CAPITAL EQUITY RESEARCH

Sector:	Oil & Gas
Location:	West Africa
Date:	September 30 2008
Ticker:	AFR LN

Afren Plc

Buy, target price 165p

H1 08 Results: 21 kbopd production at Okoro Setu by November

Events

Afren published its H1 2008 preliminary results this morning. The company reported a net loss $26.8m vs a loss of $10.2m for the first 6 months of 2007. The increased loss mostly reflects the company expansion, early operating cost at Okoro Setu and a $2.7m write off related to unsuccessful exploration activities (versus none in the first six months of 2007). The company indicates that the Okoro reservoir quality has been at the higher end of expectations. Current production from the field is in excess of 7 kbopd from 2 wells. Five more wells have been drilled and are ready for production. The company is currently drilling an additional two wells beyond initial programme. Production target is now 21kopd by November, well the initial target of 15 kbopd of Q3.

Afren confirm high impact exploration drilling to commence on the Keta Block, offshore Ghana, from November 2008. The targeted prospect is expected to contain 325 mb oil (88% Afren). The company indicates it is in final negotiations on farm out process. Two exploration wells are also expected to be drilled in H1 2009 in the La Noumbi high impact exploration licence in the Republic of Congo. Exploration activities on the JDZ blocks have been delayed to 2009 due to lack of rig availability.

A two appraisal wells programme is due to start by October on Ebok. The company held $269m cash on the 30th of June and net debt of $13m.

Comments

The expected production ramp-up of Okoro Setu beyond our initial expectations of 15kbopd is good news. Three important near term very high impact wells activity could transform the company if successful. Alternatively a farm-out deal on the Keta Block could provide an implied valuation for the asset. Although it appears that drilling timing guidance on the Keta Block is maintained, the first well on JDZ has been delayed. We are looking forward to Afren operating update on the second of October to get additional details on capex plans and other exploration asset (Angola, JDZ).

Valuation and Recommendation

Pending Afren operational update on the 2nd of October, we maintain our target price of £1.65/share. We retain our buy recommendation given the potential for a steady increase in production to the company's target. We also believe that the high impact in the short term through a success in Ghana or Angola could provide further impetus to the share price.

Company Statistics

Share Price (p)	65
Shares Outstanding (mn)	442.5
Warrants and Options	9.0
Fully Diluted Shares (mn)	451.5
Market Capitalisation (£ mn)	287.6
Average Daily Turnover (£ mn)	6.72
Net Debt/(Cash) (£ mn)	13
Enterprise Value (£ mn)	300.6
52-week High (p)	186
52-week Low (p)	55
Website	http://www.afren.com/

Absolute Share Price

Company Summary

Afren is an oil and gas exploration and production company with a diversified portfolio of assets in West Africa, Nigeria and Ivory Coast and exploration upside in Ghana, Angola, Gabon, Congo and Sao Tome-Principe JDZ.

Analyst

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H1 08 P&L

Table 1: P &L ($)

	H1 2008	H1 2007
Revenue		
Administration Expenses	-18,371 - 3,454	-6,615
Exploration Costs	-2,665	0
Derivative Financial Instruments	-1,160	-1,128
Operating loss	-25,654	-7,743
Finance Revenue	2,546	596 + 107
Finance costs	-3297 - 388	-3,165
Income tax	0	0
Net loss	-26,753	-10,205

Source: Afren

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Research disclosure as of September 30th, 2008

Company: Afren
Disclosure: 2, 7, 9

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Fox-Davies Capital uses a three-tier recommendation system for stocks under coverage: Buy, Hold, or Sell.

Buy recommendation means that expected total return of at least 15% is expected over 12 months between current and analysts' target price.
Hold recommendation means that expected total return of between 15% and zero is expected over 12 months between current and analysts' target price.
Sell recommendation means that expected total return expected over 12 months between current and analysts' target price is negative.

Disclosure charts

Exhibit 1: Afren share price chart

Source: FDC

Afren Recommendation Summary

Date	Recommendation	Target Price
August 2, 2007	Buy	116
Apr 18, 2008	Maintain BUY	170
May 29, 2008	Maintain BUY, increase target price	190
June 10, 2008	Maintain BUY	190
Sept 8, 2008	Maintain BUY, decrease target price	165
Sept 30, 2008	Maintain BUY	165

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