margin enhancing acquisitions and integrating them into the portfolio' as well as 'actively managing costs with our revenues'. This work has given strong margins in excess of 50% and at the same time allowed dividends and a while ago a share buy-back. Expect more of the same for DGO which is a pretty smart investment and has proved that its model works and that it can fine tune it where necessary.

### And finally...

The international break continues after England put 7 on Montenegro last night. Tomorrow is Northern Ireland hosting the Netherlands, Wales go to Azerbaijan and Scotland are in Cyprus. On Sunday England play Kosovo.

The Brazilian GP is the penultimate of the season and is of so little importance that Toto Wolf isn't even going...

And, assuming they can clear the swamp racing will go ahead at Cheltenham tomorrow and Sunday.

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