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Oil price, Savannah, Lamprell, IGas. And finally…

WTI $38.72 -$1.50, Brent (Dec) $40.93 -$1.37, Diff -$2.21 +$1.48, NG $2.53 n/c

Oil price

Oil flip-flopped yesterday but ended down after November Brent expired and a Reuters survey showed that Opec increased output by 160,000 b/d in September. The news that President Trump and The First Lady had contracted the COVID-19 virus put the skids under market futures and crude followed down.

Savannah Energy

Savannah announced 2020 half year results along with a trading update and outlook for the year on Wednesday. The key takeout is that the mood is upbeat and core revenue and cost guidance for the year is reiterated.

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Highlights include, cash collections from Nigeria in the ytd period ended 31 August were $133.1m leaving a cash balance of $84.7m and net debt of $426.8m. Guidance is of Total Revenues being greater than $200m (comprising both revenues and deferred revenue for gas invoiced under the take or pay contracts), group admin and operating cost of $68-72m and capex of up to $45m.

In addition the company has reduced their full year Group D,D &A guidance to $35-37m from $43-45m 'reflecting an increase in the estimated useful life of our infrastructure assets'.

The first half saw revenue of $91.7m compromising $83.6m of gas sales and $8.1m of liquids sales (2019 rev nil, pro-forma $70,3m. 'Contract liabilities (or 'Deferred Revenue') related to invoiced sales and recognised in the statement of financial position as at 30 June 2020 increased by $22.9m in H 1 2020 resulting in Total Revenues of $114.6m in H1 2020 in line with FY 2020 guidance of Total Revenues greater than $200.0m'.

Average realised gas price of $3.9/Mscf and for liquids it was $48.3/bbl. G&A expenses and operating costs of $22.7m ($4.3m) and the company state that 'with our original FY 2020 guidance having anticipated cost expenditures weighted into H2 2020 and an associated FY contingency, FY guidance of $68-72m has been maintained.

EBITDA was $66.8m (neg $10.5m, pro-forma H1 2019 $30m). Group DD&A was $18.9m ($0.4m) and H1 maiden profit after tax of $1.8m (loss $3m). Capital expenditure of $1.8m ($2.5m) 'and with our original FY 2020 guidance envisioning a number of capital projects which may be implemented in H2 2020 FY guidance of up to $45m has been maintained.

With total cash collections from the Nigerian Assets in H1 2020 of $82.1m ($55.3m) leading to a Group cash balance of $53.3m as at 30 June 2020. Finally, Group net debt of $460.5m as at June 30th 2020 was struck after a fair value adjustment of $3.7m ($484m).

Operationally as mentioned above, news was very positive with increases in daily production leading to achievement of an all-time Nigerian Assets gas production record of 177 MMscfpd on 30th May 2020. In addition Accugas' customers achieved an all-time record peak contribution of 11.5% of Nigeria's electricity generation of 486MW on 23rd May 2020, with the contributed electricity being exclusively generated from Accugas sales gas.

Business continues to grow significantly, Accugas reported a new GSA with FIPL in January and in June signed a term sheet with 'a significant new industrial gas sales customer, a subsidiary of a well-respected international company, for an initial quantity of up to 5 MMscfpd of gas for an initial five-year period.

In Niger the updated CPR in May which certified 35MMstb of Gross 2C Resources for the R3 East discoveries with an additional 90MMstb of Gross Unrisked Prospective Resources (Best case) within tie-in distance of the planned R3 East facilities, and a 2C case economic break-even oil price estimated at $26.0/bbl. Along with the agreement reached with Niger Ministry to combine the R1/R2/R4 PSC areas, the R3 PSC area to continue as a stand-alone PSC area, all licences extended for a further 10 years and to retain the the full acreage position previously covered.

There is significant confidence from the company and in conversation with Andrew Knott yesterday he assured me that Niger is an important and substantial part of Savannah's story going forward.

Since the period end the production numbers rose again and cash and debt are as at the top of this report. The company announced that 1.1% of the total issued shares in the company had been purchased by directors 'demonstrating their confidence in the significant future potential of the business' with which I concur.

Andrew Knott, CEO of Savannah Energy, said:
"I believe that our first half results clearly demonstrate the transformation Savannah has undergone to become a cash generative business, benefitting from a long-dated, gas-biased revenue stream with no meaningful oil price exposure. I am pleased that we are able to reiterate our core FY 2020 Total Revenues (US$200m+) and cost guidance (US$68.0 - US$72.0m) today, while also reporting cash collections in the period to end of August of US$133.1m. Over 94% of our forward revenue guidance is derived from three gas sales agreements with a weighted average contracted life of 15 years.

As a company we are extremely cognisant of the challenging macro-economic backdrop and the critical role our projects play in our countries of operation. While we believe our business is strongly positioned at this time, we fully understand the importance of working in partnership with our project stakeholders to ensure "win-win" outcomes as we continue to develop our business. In this regard we continue to see strong growth potential in both of our core business units, with gas sales to new customers expected in Nigeria and new oil sales from the R3 East project in Niger following the installation of an Early Production System ("EPS") which is expected to commence by the end of FY 2021."

This is a detailed report based on the full interim report and a conversation with CEO Andrew Knott. It is clear that things are going very well and this despite the challenges such as hydrocarbon prices and the Covid virus. Key metrics such as cash collection are strong and the very fact that 94% of revenue comes from three GSA's with an average 15 year contract life left to run combined with a long reserve life of 23 years, gives significant grounds for optimism.

There is little doubt that the company expect to add further gas contracts which will increase mid-stream capacity utilisation at the company's 200 MMscfpd central gas processing facility and 260km gas pipeline network at very little extra cost. Current gas contracts are on take or pay volumes with 97% of sales against investment grade creditors.

Savannah looks to be in very good shape, the details above are tribute to the size of the deal that has been put together and as the market realise the embedded value that has been created for SAVE shareholders it will surely significantly revalue the shares.

Lamprell

A very creditable performance from Lamprell yesterday as they reported interims to June showing revenue up 34% to $142.5m ($106.4m). Despite the 'headwinds' of the virus and the oil price together they scrambled into the black on EBITDA to record $0.3m (neg $29.6m) and net losses were $19.6m excluding non-cash impairments and restructuring costs.

With net cash of $71.4m at 30 June 2020 rising to $125m by 30 September, restricted cash was $36.1m and $47m respectively. The backlog was $580m at the end of June having been $470m at the end of December 2019.

Operationally it was a very good performance with the Moray East project completed in the period and the IMI rigs are progressing 'in line with expectations'. Success has been measured by the Seagreen windfarm in the UK North Sea and the Mahani gas field in Sharjah. This is in addition to 'a steady stream of new awards from rig refurbishment segment continuing'.

Strategically the company are continuing to address the renewables industry, gaining traction in the USA and Asia. Bidding continues on the Saudi Aramco Long Term Agreement. The backlog remains strong and secured with 2020 of $325m and a pipeline for '21 and '22 of $1.3bn. Overheads are estimated to be c.$80m this year ($104m) and should remain 'at a similar level'.

Christopher McDonald, Chief Executive Officer said:

"2020 has been a challenging year for the global energy industry and in this context it is pleasing to have returned to positive EBITDA for the period. Like never before, we were able to demonstrate our operational flexibility as we were forced to adapt to new working arrangements without compromising on safety, quality and timely delivery for our clients. Our strong operational delivery and focused approach to overhead reduction has enabled us to deliver a much improved financial performance whilst demonstrating further progress in delivering our strategy. The strategy we set out for the business three years ago has enabled us to grow our backlog and revenue in challenging environment and we continue to evolve with developments in the energy industry. Over this three year period, Lamprell has become established as one of the leading suppliers of foundations for offshore wind and we expect to build on our strong position in renewables. The Group is focused on reinforcing our position and capitalising on growth fundamentals in our addressable markets and rapidly advancing digital initiatives for our client base.

IGas Energy

Last week IGas provided results and before that the GT Energy deal was announced, yesterday I managed to get IGas CEO Stephen Bowler into the Core Finance studio and the link to the interview is below.

Core Finance CEO interview: Stephen Bowler of IGas Energy

And finally…

It's the Arc De Triomphe this weekend and with Love having been withdrawn after days of rain in Paris Enable will go off favourite in the mud.

In the Prem leaders the Toffees entertain the Seagulls, Chelski host the Eagles, the Noisy Neighbours go to Leeds and Burnley travel to the Magpies. On Sunday the Foxes host the Hammers, the Blades go to the Gooners, Villa host Liverpool and Spurs go to Old Trafford.

Whether the rain stays away or not but better late than never it is T20 Finals day tomorrow, in which Surrey play Gloucester in the first semi-final with Notts taking on Lancs in the second.

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