proactive
UK: +44 (0)207 989 0813
NA: +1 646 896 3065
AU +61 2 9280 0700
action@proactiveinvestors.com.au

Premier Oil PLC

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Premier Oil ruffles small-cap feathers as it redraws growth plans

Premier Oil PLC's (LON:PMO) financial result days don't routinely shift the needle, at least not for 'growth investors' - but Thursday's update was an exception to that rule.

First and foremost the company is a producer. It is growth is signposted primarily by regular and largely predictable production updates concerning its core assets in the North Sea and Asia. So, the most exciting it gets is an unexpected change in guidance or a rise in global oil prices.

But, the interim figures came with a number of material revelations.

Premier told investors that it planned to sell the large and exciting Zama discovery, in Mexico, in a move to expedite debt reduction. At the same time, it promised progress with its Falkland farm-out efforts.

And the mid-cap oiler surprised many investors with a new partnership as it teamed up with 88 Energy Ltd (LON:88E), which has a cult AIM following. Thanks to Premier, 88's fans will get their wish - a high-risk, high-reward well on Alaska's North Slope next year.

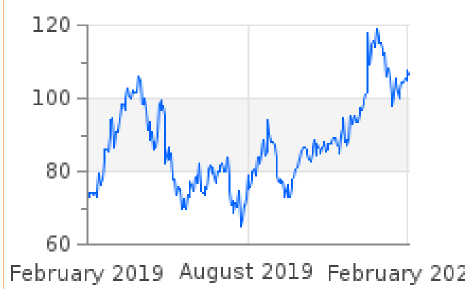
Debt reduction over growth
Frankly, there are multiple prisms through which oil and gas investors could view Thursday's string of Premier news. Some conclusions are self-evident and quite simple to understand, others leave plenty of room for conjecture and speculation.

For quite some time, since its 2017 bond refinancing, Premier has had to treat its sizeable debt pile as a priority - so, a windfall from a significant asset sale would naturally appeal to bean-counters.

That said, given its good recent record of production growth and comparatively-stable-to-good oil prices, the group's revenues and cash flow have placed Premier on the front-foot in terms of debt reduction.

Price:	102.65
Market Cap:	£8.69 m

1 Year Share Price Graph



Share Information

Code:		PMO
Listing:		LSE
52 week	**High**	**Low**
	120.7	**64.48**
Sector:		**Energy**
Website:		**www.premieroil.com**

Company Synopsis:
Premier Oil plc is an independent exploration and production company with oil and gas interests in the North Sea, South East Asia, Pakistan, the Falkland Islands and Latin America. Post the E. ON acquisition, the company has reserves and resources of more than 800 million mmboe. The Company is engaged in the business of upstream oil and gas exploration and production.

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Some may, perhaps rightly, question why an ambitious oiler - now with some 84,000 barrels of oil per day (boepd) of production and the bones of US$400mln of annual cashflow - would let go of a bona fide world class field development opportunity.

The plan to offload Zama, and its 800mln-plus barrels of crude, and then seek to replicate this success with a nearby 'copy-cat' exploration well, called Wahoo, is certainly a bold one.

Of course, Premier has already created very significant value by taking Zama from frontier exploration to an appraised and burgeoning field development project. So cashing in and realising value now without any lead time, project financing, or capital outlay would naturally be welcomed by bondholders.

For growth-minded equity holders the immediate prospects for moving the needle are perhaps now a little less sexy, assuming Zama is sold.

Sea Lion a priority, by default

Practically by default, the Sea Lion Field and the Falklands emerges again as the go-to growth project for Premier. Albeit, little appears to be changing in the narrative here.

The Falklands was THE high profile frontier around a decade ago. For all the corporate fan-fare, small-cap investor pitches, wells drilled and political posturing, Sea Lion is all that's materially emerged in the contested waters of the South Atlantic.

It is far from an insignificant project, stacking up at around 1.7bn barrel of 'in place' oil (though Premier states its share of the actual resource at 330mln barrels). The figures aside, Sea Lion has yet to emerge as the 'world class new frontier' that everyone had hoped for all those years ago.

Premier itself has sat on the asset for several years after initially picking up 60% of the field with intentions of taking it straight through development and into production.

The Plan B approach of re-farming down to bring in a third partner and share both financing and operational risks followed fairly soon after, admittedly amidst a new oil price paradigm and potentially creaking debt levels.

Certain desktop advancements have quietly added value operationally. Field development planning has advanced and, as a consequence, so have the economics.

But Premier Oil's operatorship of Sea Lion has not 'transformed' the fortunes of AIM-quoted explorer Rockhopper in the way that all its shareholders had hoped when the partners inked the US$1bn farm-out deal back in July 2012.

Rockhopper was priced above 250p per share in mid-2012 when the deal was announced, and they now change hands at around 18p seven years later.

Thursday's farm-out update has, however, provided a none-too-shaby 13% uplift to 20.45p.

88 Energy: validation more than transformation

With the Rockhopper experience in mind, what can 88 Energy investors expect from Premier?

Will the company's fortunes be quickly transformed by Premier's mere presence in the Project Icewine acreage?

Or will Icewine find itself a curious footnote in Premier's supposed growth ambitions post-Zama?

As is often the case, the truth likely lies smack-bang in between the polar ends of hyperbole.

In the same statement that it announced plans to offload Zama, presumably for hundreds of millions, Premier described the Icewine opportunity as "a cost effective entry point into an emerging play".

Plainly, the US$23mln that Premier will commit to acquire 60% of Icewine's Area A, by funding the Charlie-1 well, is pocket-change in comparison to the US$103mln of capital that was spent on exploration and field development in the first six months of 2019 alone.

The plan is to drill the Charlie well, pitched as an appraisal of a 1991 BP discovery, during the first three months of 2020.

If the Charlie well impresses the Premier team sufficiently the company can then add 50% stakes in Icewine Area B and Area C for just 15%.

The reflex among 88 Energy's particularly speculative shareholders was that the company had given too much of the project away too cheaply.

Whilst the industry interest in the North Slope is evidently high - with ConocoPhillips, ENI, Repsol and Oil Search all working on similar ventures in the region - small-cap investors should probably avoid unnecessary pessimism.

88 Energy's potential and ambition has been well rehearsed around the circuit in both London and Australia. A substantial number of private investors have for several years followed the explorer to both highs and lows. Well results have been mixed.

A very large shale discovery, also within the boundaries of 'Icewine', promised much only for subsequent follow-ups to be frustrated by engineering and geology - it is presently taking a back seat to the simpler conventional oil story.

Even recent conventional opportunities promised speculators a lot only to disappoint.

In the context of its recent history, the company's achievement in bringing in a well-recognised and very credible operator like Premier should probably be celebrated by shareholders.

It remains to be seen quite where this Alaskan venture will land in Premier's list of priorities assuming Zama is sold. The schedule for 2020 will include both Charlie and Wahoo. One of those might go under the radar for those who only following Premier, and it won't be Zama copy-cat Wahoo.

Nevertheless, for quite different reasons, it has been a big news day for both 88 Energy and Premier.