



Tullow Oil - Time to Buy?..... Or Sell

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A Brief History

The Company was founded by Aidan Heavey in 1985 in Ireland as a gas exploration business, with its headquarters now in London. It started in a small town called Tullow, just south of Dublin, Ireland. In the 1980s there was a considerable rush of companies starting off in the North Sea and Irish Celtic Sea. At a time when this was the main focus Mr Heavey had the foresight to look at the smaller and unloved fields in Africa, which had been left behind by the majors and had no-one to work them. Tullow has a primary listing on the London Stock Exchange and is a constituent of the FTSE 250 Index with secondary listings on the Irish Stock Exchange.

Operations

The Group has interests in 80 exploration and production licences across 15 countries which are managed as three Business Teams: West Africa, East Africa and New Ventures.

WEST AFRICA

- IVORY COAST
- EQUATORIAL GUINEA
- GABON
- GHANA

The West African operations include Tullow's flagship operated assets, the Jubilee and TEN fields in Ghana, and a portfolio of non-operated production assets across the region. The West Africa Business Team also manages the Group's UK operations. Production from the UK North Sea assets ceased in the third quarter of 2018. The decommissioning programme for these assets is expected to be completed by 2025.

EAST AFRICA

- KENYA
- UGANDA

The East Africa Business Team is responsible for realising value from the significant oil discoveries made in Uganda and Kenya to date. The team is also focused on continued exploration activity across the Group's extensive acreage position in Kenya.

The East Africa region is a core growth area for Tullow. In Uganda, discovered contingent resources are estimated to be around 1.7 billion barrels of oil. In Kenya, Tullow estimates that the South Lokichar basin contains a recoverable resource range of 240 – 560 – 1,230 mmbo (1C–2C–3C). The Group continues to work with both Governments on moving these projects towards development.

NEW VENTURES

- ARGENTINA
- COMOROS
- GUYANA

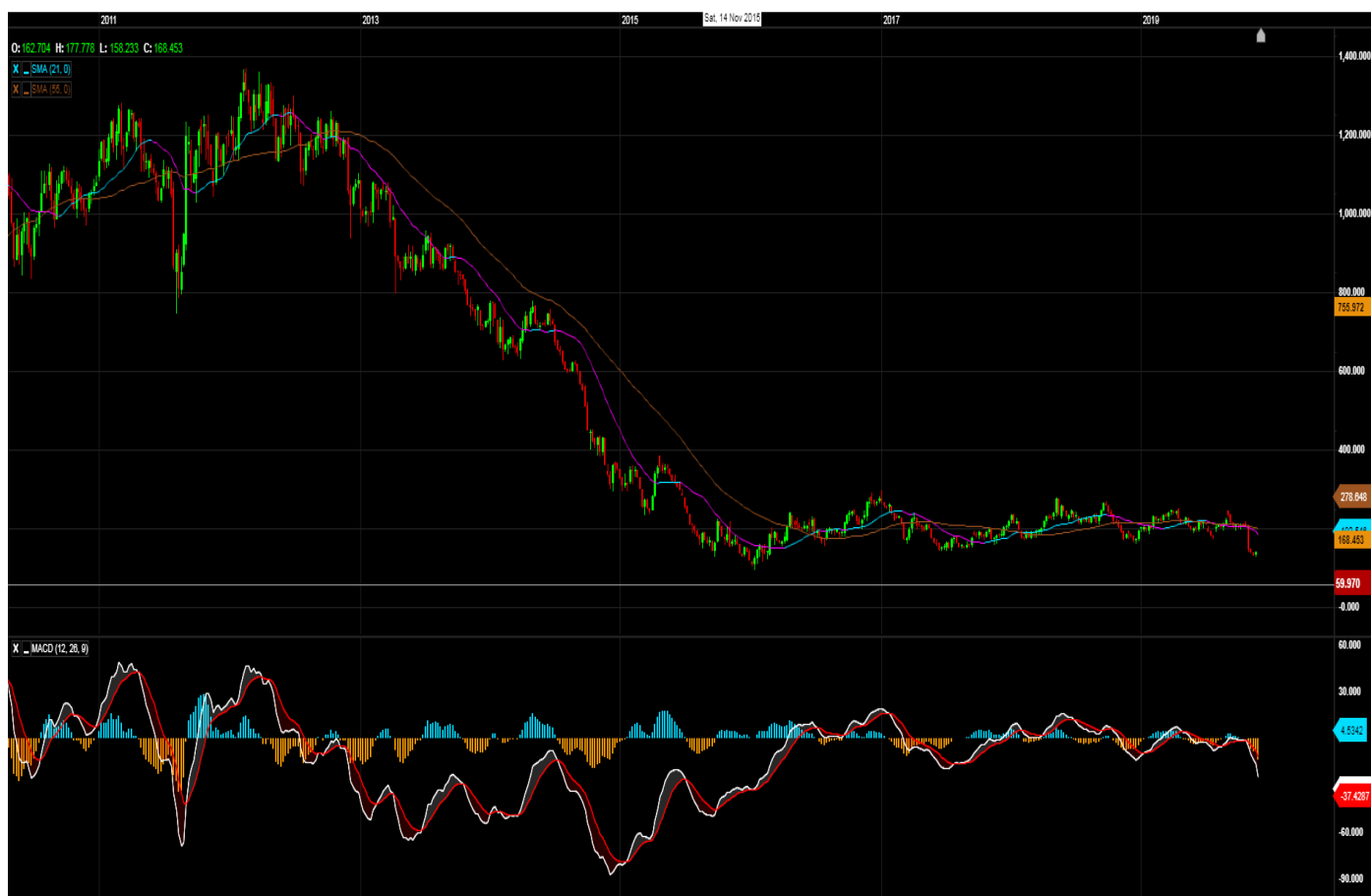
- JAMAICA
- MAURITANIA
- NAMIBIA
- PERU
- SURINAME

Whilst Tullow is concentrating on its established areas it is still always a forward-looking business and Tullow’s frontier exploration department are constantly appraising activity across Africa and South America. The team is tasked with managing and replenishing Tullow’s exploration portfolio with high-potential prospects and finding high value oil at low-costs, in areas with commercially attractive licence terms.

Tullow has built a licence position in some of the most sought-after acreage in the world and have identified the best prospects with the right equities and risk following careful technical and financial screening. The Group expects to drill an average of 3 to 5 low-cost frontier wells in future years across multiple campaigns in Africa and South America.

Chart

10 Years



6 Months



Recent Woes

Heavy Sour Oil

The problems really started to show themselves at the beginning of November when they downgraded the full year production guidance off the back of a halt in drilling at one of the Ghana sites. This led to an initial drop of around 30% on the share price.

“In West Africa, our non-operated assets continue to perform well,” Tullow Oil CEO Paul McDade said. “However, Ghana production has not met our expectations this year and we are working closely with our Joint Venture Partners to ensure that both fields perform to their potential.”

As if this wasn't bad enough the downgrade to full year guidance was then followed up with the announcement that recent discoveries in Guyana contained low quality, heavy, sour oil which have significantly less commercial value and a much higher cost to process.

(Sour crude oil is crude oil containing a high amount of the impurity sulphur. It is common to find crude oil containing some impurities. When the total sulphur level in the oil is more than 0.5% the oil is called “sour”.

Sour crude dramatically increasing the cost of processing.)

Dividend and Chief executive Gone!!!

If everything that has already happened wasn't bad enough, then the news this week of them scrapping dividends and the chief executive Paul McDade and head of exploration Angus McCoss

resignation really hit the shares hard, so hard in fact it led to the worst single day performances by a significant London-listed company this decade. More than £1.4bn was wiped off Tullow's market capitalisation in that move. In its heyday Tullow was once worth over £14bn, today's market cap is around 600m.

Tullow's expected production will now be seriously reduced with an estimate of a drop between 20-33% lower than forecasted at the start of the year. The expectation is now to see around 70,000 – 80,000 barrels of oil equivalent a day from 2020. Needless to say, the lower output will have a significant impact on the company's free cash flow, which pays for dividends and funds new exploration and is expected to shrink to just \$150m, from \$500m, hence the cut in dividends.

Debt

Tullow has always had a significant amount of debt and despite the debt pile being slowly reduced over recent years the serious impact to free cash flow will now challenge their ability to maintain obligations. They did raise funds in 2017 through a rights issue and the recent news could easily see another round of cash raising needed. The problem this time however will come down to trust.

Summary

Since the shares plunged to a low of 40p they have bounced back and this move could entice investors in, however I am more than a touch wary on the stock as there could easily be more bad news to come. If they need to start raising cash, then the announcement of another rights issue could easily be the next hit for the stock. Some might say the move seen goes hand in hand with Oil exploration stocks, but I would disagree. I would not be surprised to see more bad news to follow and when it comes to stock, or indeed most things in life cheap is not good.

There may be room for it in the smaller part of your portfolio left for speculative stocks but I see no reason to try and buy this stock and would avoid at all costs, regardless of short-term moves. The reality is there are plenty of oil and gas explorers out there with far better prospects.

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