



Something to Declare



Key Data

Listing:	AIM
Ticker:	SLE
Shares Outstanding:	449.9m
Share Price:	£0.23
Market Cap:	£115.1m
Cash Balance:	£21m
Estimated Valuation:	£243m
Asset Location:	Nigeria

Reserves (MMBOE)

(100%)

1P	2P	3P
48	63	79

Resources (MMBOE)

(100%)

1C	2C	3C
26	36	52

Prospective Resources (BCF)

(100%)

Low Estimate	Best Estimate	High Estimate
1	65	764

Reserves estimated by FDC based on 2016 CPR.

Resources estimates from 2016 CPR.

Analyst

Lionel Therond CFA

lionel@fox-davies.com

Summary

San Leon Energy (“SLE”) announced it has agreed a US\$7.5 million loan (5-year maturity with 10% coupon) to Deklar Petroleum Limited (“Deklar”) against a 15% equity interest (+ 15% option) in the company. Deklar holds a Risk Service Agreement (“RSA”) with Millenium Oil and Gas Company Limited (“Millenium”) on the Oza field in Nigeria, which it was awarded during the 2003 Marginal Fields Bid Round with a 60% interest.

Oza is an onshore conventional oil field located in the northern part of Shell-operated OML 11, in the Abia State of eastern Niger Delta. Three existing Shell wells have produced over 1.0 MMbbl cumulatively from gross 2P Reserves estimates of 2.6 MMbbl, 2C of 23 MMbbl and Prospective Resources of 10 MMbbl. The SLE loan is part of a US\$26 million funding arrangement that Deklar intends to deploy to fast-track the initial development of the Oza Oil Field including a re-entry on the existing Oza-1 well, anticipated to test three oil bearing zones and place the well into production from two of the three zones tested.

This is another trademark “loan for free-equity” investment from SLE which provides a free access to a potential stream of future production cash flows from the Oza Field with a fairly low risk profile from the perspective of the asset (2P+2C) and partners (RSA and Loan Agreement include favourable cash sweeps).

Valuation

We leave our 45p price target and 53p NAV estimate unchanged. However, we see scope for potential upward revision to reflect value accretion of such deal whenever drilling results confirm the size of the opportunity.

Disclaimer

This is a marketing communication. It has not been prepared in accordance with legal requirements designed to promote the independence of investment research and is not subject to any prohibition on dealing ahead of the dissemination of investment research. Non-US research analysts who have prepared this report are not registered/qualified as research analysts with FINRA, may not be associated persons of the member organisation and may not be subject to NASD/NYSE restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account. Disclosures can be found at the end of the report.

Valuation

We value SLE using a peer group analysis, i.e. public market valuation, to set our short-term price target and we estimate the long-term value potential from a DCF-based NAV calculation.

Public market valuation

We estimate the net remaining 2P reserves at ca. 62.9 MMboe, based on our assumptions of production and financial performance to date of the OML 18 asset since the date of the CPR. Please note that this estimate is somewhat negatively impacted by the long-term oil price assumption we use in our modelling of the asset (US\$55/bbl) which is lower than that used in the CPR.

SLE currently trades at an EV/2P multiple of US\$0.7 /boe, lower than the median multiple of US\$1.3 /boe for a peer group of publicly listed companies with assets in Nigeria, with a range of US\$0.5-2.5/boe (**Exhibit 1**).

We believe the public market markedly undervalues SLE, and that, given the quality and remaining potential of the OML 18 asset as well as the strong alignment of management (24% interest in SLE) with other shareholders, SLE should trade at the top end of that range.

Accordingly, we calculate a value of 46.5p per share by applying an EV/2P multiple of US\$2.5 /boe, based on our estimate of net 2P reserves remaining of 63MMboe, net cash available of US\$26 million and after adjusting for other assets (including the value of the ELI deal).

EXHIBIT 1: PEER GROUP VALUATION

Name	Price (local)	FX	EV (US\$M)	2P (MMboe)	EV/2P (US\$/boe)
ADM Energy	5.5	GBp	4.2	8.9	0.5
Africa Oil	1.1	CAD	201.5	80.6	2.5
Lekoil	2.8	GBp	18.3	22.7	0.8
Oando PLC	2.4	NGN	625.3	479.8	1.3
Seplat	51.6	GBp	726.5	481.0	1.5
Median					1.3
SLE	26.1	GBp	43.6	62.9	0.7
Estimated SLE value	46.5	GBp	157.2	62.9	2.5

Source: FDC, Bloomberg

NAV estimate

We estimate an NAV of 53p which includes the value of current net cash available, the net additional cash to accrue on the balance sheet from additional Loan Notes payments to end 2021, the present value of the Loan to ELI, the value of net remaining 2P reserves and 2C resources in OML 18 and FDC estimates of the value of other assets, including the value of the ELI deal. We currently carry no value for the Loan Agreement with Decklar (**Exhibit 2**).

EXHIBIT 2: NAV ESTIMATE

Item	Net SLE (MMboe)	Value (US\$M)
Net 2P post 2021	53	89
Net 2C resources (valued at 2/3 of 2P boe)	36	40
Services revenue from drilling campaign in OML 18 (2022-25)		24
Barryroe		3
ELI 10% shareholding interest		35
NPV Loan to ELI		14
Cash balance		26
Loan Notes payments to December 2021		92
Capitalised G&A expenses		(28)
NAV		295
NAV per share (GBP)		53

Source: FDC

We value the net 2P reserves remaining from 2022 (after the last Loan Notes payment) to the end of economic life of the asset, using a lower long-term oil price assumption of US\$55 /bbl than that used in the CPR.

We value the contingent resources (2C) identified in the CPR, and that we assume have not yet been produced, by using an arbitrary 30 cents on the \$ value compared to the 2P reserves, which takes into account the risk attached to such contingent resources as well as their production horizon.

Our estimate of Capitalised G&A expenses is based on the 2018 G&A expense.

Research Disclosures

Lionel Therond CFA

Lionel has 30 years of experience in Oil & Gas and Banking. He is currently a Director of Fox-Davies Capital and a Director of Blue Oak Advisory, a London-based corporate finance boutique.

Until 2016, Lionel was Head of Oil & Gas Equity and Commodity Research and a Managing Director at Standard Bank, focusing on the financing of mid-size Oil & Gas companies in Emerging and Frontier Markets, in particular sub-Saharan Africa. Lionel joined Standard Bank from Fox-Davies Capital where he was Head of Oil & Gas Research. Prior to that, Lionel was an equity fund manager and buy-side analyst with JPMorgan Asset Management in London, specialised in the Oil & Gas, Industrials and Media sectors. His oil industry experience includes nine years as a geoscientist with Royal Dutch Shell managing exploration projects internationally.

Lionel has an MBA from INSEAD, a DEA in Geology and Geophysics from Institut National Polytechnique de Lorraine and a Diplôme d'Ingénieur Géologue from Ecole Nationale Supérieure de Géologie (Nancy, France). He is a CFA Charterholder and a Fellow of the Geological Society of London.

Contact: lionel@fox-davies.com

Investment analyst certification

All research is issued under the regulatory oversight of Fox-Davies Capital. Each Investment Analyst of Fox-Davies Capital whose name appears as the Author of this Investment Research hereby certifies that the recommendations and opinions expressed in the Investment Research accurately reflect the Investment Analyst's personal, independent and objective views about any and all of the Designated Investments or Relevant Issuers discussed herein that are within such Investment Analyst's coverage universe.

Research Disclaimers

Research disclosure as of 01 September 2020

Company Name	Disclosure
San Leon Energy Plc	

Investment Research Disclosure Legend:

1. In the past 12 months, Fox-Davies Capital Limited or its affiliates have had corporate finance mandates or managed or co-managed an offering of the Relevant Issuer's securities or received compensation for Corporate Finance services from the Relevant Issuer.
2. Fox-Davies Capital Limited expects to receive or intends to seek compensation for Corporate Finance services from this company in the next six months.
3. The Investment Analyst or a member of the Investment Analyst's household has, or expects to receive, a long position in the shares or derivatives of the Relevant Issuer.
4. The Investment Analyst or a member of the Investment Analyst's household has a short position in the shares or derivatives of the Relevant Issuer.
5. As of the month end immediately preceding the date of publication of this report, or the prior month end if publication is within 10 days following a month end, Fox-Davies Capital Limited and / or its affiliates beneficially owned 1% or more of any class of common equity securities of the Relevant Issuer.
6. A senior executive or director of Fox-Davies Capital Limited or a member of his or her household is an officer, director or advisor, board member of the Relevant Issuer and / or one of his subsidiaries.
7. Fox-Davies Capital Limited acts as a corporate broker for the Relevant Issuer.

The Investment Analyst who is responsible for the preparation of this Investment Research is a consultant to Fox-Davies Capital, a securities broker-dealer.

The Investment Analyst who is responsible for the preparation of this Investment Research has received (or will receive) compensation linked to fees generated by Fox-Davies Capital from the Relevant Issuer.

This report has been commissioned by San Leon Energy plc and prepared and issued by Fox-Davies Capital Ltd, in consideration of a fee payable by San Leon Energy plc. Fees are paid upfront in cash without recourse.

Disclaimer - Important Information

This document is not independent and should not be relied on as an impartial or objective assessment of its subject matter. Given the foregoing, this document is deemed to be a marketing communication for the purpose of the European Markets in Financial Instruments Directive (MiFID), the Financial Conduct Authority's Rules and Dubai Financial Services Authority's Conduct of Business Rules and as such has not been prepared in accordance with legal requirements designed to promote the independence of investment research and Fox-Davies Capital is not subject to any prohibition on dealing ahead of dissemination of this document as it would be if it were independent investment research.

This document has been issued by Fox-Davies Capital Limited and Fox-Davies Capital (DIFC) Limited (collectively "Fox-Davies Capital") for information purposes only and should not be construed in any circumstances as an offer to sell or solicitation of any offer to buy any security or other financial instrument, nor shall it, or the fact of its distribution, form the basis of, or be relied upon in connection with, any contract relating to such action. This document is not based upon detailed analysis by Fox-Davies Capital of any market; issuer or security named herein and does not constitute a formal research recommendation, either expressly or otherwise. This document has no regard for the specific investment objectives, financial situation or needs of any specific entity. Fox-Davies Capital and/or connected persons may, from time to time, have positions in, make a market in and/or effect transactions in any investment or related investment mentioned herein and may provide financial services to the issuers of such investments. The information contained herein is based on materials and sources that we believe to be reliable, however, Fox-Davies Capital makes no representation or warranty, either express or implied, in relation to the accuracy, completeness or reliability of the information contained herein. Opinions expressed are our current opinions as of the date appearing on this material only. Any opinions expressed are subject to change without notice and Fox-Davies Capital is under no obligation to update the information contained herein. None of Fox-Davies Capital, its affiliates or employees shall have any liability whatsoever for any indirect or consequential loss or damage arising from any use of this document.

This report has been approved in the UK by Fox-Davies Capital Limited solely for the purposes of section 21 of the Financial Services and Markets Act 2000. In the UK, this report is directed at and is for distribution only to persons who (i) fall within Article 19(1) (persons who have professional experience in matters relating to investments) or Article 49(2) (a) to (d) (high net worth companies, unincorporated associations, etc.) of the Financial Services and Markets Act 2000 (Financial Promotions) Order 2005 (as amended) or (ii) are professional clients or eligible counterparties of Fox-Davies Capital (all such persons together being referred to as "relevant persons"). This report must not be acted on or relied upon by persons in the UK who are not relevant persons. In accordance with the Dubai Financial Services Authority's Conduct of Business Rules, this marketing material is intended only for professional clients and market counterparties, and no other person should act upon it

Neither the information nor the opinions expressed herein constitutes, or is to be construed as, an offer or invitation or other solicitation or recommendation to buy or sell investments.

Neither this report nor any copy of part thereof may be distributed in any other jurisdictions where its distribution may be restricted by law and persons into whose possession this report comes should inform themselves about, and observe any such restrictions. Distribution of this report in any such other jurisdictions may constitute a violation of UK or US securities law, or the law of any such other jurisdictions.

Investments in general involve some degree of risk, including the risk of capital loss. The value of investments contained herein may go up or down. Where investment is made in currencies other than the base currency of the investment, movements in exchange rates will have an effect on the value, either favourable or unfavourable. Securities issued in emerging markets are typically subject to greater volatility and risk of loss. The services, securities and investments discussed in this document may not be available to nor suitable for all investors. Investors should make their own investment decisions based upon their own financial objectives and financial resources and, if in any doubt, should seek advice from an investment advisor. Past performance is not necessarily a guide to future performance and an investor may not get back the amount originally invested. Where investment is made in currencies other than the investor's base currency, movements in exchange rates will have an effect on the value, either favourable or unfavourable. Levels and bases for taxation may change. When we comment on AIM or OFEX shares you should be aware that because the rules for those markets are less demanding than the Official List of London Stock Exchange plc, the risks are higher. Furthermore, the marketability of these shares is often restricted.

Fox-Davies Capital and/or its associated companies may from time-to-time provide investment advice or other services to, or solicit such business from, any of the companies referred to in this document. Accordingly, information may be available to Fox-Davies that is not reflected in this material and Fox-Davies Capital may have acted upon or used the information prior to or immediately following its publication. In addition, Fox-Davies Capital, the directors and employees thereof and/or any connected persons may have an interest in the securities, warrants, futures, options, derivatives or other financial instrument of any of the companies referred to in this document and may from time-to-time add or dispose of such interests. Neither the whole nor any part of this material may be duplicated in any form or by any means. Neither should any of this material be redistributed or disclosed to anyone without the prior consent of Fox-Davies Capital. Fox-Davies Capital Limited is authorised and regulated by the Financial Services Authority and is a member of the London Stock Exchange. Fox-Davies Capital (DIFC) Limited is authorised and regulated by the Dubai Financial Services Authority.

Fox-Davies Capital Limited may distribute research in reliance on rule 15a-6(a)(2) of the Securities and Exchange Act 1934 to persons that are major US Institutional investors, however, transactions in any securities must be effected through a US registered broker-dealer. Any failure to comply with this restriction may constitute a violation of the relevant country's laws for which Fox-Davies Capital does not accept any responsibility. By accepting this document you agree that you have read the above disclaimer and to be bound by the foregoing limitations/restrictions.

Please note that unless otherwise stated, the share price used in this publication is taken at the close of business for the previous day. This document has been prepared on the basis of economic data, trading patterns, actual market news and events, and is only valid on the date of publication. Fox-Davies Capital does not make any guarantee, representation or warranty, (either expressly or implied), as to the factual accuracy, completeness, or sufficiency of information contained herein. This document has been prepared by the author based upon information sources believed to be reliable and prepared in good faith.

This note is confidential and is being supplied to you solely for your information and may not be reproduced, redistributed or passed on, directly or indirectly, to any other person or published in whole or in part, for any purpose.

Fox-Davies Capital Ltd

12 Hay Hill, Mayfair
London W1J 6DQ
UK

Member of the London Stock Exchange.
Authorised and Regulated by the Financial Conduct Authority.
Registered in England and Wales with company number 10165213 and registered address 5 Technology Park, Colindeep Lane, Colindale, London, United Kingdom NW9 6BX

Fox-Davies Capital (DIFC) Ltd.

Level 1, Gate Village Building 3
Dubai International Financial Centre
P.O. Box 507268, Dubai
UAE

Authorised and Regulated by the Dubai Financial Services Authority.
Registered in the Dubai International Financial Centre with commercial license number CL2950



San Leon Energy Plc

