



Pantheon Resources Conviction list

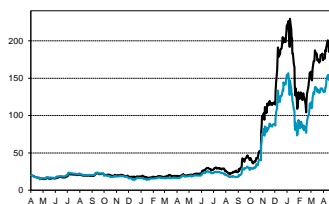
Target Price: 170p

Share Price: 146p

Key Data

Market Cap	£287m
DS Oil & Gas	4,842
Sector	Oil & Gas Producers
Stock Codes	PANR.L / PANR.LN
Next Event	May
Gearing	n/a
Price at close	19 April 2016
Last Published Research:	10 March 2016

Absolute & Relative Performance



— Absolute
— Relative to DS Oil & Gas
Source Datastream

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Pantheon recently raised US\$30m to pursue its drilling programme targeting the Eagle Ford conventional sandstone play in Polk and Tyler Counties, East Texas, as well as for the acquisition of further acreage in the play. The raise saw strong demand and removes the near term funding requirement we previously highlighted. It also clears the way for the VOS#1 frack job, which management is optimistic should at least triple the initial test rate of 750boed. If it does so, we expect the shares to move sharply higher in anticipation of higher EURs and growing optimism that the potential gross resource base will prove significantly larger than the 258mmboe disclosed by Pantheon to date, in respect of this play.

- ▶ **US\$30m raise.** Pantheon recently raised an upscaled US\$30m (£21.1m) which was snapped up confirming a growing appreciation of the investment case. The raise removes the funding requirement we had highlighted (see [The Double Eagle](#) has landed of 2 March).
- ▶ **More wells, more acreage.** While the bulk of the raise is directed toward the immediate drilling campaign, it also includes funds for additional acreage acquisition. We believe that is likely to be mainly in pursuit of further acreage in Tyler County. In addition, it will pay for the frack job on the VOS#1 well where results should be available end April/May and are likely to prove a key near term catalyst, we expect. In addition, initial production from the VOBM#1 well is scheduled to start in April.
- ▶ **Maintain 170p Target Price.** We currently value Pantheon on the basis of the price we expect an acquirer would be willing to pay which we believe would be most of the pre-tax value on a US\$50/bbl WTI/US\$2.5/mmbtu Henry Hub price deck for risked NAV. We calculate that value at 175p which we round to our Target Price at 170p per share. We add a general risking factor of 30% to our base case NAV calculations to generate an equivalent value (see overleaf).
- ▶ **Fly like an eagle.** Pantheon now has a firm three well programme with more to follow together with the frack job on the VOS#1. The first well is a horizontal development well to the VOBM#1 in Polk County which could potentially demonstrate much higher Expected Ultimate Recovery (EUR) than the average guided P50 of 1.5mmboe or, we believe, the Pmean of 3mmboe. The second well will also be in Polk and will be a horizontal step out/appraisal well. While the third well is a large step out deviated well in Tyler County that will test the Core Offset prospect and, we believe, potentially confirm it as an extension of the LP2 Offset discovery that has been made by the VOS#1 well. A reasonable degree of success would fully support and probably enhance the current value. However, in our view there is an asymmetric likelihood that this activity will demonstrate far larger well EURs and quite possibly far larger recoverable resource potential in Pantheon's existing acreage. Given the exceptional economics in this play and the sensitivity to EUR that could send the stock soaring.

Year End	Sales	PBTA	EPS	DPS ord	P/E	EV/EBITDA	Yield
June	(£m)	(£m)	(p)	(p)	(x)	(x)	(%)
2015A	0.0	(1.1)	(0.7)	0.0	n/a	(244.6)	0.0
2016E	3.7	0.6	0.3	0.0	499.9	226.9	0.0
2017E	28.6	21.6	9.6	0.0	15.2	10.5	0.0
2018E	75.6	62.7	24.4	0.0	6.0	3.2	0.0

Source Company Data, Panmure Gordon

NAV

Pantheon Resources – Pre tax

Location	Field/ prospect	Timing	WI (%)	CoC* (%)	NRI Liquids (mmbbl)	NRI Gas (bcf)	NRI Total (mmboe)	Risky NAV - pre tax			Unrisked NRI NAV		
								(USDm)	(US\$/boe)	(p/share)	(US\$m)	(US\$/boe)	(p/share)
Producing fields													
Net (debt)/cash (2015/16E)								17.4	4.9	17.4	4.9		
Tax losses (discounted)								20.3	5.6	20.3	5.6		
G&A (2 years)								(4.4)	(1.2)	(4.4)	(1.2)		
Corporate								33.3	9.2	33.3	9.2		
Core NAV													
USA West Double A								19.8	12.7	279.9	14.1	77.8	
USA LP-2 Offset								18.2	12.3	248.7	13.7	69.2	
Undeveloped resources					12.9	150.5	38.0	475.7	12.5	132.3	528.5	13.9	147.0
Tangible NAV													
USA Core Offset Prospects								32.6	7.0	363.9	11.2	101.2	
USA Prospect D								18.7	7.6	224.7	12.0	62.5	
Exploration prospects					17.4	203.5	51.3	370.9	7.2	103.1	588.7	11.5	163.7
All sources NAV					30.3	354.0	89.3	879.8	9.9	244.7	1150.4	12.9	320.0
General risking (%)									30%				
Fully risked NAV									171				
Rounded target price									170				

*Chance of Commerciality = Chance of Discovery x Chance of Development

Source Panmure Gordon

Pantheon Resources – Post tax

Location	Field/ prospect	Timing	WI (%)	CoC* (%)	NRI Liquids (mmbbl)	NRI Gas (bcf)	NRI Total (mmboe)	Risky NAV - post tax			Unrisked NRI NAV		
								(USDm)	(US\$/boe)	(p/share)	(US\$m)	(US\$/boe)	(p/share)
Producing fields													
Net (debt)/cash (2015/16E)								17.4	4.9	17.4	4.9		
Tax losses (discounted)								20.3	5.6	20.3	5.6		
G&A (2 years)								(4.4)	(1.2)	(4.4)	(1.2)		
Corporate								33.3	9.2	33.3	9.2		
Core NAV													
USA West Double A								161.1	8.1	179.0	9.0	49.8	
USA LP-2 Offset								142.8	7.9	158.7	8.7	44.1	
Undeveloped resources					12.9	150.5	38.0	303.9	8.0	84.5	337.7	8.9	93.9
Tangible NAV													
USA Core Offset Prospects								32.6	4.5	232.3	7.1	64.6	
USA Prospect D								18.7	4.8	143.7	7.7	40.0	
Exploration prospects					17.4	203.5	51.3	236.9	4.6	65.9	376.0	7.3	104.6
All sources NAV					30.3	354.0	89.3	574.1	6.4	159.7	747.0	8.4	207.7
Fully risked NAV													
Rounded target price													

*Chance of Commerciality = Chance of Discovery x Chance of Development

Source Panmure Gordon

THE NUMBERS (BASE CASE)

Profit & loss (GBPm)					
Year end June	2014/15A	2015/16E	2016/17E	2017/18E	2018/19E
NRI production (kboed)	0.0	0.6	3.9	9.6	16.8
Revenue	0.0	3.7	28.6	75.6	135.2
DD&A	-	(0.6)	(4.2)	(10.5)	(18.3)
Opex	(0.0)	(0.1)	(0.4)	(0.9)	(1.6)
Cost of sales	(0.4)	(1.7)	(5.6)	(11.7)	(20.2)
Gross profit	(0.4)	2.0	23.0	63.9	115.1
G&A	(0.8)	(1.4)	(1.4)	(1.4)	(1.4)
Operating profit	(1.2)	0.6	21.6	62.5	113.7
Net interest income/(charge)	0.0	0.0	0.1	0.2	0.3
Profit before tax	(1.1)	0.6	21.6	62.7	114.0
Tax (charge)/income	-	-	-	(7.8)	(34.1)
Attributable net income	(1.1)	0.6	21.6	54.8	79.9
EPS (dil) (GBP)	(0.7)	0.3	9.6	24.4	35.6

Source Company, Panmure Gordon

Cash flow (GBPm)					
Year end June	2014/15A	2015/16E	2016/17E	2017/18E	2018/19E
Profit before tax	(1.1)	0.6	21.6	62.7	114.0
DD&A	0.0	0.6	4.2	10.5	18.3
Share-based payments	0.4	1.0	1.0	0.3	0.3
Net interest (income)/charge	(0.0)	(0.0)	(0.1)	(0.2)	(0.3)
Other gains/(losses) - net	0.3	-	-	-	-
Cash flow from operating activities, pre WC	(0.4)	2.2	26.8	73.3	132.2
Net working capital source/(use)	(0.1)	(0.3)	(2.0)	(4.1)	(7.0)
Tax	-	-	-	(3.9)	(21.0)
Net cash from operations	(0.5)	1.9	24.8	65.3	104.2
Cash interest received/(paid)	0.0	0.0	0.0	0.1	0.3
Net cash generation	(0.5)	2.0	24.9	65.4	104.5
Capex	(12.7)	(17.0)	(18.5)	(31.4)	(42.4)
Net acquisitions	-	-	-	-	-
Net cash invested	(12.7)	(17.0)	(18.5)	(31.4)	(42.4)
Equity Issuance	17.8	20.7	-	-	-
Total net cash equity delta	17.8	20.7	-	-	-
Implied (increase)/decrease in net debt	4.6	5.6	6.4	34.0	62.1

Source Company, Panmure Gordon

Balance sheet (GBPm)					
Year end Jun	2014/15A	2015/16E	2016/17E	2017/18E	2018/19E
Non-current assets	16.4	32.8	47.0	68.0	92.1
Net assets	21.8	43.1	64.7	119.6	199.4
Equity	21.8	43.1	64.7	119.6	199.4
Net debt/(cash)	(5.3)	(10.9)	(17.3)	(51.3)	(113.4)

Source Company, Panmure Gordon

THE NUMBERS (STRESS CASE*)

Profit & loss (GBPm)					
Year end Jun	2014/15A	2015/16E	2016/17E	2017/18E	2018/19E
NRI production (kboed)	0.0	0.6	3.9	9.6	16.8
Revenue	0.0	2.8	15.0	37.2	64.9
DD&A	-	(0.6)	(4.2)	(10.5)	(18.3)
Opex	(0.0)	(0.1)	(0.4)	(0.9)	(1.6)
Cost of sales	(0.4)	(1.7)	(5.6)	(11.7)	(20.2)
Gross profit	(0.4)	1.1	9.4	25.5	44.7
G&A	(0.8)	(1.4)	(1.4)	(1.4)	(1.4)
Operating profit	(1.2)	(0.3)	8.0	24.1	43.3
Net interest income/(charge)	0.0	0.0	0.0	0.0	0.1
Profit before tax	(1.1)	(0.3)	8.0	24.1	43.4
Tax (charge)/income	-	-	-	-	-
Attributable net income	(1.1)	(0.3)	8.0	24.1	43.4
EPS (dil) - calculated	(0.7)	(0.1)	3.6	10.7	19.3

Source Company, Panmure Gordon

Cash flow (GBPm)					
Year end Jun	2014/15A	2015/16E	2016/17E	2017/18E	2018/19E
Profit before tax	(1.1)	(0.3)	8.0	24.1	43.4
DD&A	0.0	0.6	4.2	10.5	18.3
Share-based payments	0.4	1.0	1.0	0.3	0.3
Net interest (income)/charge	(0.0)	(0.0)	(0.0)	(0.0)	(0.1)
Other gains/(losses) - net	0.3	-	-	-	-
Cash flow from operating activities, pre WC	(0.4)	1.3	13.2	34.9	61.9
Net working capital source/(use)	(0.1)	(0.3)	(0.9)	(2.1)	(3.2)
Tax	-	-	-	-	-
Net cash from operations	(0.5)	1.0	12.2	32.8	58.7
Cash interest received/(paid)	0.0	0.0	0.0	0.0	0.1
Net cash generation	(0.5)	1.0	12.3	32.8	58.7
Capex	(12.7)	(17.0)	(18.5)	(31.4)	(42.4)
Net acquisitions	-	-	-	-	-
Net cash invested	(12.7)	(17.0)	(18.5)	(31.4)	(42.4)
Equity Issuance	17.8	20.7	-	-	-
Total net cash equity delta	17.8	20.7	-	-	-
Implied (increase)/decrease in net debt	4.6	4.7	(6.2)	1.3	16.4

Source Company, Panmure Gordon

Balance (GBPm)					
Year end Jun	2014/15A	2015/16E	2016/17E	2017/18E	2018/19E
Non-current assets	16.4	32.8	47.0	68.0	92.1
Net assets	21.8	42.1	50.1	74.2	117.6
Equity	21.8	42.1	50.1	74.2	117.6
Net debt/(cash)	(5.3)	(10.0)	(3.8)	(5.1)	(21.5)

Source Company, Panmure Gordon

*Flat US\$30/bbl WTI, US\$2.0/mmbtu Henry Hub