

# Financial considerations: How to avoid financial failure

## Overview



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Teodor Sveen Nilsen is a highly reputable analyst, covering the E&P companies listed on Oslo Børs and Oslo Axxess. His presentation "E&P – How to avoid financial failure" on the Seminar **Financing E&P Companies and Projects on NCS** June 4, 2014 focused on the fact that while E&P companies are able to raise financing, many of them end up in financial problems. He presented a list of various companies and their story of success or failure, and provided a "lessons learned" from each of them.

In this overview you will find case studies for several compa-

nies, and lessons learned from a financial perspective.

He suggested the following steps to avoid financial failure:

- Raise capital when the market is open
- Successful companies have raised money when the market was open.
- Know when and where to get cash
- Shareholders with deep pockets are valuable.
- Know how to utilize bond market
- When issued at the right time and in the right amount, bonds

are a great supplement to bank debt and may be used to fund production or close to producing assets

- Deliver on operational strategy
- A credible financial strategy cannot replace operational results.

His presentation represents the view of Swedbank's E&P research team.

*The full presentation of Teodor Sveen Nilsen can be found on the SPE Oslo web site /Resources*

## Case 1: Noreco – 2013 was a challenging year

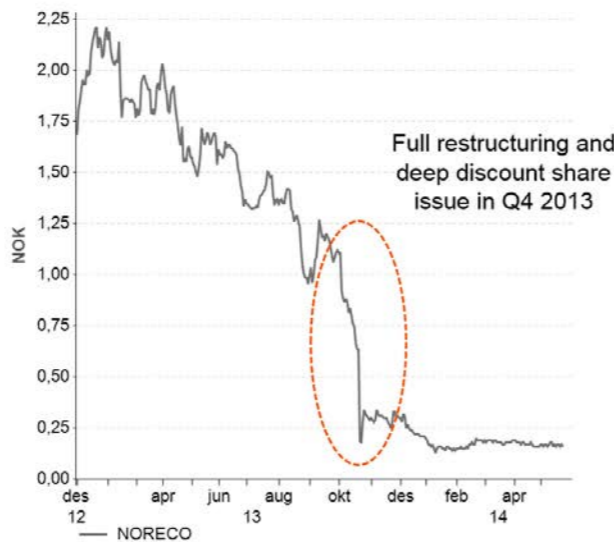
### Substantial restructuring

- Situation much worse than expected
- Proposed debt structure probably the only option
- Deep discount share issue

### Current situation

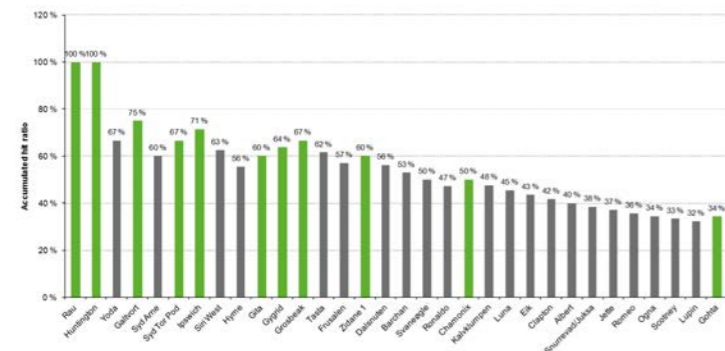
- Still uncertainty in Denmark
- Huntington delivers strong production on the best days
- Reversed share split could be on the horizon

Noreco's share price



Gohta: Noreco's first commercial discovery since October 2010 (Zidane)

Accumulated hit ratio (grey = dry wells, green = geological or commercial discoveries)



### Lessons learned

1. Financial + operational gearing is a risky combination
2. Print equity when the market is open
3. Avoid too much (and expensive) debt

## Case 2: Rocksource – Pil has changed the company

### A bumpy ride

- Promising EM positive prospects announced in 2011
- Equity raised on attractive terms in 2011
- A number of dry wells in 2011, lower activity in 2012-13
- Pil discovery in March 2014 looks promising

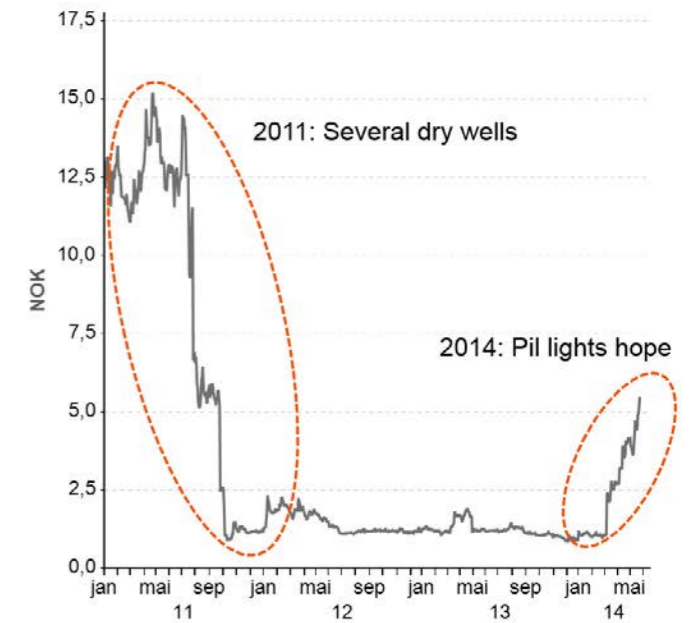
### Current situation

- Runs out of cash in 2014e unless more funding is obtained
- Rights issue proposed (ongoing process)
- Pil needs to be divested

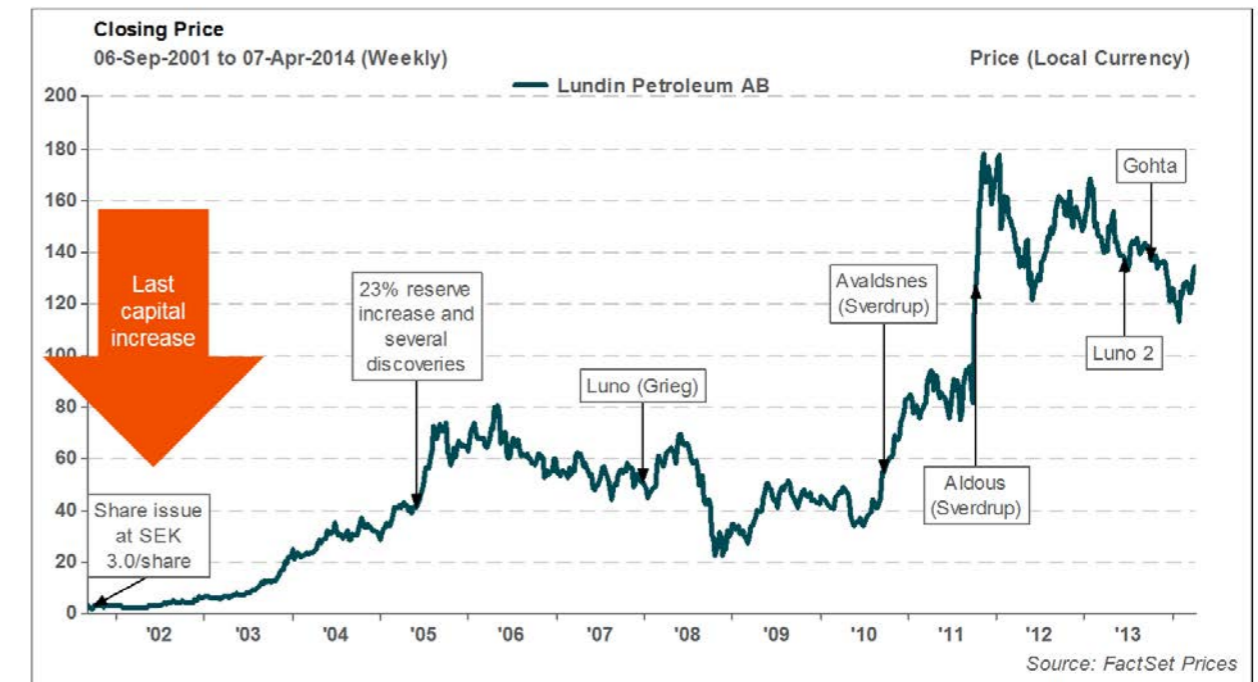
### Lessons learned

1. Print equity when the market is open (as in 2011)
2. Extremely hard to issue public equity with a mixed track record

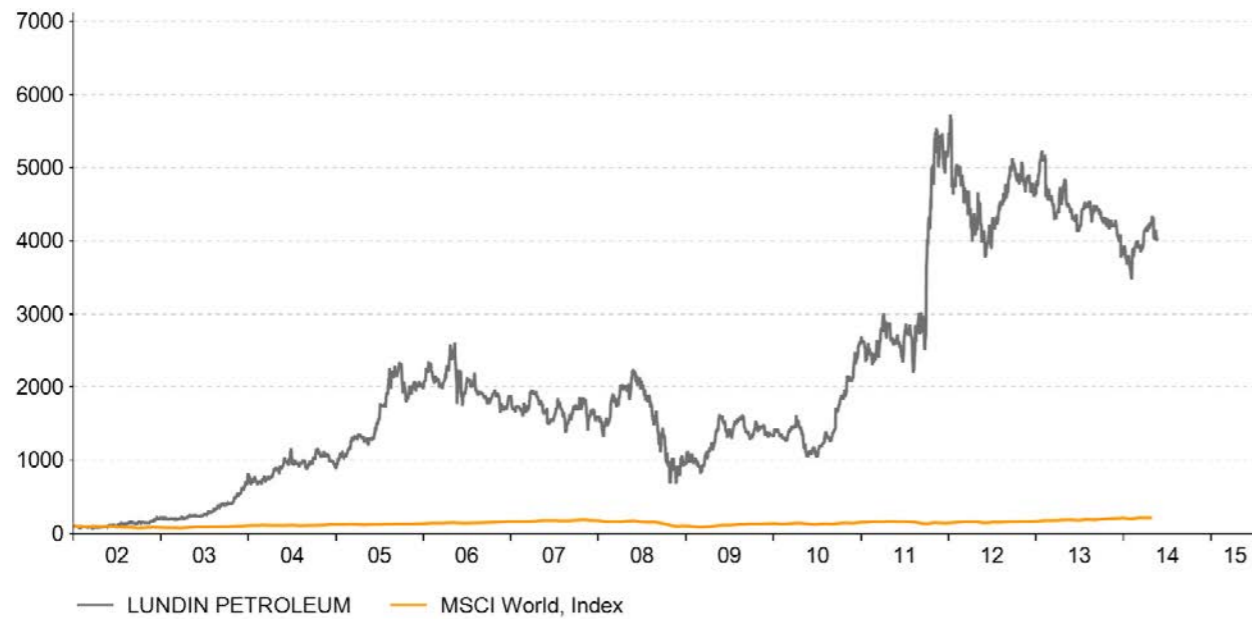
Rocksource's share price (adjusted for rev. split)



## Case 3: Lundin – Among the world's best E&P companies

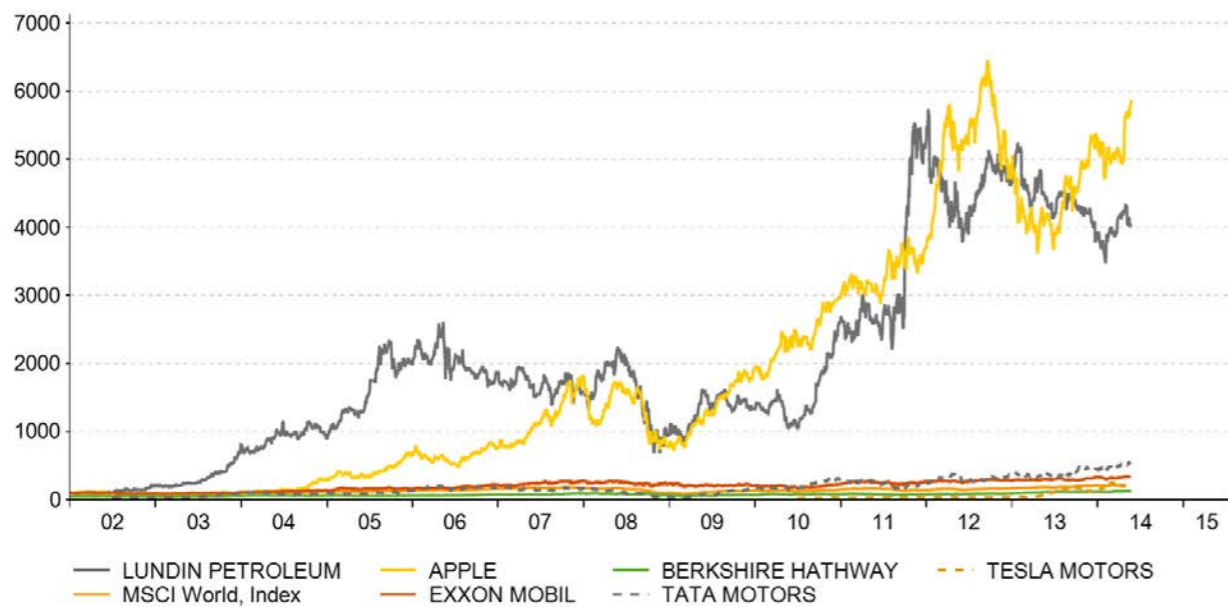


**LUPE versus global equity markets (indexed to 100 in primo 2002)**



...even when compared to other great companies

**LUPE versus global equity markets (indexed to 100 in primo 2002)**

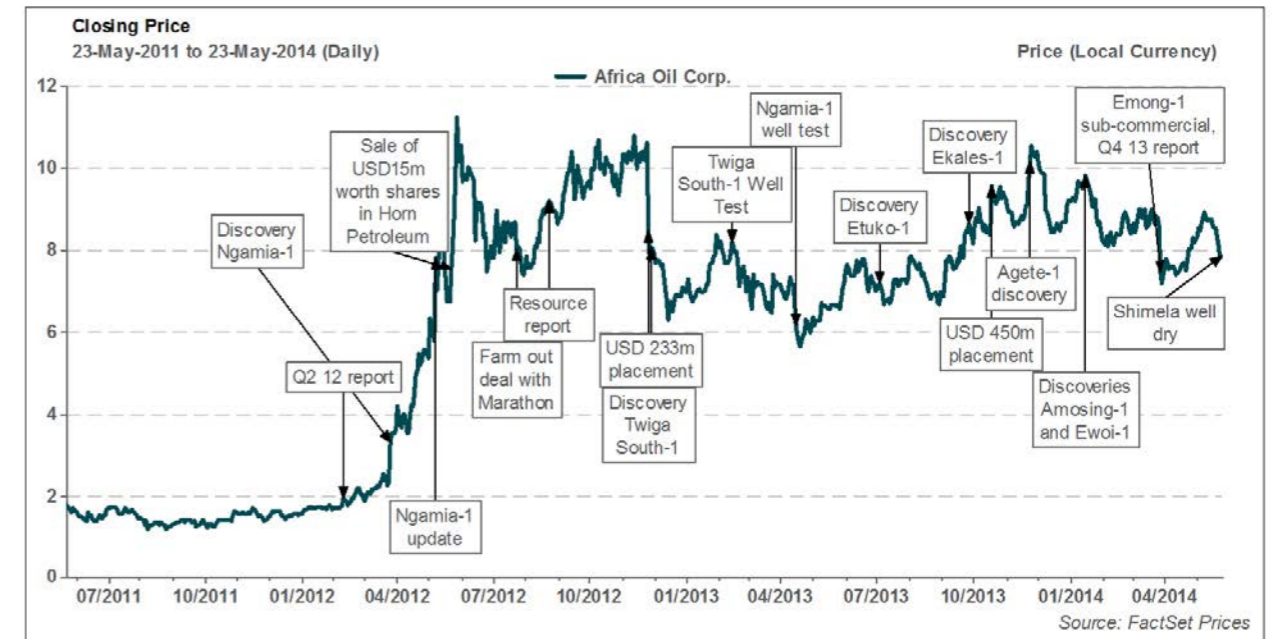


**Lundin – lessons learned**

1. Raise money when the market is open
2. Top-quality management creates value
3. Top-quality shareholders (no doubt about that cash will be available if needed)
4. Strong operational results
5. Disciplined capital spending – spend as you earn
6. No or little use of debt before operational cash flow is strong
7. Do not fall in love with assets – divest assets (or spin off)

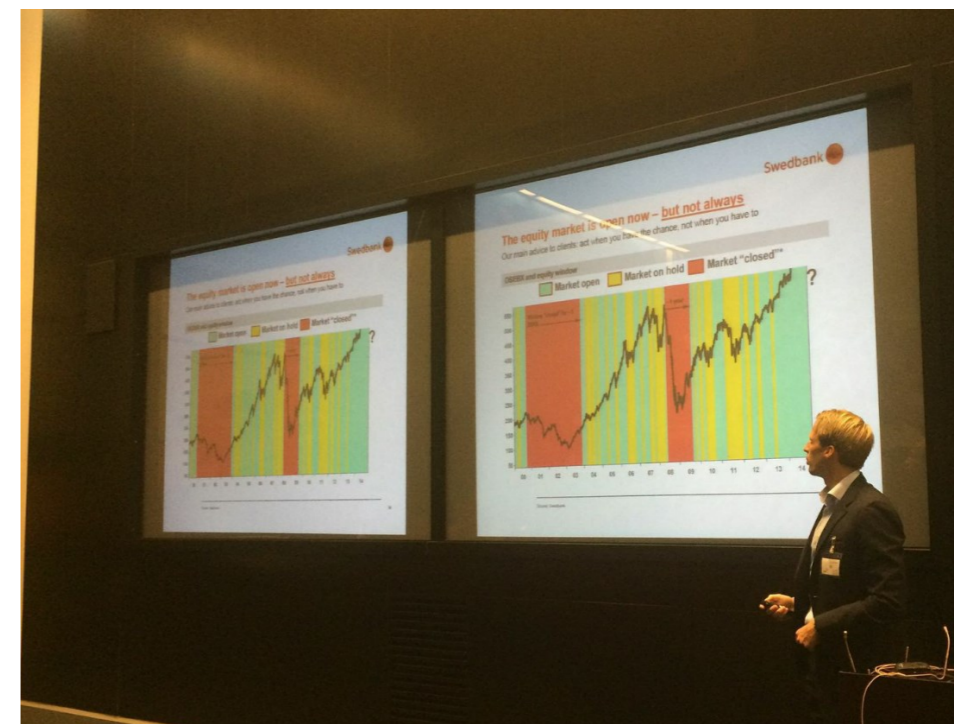
**Case 4: Africa Oil – Frontier drilling with a credible strategy**

**Share price (USD) and important news**



**Africa Oil – lessons learned**

1. Raise capital when the market is open
2. Top-quality management creates value
3. Top-quality shareholders (no doubt about that cash will be available if needed)
4. Strong operational results (highly commercial discoveries in seven of nine wells)
5. No use of debt before operational cash flow is strong (Africa Oil is a pure exploration company)



*Teodor Sveen Nilsen  
presenting at the  
Financing E&P Companies and  
Projects on NCS, June 4 2014*