

# Azonto reborn



## AZONTO PETROLEUM (AZO:AIM)

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### VITAL STATS

**SECTOR:** OIL & GAS PRODUCERS

**SUB SECTOR:** EXPLORATION  
& PRODUCTION

**SHARE PRICE:** 0.78P

**MARKET CAP:** £9.0 MILLION

**PROSPECTIVE PE DEC 14:** N/A

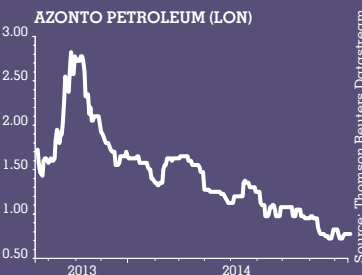
**PROSPECTIVE PE DEC 15:** N/A

**1-MONTH PRICE CHANGE:** -1.2%

**12-MONTH PRICE CHANGE:** -52.4%

**DIVIDEND YIELD 2014:** N/A

**BID/OFFER SPREAD:** 17.7%



**A**zonto Petroleum (AZO:AIM), the exploration and production (E&P) company focused on West Africa, could be described as an eight-year old start up. Renamed in November 2013, it was in its previous form called Rialto Energy, a company that, after much initial promise, endured a difficult 2012 to 2013.

With a new board and management team now in place, the company has a stable platform from which to build on, particularly following the partnership with Vitol E&P in Cote d'Ivoire and Ghana, concluded in November 2013. Core shareholders include not only Vitol but also the International Finance Corporation, part of the World Bank group, and a number of UK blue chip financial institutions.

The current management team is deeply experienced in Africa and includes Rob Shepherd as chief executive officer (CEO), previously finance director of Dominion Petroleum that was sold in 2012 to **Ophir Energy (OPHR)**; Andrew Rose as chief financial officer (CFO), who was finance director of Burren Energy that was sold in 2008 to ENI and Jay Smulders as technical director, who recently joined the company from **Tullow Oil (TLW)**.

#### NEW STRATEGY

The management team is highly motivated to deliver shareholder value having collectively invested over \$800,000 in the company's equity – more than received in salaries over the same period on a post-tax basis – and, together with the other members of the team,

being the beneficiaries of a new long term incentive plan (LTIP) that has been approved by shareholders.

The company's core strategy is as follows:

- **Focus on shallow water and onshore appraisal / development opportunities.** Emphasis on discovered hydrocarbons with some exploration optionality. This gives a more balanced risk / reward profile for a small company, albeit with a key need to ensure costs and schedules are managed carefully – and should lead to faster conversion to cash flow.

- **Regional focus on Sub-Saharan Africa, initially on West Africa.** Geographical focus enables the company to develop key relationships, benefiting from political connectivity and in time logistical synergies.

- **Balanced portfolio of both oil and gas.** Domestic gas is under increasing political focus in Africa generally given the material economic benefits of replacing other expensive fuels. The company can benefit from a higher profile in certain countries than would ordinarily be the case with the potential to negotiate advantageous terms. Parallel focus on oil and other hydrocarbon liquids provides not only upside but also balance against the risks inherent in gas projects.

- **Become a 'partner of choice' with key regional players.** With a first rate team now in place, and working hard at relationships with partners such as Vitol, other industry players and also local companies, the company can create solid partnerships that give it a robust platform on which to build its business. It also offers



the opportunity to tap in to their greater financial resources when appropriate.

- **Tight cost control.** The new management team has reduced the ongoing general and administrative expenses by approximately half on an annualised basis and, given the alignment with shareholders, will continue to look for further savings where possible.

#### FIELD FOCUS

The company's initial project is to develop, via its joint venture with Vitol ("Vioco Petroleum") the Gazelle gas field in Cote d'Ivoire. Gazelle is a discovery that was made in 1977 in between 30 and 50 metres of shallow water some 50 kilometres to the south east of the capital, Abidjan. Gross resources have been independently certified at around 45 billion cubic feet on a proven contingent basis and around 90 billion cubic feet on a proven plus probable contingent basis.

Total development costs to first gas are estimated to be some \$200 million of which \$50 million is being provided by Vitol as a development loan. The balance is anticipated to be provided through a debt facility by a syndicate of banks.

Vioco has recently submitted a revised field development plan and is working towards project sanction, which is targeted for year-end. Once the project has been sanctioned, detailed engineering and construction is anticipated to take some 14 to 16 months, meaning that first gas is anticipated in the first half of 2016.

In anticipation of contracting a jackup rig to drill the development wells on Gazelle during the second half of 2015, Vioco is currently reviewing the various shallow water prospects contained in Block CI-202. The objective is to select a preferred target for drilling during the same period in order to meet the exploration well commitment under the terms of the production sharing agreement.

The company's other current asset is an interest in the Offshore Accra block in Ghana that covers an area of 2,000 square kilometres. An initial well was drilled in 2013 which was uncommercial and as a result of which, a number of the – then joint venture partners elected to withdraw from the block. However Azonto plus one of the joint venture partners, Afex International, felt the additional prospectivity identified

in the block merited further analysis and consequently applied for, and received, a six month extension from the government to enable the formation of a new partnership to be pursued.

Accordingly, the company is currently engaged in a farm out process that it hopes to conclude successfully in the coming months, although that of course cannot be assured.

#### OTHER VENTURES

Outside of the current assets in Cote d'Ivoire and Ghana, the company is actively pursuing new opportunities in line with the strategy outlined earlier – a number have been identified that are currently being progressed. New ventures will require additional funding but the company remains confident that, for the right opportunities, current and future shareholders and debt providers will be supportive.

The opportunity at hand in West Africa and beyond is clear – many of the economies are growing at double digit rates that creates positive forces in two ways. Firstly, host governments are keen to see domestic gas opportunities being pursued to fuel their energy-hungry economies and secondly they want marginal oil assets to be developed as existing production declines.

The Azonto team has a balanced skill set covering technical, legal, commercial and financial, and above all, demonstrable experience in delivering value from small cap companies. The company is looking to stand out from the crowd going forwards as it builds a portfolio of high quality assets in a measured and risk-balanced way.