6 October 2015

Oil & Gas: E & P | Equity | United Kingdom

Andes Energia*

Growing production at $70/bbl oil prices

Buy

Current price
23p

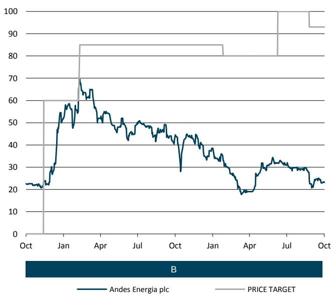
Target price
93p

Market cap
£125.5m

We reiterate our Buy rating and retain our 93p target price following Andes Energia's interim results. Andes benefits from high domestic oil prices in Argentina, production has grown over 20% yoy in Argentina and the company is now funded to fully participate in the aggressive drilling campaign in the conventional Chachahuen oilfield, operated by YPF. Andes is trading at a 32% discount to our core NAV of 34p, which includes just production and development assets, the majority of which are in Argentina.

Price performance

	Stock	All-Share
1 month:	8.3%	3.7%
3 month:	-28.9%	-4.0%
12 month:	-48.3%	-0.8%



Key forecasts

Year to	Production		Sales	PAT	EPS	CFPS	P/CF	EV/EBITDA	EV/boe/d
Dec	kboe/d	growth %	$m	$m	$	$	x	x	$ '000
2014A	1.7	85.8	48.2	-10.9	-0.01	0.24	1.6	18.9	152.2
2015E	3.6	111.1	74.8	1.1	0.00	0.07	5.2	15.6	77.5
2016E	4.2	18.0	99.8	8.6	0.02	0.12	3.2	9.2	68.7
2017E	5.0	19.0	125.0	20.2	0.04	0.18	2.2	5.7	55.8

Source: Westhouse estimates, company data

Solid interim results

Andes Energia reported interim results last week that were broadly in line with our expectations. Andes benefits from high domestic oil prices in Argentina, in the region of $70/bbl when transportation costs and crude quality discounts are taken into account, and this allowed the company to generate adjusted EBITDA of almost $10m in H1 2015, more than double the figure reported in H1 2014. Production continues to grow and the company is now funded to fully participate in the aggressive drilling campaign in the conventional Chachahuen oilfield.

Production up on Interoil acquisition and expected to grow strongly

Andes delivered a 90% increase in average daily production to 3,226boepd in the first half of 2015, partly due to the addition of approximately 1,400boepd as a result of the Interoil acquisition but also given over 20% growth in Argentine production, the vast majority of which came from growth in conventional oil production from the Chachahuen field. With 20 new wells drilled year-to-date and a further 15 wells anticipated to be drilled before the end of the year, Andes is well into the YPF operated 78 well development drilling campaign in Chachahuen which we forecast will be key to driving total Andes production to 5,000boepd by 2017.

Placing and debt for equity swap post interims

As previously reported in our note of 26 August 2015, *Placing and debt conversion boost outlook*, Andes raised $9m of new equity and negotiated a $10m debt for equity swap post period end. This boosts the cash position and strengthens the balance sheet, allowing Andes to fully participate in the aggressive development drilling campaign in Chachahuen. Andes has 20% equity in the Chachahuen field and the wells drilled to date have delivered IP rates of roughly 60bopd, costing between $1-1.2m each.

Strong growth in EBITDA forecast

We project that Andes production should rise to over 5,000boepd by 2017, delivering an almost trebling in EBITDA (we forecast $70/bbl Brent in 2017). Andes is trading at a 32% discount to our core NAV of 34p, which includes just production and development assets, the majority of which are in Argentina, where realisations remain high. We reiterate our Buy rating.

Last results
Interims, 30 Sep 15

Next results
Finals, 31 May 16

Next event
Finals, 31 May 16

Reuters / BBG
AEN.L / AEN LN

Index
FTSE AIM

Priced at close
05 Oct 2015

Analysts
Mark Henderson
020 7601 6100
mark.henderson@westhousesecurities.com

*Westhouse acts as broker and/or advisor to this company and has agreed to publish research on it at least annually.

Westhouse Securities is authorised and regulated by The Financial Conduct Authority and is a member of The London Stock Exchange.
Registered Office: Beaufort House, 15 St. Botolph Street, London, EC3A 7BB. Registered in England Number: 762818

Bloomberg
WSTH<GO>

Overview

Company activities

Andes Energia holds c.8m net acres across four countries (Argentina, Colombia, Paraguay and Brazil) and 12 basins, with c.250,000 net acres in the Vaca Muerta shale play (oil window). The company has 2P reserves of c.25mmboe and currently produces c3,300bopd of oil from its conventional assets in Argentina and Colombia.

Key issues on which investors must take a view

Investors need to take a view on how comfortable they are with the country risk associated with Argentina and management's ability to deliver operational results. We also note that Andes is now self-financed for its 2015/16 work programme, but may require additional funding (in our view, equity and/or farm-outs) if it is to accelerate the pace of development of its unconventional potential.

Likely direction of consensus revisions

Research coverage of Andes Energia is limited, however we are in line with consensus estimates at the net income level for 2015 and 10-20% ahead of consensus for 2016 and 2017. We therefore believe, notwithstanding a surprise move in oil prices, that consensus estimates are more likely to be revised upwards, particularly for 2016 and 2017.

Valuation and reason behind target price

Our target price has been calculated using a sum-of-the-parts valuation of the company's various assets (risked NAV). Where feasible we have constructed field cash flow models for each identifiable asset in the company's portfolio that is in production, development or where a clear exploration action plan has been communicated. In order to be included in our risked NAV, exploration prospects must have a specific well scheduled and funded with a suitable rig slot booked.

Risks to our view

Risks that can be associated with Andes are shared by all E&P companies, such as exploration and operational risks, the oil price, etc. There are also country-specific risks and Andes' dependence on its partner YPF in Argentina.

Valuation

Our target price, which is based on a risked net asset valuation of Andes's assets in Argentina and Colombia, remains at 93p following the company's interim results.

Figure 1: Andes Energia risked net asset valuation

Country	Asset	Gross resource (mmboe)	Working interest (%)	Net resource (mmboe)	CoS (%)	NPV/boe (US$)	Net risked resources (mmboe)	Risked NAV (US$m)	Risked NAV US$/sh (f.d.)	Risked NAV p/sh (f.d.)	Unrisked NAV (p/sh)
Production											
Argentina	Chachahuen	30.0	*20.0%*	6.0	*100%*	$ 8.37	6.0	50.2	0.08	5.4	5.4
Argentina	Vega Grande	5.3	*100.0%*	5.3	*100%*	$ 8.75	5.3	46.4	0.08	5.0	5.0
Argentina	La Brea	5.4	*100.0%*	5.4	*100%*	$ 8.75	5.4	47.3	0.08	5.0	5.0
Argentina	El Manzano	1.0	*100.0%*	1.0	*100%*	$ 8.37	1.0	8.4	0.01	0.9	0.9
Argentina	Chanares Herrados and Puesto Pozo	7.0	*49.9%*	3.5	*100%*	$ 8.75	3.5	30.6	0.05	3.3	3.3
Colombia	Puli-C	5.7	*35.7%*	2.0	*100%*	$ 9.39	2.0	19.1	0.03	2.0	2.0
Colombia	Altair	1.0	*45.9%*	0.5	*100%*	$ 9.39	0.5	4.3	0.01	0.5	0.5
Total		**55.4**		**23.7**			**23.7**	**206.3**	**0.34**	**22.0**	**22.0**
Development/Appraisal											
Argentina	Chachahuen	30.0	*20.0%*	6.0	*67%*	$ 8.37	4.0	33.5	0.06	3.6	5.4
Argentina	Chanares/Puesto Pozo (imp recovery)	5.0	*49.9%*	2.5	*67%*	$ 7.88	1.7	13.1	0.02	1.4	2.1
Argentina	La Brea	15.0	*100.0%*	15.0	*50%*	$ 8.37	7.5	62.8	0.10	6.7	13.4
Argentina	El Manzano	8.0	*100.0%*	8.0	*50%*	$ 8.37	4.0	33.5	0.06	3.6	7.1
Colombia	Puli-C (improved recovery)	7.7	*45.9%*	3.5	*50%*	$ 9.39	1.8	16.6	0.03	1.8	3.5
Total		**65.7**		**35.0**			**18.9**	**159.4**	**0.3**	**17.0**	**31.5**
Net cash (debt)								-63.4	-0.11	-6.8	-6.8
Interoil minority interest in debt			*49.0%*					15.7	0.03	1.7	1.7
Core NAV		**121.1**		**58.7**			**42.6**	**317.9**	**0.5**	**33.9**	**48.5**
Risked Upside											
Colombia	LLA 47	30.0	*51.0%*	15.3	*33%*	$ 18.22	5.1	92.9	0.15	9.9	29.7
Argentina	Chachahuen (Northern area)	150.0	*20.0%*	30.0	*20%*	$ 6.28	6.0	37.7	0.06	4.0	20.1
Argentina	La Brea (unconventional)	200.0	*100.0%*	200.0	*10%*	$ 5.99	20.0	119.8	0.20	12.8	127.8
Argentina	Mata Mora (unconventional)	232.0	*27.0%*	62.6	*20%*	$ 5.99	12.5	75.0	0.12	8.0	40.0
Argentina	Corralera (unconventional)	400.0	*27.0%*	108.0	*10%*	$ 5.99	10.8	64.7	0.11	6.9	69.0
Argentina	El Manzano (unconventional)	340.0	*40.0%*	136.0	*20%*	$ 5.99	27.2	162.9	0.27	17.4	86.9
Total		**1352.0**		**551.9**			**81.6**	**552.9**	**0.9**	**59.0**	**373.7**
Total NAV		**1,473.1**		**610.7**			**124.2**	**870.9**	**1.4**	**92.9**	**422.1**
Shares (m)		**600.6**									
USD:GBP exchange rate		**1.56**									

Source: Company data, Westhouse estimates

Explanation of recommendations

Each structure below is based on total shareholder return defined as the absolute rise in share price plus dividend payment over a 12-month period

Westhouse recommendation structure		**Westhouse recommendation proportions in last quarter**			
		All stocks excluding AIM		Corporate stocks excluding AIM	
Buy	+20% or more	Buy	59.7%	Buy	100.0%
Add	+10% to +20%	Add	18.2%	Add	0.0%
Neutral	(+/-) 10%	Neutral	20.1%	Neutral	0.0%
Sell	-10% or more	Sell	1.9%	Sell	0.0%

Source: Westhouse

Westhouse acts as a market maker or liquidity provider for this company.

Westhouse has provided investment banking services to this company within the last 12 months.

Unless otherwise stated, the author of this research is the first analyst listed on the front cover of this document. Analysts' remuneration is based on a number of factors, including the overall results of Westhouse Securities Limited ('Westhouse'), to which a contribution is made by investment banking activities. Analysts' remuneration is not based on expressing a specific view or recommendation on an issuer, security or industry.

This research is classified as being a "marketing communication" as defined by the FCA's Handbook. This is principally because analysts at Westhouse are involved in investment banking activities and pitches for new business and consequently this research has not been prepared in accordance with legal requirements designed to promote the independence of investment research. Therefore, the research is not subject to any prohibition on dealing ahead of the dissemination of investment research. Nevertheless, the Firm's Conflict of Interest Management Policy prohibits dealing ahead of research, except in the normal course of market making and to satisfy unsolicited client orders. Please refer to www.westhousesecurities.com for a summary of our conflict of interest management policy in relation to research. This includes organisational controls (departmental structure, a Chinese wall between corporate finance and other departments, etc), procedures on the supervision and remuneration of analysts, a prohibition on analysts receiving inducements for favourable research, editorial controls and review procedures over research recommendations and a prohibition on analysts undertaking personal account dealings in companies covered by them.

This document has been approved by Westhouse for communication to professional clients (as defined in the FCA Handbook) and to persons who, if they were clients of Westhouse, would be professional clients. Any recommendations contained in this document are intended solely for such persons. This document is not intended for use by persons who are retail clients of Westhouse or, who would if they were clients of Westhouse, be retail clients, who should consult their investment adviser before following any recommendations contained herein. In any event this document should not be regarded by the person to whom it is communicated as a substitute by the recipient of the recipient's own judgement and does not constitute investment advice (as defined in the FCA Handbook) and is not a personal recommendation. This document is based on information obtained from sources which we believe to be reliable; however, it is not guaranteed as to accuracy or completeness by Westhouse, and is not to be construed as a representation by Westhouse. Expressions of opinion herein are subject to change without notice. This document is not and should not be construed as an offer or the solicitation of an offer to buy or sell any securities. Past performance is not necessarily a guide to future performance. The value of the financial instruments referred to in this research may go down as well as up. Westhouse and its associated companies and/or their officers, directors and employees may from time to time purchase, subscribe for, or add to or dispose of any shares or other securities (or interests) discussed herein. Recipients must not pass this research document on to any other person except with the prior written permission of Westhouse. Westhouse is authorised and regulated by The Financial Conduct Authority (Registered Number 114265) and is a member of The London Stock Exchange. Westhouse Bryan Garnier, Bryan Garnier Westhouse and Westhouse are trading names of Westhouse Securities Limited. Registered Office: Beaufort House, 15 St. Botolph Street, London, EC3A 7BB. Registered in England Number: 762818. The Financial Conduct Authority address is 25 The North Colonnade, Canary Wharf, London E14 5HS. Alastair Stewart, Gareth Evans and Mark Henderson have contracts for services with Westhouse to write research.

U.S Disclosures

This research report was prepared by Westhouse Securities Limited. Westhouse and its research analysts are not members of the Financial Industry Regulatory Authority, Inc. As a result, Bryan Garnier Securities LLC is distributing this research in the United States of America on behalf of Westhouse in accordance with SEC Rule 15a-6. Bryan Garnier Securities LLC, a broker-dealer registered with the U.S. Securities and Exchange Commission, has assumed responsibility for this research for purposes of U.S. law. All transactions arising from this research with U.S. Counterparties should be effected by Bryan Garnier Securities LLC unless an exemption exists under SEC Rule 15a6.

No	Disclosure	Response
1	At the end of the month immediately preceding the date of publication of this research report (or the end of the second most recent month if the publication date is less than 10 calendar days after the end of the most recent month), does Bryan Garnier Securities LLC or its affiliates beneficially own 1% or more of any class of common equity securities of the subject company(ies)?	NO
2	Has Bryan Garnier Securities LLC or affiliate: (a) managed or co-managed a public offering of securities for the subject company in the past 12 months, or (b) received compensation for investment banking services from the subject company(ies) in the past 12 months; or (c) expects to receive or intends to seek compensation for investment banking services from the subject company(ies) in the next 3 months?	NO
3	Was Bryan Garnier Securities LLC making a market in the subject company's securities at the time that the research report was published?	NO
4	Do all the views expressed in this research report accurately reflect the research analyst's personal views regarding any and all of the subject securities or issuers?	YES
5	Is any part of analyst compensation was, is or will be, directly or indirectly related to the specific recommendations or views expressed in this research report?	NO
6	Are there any other actual, material conflicts of interest of the research analyst or member of which the research analyst knows or has reason to know at the time of publication of the research report?	NO

Westhouse Securities, Beaufort House, 15 St. Botolph Street, London, EC3A 7BB **Email: firstname.surname@westhousesecurities.com**

Research

Head of Research, Insurance & Financials

Joanna Parsons 020 7601 6133

Growth Companies

Robert Sanders 020 7601 6111

Property & Support Services

Alastair Stewart 020 7601 6149

Investment Funds

Saumya Banerjee 020 7601 6629

Oil & Gas

Mark Henderson 020 7601 6100

Technology

Gareth Evans 020 7601 6132

William Bin Xu 020 7601 6129

Sales & Trading

Sales

Fiona Conroy 020 7601 6136

Joshua Nimmo 020 7601 6143

Simon Wickham 020 7601 6141

Steve Yelland 020 7601 6142

Sales Trading

Michael Harrison 020 7601 6611

Trading

Helen Brown 020 7601 6603

Managing Director

Andy Crossley 020 7601 6108

Executive Chairman

Mark Brown 020 7601 6126

Notes: Names in italic signify head of team