

*Target Price Change*

**VOS#1 flows oil and gas**

*Following this morning's announcement that the VOS#1 well has successfully flowed oil and gas, and that the company is therefore 'two-for-two' on its exploration programme, we now think it reasonably likely that the productive geological trend extends further across its East Texas acreage. We adjust our risking accordingly, slightly increasing our target price to 150p, and continue to see the assessed resource base having a fully unrisksed value of c. 225plshr.*

**Details of the VOS#1 test: great potential, but no stabilised rate**

VOS#1 encountered 107 ft net pay in the primary target, 70% above that at the first well, VOBM#1, which reached 1,500+ boe/d on test. After the initial test phases saw high rates of gas and 39 API oil (8,400 psi flowing pressure), management sees c.3 mmmboe ultimate recovery potential (EUR) for this well. For reference, we have been using a 1.4 mmmboe EUR per well in our numbers to date. Subsequent testing was, however, curtailed by a mechanical blockage, according to management, and it was not possible to attain a stabilised flow; remedial action is being planned but we wouldn't expect the well to flow at unimpeded absent a re-drill.

**Key catalysts: first production in relatively short order**

We look for the company to outline 2016 drilling plans in the weeks ahead, anticipating a two-rig programme to take advantage of relatively low onshore rig rates and enabling the joint venture to capture and progressively de-risk its acreage position. Nevertheless, execution is subject to finance. First commercial production from VOBM#1 should occur ahead of mid-year.

**Financial position: strong, with no debt and limited capital requirements**

Pantheon's two wells have each cost around \$2.5m net, meaning that a ten-well, two-rig programme has a likely capital requirement of \$20-30m. We see a variety of external funding options being available to the company and note that were an equity route to be pursued, the quantum is small relative to the market capitalisation of some \$420m.

In this note we publish financials to 2018, covering the earliest stages of revenue generation. Based on 1.5 kboe/d average net, post-royalty production – three wells – we see c.£4m OpCF in FY17 (year to 30/6/17), rising to £15m in FY18 with strong growth possible thereafter. Equivalent to the cost of nine net wells, we believe cash flow should be sufficient to fund drilling thereafter. At \$55 oil / \$2.50 gas, net OpCF stabilises at \$13 per boe on revenue of \$23/boe.

**We remain Buy rated with a marginally increased target price**

We think flowing oil and gas from VOS#1 is an important de-risking event. Not attaining a stabilised rate is unfortunate but seems to us a drilling problem rather than one of reservoir quality. As such, and cognisant that the valuation now assumes more successes than failures, we retain our Buy rating with a target price near Total NAV (Figure 1). A sensitivity is provided in Figure 2.

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<b>Price (11 January 2016)</b>		<b>136p</b>
<b>Changes</b>	<b>Previous</b>	<b>Current</b>
Rating	-	BUY
Target Price	130p	150p



**Key data**

Stock code	PANR LN
Market cap (£m)	267
FTSE AIM A.S. (GB)	726
1mth perf (%)	14.8
3mths perf (%)	355.2
12mths perf (%)	777.4
12mth high-low (p)	157 - 14
Free float (%)	90

**Key financials**

Year to Jun	2015A	2016E	2017E
Production (kboed)	0	0	1.5
Sales (£m)	0.0	0	7.3
PBT adj (£m)	(1.1)	(1.6)	3.0
DPS (c)	0	0	0
Div yield (%)	0	0	0

Prices are as of close 11 January 2016  
 All sources unless otherwise stated: Company data, FactSet, Stifel estimates

Key data<sup>1</sup>

Key operational data (£)	2015A	2016E	2017E	2018E
Brent oil price (US\$/bbl)	74.9	44.0	43.8	51.3
US gas price (US\$/mscf)	3.3	1.8	2.2	2.5
Production (kboed)	0	0	1.5	4.9
Production - % liquids			20	20
US\$/£ FX rate	1.58	1.53	1.50	1.50

Key income statement (£)	2015A	2016E	2017E	2018E
Revenue	0.0	0	7.3	26.1
COGS	(0)	0	(3)	(9)
Gross profit	0	0	5	17
Total G&A	(0.8)	(1.6)	(1.6)	(1.7)
Other expenses	0.4	0	0	0
Net finance costs	0	0	0	0
Profit before tax	(1.1)	(1.6)	3.0	15.6
Total tax expense	0	0.3	(1.1)	(5.5)
Net income	(1.1)	(1.3)	2.0	10.2
Weighted average # shares (diluted)	171	196	196	196
DPS (c)	0	0	0	0

Key cash flow data (£)	2015A	2016E	2017E	2018E
Profit before tax	(1.1)	(1.6)	3.0	15.6
DD&A	0	0	2	6
Other non-cash	(1)	0	0	0
Op. CF before working capital changes	(0.5)	(1.3)	3.8	16.2
Op. CF after working capital changes	(0)	(1)	4	16
Cash taxes paid	0	(0)	1	5
Capital expenditures and acquisitions	(12.7)	(6.9)	(3.5)	(11.8)
Proceeds from debt	0	5	2	0
Proceeds from equity	18	0	0	0
Interest paid	0	0	0	0
Dividends	0	0	0	0
Other	(0)	0	0	0
Change in cash	5	(4)	2	4

Key balance sheet (£)	2015A	2016E	2017E	2018E
Cash & equivalents	5.3	1.6	3.4	7.8
Net non-cash working capital	0	0	0	0
Net non-current assets	16.4	18.8	18.9	24.7
Debt	0	5	6	6
Shareholders' equity	22	20	22	33

Key performance metrics (£)	2015A	2016E	2017E	2018E
Netback (US\$/boe)			10.2	13.1
Opex (US\$/boe)			2.2	2.3
EV/boe of production			285,699.3	85,709.8
Op. CF (adj)	(0.5)	(1.3)	3.8	16.2
P/CF (x)			76.5	17.9
DACF	(0.50)	(1.28)	3.77	16.16
EV/DACF (x)			77.0	18.0
Free cash flow	(13.2)	(8.2)	0.2	4.3
Dividend yield (%)	0	0	0	0
EBITDAX	(1)	(2)	5	22
Adjusted net debt/(cash)	(5.4)	2.8	2.6	(1.7)

## Key information

## Target price methodology/risks

Our target price is set based on a DCF model of the company's assets, plus cash and corporate items. Key risks include commodity price outlook and remaining exploration / appraisal risk in relation to the Eagleford play.

## Business description

Pantheon Resources plc is a UK-quoted exploration company whose principal assets are in East Texas, United States.

## Senior management

John Walmsley - Chairman

John (Jay) Cheatham - CEO

Justin Hondris - Director, Finance and Corporate Development

## Key dates

Continue acreage drill-out - throughout 2016

Commercial production at VOBM#1 - Q1/Q2 2016

## Major shareholders

Cheatham (John Bishop) - 1.8%

M&G Investment Management - 1.3%

Investec Wealth & Investment Limited - 1.3%

## Website

[www.pantheonresources.com](http://www.pantheonresources.com)

<sup>1</sup> Year end June  
Data in millions, except per share and percentages  
Source: Company data, FactSet, Stifel estimates

Figure 1: NAV summary

Country	Asset	Unrisked gross mmboe	Interest %	Unrisked net mmboe	Risk %	Risked net mmboe	NPV \$/boe	Risked NPV \$m	Unrisked NPV p/sh	Risked NPV \$m	Unrisked NPV p/sh
Adjusted net (debt)/cash (YE15e) + corporate items								7	3	7	3
<b>Core NAV</b>				-		-		7	3	7	3
East Texas	Austin Chalk (42 well locations)	43	44%	19	75%	14	2.4	34	11	46	15
East Texas	Prospect A - Polk County (VOBM#1)	58	44%	26	75%	19	7.0	134	43	179	58
East Texas	Kara Farms - Tyler County (VOS#1)	53	44%	23	75%	18	5.2	92	30	122	39
<b>Contingent assets</b>		<b>154</b>		<b>68</b>		<b>51</b>		<b>260</b>	<b>84</b>	<b>346</b>	<b>112</b>
East Texas	Prospects B & C	93	44%	41	60%	25	5.2	129	42	214	69
East Texas	Prospect D	54	44%	24	50%	12	5.2	62	20	124	40
<b>Exploration</b>		<b>147</b>		<b>65</b>		<b>37</b>		<b>191</b>	<b>62</b>	<b>339</b>	<b>109</b>
<b>Total NAV</b>		<b>301</b>		<b>133</b>		<b>88</b>		<b>457</b>	<b>149</b>	<b>692</b>	<b>225</b>
Present value of G&A								(11)	(5)	(11)	(5)
<b>Core + Contingent NAV + Near-term exp + G&amp;A</b>		<b>154</b>		<b>68</b>		<b>51</b>		<b>256</b>	<b>82</b>	<b>342</b>	<b>110</b>

Source: Stifel estimates

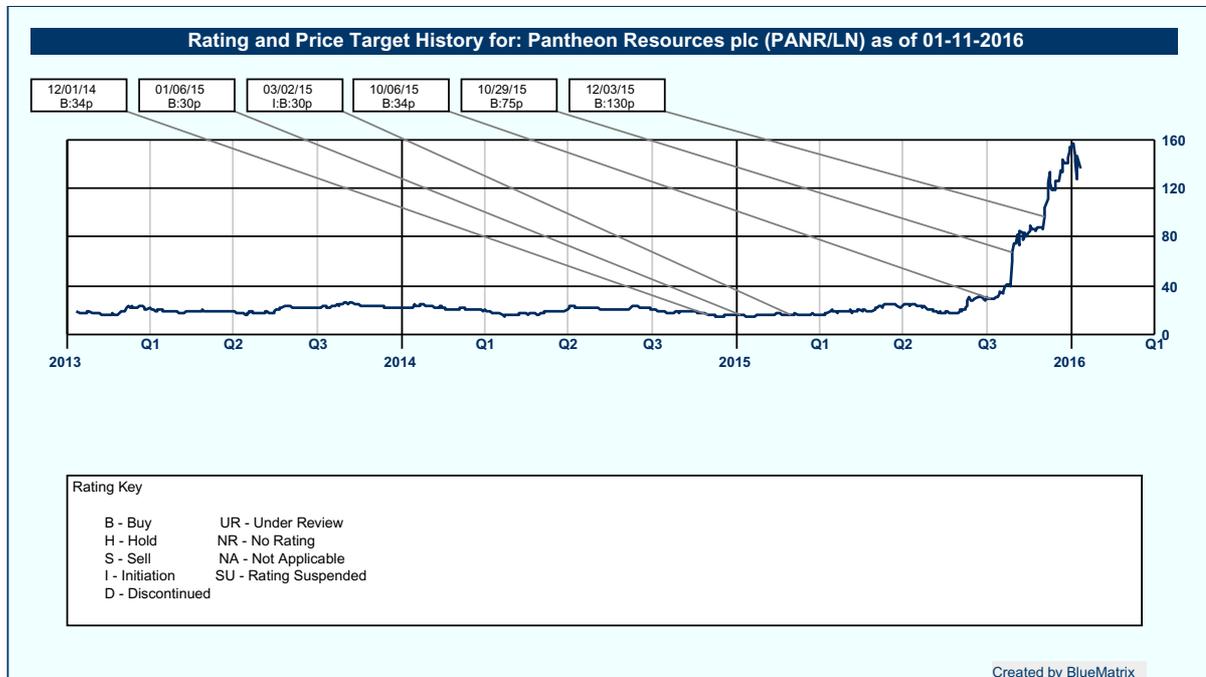
Figure 2: NAV sensitivity

<b>Revenue</b>						
Liquids	\$/bbl	\$25.0/bbl	\$35.0/bbl	\$55.0/bbl	\$65.0/bbl	\$85.0/bbl
Gas	\$/mcf	\$1.2/mcf	\$1.6/mcf	\$2.5/mcf	\$3.0/mcf	\$3.9/mcf
Hydrocarbon	\$/boe (25% liquids 75% gas)	\$11.4/boe	\$16.0/boe	\$25.2/boe	\$29.8/boe	\$38.9/boe
<b>NPV/boe, \$: sensitivity to well productivity</b>						
EUR	Year 1 average production	Oil price assumption				
mmboe/well	kboe/d	\$/bbl				
		25	35	55	65	85
0.7	0.5	-\$1.6/boe	-\$0.3/boe	\$2.4/boe	\$3.7/boe	\$6.3/boe
1.4	1.0	\$0.8/boe	\$2.2/boe	\$4.8/boe	\$6.1/boe	\$8.7/boe
2.8	2.0	\$2.1/boe	\$3.4/boe	\$6.0/boe	\$7.3/boe	\$9.9/boe
4.2	3.0	\$2.5/boe	\$3.8/boe	\$6.4/boe	\$7.7/boe	\$10.3/boe
<b>Year 1 cash flow per well, \$m</b>						
EUR	Year 1 average production	Oil price assumption				
mmboe/well	kboe/d	\$/bbl				
		25	35	55	65	85
0.7	0.5	\$1.2m	\$1.5m	\$2.2m	\$2.6m	\$3.3m
1.4	1.0	\$2.0m	\$2.7m	\$4.1m	\$4.8m	\$6.2m
2.8	2.0	\$3.8m	\$5.2m	\$7.9m	\$9.3m	\$12.1m
4.2	3.0	\$5.5m	\$7.6m	\$11.8m	\$13.8m	\$18.0m
<b>NPV per well, \$m</b>						
EUR	Year 1 average production	Oil price assumption				
mmboe/well	kboe/d	\$/bbl				
		25	35	55	65	85
0.7	0.5	-\$1.1m	-\$0.2m	\$1.6m	\$2.5m	\$4.4m
1.4	1.0	\$1.2m	\$3.0m	\$6.6m	\$8.4m	\$12.1m
2.8	2.0	\$5.7m	\$9.3m	\$16.6m	\$20.2m	\$27.5m
4.2	3.0	\$10.3m	\$15.7m	\$26.6m	\$32.0m	\$42.9m
<b>NPV per boe, \$m: sensitivity to gas oil ratio</b>						
EUR	Gas-oil ratio	Oil price assumption				
mmboe/well	boe/bbl	\$/bbl				
		25	35	55	65	85
1.4	2.0	\$1.6/boe	\$3.2/boe	\$6.4/boe	\$8.0/boe	\$11.3/boe
1.4	3.0	\$1.1/boe	\$2.6/boe	\$5.4/boe	\$6.8/boe	\$9.7/boe
1.4	4.0	\$0.8/boe	\$2.2/boe	\$4.8/boe	\$6.1/boe	\$8.7/boe
1.4	5.0	\$0.7/boe	\$1.9/boe	\$4.4/boe	\$5.6/boe	\$8.1/boe

Source: Stifel estimates

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