

23 September 2011

SacOil Holdings

Year End	Revenue (ZARm)	PBT* (ZARm)	EPS* (c)	DPS (c)	P/E (x)	Yield (%)
02/10	31.7	6.5	(0.7)	0.0	N/A	N/A
02/11	35.1	3.2	(0.7)	0.0	N/A	N/A
02/12e	31.0	(3.9)	(0.5)	0.0	N/A	N/A
02/13e	286.1	190.2	9.7	0.0	6.4	N/A

Note: *PBT and EPS are normalised, excluding intangible amortisation and exceptional items. Exchange rate ZAR6.9/\$, ZAR10.8/£.

Investment summary: New cash, next moves?

SacOil recently announced the issue of 111.94m shares raising ZAR75m (\$10.7m) on the JSE. The shares were issued at ZAR0.67 (c 5.8p) compared to a trade-weighted average price of 5.93p in August (source Bloomberg) to Timtex Investments, an associate of Encha Group, a material (36.01%) shareholder in SacOil. The shares were purchased at the closing price of 29 August 2011. Due to the cash inflow, our NAV estimates are essentially unchanged, but the 16% dilution will result in a 10.2% fall in our forecast 2013 EPS. The sizeable issue to a single shareholder was accompanied by a statement that management is considering various proposals and potential transactions.

Planned use of funding not yet indicated

Management states that the issue will be used to fund the company's operations and projects, but has not provided any further details. The company has sufficient debt financing in place for its existing programmes, although it is possible that SacOil may have identified an opportunity for which it needs the cash promptly. This would explain the issue of shares to a single shareholder, an associate party, at short notice.

Proposals and potential transactions being considered

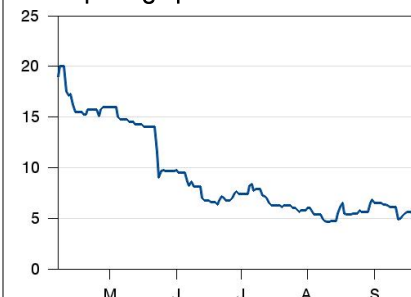
Management made a cautionary statement that it is considering various proposals and transactions which may have a material effect on its share value.

Valuation: Uncertainty about the next move

SacOil's share price pre-issue had fallen to 5.75p compared with its 20p price at its April 2011 AIM listing. Average daily liquidity in August was only £35,617 compared to the £7m worth of shares bought by Timtex. The shares trade at a substantial discount to our core NAV of 18.8p and our RENAV 23.2p. However, the discount is likely to persist until management makes the further expected announcement about the outcome of the various proposals and potential transactions being considered.

Price 5.75p
Market Cap £46m

Share price graph



Share details

Code SAC/SCL
Listing AIM/JSE
Sector Oil & gas
Shares in issue 795.9m

Price

52 week High 20.0p Low 4.9p

Balance Sheet as at 28 February 2011

Net cash (£m) 9.6

Business

SacOil Holdings is an independent pan-African upstream oil and gas company, listed both on AIM and JSE. Its portfolio includes offshore and onshore appraisal projects in Nigeria and an exploration project with Total in the DRC.

Valuation

Core NAV (p) 18.8
RENAV (p) 23.2

	2011	2012e	2013e
P/E relative	N/A	N/A	78%
P/CF	19.5	N/A	2.7
EV/Sales	0.8	1.5	0.2
ROE	N/A	N/A	17%

Revenues by geography

	UK	Europe	US	Other
0%	0%	0%	100%	

Analysts

Krisztina Kovacs +44 (0)20 3077 5749
Ian McLelland +44 (0)20 3077 5756
oilandgas@edisoninvestmentresearch.co.uk

Timtex and Encha

Timtex holds 45% of the Encha Group, which in turn owns 36% of SacOil. SacOil paid a ZAR1.5m (\$212,000) promoter fee to Encha, in line with a letter of agreement between SacOil and Encha that entitles Encha to a promoter's fee equal to 2% of gross equity if equity is raised through Encha introducing an investor.

Strategy to broaden African base beyond DRC and Nigeria

SacOil has a 20% working interest in Nigeria's Oil Prospecting Lease Blocks OPL233 and OPL281 due to enter full production in 2013 and 2014, respectively. In the DRC SacOil has teamed up with Total, which will contribute \$129m cash and \$70m in capex to exploration drilling, targeting an unrisks net resource of 11.9mboe on Block III. With 23.6mboe of estimated net 2P contingent resources in Nigeria and further potential upside from DRC, SacOil has a strong potential source of future cash flow. Management has stated its aim is to invest in undeveloped assets on a broader African base, expanding into countries such as Egypt, Tunisia, Cote d'Ivoire, and to continue to explore new opportunities in the DRC and Nigeria.

Valuation: RENAV 23.2p

Our group NAV for SacOil remains unchanged as we have not altered our macro assumptions nor our estimates for production costs and revenue. However, taking into account the increased number of shares and timing of the issue, our NAV per share reduces by 6.9% to 18.8p (from 20.2p) and our RENAV per share from 25.2p to 23.2p. Our valuation includes SacOil's appraisal/development project in Nigeria and an exploration/appraisal project in the DRC (Block III).

Exhibit 1: SacOil valuation table (September 2011)

FD Shares	795.9									
\$/£	1.60		Unrisks							
ZAR/US\$	6.90		Reserves/Resources				Netback			
Assets	Country/ Licence	WI %	Hydroc. Fluid	CoS %	Gross mmboe	Net mmboe	NPV/boe \$/boe	EMV \$m	Value/sh p	
Appraisal/ Development										
OPL 233	Nigeria	20%	Oil	40%	19.0	7.6	13.2	39.9	3.1	
OPL 28 1	Nigeria	20%	Oil	60%	99.2	59.5	5.4	192.6	15.1	
							TOT	232.5	18.3	
Net cash/(debt) - current estimated								11.9	0.9	
G&A								(4.8)	(0.4)	
Core NAV							TOT	239.6	18.8	
Exploration / Appraisal										
DRC	DRC	12.5%	Oil	11%	513.3	64.2	8.3	55.9	4.4	
RENAV							TOT	295.5	23.2	

Source: Edison Investment Research

Further cash inflows: Total JV and sale of manganese plant

We estimate that SacOil will need \$53m of external funding over the next three years. The company, while not cash rich, has significant funding resources to call upon. We expect payments from Total in 2014 and repayment of loans by EER, SacOil's local partner in Nigeria, in 2013-16 (\$1.6-6.0m pa). Management is also planning to sell a manganese plant in South Africa, a non-core operation. We understand the estimated proceeds of the sale could be in the region of ZAR25m (\$3.5m). However, we note that no significant cash flow is expected from operating partners over

the next 18 months. Therefore any new opportunity occurring during this time would require management to seek alternative financing through either debt and/or equity.

Financials: No change in underlying forecasts

There is no change in our underlying forecasts and we maintain our assumptions as published in our [initiation note](#) dated 14 July. However, the share issue dilutes our EPS estimates:

- We add 111.94m shares reducing our EPS estimate by 10.2% in 2013 (in 2012 we estimate a ZAR0.5c loss per share). The cash inflow also reduces debt requirements and financing costs.
- A cash inflow of ZAR73.5m (\$10.5m) leaves SacOil's current NAV per share almost unchanged.
- There is a minor change in our forecast due to the adjustment of the average exchange rate estimate to ZAR6.9/\$ (from ZAR6.8/\$ in our July 2011 Outlook).

Exhibit 2: Estimate revisions

Note: Figures in £m except per share data.

	EPS			PBT			EBITDA		
	Old	New	% chg.	Old	New	% chg.	Old	New	% chg.
2011	(0.7)	(0.7)	-	3.2	3.2	N/A	4.8	4.8	N/A
2012e	(1.7)	(0.5)	N/A	(11.4)	(3.9)	N/A	(0.2)	(0.2)	N/A
2013e	10.8	9.7	(10.2)	184.7	190.2	2.9	213.4	216.6	1.5

Source: Edison Investment Research

The affect on our NAV estimate is a modest 6.9% decline to 18.8p per share, mainly due to the impact of a higher number of shares. Our core assumptions and working forecast for the company's main projects OPL 233, OPL 281 and Block III are unchanged.

Exhibit 3: Financials

Note: Other item ZAR161,179m is non-controlling interest as reported by SacOil in its FY 28 February 2011 accounts.

Exchange rate US\$:ZAR 6.9	ZAR'000s	2010	2011	2012e	2013e	2014e
Year end 28 February		IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS						
Revenue		31,724	35,143	31,000	28,614	438,840
Cost of Sales		(20,210)	(23,615)	(20,290)	(52,373)	(57,493)
Gross Profit		11,514	11,528	10,710	233,770	381,347
EBITDA		6,152	4,855	(191)	216,621	363,341
Operating Profit (before amort and except)		5,740	4,199	(682)	198,383	332,319
Intangible Amortisation		0	0	0	0	0
Exceptionals/non recurring		(4,370)	(28,701)	0	0	0
Share based payments		0	(4,179)	0	0	0
Operating Profit		1,370	(28,681)	(682)	198,383	332,319
Net Interest		718	1,254	(3,248)	(8,146)	(8,833)
Profit Before Tax (norm)		6,458	3,224	(3,929)	190,237	323,486
Profit Before Tax (FRS 3)		2,088	(29,656)	(3,929)	190,237	323,486
Tax		895	(95)	0	(112,643)	(222,200)
Profit After Tax (norm)		4,337	(3,279)	(3,929)	77,593	101,286
Profit After Tax (FRS 3)		2,983	(29,751)	(3,929)	77,593	101,286
Average Number of Shares Outstanding (m)		313.3	449.6	730.0	795.9	795.9
EPS - normalised (c)		(0.7)	(0.7)	(0.5)	9.7	12.7
EPS - normalised and fully diluted (c)		(0.7)	(0.7)	(0.5)	9.7	12.7
EPS - (IFRS) (c)		1.0	(6.6)	(0.5)	9.7	12.7
Dividend per share (c)		0.0	0.0	0.0	0.0	0.0
Gross Margin (%)		36.3	32.8	34.5	81.7	86.9
EBITDA Margin (%)		19.4	13.8	N/A	75.7	82.8
Operating Margin (before GW and except) (%)		18.1	11.9	N/A	69.3	75.7
BALANCE SHEET						
Fixed Assets		8,535	447,173	641,125	817,369	916,091
Intangible Assets		895	440,529	634,481	810,725	909,447
Tangible Assets		7,640	6,644	6,644	6,644	6,644
Investments		0	0	0	0	0
Current Assets		40,942	38,038	45,398	77,401	100,807
Stocks		2,305	2,408	2,408	4,305	4,725
Debtors		31,639	17,730	17,730	47,037	72,138
Cash		6,998	17,900	25,260	26,059	23,944
Other		0	0	0	0	0
Current Liabilities		(6,146)	(16,214)	(7,955)	(8,609)	(9,451)
Creditors		(3,643)	(7,955)	(7,955)	(8,609)	(9,451)
Short term borrowings		(2,503)	(8,259)	0	0	0
Long Term Liabilities		0	0	(140,000)	(270,000)	(290,000)
Long term borrowings		0	0	(140,000)	(270,000)	(290,000)
Other long term liabilities		0	0	0	0	0
Net Assets		43,331	468,997	538,568	616,161	717,447
CASH FLOW						
Operating Cash Flow		3,227	14,349	(191)	186,072	338,661
Net Interest		718	1,254	(3,248)	(8,146)	(8,833)
Tax		0	0	0	(112,643)	(222,200)
Capex		0	0	(52,992)	(194,483)	(141,243)
Acquisitions/disposals		3,924	(440,290)	0	0	0
Financing		0	290,303	73,500	0	0
Dividends		0	0	0	0	0
Business Contract Payments		(15,193)	(21,649)	(141,450)	0	11,500
Net Cash Flow		(7,324)	(156,033)	(124,381)	(129,201)	(22,116)
Opening net debt/(cash)		(11,819)	(4,495)	(9,641)	114,740	243,941
HP finance leases initiated		0	0	0	0	0
Other		0	161,179	0	(0)	0
Closing net debt/(cash)		(4,495)	(9,641)	114,740	243,941	266,056

Source: Edison Investment Research

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Lincoln House, 296-302 High Holborn, London, WC1V 7JH ■ tel: +44 (0)20 3077 5700 ■ fax: +44 (0)20 3077 5750 ■ www.edisoninvestmentresearch.co.uk
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