

Amerisur Resources

CORPORATE*

Upgrading forecasts and Risked NAV

16.5p[#]

Year-end March	2008A	2009A	2010E	2011E
Turnover (£m)	0.1	0.4	2.0	15.8
EBITDA (£m)	(1.6)	(2.1)	(0.7)	8.7
Adj. Pre-tax Profit (£m)	(0.3)	(1.3)	(0.2)	8.3
Adj. EPS (p)	(0.04)	(0.16)	(0.02)	0.91
DPS (p)	-	-	-	-
Net Cash/(Debt) (£m)	11.1	9.2	5.1	10.1
P/E (x)	n/a	n/a	n/a	18.1
Dividend yield (%)	n/a	n/a	n/a	n/a
EV/EBITDA (x)	n/a	n/a	n/a	15.2

Key Data	
Ticker	AMER.L
Shares in issue	830.4m
Market cap	£137.0m
12-mth price range	2.3-20.3p
Net cash (2010E)	£5.1m
Next event	Isabel-1 test results

Source: Company, Astaire Securities estimates

*Priced at close 7 April 2010

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We recently visited Amerisur in Colombia and, having gained valuable insights regarding prospectivity and potential production from the Platanillo and Fenix projects, have upgraded our Risked NAV estimate to 34p/share (from 24p/share). We have also upgraded our FY2011 earnings estimates, and continue to see adequate headroom given the discretionary nature of the forward work programme. Test results from Fenix are expected to provide important news flow in the shorter term.

- **Upgrading our production forecasts:** in anticipation of test results from two wells at Fenix, and the completion of stimulation work at Alea-1, we have upgraded our production forecasts and now expect FY2011 EPS of 0.91p. Net cash balances remain healthy ahead of a potential acceleration of the drilling programme.
- **Encouraging visit to Fenix:** our visit confirmed good infrastructure and a benign security situation. The project is close to Ecopetrol's Bonanza field and, having observed drilling of Isabel-1, we expect to see test results soon. Amerisur is also confident that, following stimulation work, it can achieve good flow rates from Iguasa-1.
- **Potential for increased production at Platanillo:** a short term priority is to enhance production from Alea-1, which could take total production from two wells to 500bopd. Stimulation work is expected to commence in a matter of weeks, and we expect unit production costs to fall as economies of scale are realised.
- **Appraisal upside:** having previously indicated 100mmbbl of reserve potential in the wider Fenix block, Amerisur's views on prospectivity appear to have improved materially following recent drilling. The company now sees at least 300mmbbl of upside here, while the recent integrated study has reinforced prospectivity at Platanillo.

Company description

Amerisur Resources is an E&P company with operations in Latin America. The company is producing from two wells at Platanillo, onshore Colombia, and test results from the Iguasa-1 and Isabel-1 exploration wells at Fenix are expected shortly. Onshore Paraguay, a seismic survey is due to commence later this year.

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Colombia trip confirms our optimism

We recently visited Amerisur in Colombia, spending time with management at the company's offices in Bogota as well as visiting the Fenix wellsite where we observed the Isabel-1 exploration well drilling ahead towards total depth. Having gained valuable insights regarding prospectivity and potential production from the Platanillo and Fenix projects, we have upgraded our Risked NAV estimate to 34p/share, as well as our FY2011 earnings forecasts.

Upgrading Risked NAV estimate and FY2011 forecasts

Implementation of an accelerated appraisal programme would require additional funds although, given the discretionary nature of this expenditure, we do not see any pressing need for dilution at the corporate or asset level during our forecast period. 100% interests provide maximum leverage to drilling success, as well as potential farmout opportunities.

Fenix site visit

We visited the Fenix project in the Middle Magdalena basin on 22 March. The wellsite is an approximate two hour drive from Bucaramanga airport via sealed roads (apart from the final leg from Sabana de Torres which is covered by gravel track). We saw established oil infrastructure close to Ecopetrol's Bonanza field from which oil is piped to the refinery at Barranca Bermeja. Rivers were crossed using good bridges with the exception of a ford approaching the wellsite and, despite (or because of) a visible military presence along the route, there were no obvious security threats.

Fenix project enjoys good infrastructure and a benign security situation

In addition to Amerisur personnel, contractors on site included local drilling company Latco and well services provider Weatherford. This was a professional wellsite with accommodation, offices, canteen, separation and water disposal facilities, storage tanks, directional drilling cabin, mud logging cabin and the Latco-2 drilling rig. Latco-2 is a small rig and was drilling the directional leg of the Isabel-1 well, adjacent to Iguasa-1 and progressing rapidly in complex geology (with evidence of this clearly visible at surface). We understand that Isabel-1 has since reached total depth (1850ft), and look forward to forthcoming test results.

We saw Isabel-1 drilling ahead rapidly

Short term news flow anticipated from Iguasa and Isabel

With Isabel-1 having reached total depth, Amerisur should have now logged and completed the well ahead of drill stem testing. We expect results to be announced in a matter of days and, assuming achievement of commercial flow rates and receipt of the relevant approvals, expect to see this well producing to sales within the next two months.

Test results are due shortly

We were very interested to hear about plans for the Iguasa-1 well, where good quality oil was recovered although testing has since been suspended ahead of the commencement of well clean-up/stimulation operations. The reason for suspension of testing was the necessary use of a heavy mud weight during drilling which has led to formation damage (affecting wellbore permeability). This is a common problem in Middle Magdalena wells, and management seems confident that the issue can be resolved quickly and effectively.

Continued confidence that good flow rates can be achieved from Iguasa-1

Specifically, Amerisur intends to use Schlumberger's 'Pure' perforating system to improve access into the formation and, if necessary, undertake explosive fracking followed by an acid wash. This work can be undertaken using wireline and coiled tubing units, rather than a rig, so the maximum cost is expected to be modest at US\$250,000. Work should commence immediately following testing of Isabel-1, so we would expect to see results from testing over the next couple of weeks.

Well stimulation programme planned

Well logs show nine potentially productive intervals in Iguasa-1 although, of these, Amerisur will concentrate on three high permeability zones. Importantly, the company remains confident that, following stimulation operations, flow rates of around 500bopd can be achieved from this well. If Isabel-1 produces at similar rates from the shallower horizons (where apparent reservoir thickness has also surprised on the upside), the Fenix project could soon be contributing 1,000bopd of daily production. Amerisur has a 100% stake in Fenix, and has fulfilled its immediate work commitments with drilling of Isabel-1.

Fenix could soon be producing 1,000bopd

Potential for higher production at Platanillo

Amerisur also has 100% of the Platanillo project which is already producing circa 380bopd from two wells (Alea-1 and Platanillo-2). Following stimulation operations on Iguasa-1 at Fenix, the Schlumberger team will move down to Platanillo in the Putumayo basin, using the 'Pure' system to enhance production from the Lower "U" sand in Alea-1, and bringing the Upper "U" on stream by perforating this zone in the well.

Amerisur plans to enhance production from Alea-1

Similar work could be done at Platanillo-2 although this well is already producing around 230bopd and the short term priority is to bring production from Alea-1 up to similar levels. Total production from the two wells could consequently rise to levels approaching 500bopd, again in a matter of weeks and at modest capital cost (circa US\$100,000).

Due to its policy of owning equipment (rather than renting it), management emphasised the economies of scale that can be achieved with higher production at Platanillo, where fixed costs are currently around US\$5,000/d (with a minimal variable component on top of this). Total cash operating costs at the existing Platanillo wells are therefore unlikely to exceed US\$8,000/d (translating into opex of US\$16/bbl at 500bopd). In the near term, therefore, Amerisur has the potential to cut per barrel costs at Platanillo to less than half our FY2010 estimate.

Unit production costs should fall as economies of scale are realised

Appraisal upside across Colombian portfolio

With successful wells already drilled at Fenix and Platanillo, our recent trip also provided an improved feel for appraisal upside potential at both projects.

Firstly, at Fenix, the shallow and deep zones encountered by Isabel-1 and Iguasa-1, respectively, have the potential to extend northwards and southwards. Amerisur plans to drill two further appraisal wells in the third quarter of this year (one shallow, one deep to the north or south). With a tendency for long, thin fields in the region, Amerisur now sees at least 300mmbbl of additional potential "along strike" of the Iguasa-1 and Isabel-1 wells, including the Rio Cachira prospect. Having previously indicated unrisked potential of 100mmbbl, Amerisur's views on prospectivity appear to have improved materially following recent drilling activity.

Potential for over 300mmbbl at Fenix

At Platanillo, a 100km² 3-D seismic survey is scheduled to commence in June, with data acquisition, processing and initial interpretation expected to take around three months (at an estimated cost of US\$5m). This follows the recent integrated study which confirmed prospectivity in shallower horizons, particularly the Upper "U" and "N" sands. The seismic survey will enable the high-grading of prospects ahead of drilling of two appraisal wells back-to-back towards the end of the third quarter. Assuming 3-D seismic confirms the current assessment, the first well is likely to be Platanillo-3 which is in proximity to the existing wells in the southern portion of the block, although the current licence area extends for approximately 20km north to south.

Following recent integrated study, 3-D seismic survey scheduled at Platanillo

It is important to note that the Victor Hugo Ruales field, immediately over the border from Platanillo in Ecuador, has seen very high rates of well productivity, with one well producing a reported 5,800bopd from one zone (although production rates of 800-1,000bopd are more typical). Amerisur points out that the Alea-1 and Platanillo-2 wells were drilled in sub-optimal locations, and hopes to achieve much better flow rates from future wells. In the meantime, Amerisur's only work obligations are to produce from the existing wells at various levels of injection pressure, providing lots of flexibility going forward. We now estimate 25mmbbl of reserve upside potential beyond the immediate 1mmbbl reserve envelope.

Victor Hugo Ruales field provides lots of encouragement

Paraguay

Our recent visit naturally focused on Amerisur's activities in Colombia, although the operational update on 17 March confirmed the completion of geochemical interpretation work at San Pedro in Paraguay. This was very much in line with the planned timetable and confirmed conclusions from the first survey.

Continued enthusiasm in Paraguay

Further geological work (including an integrated study) is now planned ahead of a 2-D seismic survey later this year, and drilling in 2011. Amerisur's Paraguayan projects are early stage, but highly prospective with 900mmbbl of resource potential estimated at San Pedro. We anticipate that Amerisur will seek farm-in support at the appropriate time.

Upgrading production forecasts and valuation

Although our FY2010 forecasts remain unchanged, we have upgraded our numbers for FY2011. This is largely driven by our average daily production forecast which has increased from 700bopd to 1000bopd. Something closer to 1500bopd may be achievable from the four existing wells, but we have taken a more conservative figure ahead of further information emerging (particularly test results from Isabel-1 and Iguasa-1).

Upgrading production forecasts

We will be keeping a close eye on short term news flow, and will introduce forecasts for FY2012 as visibility on production continues to improve. In the meantime, we are forecasting FY2011 revenues of £15.8m, translating into PBT of £8.3m and adjusted diluted EPS of 0.91p (compared to 0.64p previously). Amerisur has been receiving a <US\$10/bbl discount to WTI at Platanillo, with better pricing anticipated at Fenix, so we remain comfortable with our US\$70/bbl price deck.

We continue to forecast total capex of £4.0m both in FY2010 and this year, leaving estimated net cash of £5.1m at the recent March year end, and expect Amerisur to generate positive operating cash flow as a result of higher production in FY2011. The accelerated appraisal programme at Platanillo and Fenix, at an estimated cost of US\$25m, would require additional funding. However, this spend is entirely discretionary and options for Amerisur include deferring expenditure until the company is in a position to finance these activities using internal resources, or farming out.

Net cash balances remain healthy

In the meantime, Risked NAV increases from 24p to 34p/share (excluding Paraguay), driven by a more optimistic view on prospectivity at Platanillo and Fenix. Amerisur has effectively used its status as operator to minimise costs, and the drilling of back-to-back wells is also likely to reduce expenditure. Lots of value has been added to the assets since 2007, and we now see strong potential to ramp up production to material levels. Test results from Fenix will be critical in the short term.

Increasing Risked NAV to 34p/share

Sum-of-the-parts valuation

	Unrisked	CoS	Risked	Unrisked	Risked	Risked
	US\$m	%	US\$m	\$/share	\$/share	£/share
Platanillo production	10.8	100	10.8	0.01	0.01	0.01
Platanillo appraisal	300.0	50	150.0	0.33	0.16	0.10
La Tigra	216.0	50	108.0	0.24	0.12	0.07
Other Fenix prospects	2,400.0	10	240.0	2.63	0.26	0.16
Net cash	8.1	100	8.1	0.01	0.01	0.01
G&A	(21.6)	100	(21.6)	(0.02)	(0.02)	(0.01)
Total NAV	2,913.3		495.3	3.19	0.54	0.34

Source: Astaire Securities

FY2011 production forecasts

	Previous	Current
Average daily production (bopd)	700	1000
Days per month	30	30
Months	12	12
Total production (mbbl)	252	360
Oil price (\$)	70	70
Opex/bbl (\$)	(25)	(25)
USD/GBP exchange rate	1.6	1.6

Source: Astaire Securities

Profit & Loss

Year end March (£'000)	2009A	2010E	2011E
Turnover	348	1,969	15,750
Production costs	(681)	(984)	(6,300)
Admin expenses	(1,341)	(1,450)	(1,450)
Impairment charge/loss on disposal	(74)	-	-
Share option charge	(332)	(350)	-
EBIT	(2,080)	(816)	8,000
Interest receivable	347	300	300
FX gain	1,782	-	-
Profit before tax	49	(516)	8,300
Taxation	(2)	-	-
Profit after tax	47	(516)	8,300
<i>Average number of shares (m)</i>	<i>828.9</i>	<i>828.9</i>	<i>830.4</i>
<i>EPS (p)</i>	<i>0.01</i>	<i>(0.06)</i>	<i>1.00</i>
<i>Adjusted EPS (p)</i>	<i>(0.16)</i>	<i>(0.02)</i>	<i>1.00</i>
<i>Adjusted diluted EPS (p)</i>	<i>(0.16)</i>	<i>(0.02)</i>	<i>0.91</i>

Source: Company, Astaire Securities estimates.

Cash flow

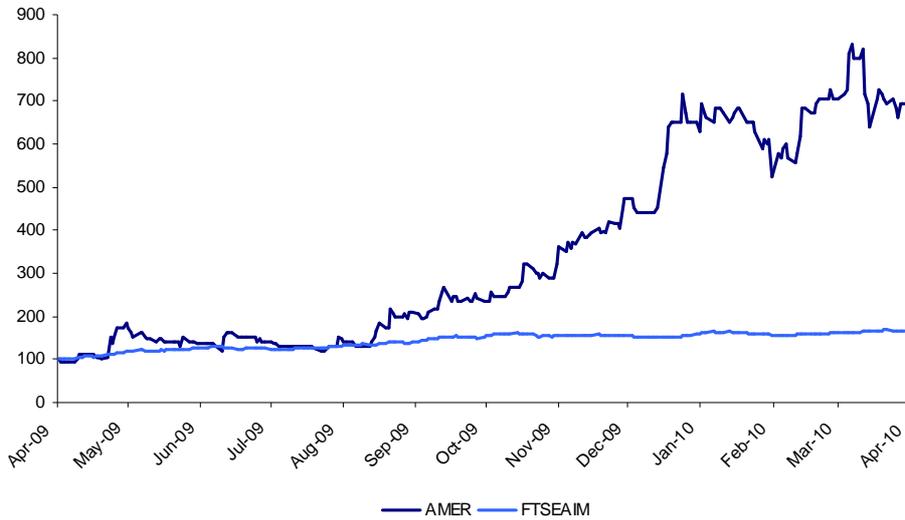
Year end Mar (£'000)	2009A	2010E	2011E
Profit for year	47	(516)	8,300
Interest receivable	(2,129)	(300)	(300)
Depreciation	33	75	675
Share option charge	332	350	0
Impairment charge/disposals	50	0	0
Change in working capital	752	0	0
Operating cash flow	(915)	(391)	8,675
Interest receivable	347	300	300
Capex	(3,224)	(4,000)	(4,000)
Free cash flow	(3,792)	(4,091)	4,975
Share issues (net)	0	0	0
Net cash flow	(3,792)	(4,091)	4,975
FX differences	1,882	0	0
Opening net cash	11,081	9,171	5,080
Closing net cash	9,171	5,080	10,055

Source: Company, Astaire Securities estimates.

Recommendation Tracker

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Share Price Performance – AMER.L vs FTSE AIM All-Share (rebased)



Source: Datastream

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